

Nifty on the verge of a bigger crash, may fall to 7200 in 3-5 months: Mazhar Mohammad

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None of the BRIC nations except Indian markets have managed to get past 2007 highs. So, in a way, we can conclude that the remaining three markets other than India have seen only [bear market](#) rallies from 2008 lows.

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Even Shanghai market, which has become the cynosure of investor community in recent times with its sporadic rise, failed to get past its 2007 highs of 6,127. Recently, many sentiment indicators in Shanghai Composite index were exhibiting classic bubble signs.

It was trading at valuations which were higher than valuations that prevailed during the tech bubble phase of 2000. We also read stories of how young high school dropout traders were gaining handsomely in Chinese market (a reminiscent of 1987 and 1929 crash) whereas corporates reported higher profits through sale of shares but not by increasing their operating profits.

When this bubble got pricked, market crashed by 35% in just 2 months. Though these signs are not prevailing in Indian markets, the hope of 'economic turnaround' on which this entire [bull market](#) was scripted is slowly fading away.

Market appears to have made a major top in March 2015 at a high of 9119. Recent rally which started from the lows of 7,940 is the highest which lasted for 6 weeks and appears to have topped out around 8,654 levels with a gain of 9% which is highest in the last 3 months, both time wise and price wise.

However, these 3 months of corrective and consolidation phase appear to have damaged the underlying long-term trend in favour of bulls. Recent price behaviour has triggered a sell signal on long-term charts which has the potentiality to trigger a crash in the markets going forward.



Historical study of this 'sell' signal is suggesting a damage of 16-23% on price chart in a span of 3-5 months. Besides, our historical studies concluded this signal has an accuracy of 80%.

A 16% decline from recent highs of 8600 levels may bring the [Nifty](#) down to 7200.

Since 1992, we observed 10 such sell signals out of which 8 times it created havoc on price charts with a damage of around 20%. In 1998 when it failed, rally lasted for 3 months with a gain of 36% but the subsequent sell signal again resulted in around 20% damage.

And the last time when it failed was in 2013 when a bull market started as investors were mesmerised by 'Modi magic'. Now, similar patterns are visible on higher timeframe charts which we observed in the past since 1992 at least on 10 occasions.

Another interesting observation is that most of the time, this signal is generated in the middle of entire downswing. So it means despite 3 months of correction and 13% price damage which market has witnessed, if history is anything to go by, then more damage both in terms of price and time is lined up.

Apart from this, from time cycle's point of view, Indian markets witnessed a major top with bigger crashes once in 7 years (+/-1). Hence, 2015 is the ideal year for this kind of destruction.

(The author is [Chief Strategist](#) - Technical Research & Trading Advisory, [Chartviewindia.in](#). Views and recommendations expressed in this section are the analyst's own and do not represent those of [EconomicTimes.com](#).)

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