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Nifty in multi-year bull market or just an upward corrective rally?

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By Mazhar Mohammad

MUMBAI: Spring dawned on Indian bourses with the arrival of the New Year, which brought in a new thought of change in the leadership in the country. On the back of it, the markets clocked prettiest gains which were never witnessed in recent past.

The bulls decisively conquered the peak of 2008 and are at life-time high.

Historical study of the price behaviour and chart structure based on long-term wave counts is not suggesting run-away multi-year bull market similar to the one witnessed during 2003 - 2008 or 1988 - 1992. During these periods, the markets rallied around 7 times and 11 times respectively from their absolute bear market lows.

The main concern from Elliott wave point of view is that the rally from the lows of 4,531 registered in December 2011 has developed overlapping structure on the charts, which is generally part of corrective rallies.

In Elliott Wave principle we observe this kind of overlapping structures mainly in three areas. On corrections it occurs as 'Wave C' of a Zig Zag or Flat and during impulse moves it is seen in 'Wave One' in the form of a Leading Diagonal and in 'Wave Five' in the form of Ending Diagonal. The main feature of this pattern is that wave 4 should enter into the territory of wave one which results in overlapping chart structure.

Alternative wave count is suggesting the rally from December 2011 lows as some sort of counter trend up move, in the form of 'Wave B', to the incomplete corrective pattern which is in progress from November 2010 high of 6,338.

The culmination of this shall lead to bigger cut in the market. If we purely study the historical price behaviour of the indices, we find similarities not only between the bull markets of 1988 - 1992 and 2003 - 2008, but also the bear markets which followed the end of these two big bull markets witnessed on Indian bourses.

Interestingly the peak of 1992 was conquered by bulls after 7 years in their third attempt, but hardly stayed above the same for 6 months after adding 35 per cent value addition to the peak of 1992.

In the post 2008 bear market, indices went above the 2008 peak after 6 years. Now the frequent argument from bulls is that indices have not just broken out of 6 years trading range to come back again and the rally shall sustain for multiple years and convert itself into a multi-year bull market.

But the history is suggesting a different version. The lesson from 1992 bear market should not be ignored. Despite crossing trading range of 7 years in 1999, the rally fizzled out in 6 months and the market gave up 100 per cent of the gains and retested the lows of 1998 from where this small bull market in the larger bear market of 1992 - 2000 started.

At this juncture based on our analysis we see only patchy road ahead for markets going forward (may be after 2-3 months) despite the fact who rules the country.

Besides this technical evidence which we have shared, the global environment is also not favouring multi-year run away bull markets going forward.

We should not ignore the fact that the two pillars of global economy, which fuelled the bull run of 2003 - 2008 across the asset classes, Chinese growth rate and Federal Reserve's Quantitative Easing are also drying up keeping the concerns alive for global financial markets going ahead.

(The Analyst is Technical Research Strategist, Chartviewindia.in)