

Is Nifty heading for a big correction? Technical trends might have the answer

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Markets were deceptively at their best on Friday as initially bulls appeared to have been consolidating their strength with a gap up opening and a breakout above the 200 Day Exponential Moving Average, which successfully suppressed the **Nifty** for 3 days.

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But towards the end of the session they gave up all the intraday gains and closed almost where they opened which resulted in the formation of 'Doji' on Japanese Candlestick Charts indicating indecisiveness of traders.

As Nifty is consistently facing resistance at a particular level also raises suspicion whether it slipped into a distribution phase before breaking down.

Besides the level of 8200 is emerging as a confluence of multiple resistance points like 200 Day EMA, Gap zone registered on 24th of August between 8225 to 8060 level, and now newly formed upper boundary of a 20 day old ascending channel.

When we read this price behaviour in line with different technical parameters, we suspect markets may be in for a correction at least for couple of trading session going ahead.

Momentum oscillators, which we closely track on lower time frame charts, are already in sell mode. Besides, Time Series Forecasting techniques which have been very friendly in catching short term turning points in this entire downtrend since March 2015 also suggesting a correcting going ahead.

Short term downtrend will be confirmed and kicked in when Nifty closes below 8105.

A healthy retracement of such a correction shall halt around 8035 without violating the level of 8000 on closing basis and a close below 8000 will put a question mark on this entire rally and may threaten the low of 7691.

Contrary to the above explanation if Nifty registers a breakout above 8225 levels on closing basis then indices shall have targets between 8380-8400 level.

Strategy for Traders: Based on above explanation and weight of technical evidence we recommend traders to adopt following strategy.

a. Aggressive traders can create short positions with a stop above 8235 for a target of 8035.

b. If Nifty closes above 8225 then go for long positions with the stop below days low.



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

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