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End of the road for Modi Bulls? Nifty to trade in sub-7,000 levels

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There seems to be no respite for the Indian equity market despite being into nine months of correction and a 17 per cent cut. As another major technical breakdown happened on the long-term charts with the close of November series, Nifty50 appears to be in for a new leg of downtrend from the recent high of 7,979.

Even the sharp 30 per cent-plus correction on two occasions of the erstwhile bull market of 2003 -2008 didn't last more than two quarters. Vicious corrections of bear markets in the past lasted four quarters and we are now into the third quarter of such a move.

If we analyse the corrective behaviour of the immediate past, say 2011, we corrected 17 per cent, which interestingly coincides with the current 17 per cent cut from the top of 9,119 to a low of 7,531.

But this 17 per cent fall in 2011 was on the back of around 35 per cent upswing. In 2010, the market corrected 27 per cent after a steep upward move of 17 per cent. Time wise this correction lasted four quarters.

Now pricewise there is every possibility that the 7,500 level will be taken off as the market have corrected after a vertical upward move of 78 per cent, without much price damage, which lasted 18 months from the lows of 5,118 hit in 2013.

This time wise observation also coincides with our medium-term time cycle analysis, which suggests this market shall continue its corrective swing for 3-4 months and shall bottom out somewhere in February or March of the new year.

In terms of the wave theory, we are pretty much convinced that the top of 9,119 is wave 5 inside wave 3 of a larger bull market. Hence, the culmination of wave 3 of a larger degree will naturally retrace much of its preceding upswing besides consuming more time to digest the sharp and vertical gains of the previous upswing, which is the normal feature of third wave and we have clearly witnessed this phenomenon of sharp and vertical upward move prior to the top of 9,119.

If it is true then the current downtrend is wave 4 of a larger degree, it would mean the long-term bull market is intact and the end of this 4th wave shall pave the way for the final leg of the bull market, which we expect to start somewhere around February or March, which can again expected to be in a multi-month upward move.

As we have been projecting in these columns since July 29, the minimum target for Nifty50 based on the sell signal it generated on the long-term charts shall be 7,200. However, after three months of fall, the chart structure is much clearer and a breakdown below 7,500 suggests a more vicious fall in Nifty50 and on multiple technical parameters a strong support is emerging around 7,000-6,700 levels.

Alternative Count:

Although our preferred count is bearish and we look forward to 7,000 level considering the uncertain nature of stock prices and limitations of forecasting, it will be prudent for traders to have Plan B in place.

In case Nifty40 sustains above 7,500 level, then the fall from August 2015 shall evolve itself into a contracting triangular structure. Then the fall from 8,621 to 7,539 can be labelled as 'A' leg of such a triangle.

In such a scenario, we can presume that the 'C' leg is in progress from the highs of 8,336 and in no case shall it breach the low of 7,539. If it breaches this level, then automatically our alternative count shall become invalid, which will then strengthen our preferred view and throw the market into chaos, but which itself as of now is looking like a good buying opportunity around those long-term support levels from where the market bottomed out and rallied on multiple occasions in the past.

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