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It is time to cut your exposure towards smallcaps; 10,300 on Nifty crucial for bulls

Traders need to prune down their exposure towards mid and smallcaps as and when they suspect major corrections are in the offing or at least when markets are trading at expensive valuations, Mazhar Mohammad, Chief Strategist – Technical Research & Trading Advisory, Chartviewindia.in, said in an exclusive interview with Moneycontrol's Kshitij Anand.

Q) It was a week which belonged to bears as Nifty lost over 2 percent. The index lost momentum after the Budget session and it looks like we are staring at some consolidation.

A) This kind of correction was pretty much on the cards as no more triggers were left post the Budget 2018. The budget lacked the wow factor to keep the momentum intact in the equity markets which are already trading at stratospheric level with rich valuations.

Besides, technically, the market was in overbought zones for quite a long time without witnessing a major price wise/time wise correction almost for the last 13 months.

It was looking for some excuse and budget with its own dose of long term capital gains, dividend distribution tax on mutual funds and retention of securities transaction tax (STT) accompanied with its ambitious healthcare plan, became a scapegoat to trigger such a fall.

Q) What should be the ideal strategy for mid & small caps post Budget which is attracting some bit of selling pressure?

A) When market reverses its trend small and midcaps will be ruthlessly beaten down. Somehow this has been the rule during all major corrections.

Hence, traders need to prune down their exposure towards mid and smallcaps as and when they suspect major corrections are in the offing or at least when markets are trading at expensive valuations.

In the current situation, the best thing can be to lighten up existing positions by making use of pullback rally if any.

Q) How is the market looking on the weekly as well as monthly charts?

A) Just recently, markets witnessed a major breakout across time frames and hence looking very attractive. The breakout on the weekly as well as on the monthly charts throws up lucrative targets.

Friday's sharp correction is yet to damage the medium-term trend. No doubt the market is in a short-term downtrend and can slip into a multi-week corrective and consolidation phase.

But, there will be a significant damage to this bull market if Nifty50 closes below 10,300 levels on the monthly closing basis.

Q) What should be the strategy -- buy on dips or sell on rallies in the coming week?

A) It is clearly sell on rallies kind of market for coming weeks. Technically, markets were ripe for a correction and budget appears to have triggered that much-needed pause in the uptrend.

Fundamentally things are expensive and no more triggers are left as the market is out of a major economic event.

After the budget, now focus will shift towards RBI monetary policy which is due for a meet in next week. It is bound to retain its hawkish stance as fears of inflation are back with some of the populist measures announced in the recent budget.

Unless some positive news flows come in, maybe market-friendly commentary from RBI or in the form of withdrawal of STT post implementation of long term capital gains etc. this market may not rally much in the short term.

Q) Are there any pockets of opportunities to hide in this falling market?

A) At these levels, it will be difficult to put out few names but IT as a sector which certainly appears to be providing a good opportunity to enter once again by making use of this correction.

But, there are still certain counters in which it seems a promising trading opportunity is available as their relative strength when compared to market indices appears to be good.

Q) Top 3-5 stocks (with a timeframe) which are looking attractive at current levels based on technical?

A) Here is a list of three stocks which could give up to 12 percent return:

Asian Paints: BUY| Target Rs1190| Stop Loss Rs1120| Return 5%

After retracing 80 percent of its upmove from the lows of Rs 1,100 – 1,208, this counter appears to have registered a decent bottom at a recent low Rs 1,123 levels. The stock has bounced back from last 4 trading sessions after testing the same point.

Hence, as and when it picks up the momentum its next target should be close to Rs 1,190 levels. A stop loss for this trade should be below Rs 1,120 on a closing basis.

BPCL: BUY| Target Rs535| Stop Loss Rs465| Return 12%

Oil marketing companies appear to be founding favour of traders for the last couple of trading sessions as they are making efforts to post higher tops and higher bottoms suggesting they are on the verge of a pullback mode.

After a vertical fall from Rs 542, BPCL appears to have posted a bottom at Rs 465 and for three weeks it has made a decent basing formation from the cushion which it is trying to be on a pullback mode.

Hence, sustaining above the Rs 465 this counter can go back all the way towards Rs 540 which looks to be its upper range. Traders should go long for a target of Rs 535 with a stop below Rs 465 on a closing basis.

Infosys: BUY| Target Rs1210| Stop Loss Rs1018| Return 6%

Albeit this counter has underperformed compared to its peers, there seems to be a promising trading opportunity as it has retraced 50 percent of its last leg of the rally from the lows of Rs 1,006 to Rs 1,221.

Friday’s positive close in a ferociously falling market can be suggesting that it has posted a bottom at budget day low of Rs 1,118 and ready for a takeoff.

Hence, positional traders should go long into this counter for a target of Rs 1,210 with a stop below Rs 1,018 on closing basis.