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'New lifetime highs on Nifty possible in next 4-6 months'

Mazhar Mohammad, Chief Strategist–Technical Research & Trading Advisory, Chartviewindia.in said in case of a downside the Nifty may correct to 10,400-10,300 levels. Speaking to Moneycontrol's Kshitij Anand he added that once this pattern gets culminated may be after three-to-four months a breakout shall take the indices to new highs.

Q) The Nifty slipped nearly two percent for the week-ended May 18. It broke below the crucial support level on the charts. Do you think we are headed lower in the May series?

A) In our last interview on April 28, we categorically ruled out 11,000 Nifty in the May series and said our target for the index was 10,928. In line with our projections, the Nifty appears to have topped out around 10,929 levels.

Now, after topping out at 10,929 levels, the patterns are clearly suggesting a downward momentum in the near future. Based on our understanding of larger trends, we are considering the entire rally from 9,950 as a pullback move inside the multi-month corrective phase from the highs 11,171 registered in January.

The bottom for the Nifty is in place at 9,950 levels and it needs a time-wise consolidation as the correction follows 16 months of a vertical rally.

We visualise a triangular consolidation as a part of the fourth wave in Elliot Wave parlance. Inside this triangular consolidation, there will be five legs and two of them appear to have culminated. The third leg may be in progress on the downside from the highs 10,929.

This entire triangular corrective structure unfolds with lower tops but with a higher bottom. Hence, we will not be surprised to see a multi-week or multi-month top at 10,928 levels.

In the worst case scenario, this leg on the downside may get extended to 10,400-10,300 levels. Eventually once this pattern culminates may be after three-or-four months a breakout shall take the indices to new highs in the form of a fifth wave.

Q) MACD gave a sell signal on the daily charts on Thursday for the first time since March. What are its implications?

A) During major corrections, especially when the larger trend is changing, sharp corrections will generate sell signals on all technical oscillators.

Hence, we can't compare a sell signal seen in January with the current sell signal and conclude that market will fall around seven percent as happened in January. The decision has to be taken based on the weight of technical evidence but not based on a single parameter.

As there are many other positive technical developments on longer-term trends, one need not pay more attention to this single parameter. At best it may be confirming a short-term downtrend.

Q) Plenty of stocks hit fresh 52-week lows this week instead of a 52-week high. Do you think these are stocks which are carrying the momentum and should investors ideally book profits or stay away from them?

A) Absolutely. Traders should stay away from the underperformers and look to add and stick to outperformers. Even in this market, there are many stocks which are hitting new highs. The focus should be on them.

Q) What is your call on smallcap and midcap stocks? Should investors stay away or just book profits on rallies?

A) If investors are sitting on consistent underperformers, especially with deteriorating fundamentals, then there is no reason to sit on them. Churning should be considered.

In the March quarter, some stocks which were beaten down from this space managed to double their bottomline. Hence, investors can shift their focus on such beaten down scrips which are delivering fabulous results.

Q) What is your call on crude for the coming week?

A) Fortunately, we got the trend right in crude prices from around Rs 3,000 levels or so. Since then, we are churning bullish reports on this commodity.

Pattern breakouts on the long-term charts are throwing up a big target placed in the Rs 5,500–5,700 per barrel zone. Even at current prices one can initiate fresh long positions.

Q) Top 3-5 positional calls that could give handsome returns to investors in the next one month?

A) Traders can focus on stock specific opportunities like:

Britannia Industries: Buy| Target: Rs6,100| Stop loss: Rs 5,300| Return 9%

This counter appears to have witnessed a consolidation breakout from its 4-week range bound move only to register a new lifetime high.

As it is moving in a well-defined ascending channel with multiple touch points for last 15 months, post this breakout, it can easily head towards the upper end of the said channel whose value is placed around Rs 6,100 levels.

Hence, positional traders should buy into this counter with a stop below Rs 5,300 and a target of Rs 6,100.

Yes Bank: Buy| Target Rs 377| Stop loss Rs 337| Return 9.2%

This counter appears to have made a bottom around Rs 340 levels after the recent correction, as it is moving in a narrow range of Rs 350-340 levels for the last 9 trading sessions.

Sooner than later a breakout can be witnessed from this range which can then propel this counter towards its lifetime highs of Rs 383 registered in September 2017.

Hence, positional traders are advised to buy into this counter for an initial target of Rs 377 with a stop below Rs 337.

HUL: Buy| Target: Rs 1,690| Stop loss: Rs 1,555| Return 5%

This counter appears to be in a strong uptrend as it is consistently hitting new highs. Hence, traders can make use of this momentum to go long for a target of Rs 1,690 and a stop below Rs 1,555.

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