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We are in a mini bear market; Nifty to trade sub 10,000 levels: Expert

Mazhar Mohammad

Of late investors have been unable to fathom the kind of market in which they are operating with back to back sharp corrections witnessed in the

year 2018 which eroded the substantial wealth of financial markets especially in the emerging economies.

India looked like an oasis in the growth-starved world appears to have caught up with macro issues with widening current account deficit (CAD), a weak currency and its soaring cost of capital which is looking like a lethal combination to hijack the growth story of the

country.

As a result, foreign investors (FPI/FIIs) have pulled out Rs 93,392 crore since January 2018 out of which Rs 33,343 crore are from equities

(source: NSDL, as on October 17) and it seems that India no longer appears to be the darling of emerging market world.

The result is Nifty is down by around 13 percent from the recent highs of 11,760 levels. While the index is down by only 13 percent

substantial value erosion was seen in the broader markets.

The mid and small-cap space which is reeling with a cut of more than 40-50 percent leaving investors licking their wounds since January 2018.

This has led to the confusion in their minds about their investments which cropped up some difficult questions like – is this the end of a bull

market? Are we in a bear market?

Unfortunately, there are no straightforward answers to these questions. While bull markets can be relatively identified at an earlier stage it
not only becomes difficult to identify a bear market but also very difficult to accept the fact that the bear market dawned upon us as greed

prevent investors from doing so due to the investment-related behavioral trait called FOMA — Fear of Missing Opportunity.

While developed economies quantified a bear market measure with a definition of 20 percent fall from the top the same rule can't be applied

to the economies of the emerging world whose stock markets are relatively more volatile.

For instance, in India, we have seen multiple corrections of around 30 percent in the erstwhile bull market of 2003-2007.

If someone applied the definition of the developed world then many would have missed the mighty opportunity in 2004 when the then

first bull market correction lasted for 4 months from January 2004 with a cut of 35 percent from the respective top on Nifty.

Similarly in the current bull market, which is in progress from the lows of 2013, already had a major setback which has seen more than 20

percent value erosion on the Nifty. In March 2015, Nifty was down with a cut of 25 percent from 9119 – 6825 which lasted for 11 months.

If you presume that bull market was in progress from the year 2009 lows then in November 2010 Nifty took a hit of 28 percent from the

highs of 6,338 – 4,531.

So these kind of big corrections inside bull market are quite common in Indian markets and may last for a couple of more quarters. Indian

investors can easily reject this 20 percent rule for identifying bear markets.

What does market internals suggest?

In bear markets typically large-caps remain outperformers and small and mid-caps continue to underperform. By this logic, we can conclude
that market behaviour since 2018 somewhat resembles a bear market as a handful of large caps remain outperformers whereas

mid and small

caps continued to underperform which resulted in the collapse of market breadth on rallies.

This can also be gauged by looking into Nifty's behaviour which went on to make new lifetime highs from March 2018 lows of 9,950 on the
back of few large-cap stocks whereas mid and small-cap indices made lower tops and continued to remain under pressure since January 2018

highs.

On 28th of August when Nifty50 registered a new lifetime high of 11,760 than from NSE universe of stocks around 1301 (69%) were trading
below their 200-days moving averages whereas 1274 stocks were found to have registered death cross meaning whose 50-days moving

average was below 200-day moving average suggesting strong downtrend.

Bull markets often end with scams:

Often bull market obituary is written when scandals start raising their ugly heads. In April of 1992 big bull Harshad Mehta was exposed how

he was fraudulently dipping into banking channels to finance his activities which lead to the big crash of the then bull market.

Similarly, when Ketan Parekh was exposed in 2001 it leads to the demise of the 1998 – 2001 bull market. These two scandals surfaced at the

top of the bull markets. Though the famous bull market of 2008 was ended for global reasons it was not completely free of scams.

On 7th of January 2009, founder of Satyam Computers made a confession about a massive accounting fraud in his company to the tune of Rs

14,000 crores.

As Mark Twain famously said "History doesn't repeat itself it often rhymes" scams and frauds started dominating the headline in the current

bull market.

On 29th January of this year, Punjab National Bank filed a complaint with CBI about 260 crore LoU scam which latter on turned out to be a

mammoth Rs 13,000 crore fraud involving diamantaire Nirav Modi.

Interestingly, the date of complaint coincides with the Nifty top of 11,171 which triggered a massive correction in the broader markets. As if
PNB scandal is not sufficient we got IL&FS fiasco which is dominating the headlines as this infrastructure lender which amassed a total debt of

Rs 96000 crores started defaulting its dues on piece meal system threatening to pose systemic risk in the economy.

Chart Check –Why Nifty should head below 10,000

Our long-term trend studies are pointing to major breakdowns in the trend and as we have been pointing out in these columns since the

beginning of September.

The Nifty is in an intermediate downtrend which should last for a couple of months. As things are becoming crystal clear with more visible
patterns on the charts it appears that market triggered its corrective structure from January 2018 itself when Nifty registered a high of

11,171 levels but not at the absolute top of 11,760 recorded in August.

In Elliot Wave parlance the structure on Nifty is looking like an Expanded Flat in which counter-trend rally with three legs in the form of Wave

B shall move above the top of Wave A.

In this case rally from the lows of 9,950 – 11,760 (Wave B) and when B ends it leads to disastrous C leg. And the correction from

11760 is as

disastrous as required by the nature of Wave C. Expanded Flat ends below the point from where Wave B originated.

In this case, it is 9950 from where Wave B commenced its journey. This is the reason why we have been highlighting from the beginning that

this corrective structure shall end below 9,950 levels.

When we read this corrective pattern with other conventional technical tools then we are arriving at a target of 9700 where Nifty shall ideally bottom out. While this remains our preferred view our alternative count suggests that in case Nifty held on to 9950 then it should pave the

way for a prolonged sideways correction in the form of a multi-month triangular structure with lower tops but with higher bottoms.

Time wise we are expecting this correction to last till February/ March 2019 (in all situations) after which a sustainable multi-month up move can be expected. However, as this time cycle is coinciding with the major political event as the country is heading for a Parliament election

this correction can get extended by another 2 – 3 months.

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