The Professional Ticker Reader ®

Your **a**ccurate, **a**uthentic and **a**ffordable guide to profitable trading

July 10, 2009

Vijay L Bhambwani

Tel –

91 - 22 - 23438482

E-mail –

vijay@Bsplindia.com

Url –

www.Bsplindia.com

Snail mail –

Bhambwani Securities (P) Ltd

5 Kala Niketan
47-C Warden Road
Mumbai 400 026
India

State of the Markets - XXII

Friends,

The previous edition of the state of the markets report – xxi dtd June 14 2009 had mentioned that the quality of stocks that had shot up was suspect. "Cats and dogs" had doubled or more in 12 short weeks, every analyst from anywhere was advocating (screaming more like it) – BUY!

We chose to exercise caution and forecast that levels beyond 4800 on the Nifty spot would surprise us. That level was not reached. Water was and is a major concern, monsoons are expected to be poor (I stuck my neck out a few months ago and still stick my neck out – monsoons will be erratic till 2011). There will be logical fallouts. Premium plan subscribers will recollect my sms dtd July 10 2009 – "Below 4070 Nifty spot the markets will fall rapidly and sharply. Hectic activity was seen between the 4065 – 4090 levels and tired bulls would bale out". It wasn't plain vanilla technical analysis, we were employing simple behavioral economics. It was a Friday, market sentiments were weak and bulls were compromised. Extrapolate this logic forward to the entire market and you get the following inputs –

1. We used logic like management buying as a basis for recommending L&T and Petronet LNG buys. The management of L&T is selling. For me that is a near term top forming.
2. Poor monsoons would wreck the hopes of retailers, consumer goods and even the Country's planners. The economy is likely to get tailwinds from the rural sector. The urban population is heavily dependent on credit cards and EMI's to boost spending. The GDP growth hopes could be dampened by the monsoons. FII fund managers fear this factor significantly.
3. Lofty expectations from the budget saw irrational and un-realistic bullish positions being initiated by the retail players. I had expressed fears that the fuel price cuts on two occasions before the elections pretty much sealed the fate for the revenue & fiscal deficit. These long positions (especially leveraged ones) will now get slaughtered. As brokers square up longs for clients who cannot meet margin / mark-to-market calls, markets will remain under pressure.
4. State level electoral compulsions are likely to compound the problem on the fuel price front. The announcement of possible petrol / diesel price cuts if Crude declines is unwise and populist. Expect more deficits.
5. The fiscal deficit is way too high for the FII / IMF / ratings agencies' comfort. Poor rainfall, fuel price cuts and irrational stimulus announcements will invite a downgrading of the Rupee. That will cause a flight of capital (temporarily) from the markets.
6. Weakening Rupee will extract it's toll as the buying power erodes, imports become expensive, exports languish due to a recession and the balance of trade becomes adverse.
7. High inflation has never been good for stocks. People tend to focus on feeding the stomach before feeding their egos. My visits to the grocery markets, provision stores and sahakari bhandars indicate people under strain due to ballooning costs. Yet the inflation is negative! Stick to reality – get up and smell the coffee. The situation on the ground is far from rosy. A strong

bull market exists in the imagination of many an analyst. That is not to say that I don't favour equities. But use a judicious asset allocation method. Putting all your money in equities is not wise right now. Think of alternate asset classes – commodities, small saving schemes, post office savings & PPF.

8. Even though the worst maybe over, emergence from a deep recession is not an overnight affair. We have postponed AS - 11 implementation which will show on the balance sheets of many Corporates in the coming quarters. Window dressing of accounts becomes a compulsion - to survive. Note what happened to NTPC and others. As these ripples hit the markets, they will cause fear / panic / nervousness and therefore selling.
9. I have already expressed concerns on the short term technical health of the markets – head and shoulder pattern, gaps need to be filled etc. etc. A decline below the 3600 level is not welcome.
10. Earnings season is upon us. If the numbers are numb, the markets will be even more weaker. Buying should be staggered. Take cues from the forex markets. The Rupee must cross the 47.50 mark if the outlook is to be healthy. On the flip side, crossing the 50 $ mark will indicate fresh weakness.
11. Money supply is the mothers milk for any bull market. If money was floating around for corporates, there would not be a rush for QIP's. A line up of IPO's and FPO's will suck out liquidity in the coming days. The **near term** outlook is that of over head supply. This view is constant since the last edition.

If you have the spare cash, don't rush in. Keep quotes on your buy side of your trading terminal at the lower end of the daily price range, you will see sellers ultimately tiring out and supplying you with stocks towards the end of the session. Until this process reverses, I plan to remain cautious. I may even curtail recos on the buy side or totally, till clarity returns. Focus on index trading, its cheaper, efficient and less volatile than stock futures for now. If you have bought the stocks recommended in the "core portfolio" recommendation in the flavours editions, you are likely to do just fine. I continue to hold my stocks as I write this piece.

Vijay L Bhambwani
Vijay@BSPLindia.com