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Is the bull dead?

The markets are testing the nerves of the longs (bulls), as the last 5 sessions have seen a pummeling that has mauled equities, commodities and currencies alike. Such situations often tend to shake our conviction in our recent actions (investments / trades) especially when the current prices seem to go against our bets. In such situations, it is best to resort to a technical indicator which had got un into the trade itself. A sort of re-evaluation. Here is a technical perspective of the ongoing decline –



Note how the Nifty had signaled a breakout of a diagonal cum bullish channel on week ended Sept 17 2010 once it traded above the 5650 levels on a sustained closing basis. That breakout which was the erstwhile resistance should be treated as the current floor. Unless this support is violated on a sustained trading basis, the bull is **not** dead. However, the level is an absolute support which need not be tested before the markets proceed to rally again. Logically, the 5900 level will be a primary short term support as that happens to be a bullish short term trendline on the daily charts (the above is a weekly one). As per the golden ratio retracement studies, the declines are expected to encounter support at the 5845 then the 5728 levels on the Nifty spot.

Looking at the oscillator (14day RSI), it is clear that the ongoing decline has failed to take the indicator below the 50 mark, which would raise alarm bells. It seems to indicate a routine correction rather than a complete trend reversal. While de-leveraging and margin calls may cause discomfort or even indicate weakness in the near / medium term, we are of the opinion that the broader picture still maintains its bullish flavour.

The weight of evidence approach shows that industrial metals are witnessing buying support at lower levels and the short term concerns on China, Ireland and China are getting digested by the market players. While higher food inflation and possible energy price appreciation remain a concern, the bull is by no means dead. Not just yet.

Investors are advised to maintain the investment game plan as put forth in our SOTM mailers and continue to make strategic investments along advocated lines. The oil & gas, food & farming equipments, fertilizers, water, specialty engineering and metal stocks remain our prime picks.

Among the hard assets, Silver followed by Gold will be our top picks. Leveraged tactical positions maybe taken in Copper and Zinc with a multi month view, with ample M2M cushions. Leveraged trades should however be curtailed in quantum.

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The analyst is the author of the book "A Traders Guide to Indian Commodity Markets" and invites feedback at vijay@BSPLIndia.com.