



January 2018 issue  
7<sup>th</sup> February 2018

**Nifty outlook:** Nifty had a strong upward thrust in the month of January 2018 but equally fast reversal is seen from beginning of February. Try to understand that when the emotions are extremely high and markets are rising, the emotion that governs everyone is Greed. So, one cannot expect selling to start when Greed is driving everything one way.... read more below

**City Union Bank Long term pick:** Trend for City bank remains positive and as of now primary wave III is ongoing on upside, which can take prices towards 200 levels. One can hold on their existing long positions can hold on to this stock and fresh positions can be created on declines in staggered fashion....

**Outlook on INR:** We are showing INR against all the major currencies because this asset which is not in news has been sending across warning signal since the beginning of 2018. Sharp depreciation in INR against basket of currencies is a sign of concern....

**What is up with DowJones Industrial Average:** In the previous update on DJIA we also mentioned the following - *we will refrain from giving upside targets for this "BULL" but whenever the buying gets thin and exhausted there will be a culmination resulting into a chaotic crash.* This simply shows the power of Elliott wave and technical analysis which has helped us to warn the readers to stay alert...read more below

**Ripple, IOTA – How far the mania will continue?** I think it is time to start looking at the newly formed asset class- Crypto currency (Ripple& Iota). We have tried to apply Time cycles and Elliott wave on Crypto currency like Ripples and it seems to be working amazingly well...

**Mutual Fund section:** Prudent asset allocation is the key to generate alpha returns. Looking at only the past returns and identifying the funds that will perform is like driving a car looking at rear view mirror. We apply forecasting tools like Elliott wave and try to identify the funds that will outperform in the future. Power of Compounding can create long term wealth! The research shows application of Elliott wave technique on one of the Mutual Funds which can be helpful to select the right Funds to generate greater returns over long term!

Figure 1: Nifty Monthly chart

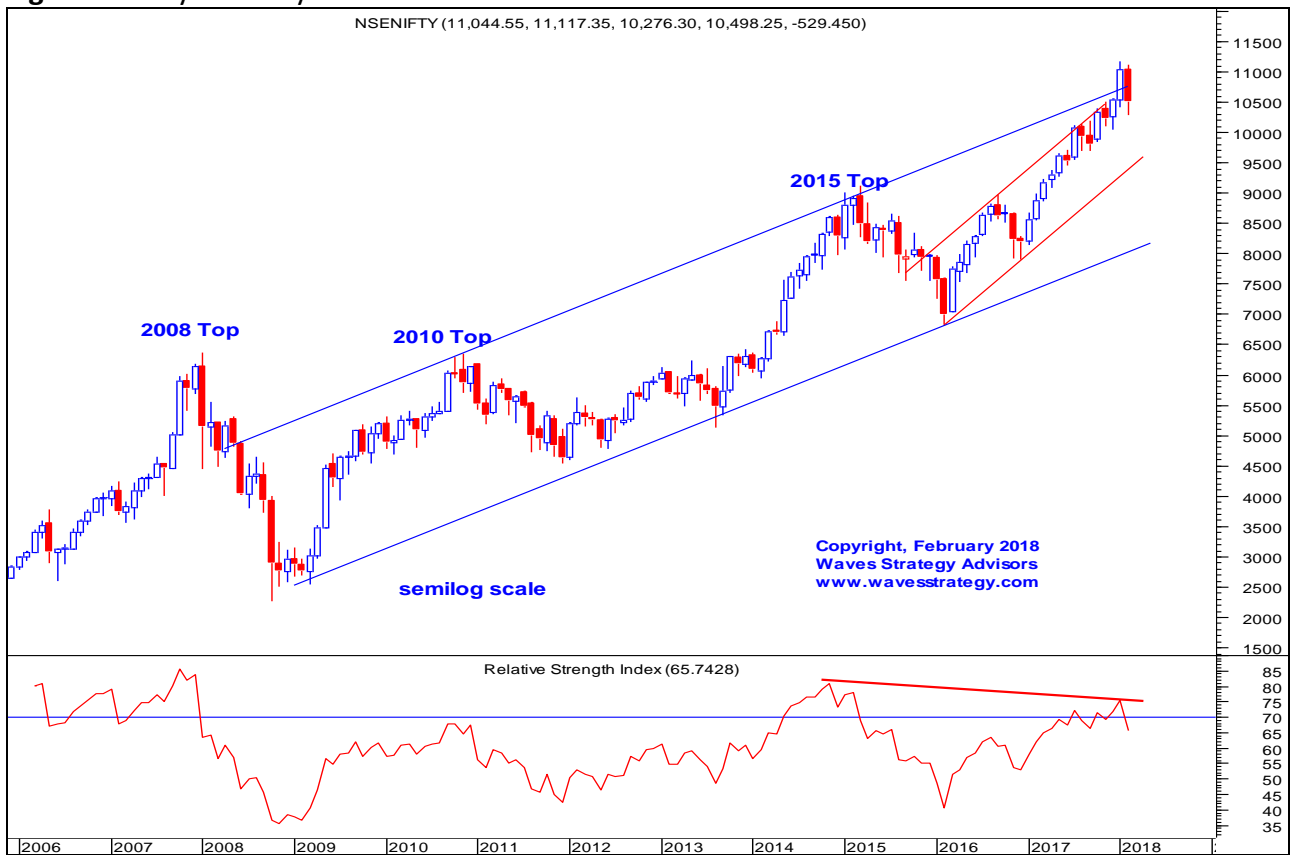


Figure 2: Scenario 1 - Nifty weekly chart



Figure 3: Nifty daily chart

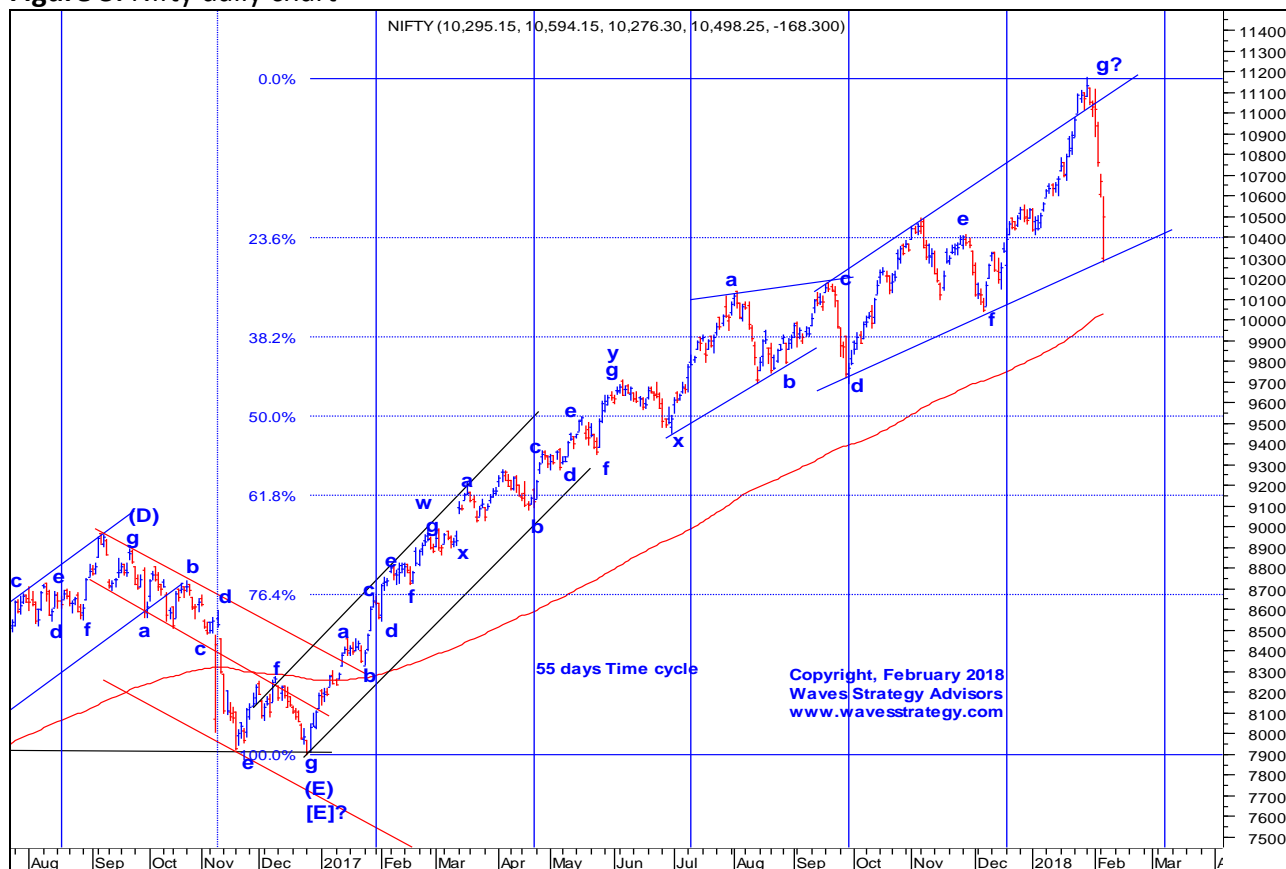
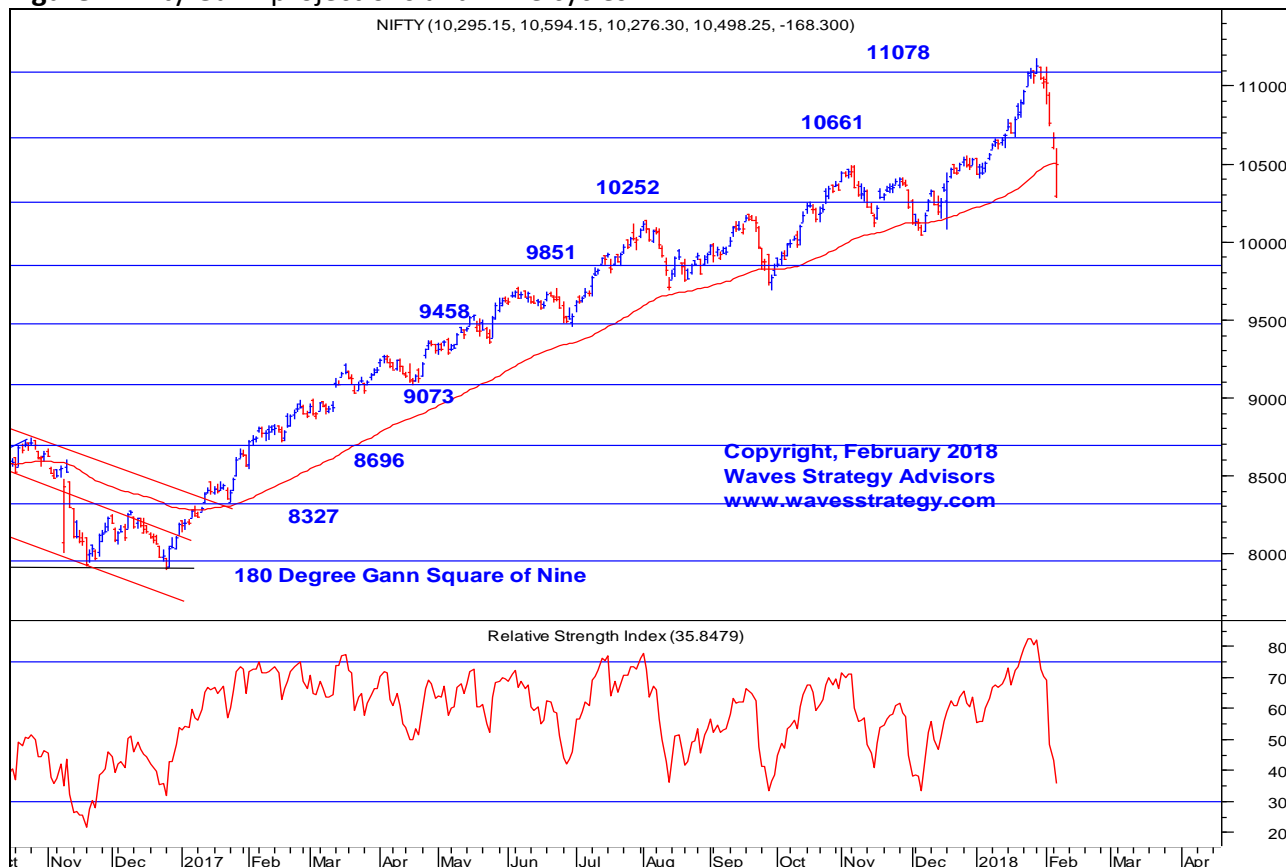


Figure 4: Nifty Gann projections and Time cycles



Nifty had a strong upward thrust in the month of January 2018 but equally fast reversal is seen from beginning of February. The movement on downside had been sharp and fast which produced one of the biggest decline seen in years. The difference between the highs and lows had been 840 points which is bigger than that seen during the fall of November 2016 that was the month of Demonetization. The important part of the recent global selloff is that entire fall had been without any news or events.

**Why a sharp decline?** Please understand that important tops are formed not because there is sudden selling pressure. Try to understand that when the emotions are extremely high and markets are rising, the emotion that governs everyone is Greed. So, one cannot expect selling to start when Greed is driving everything one way. For important tops to form we need exhaustion. Markets can fall out of its own weight. Suddenly if the buying dries up, even a small selling pressure cannot be absorbed which results into dramatic reversal. This is what was seen on US – DJIA and even on Nifty. US major index saw a decline of 1500 points on intraday basis which was biggest in its history in terms of value. Such sharp decline without any news only point in one direction that the buying is drying up. Excess liquidity that has been chasing the stocks higher is now slowly getting exhausted.

Here is the webinar link when I talked about sell on rallies should be the strategy that worked out very well. It was published on 2<sup>nd</sup> February 2018 well before the capitulation started – [You can watch it here](#)

**Nifty Monthly chart:** In Figure 1 you can see that Nifty has been managing to protect the lows of prior month for more than 13 consecutive months. This is simple but very powerful technique to understand if the overall trend is bullish or bearish. Anyone following monthly candles can stay in the trend unless we see a close below the prior month's low. With start of February 2018 we can see that the low of prior month near 10400 has been broken atleast on intraday basis. Now if February manages to close below 10400 then it will be a strong bearish indication that the overall trend is maturing or probably reversing.

**Monthly resistance line** -It is a rare phenomenon to see an upward sloping trendline getting broken on upside. We need a very strong momentum or this to happen and it is probably seen during wave 3 formation. As we can see on monthly chart the rise had been in the overlapping fashion with a classic false throwover above the trendline. This throwover was sufficient to trap majority at a very high levels. The dramatic reversal that we are seeing after that did not provide much time to think for exiting the long positions. So even now there are lot of longs stuck exactly at the wrong levels and shorts are still not active. So if February month manages to close below 10400 we can expect a move back towards the lower red trendline support which is near **9800 – 9600 levels!**

**Gann projection level:** After decisively breaking above 10661 which was Gann projection level, Nifty rushed towards the next level of 11078. There was minor push above this level and then a sudden reversal. Also in the entire rise since December 2016 lows these levels were not broken on downside after the next level being surpassed until February 2018. This clearly suggests that there is change in wind and if we see a move below 18<sup>th</sup> December 2017 low which is at 10074 over next three weeks then it will result into faster retracement of last rising segment.

**75 days Exponential Moving average**– This moving average has provided very strong support to prices during the entire rise of 2017. The same is now broken on downside and if over next few days

we fail to move decisively above 10500 then the negative implication will start building up. Moving averages are simple but effective way to measure the trend reversal. So far this average was whipsawed twice during earlier fall. So, lower highs and lower lows below this average is another way of understanding if the markets are moving from buy on dips to sell on rallies.

**Budget and Monetary policy:** With the introduction on Long Term Capital Gains (LTCG) in the Union Budget of 1<sup>st</sup> February 2018 prices saw a sharp decline but recovered back on the same day. We mentioned in our daily research report that the support was artificial and there will be negative impact. Next day Nifty moved sharply lower and started the down move. Break below Budget day low was a classical negative confirmation that many of our short term research readers might have initiated shorts and riding the trend even now using trailing stop method. Coincidentally, global reversal also happened during same period. Many of the Fund managers talked about how LTCG will have no impact as markets were reacting positively by closing on 1<sup>st</sup> February but only to reverse the next day. It is interesting to see how the news changes based on the market movement. Also when markets are rising the fund managers are bullish and when it is falling they are all the more bullish. What is the point to have such a view which does not provide healthy view point that is unbiased based on what is lying ahead! RBI had no other option but to keep rates unchanged given the tightening yields world over. So, it is the bond markets that have been leading looking at which RBI maintained the status quo!

**Neo wave pattern:**In Figure 3, we are showing the Neo wave pattern. There is a possibility that the important top is formed at 11117 levels and we have started the downtrend. However, this month will be important and break below 10074 will confirm this. If this level gets broken before end of February then we might head lower for majority of 2018. In case we managed to protect the lows and start showing pullback then expect the entire month to be a period of consolidation without any meaningful trend. I do not expect to see cross above 11000 level atleast in February.

In a nutshell, a dramatic reversal in global markets without any news is ideal way tops are formed. Crypto currency indeed lead the fall and now the equity markets are reversing. Sharp rise in Bitcoin and other crypto currency was nothing other than the manifestation of greed seen across the globe. A reversal in that asset is a leading indication that liquidity is finally drying up and it is only sanity now returning back in form of down move which majority are terming as insane fall! Keep an eye on 10074 level on downside and 11000 on upside. I know the range is huge but the recent volatility warrants this. Break below 10074 will be strongly bearish for months to come...Stay tuned!

**Figure 5:** City Union Bank weekly chart



The first Branch of **City Union Bank** was opened at Mannargudi on 24th January 1930 it is one of the oldest private sector bank in the country. It has grown its businesses 10 times from 25000 crore and branches doubled to 280. Its operating profit per employee and cost to income ratio are the most among the midsized banks. It has also post profits and distributed dividends over 80 successive years.

The major reason to include this stock is that since the 20th century it has managed to continue to rally irrespective of the news or events. As this stock has great potential to continue to outperform the primary trend for this stock remains positive, investment in staggered fashion would be advisable.

We previously covered City Union Bank in the month of December 2016. During that time the stock was trading around 130 levels and post that it touched the highs of 183 levels giving nearly 40% return. We are seeing some short term correction but this should only provide opportunity to go long in this stock. If we look at the five yearly returns, it has given around 150% returns. So the overall trend remains bullish from long term perspective as long as important channel support remains protected.

As shown in the weekly chart, prices are moving within the upward sloping blue channel in impulsive pattern. As per wave perspective, primary wave III is ongoing which can take prices to 200 levels or higher levels. The Exponential moving average is providing very good support. The stock took support on this average multiple times previously. Prices have managed to sustain the channel support as well.

**Path Ahead:**As mentioned in earlier update that the pattern target for this stock comes to around 250 levels on upside. The rise has been impulsive in nature. The only headwind is slowdown in momentum that we can see on RSI. Also the risk is that if the major indices reverse from there then we can see systematic selloff across the Midcap and Smallcap stocks. One should therefore prefer investing in this stock in staggered fashion and stay with it for the target of 250 or higher. The most important support comes to around 78 on downside.

In short, for **City Union Bank** the overall trend remains positive and one should buy it in SIP mode. The chart shows 18 years of up move and even if there have been corrections it only provided excellent opportunity to buy. So, existing long positions can hold on to this stock and fresh positions can be created on declines in staggered fashion.

**Currency markets are sending across warning signals over past few weeks. Let us look at the trend of INR against USD, GBP, JPY and EURO**

Figure 6:USDINR Weekly chart spot



Figure 7: USDINR daily chart spot

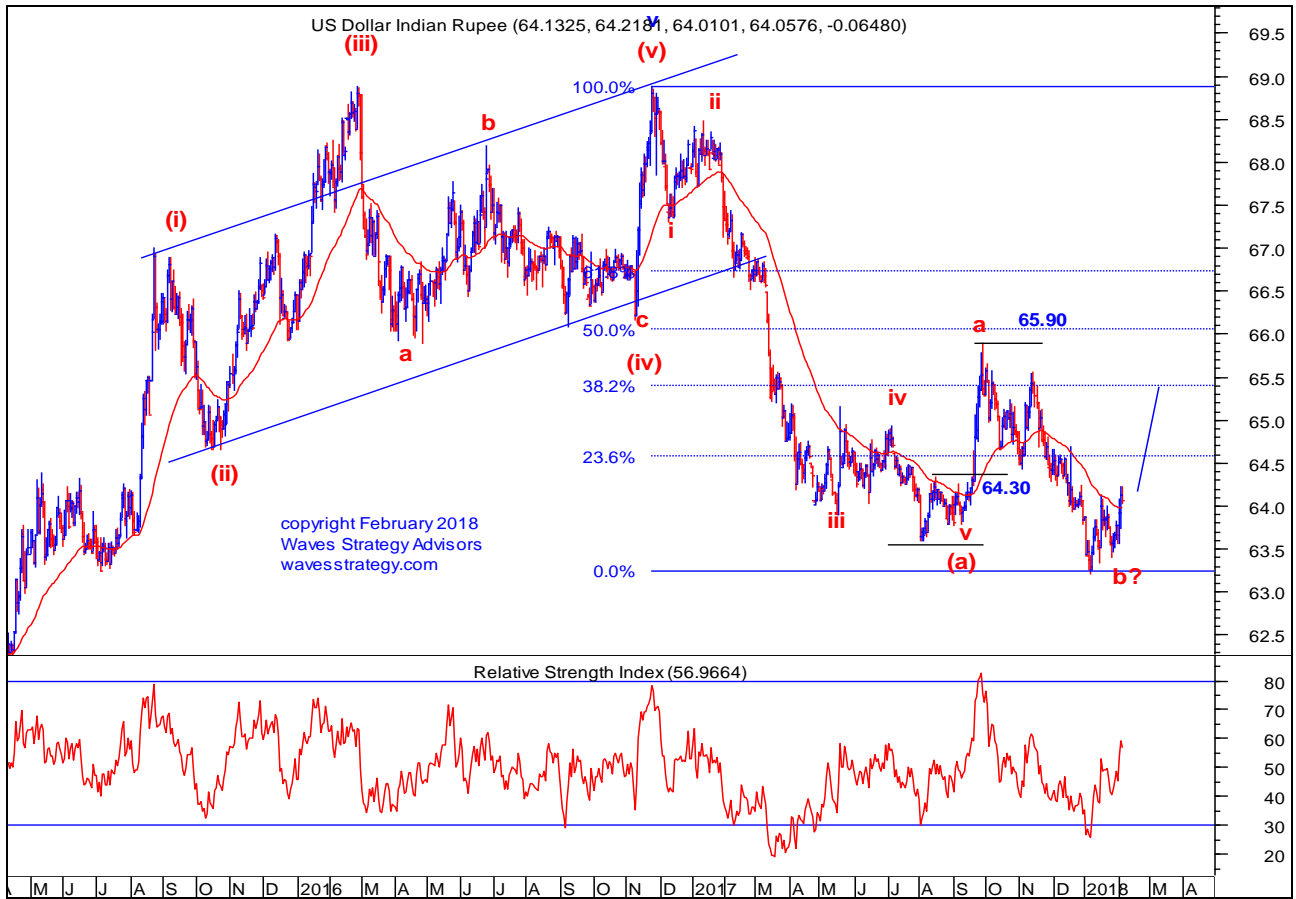


Figure 8: EURINR daily chart spot



Figure 9: GBPINR daily chart spot



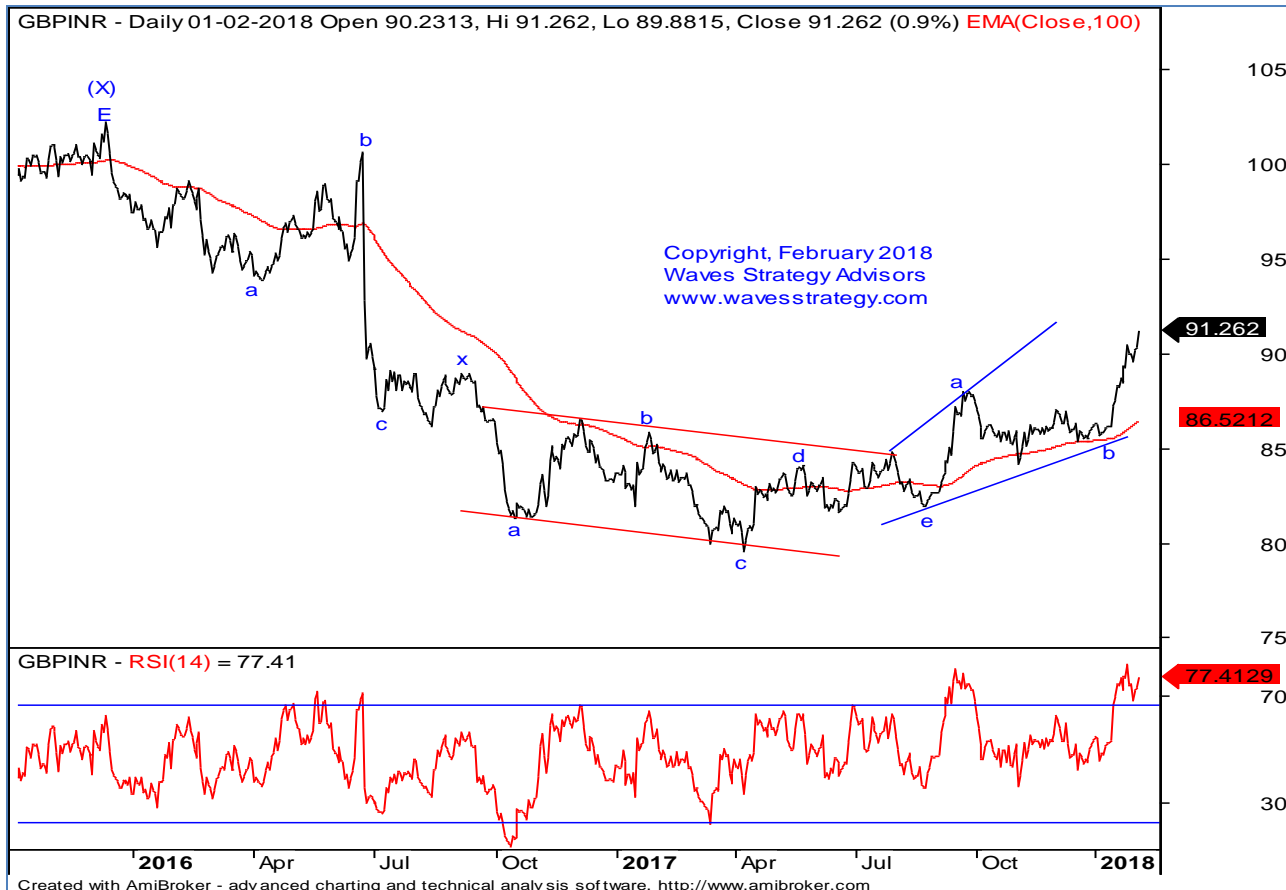


Figure 10: JPYINR daily chart spot



We are showing INR against all the major currencies because this asset which is not in news has been sending across warning signal since the beginning of 2018. No one is talking about it because we are just seeing a start of the uptrend. INR has depreciated sharply against GBP, JPY and EURO. USDINR also looks to be bottoming out.

The mainstream experts will start talking about any asset after it has shown substantial movement. It is then when majority will start taking notice of it and will then want to be a part of the trend when it is in matured stages. Similar behavior was seen in crypto currency. No one wanted to buy it when it was cheap but everyone wanted to be a part of the uptrend when Bitcoin touched 19000 levels from where it fell more than 50%.

This is how human mind works which results into a trend. Herding behavior is a very common trait known to all when it comes to animals but even humans herd which is reflected in movement of freely traded markets. Everyone wants to buy at higher and higher levels.

If you look at the charts above you can see that there is a multi-year positive breakout. EURINR was trading in a range since 2015 until recently when prices showed very sharp rise above the upper end of the range. This is not a very promising sign as it is indicating weaker economy and flow of money outside the country.

Similar thing can be observed even in GBPINR. There is a possibility that these currency pairs are in their 3<sup>rd</sup> wave and not c wave. Over next few weeks if the weakness continues in INR then we can see a very strong rise atleast in EURINR and GBPINR.

**USDINR movement:**We can see that USDINR has been relatively outperforming i.e. INR has been managing to stay in a range against USD. We can now expect a move towards 65.50 or higher levels. The internal wave structure suggests that prices completed wave (a) and now wave (b) is ongoing which is forming Irregular Flat correction.

In a nutshell, currency markets are not sending across positive signs for equity markets. Sharp depreciation in INR against basket of currencies is a sign of concern. We look at this as a leading and warning indication. This combined along with break of Nifty below 10074 can result into a very bearish scenario. So stay tuned, alert and keep looking across the assets to see if February month can manage to protect important levels or a strong trend starts both on Nifty and currency that breaks crucial levels!

**US Equity index – DJIA, Will it lead the world equity markets lower this time?**

Figure 11:DJIA Monthly chart

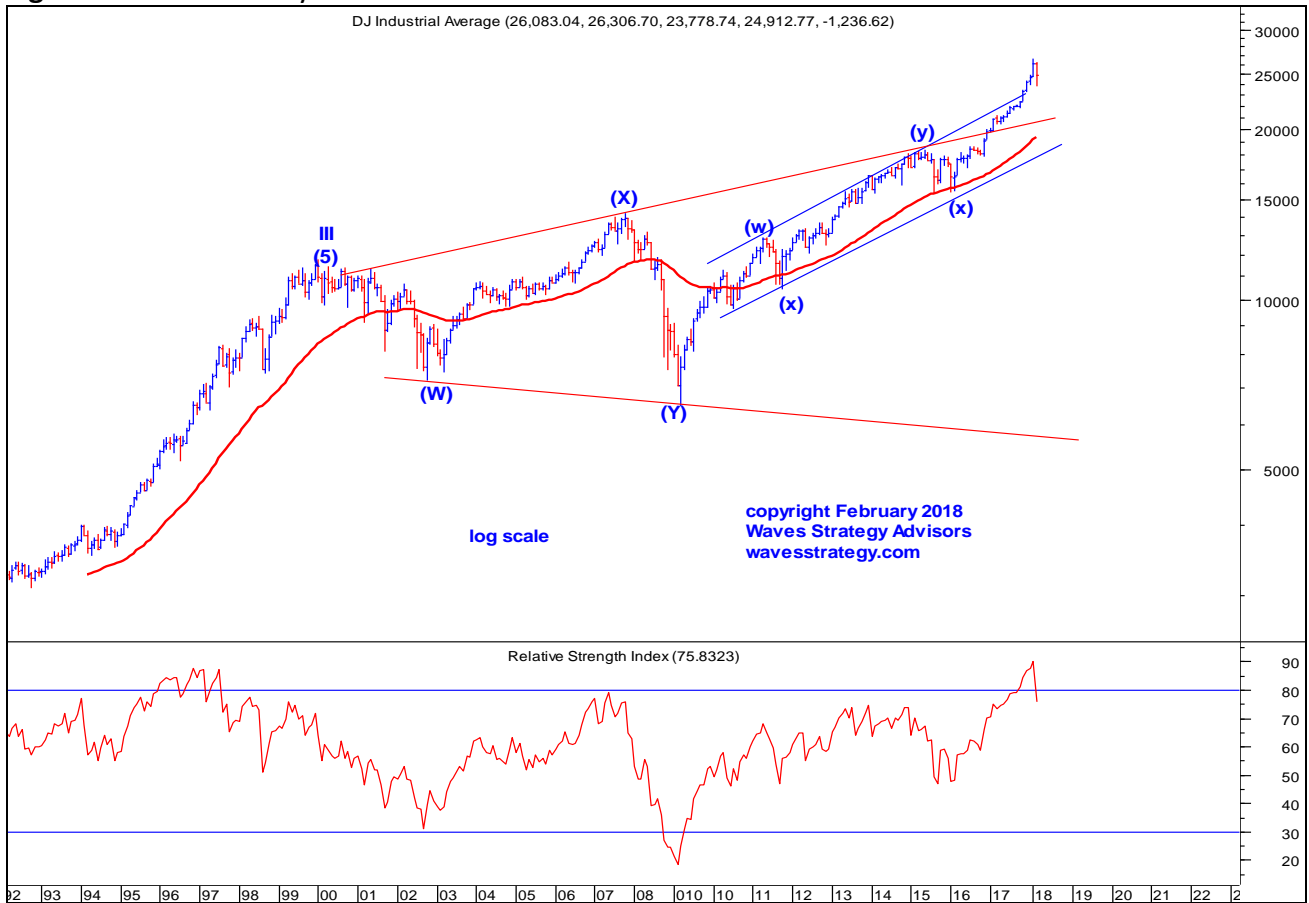


Figure 12:DJIA Weekly chart



Dow Jones Industrial Average rallied in the entire month of January 2018. It had been soaring with and touched lifetime highs of 26616 levels.

Post touching its highs, DJIA witnessed its biggest point drop in the history as it plunged by 1600 points but was still down by 1175 points by the end of the day which caused mayhem in the market. It lost over 5% from its recent lifetime high and wiped off most the gains for the year. This was blamed on the rising concerns around higher bond yields and lingering doubts about increase in inflation if the economy exhibits strong growth. We mentioned in our previous report **“The move above the trendline can be a throw over which can culminate with a dramatic reversal catching everyone off guard.”**

This is exactly what happened but we are yet see a break below the Exponential Moving Average (EMA) support of 23000 which will confirm the re-entering of prices within the channel. After BREXIT, this was the first time it formed the biggest monthly negative bar and it is surprising to know that it last formed a negative monthly bar in February 2017 and since then it has generated only positive returns on monthly basis.

As shown on the weekly chart prices are moving in a complex correction pattern and wave (e) of ongoing Diametric pattern looks to be complete on upside. We are now in wave (f) and post its completion one minor push on upside **not** necessarily taking out the highs of 26600 can be expected.

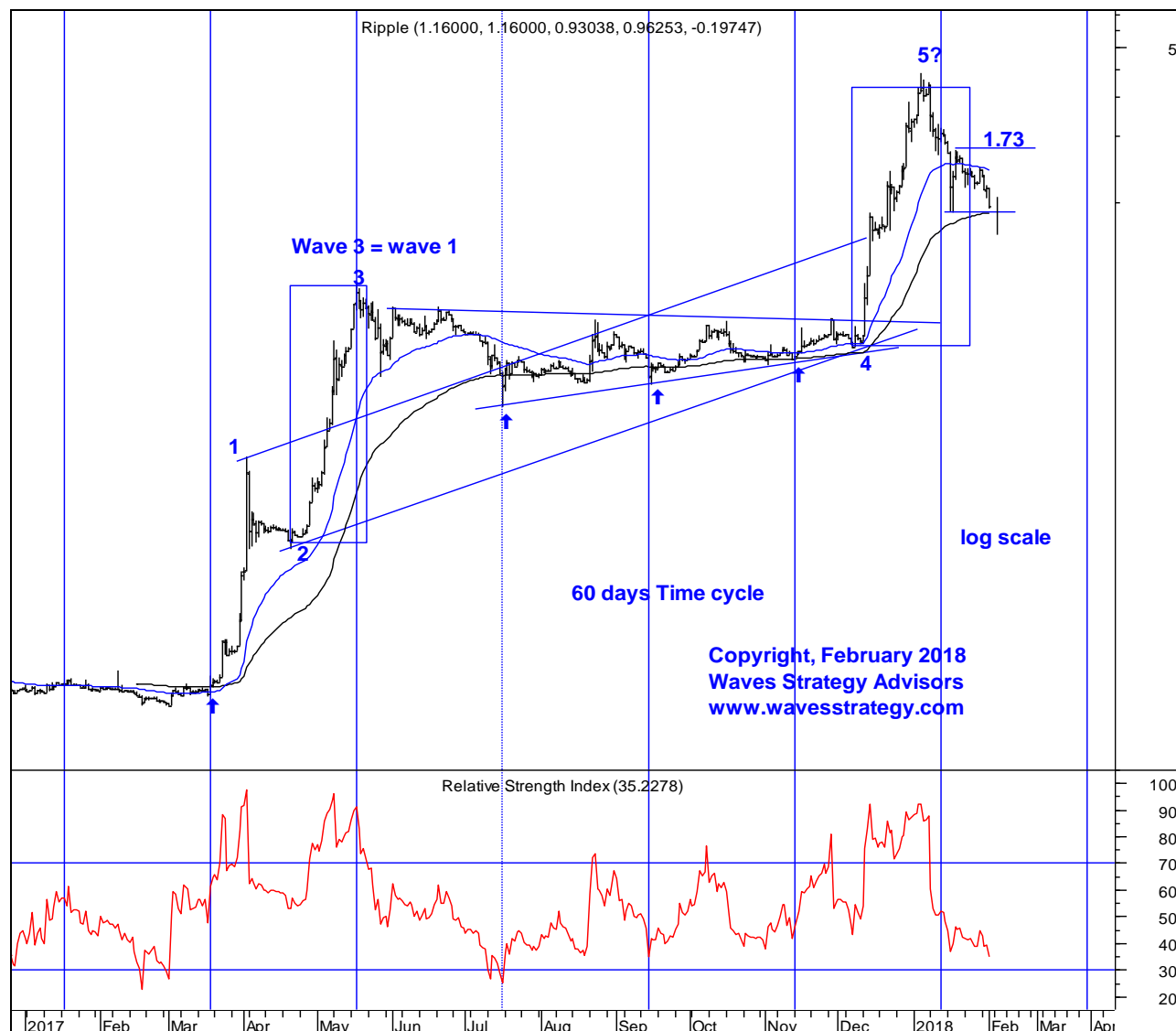
In the previous update on DJIA we also mentioned the following - ***we will refrain from giving upside targets for this “BULL” but whenever the buying gets thin and exhausted there will be a culmination resulting into a chaotic crash.***

This simply shows the power of Elliott wave and technical analysis which has helped us to warn the readers to stay alert. DJIA reversed with the biggest single day fall in history and now everyone has started searching for news or logic for such dramatic reversal.

In a nutshell, the low made by DJIA at 23778 is a very crucial support. If that gets broken it will indicate a top for the year is probably in place for multi-month of decline. So keep an eye on the world major index for trend confirmation.

**Below is an insight into Crypto currency – IOTA and Ripples**

Figure 13:Ripples daily chart



I think it is time to start looking at the newly formed asset class – Crypto Currency which is wildly talked about but no one took the step of providing indepth research or the methods that are working well on them. We have tried to apply Time cycles and Elliott wave on Crypto currency like Ripples and it seems to be working amazingly well. I always endeavor to provide the best of the research to our subscribers and above is a chart of Ripple against USD i.e. XRPUSD to showcase how well these advanced techniques of technical analysis are working on it!

Look at the chart of Ripple against USD i.e. XRPUSD and see yourself how amazing the Time cycles are working along with Elliott wave method and other technical indicators.

The above chart shows that this Crypto currency forms a low every 60 days. It has worked out amazingly well. Even the recent low was formed just few days after the 60 days cycle at 0.8978.

From Elliott wave perspective we can see that wave 3 has been equal to wave 1. Note the above is a log chart and the measurements are based on percentage scale. By this same logic the high

made by XRPUSD at 3.84 on 4<sup>th</sup> January 2018 made equality with wave 3 and wave 1. Let us see if it can become an extended wave or not.

Move above 1.73 is must for resumption of the up move but the low at 0.8978 is now also broken. So chances are increasing that an important top had been formed in this asset and avoid creating long positions unless we see move back above 1.73 levels.

In short, XRPUSD is failing to show any positive momentum and is breaking below the important moving average support as well. There is a possibility that this asset might have topped out already. Majority who invested in it at higher levels for seeing returns 10 to 100 times will finally get to senses. It is therefore best to buy based on strict research. Fresh investments can be done once 1.73 is taken out decisively else trade on short side.

**IOTA daily chart:**



The above chart is of IOTA/USD. We can see strong rise in this coin base since mid of 2017. The internal wave counts are clear and the 3<sup>rd</sup> wave was decisively extended. After completing primary wave 3 we can see move on downside in the form of wave 4. The fall has been in overlapping and corrective fashion against the rise which was clearly impulsive. So the chances are high that we might have completed wave 4 but there is no positive confirmation as yet.

Decisive break above 3.15 will be first sign that c is complete and next leg on upside has started. Further break above 4.10 is required which is the start of wave c for reversal.

RSI has also reached towards the level of 40 from where we have seen bounce back after completion of wave 2.

In short, IOTAUSD is at important juncture. Decisive break above 3.15 followed by 4.10 will be bullish. Strong momentum is required above those levels. On downside 1.40 is now important support. Next few weeks of price action is going to be important! Stay tuned...

### Mutual Funds - Where to Invest now?

#### Birla Sun Life Tax Relief 96 – Growth Weekly Chart



**Birla Sun Life Tax Relief 96** is an open ended Equity Linked Saving Scheme (ELSS) with 99.09% exposure to equity.

**Portfolio Analysis:** The fund aims to generate returns by investing in complete equity with maximum exposure to Automotive and Banking/Finance sector.

**Top Stock Holdings**

Company	PE	% Assets
Sundaram-Clayton	237.22	8.06
Honeywell Automation	72.80	7.63
Gillette	82.03	6.55
Bayer	44.66	5.49
Johnson Controls	90.92	5.10

**Sector Allocation:**

Sector	%
Banking & Finance	13.18
Automotive	16.04
Pharmaceuticals	11.17
Cons NonDurable	9.71
Telecom	7.63

Period	Returns (%)
1 year	38.45
3 year	14.72
5 year	22.48

**Risk Profile:** This fund is considered as “Risky Fund” due to complete exposure to equity instruments, it’s suitable for investors who are looking for Tax benefits.

**Taxation Perspective:** Birla Sun Life Tax Relief 96 is ELSS fund is where investor is eligible for tax exemptions up to **150,000 INR under section (u/s) 80C** of the Indian Income Tax Act, 1961 if they stay invested for **three years or more**.

**Technical Perspective:** Post the completion of wave 1 at the highs of 24 levels and prices formed running complex correction pattern in wave 2 which completed at the lows of 22 levels. Now wave 3 is ongoing which the strongest segment of an impulsive move. Now the outlook for this fund will continue to be positive, any pullback towards the blue support line should be utilized as buying opportunity for the targets of 30 levels.

**Invest NOW in Birla Sun Life Tax Relief 96 Fund online – [Click here](#)**



**Announcement:**

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**Most advanced technical analysis training EVER** on 10<sup>th</sup> 11<sup>th</sup> March 2018 – Neo wave, Time cycles and its application on Equity, Commodity, Forex and Crypto currency – Bitcoin. To register and block your seats call on +91 9920422202 or mails us at [helpdesk@wavesstrategy.com](mailto:helpdesk@wavesstrategy.com)

**Discussion Forum:**Plot your own charts directly from our website and post it on the Trader's Forum. Start plotting now and sharing it across – [Charting tool](#)

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