

WILLIAM O'NEIL INDIA

Markets Can be Volatile (Volatile),
Need to be Prudent (Cautious);
The French Open Connection



30TH
SEPTEMBER
2020



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Be it French Open or Equity Market Conditions Matter

The French Open started on Sunday, September 27. This time, it is being organized five months after its usual slot on the tennis calendar in May. Rafael Nadal has won this tournament 12 times in the past 15 years. The new time slot, rescheduled to late September means the weather will be different, with autumn chill and rain altering the playing conditions. To protect the game from rains, the main court has a roof this year. The other big change is that the official balls have been changed to Wilson from Babolat, further slowing the conditions. On claycourt matches, balls usually see a lot of wear and tear compared to other surfaces. For this year's French Open, the new ball from Wilson has come up, which is said to have high-performance, and it is designed especially for clay court use. Usually, on a clay court, the ball gets heavy on clay due to heavy overhead conditions, making it difficult to serve and freely strike the ball. The Wilson tennis balls are expected to be lighter. Before the tournament, Nadal said, "conditions here are the most difficult conditions for me for many different reasons. Ball is completely different. Ball is super slow, heavy. It's very cold. Slow conditions. Of course, the preparation has been less than usual."



Source: Times of India

So this time, the preparations by players will be a little different to make a good go in new conditions. Similarly, in the stock market, due to the pandemic, we saw a major correction in February and March. It was followed by a V-shaped recovery. The volatility is generally high on most of the days. Currently, a blend of various macro and geopolitical scenarios have surrounded the markets globally. Also, valuations look stretched according to consensus. In such a market, it is important to cancel out noise and look for what the market tells. So, we are in a little different condition, and conditions can be choppy.

We all know that Nadal is the best player when it comes to the French Open. He has won the tournament 12 times in the past 15 years, which means he has got his techniques and strategies right. But what if he has all the important traits lined up, but fails to act according to new conditions this time? Similarly in the market, if you have conducted excellent research on a company/sector, but you ignore the market direction and invest at the wrong time. You are most likely to be in trouble with this investment. According to William O'Neil, three of four stocks move in the same direction as the general market, either up or down. In other words, if you buy a stock when the market is in a strong uptrend, you have a 75% chance of being right. But if you buy when the market is in a downtrend, you have a 75% chance of being wrong.

There are four stages market direction **According to O'Neil:**

Confirmed Uptrend:

This is a good time to buy fundamentally strong stocks coming out of proper chart bases.

Uptrend Under Pressure:

This is a time to be cautious with new buys and keep a close eye on your current holdings to make sure they are acting well. You may also consider locking in gains.

Market in Downtrend:

Making new buys in a correction is riskier since most stocks will follow the market's downward trend. Be sure to keep a close eye on your portfolio to make sure you're protecting your gains and cutting losses quickly. Use this time to look for stocks to add to your watch list so you'll be ready to take action when the market starts a new uptrend.

Rally Attempt:

This is kind of a 'limbo' stage. It comes between Downtrend and Confirmed Uptrend when the market is trying to form a bottom and preparing to rally.

How to determine **Market direction?**

Post a Downtrend in the markets, a Rally Attempt begins when the index trades above the recent bottom for at least three consecutive sessions. In a Rally Attempt, we are waiting for either: a) a follow-through day, or b) a breach of the Day 1 low. A follow-through day is a solid up session, generally a 1.5% or higher gain, with volume being higher than the previous day. A follow-through session officially opens the buying season for leading stocks, and market status is shifted to a Confirmed Uptrend. If the correction low is breached, the market will be back in a Downtrend. When the market is in a Confirmed Uptrend, look for any top formation/ weakness in the market by tracking distribution days. A distribution day is a weak day in the market when the index loses 0.2% or more on higher volume. If the distribution day count increases to 4-5 in a window of 25 trading sessions, the market is shifted to an Uptrend Under Pressure.

Market Direction

- Begins with follow-through day
- Leaders act very strong
- Distribution days contained within 3-4



- Distribution days contained within 4-6
- Overhead supply increases

- Index holds its bottom for at least 3 days
- Follow-through day is awaited

- Index loses key support levels
- Distribution days pile up over 6

India CNX Nifty 50 : 11,212.60 -8.10 -0.07%



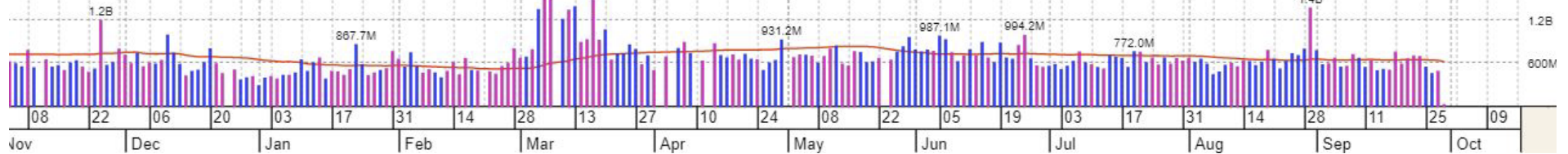
If the Nifty breaches its recent low of 10,790, the market will be moved back to a Downtrend.

Moved to a Downtrend

Moved to a Rally Attempt

- 200-DMA
- 50-DMA
- 100-DMA
- 21-DMA

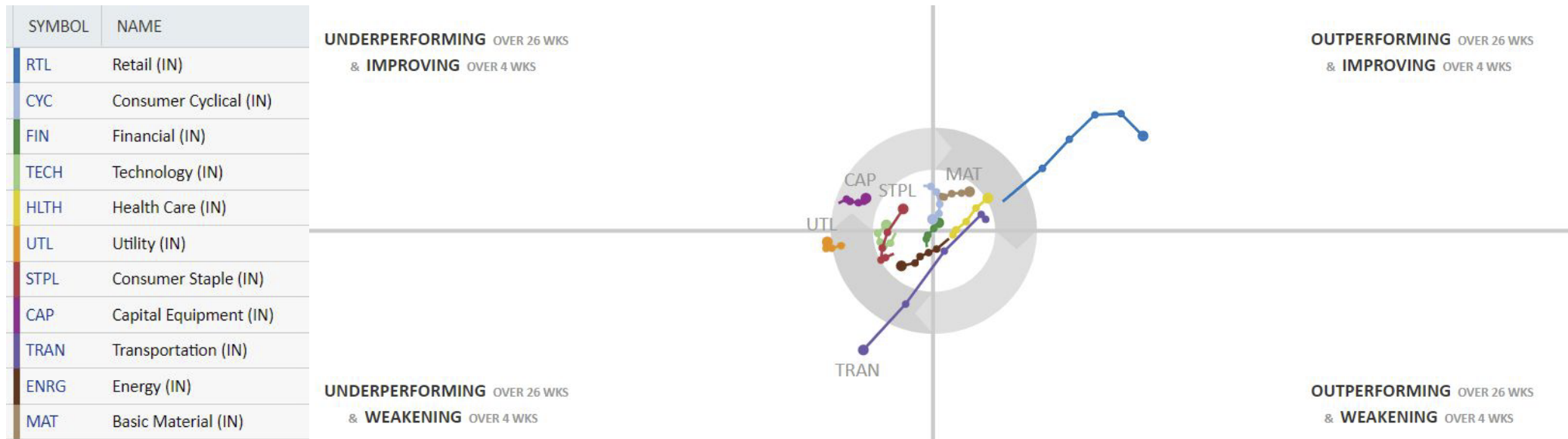
We would prefer to see a follow-through day before shifting the market to a Confirmed Uptrend



We would prefer to see a follow-through day before shifting the market to a Confirmed Uptrend. (A follow-through day is a solid up session, generally a 1.5% or higher gain, with volume being higher than the previous day). Should this occur, the focus will be on ideas that show the best relative strength with good accumulation. Stocks that recover the quickest tend to lead the next run. If Nifty breaches its recent low of 10,790, the market will be moved back to a Downtrend.

The uncertainty in the vaccine for coronavirus and the upcoming U.S. presidential elections will infuse volatility into the markets. Investors should proceed with caution. Unless a stock shows exceptional fundamental and technical strength, no new addition to the portfolio is advised. Investors should consider booking profits in stocks that have performed well and have advanced 20–25% from their ideal buy points.

Sector Rotation Chart



Statistics of Key Sectors to keep on Radar

IT Sector

Stocks	CMP	OffHigh (%)	OffLow (%)	EPSRank	RelativeStrength	PriceVs50DMA (%)	PriceVs200DMA (%)	ROE LastYr(%)	Debt/Equity LastYr (x)	Div Yield (%)	EPS Growth LastQ (y/y)	Sales Growth LastQ (y/y)	EPS Growth-3Yrs	Sales Growth-3Yrs
Coforge	2329.7	-3.7	217	93	89	16.8	42.8	18.5	0.0	1.6	-10	10	20	16
Wipro Ltd	312.0	-4	95.4	74	79	9.2	32	17.6	0.1	0.4	6	1	11	5
Hcl Technologies	815.4	-4.4	116.6	93	85	11.7	37	21.6	0.1	1.4	31	9	12	16
Hexaware Technologies	466.0	-0.5	130.6	88	84	13	38.5	23.2	0.3	1.0	0	19	14	18
Tata Consultancy	2486.8	-2.6	65.2	77	68	7.6	18.1	38.4	0.0	3.3	-13	0	12	12
Tata Elxsi Ltd.	1278.5	-3.8	156.2	94	88	16.1	40.2	23.5	0.0	1.3	41	11	9	9
Infosys	1013.9	-2.7	98.1	83	79	5.3	29.6	25.4	0.0	1.9	14	9	6	12
Tech Mahindra Ltd.	764.9	-9.2	63	75	71	6	15.1	18.5	0.1	2.0	1	5	13	9
Mindtree Ltd.	1334.8	-3.2	96.1	87	86	13.2	38.9	20.0	0.0	1.1	129	4	17	17
Naukri	367.5	-46.9	48.1	88	17	-2.1	-12.3	12.0	0.0	0.2	-	-11	14	-

Pharma Sector

Stocks	CMP	OffHigh (%)	OffLow (%)	EPSRank	RelativeStrength	PriceVs50DMA (%)	PriceVs200DMA (%)	ROE LastYr(%)	Debt/Equity LastYr (x)	Div Yield (%)	EPS Growth LastQ (y/y)	Sales Growth LastQ (y/y)	EPS Growth-3Yrs	Sales Growth-3Yrs
Piramal Enterprises	1248.7	-31.8	106.4	33	36	-9.8	-2.5	0.1	1.5	1.1	11	-8	-	16
Aurobindo Pharma	796.6	-17.7	175.8	86	80	-4.8	23.1	16.8	0	0.5	21	9	7	18
Cadila Healthcare	386.8	-8.3	92	52	78	1	19.7	11.3	0.3	0.9	49	4	-6	15
Cipla	760.5	-7	114.6	64	85	3.5	31.3	9.8	0.2	0.4	27	9	9	6
Sun Pharma.	505.2	-10.4	62.2	36	68	-1.7	10.1	8.3	0.2	0.8	-36	-9	-16	6
Divi's Lab	3061.9	-9.7	92	81	85	1.8	30.3	18.8	0	0.5	81	49	19	16
Biocon	453.6	-1.8	106.5	55	84	10.3	29.7	11.2	0.4	0.2	-26	13	30	24
Dr. Reddy's Labs	5072.0	-7.8	103.8	67	86	11.9	36.6	13.0	0.1	0.5	-12	11	29	9
Glenmark Pharma	486.0	-15.2	200.5	89	83	3.5	31	12.8	0.8	0.5	116	1	-3	4
Lupin Ltd.	994.1	-11.1	97.8	40	75	4.4	20.9	-3.6	0.5	0.6	-64	-9	-	-1

Metal sector

Stocks	CMP	OffHigh (%)	OffLow (%)	EPSRank	RelativeStrength	PriceVs50DMA (%)	PriceVs200DMA (%)	ROE LastYr(%)	Debt/Equity LastYr (x)	Div Yield (%)	EPS Growth LastQ (y/y)	Sales Growth LastQ (y/y)	EPS Growth-3Yrs	Sales Growth-3Yrs
Hind. Copper	33.9	-33.6	85.5	16	58	-7.7	-0.2	-44	1.6	1.6	39	42	-	-12
Hind. Zinc	212.1	-18.1	82.9	52	57	-3.9	10.3	18	0.0	7.9	-23	-20	-8	-6
National Alumini	33.2	-32.5	34.8	22	28	-5.6	-6.8	1.36	0.0	4.6	-83	-34	-52	6
Vedanta	139.0	-15.7	132.5	28	75	11.3	20.8	15.2	1.1	2.8	47	-16	-	3
Jindal St & Pwr	192.0	-19.5	209.9	29	86	-4	24	-0.9	1.1	-	-157	-41	-	21
Hindalco Indus.	176.6	-20.3	107.8	78	67	-1	8.6	6.45	1.2	0.6	-167	-16	-9	4
Jsw Steel	282.9	-4.3	114.4	46	82	8	25.2	12.3	1.6	0.7	-155	-41	-9	6
Steel Authority	35.4	-31.4	76.7	44	64	-6.3	-0.6	6.5	1.2	1.4	-1288	-39	-24	7
Tata Steel	369.5	-26.9	47.5	14	55	-7.1	0	-0.9	1.6	2.8	-769	-32	-	8
Welspun Corp	108.7	-53.7	96.9	41	68	4.9	-1.9	22.4	0.1	9.8	-55	1.1	-	23
Ratnamani Metals	1242.5	-11.4	71.3	89	69	7.3	14.1	17.99	0.1	1.0	-21	-2	34	23
Nmdc Ltd.	82.6	-40.8	34.4	51	25	-8	-11.2	12.91	0.0	6.5	-55	-41	10	5
Coal India	117.4	-45.9	3.3	54	8	-9.4	-22.3	51.97	0.2	10.0	-55	-26	36	6
Moil Ltd.	142.0	-16.5	66	48	53	-2.8	2.3	8.98	0.0	4.3	-98	-46	-17	-7
Apl Apollo Tubes	2909.8	-1.2	180.2	94	93	24.7	60.1	17.54	0.3	0.7	-69	-46	12	23

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