



Ab Kharide Yaa Baad Mein Kharide..  
**Let a proper follow through day guide you..**

A bear market is the time do a postanalysis of your prior decisions. Plot on daily or weekly charts. Study your decisions and write out some new rules that will let you avoid the mistakes you made in the past cycle."

- William F. O'Neil

Due to the ongoing coronavirus pandemic, global markets have corrected sharply. Indian markets too succumbed to the selling pressure, as FII sold more than Rs 65,000 crore in March, the highest monthly sell-off in more than 12 years. The bluest of the blue-chip companies also declined sharply. Nifty declined ~35% in the recent correction.

Recently, Indian markets had a follow-through-day. Hence, we shifted the market status to a Confirmed Uptrend. As the ongoing situation is uncertain, we are not sure about the market bottom as well. However, we have studied the past four major corrections in the market to find out whether every follow-through-day works or not.

"While we believe the current environment will be an excellent opportunity to buy stocks at attractive prices, it's important to wait for the proper technical signals before getting back into the market." – Randy Watts, CIO.

### **How do you tell when the market is turning up for real?**

At some point on the way down, the indices attempt to rebound or rally. Bear markets normally come in two or three waves, interrupted by several attempted false rallies that usually fizzle out after one, two, or three weeks and occasionally five to six weeks or more.

Eventually, after almost every stock has broken down and sold off in price and enough bad news and time have passed, the market finds real support. One of these attempted rallies will finally follow through, showing real power, indicated by one of the key indices closing up 1.5% or more for the day, with a jump in volume from the day before.

You can't tell much on the first or second day of a rally, with all its exuberance, so it's best not to act upon them. The rally is yet to prove itself and still may be false. The market often settles back for a day or two but holds above its low or support level. The rally's support level is the lowest trading price of the first day of the rally. If it comes on again with clearly overwhelming power, you have a valid follow-through day, otherwise known as a confirmation of the turn. It usually occurs on the fourth through the seventh day of the attempted rally. Follow-throughs after the tenth day indicate that the turn may be acceptable, but somewhat weaker.

"I have never missed the very beginning of a new bull market with this method of tracking the general market indices carefully."

About 20% of the time, they can give a false buy signal, which is easy to recognize after a few days because the market will usually promptly and noticeably fail on a large volume.

Markets usually discount news items and look ahead of the economy - up to six months in advance. Don't make your decisions based on your opinion of the news. Make it on the objective observation of when and how the general market indices finally change direction from their downward trend. Markets are rarely wrong; people's opinions and fears are frequently wrong.

## Market Status:

### M – Market Direction



**Distribution Day:** If a major index (Nifty in our case) falls 0.2% or more on a volume higher than the previous session, then it is called a distribution day. This helps in keeping track of the weakness in the market.

In tennis, the groundstroke follow-through is more important than you think. It helps keep the path of the swing consistent and allows your racquet to gain momentum through the point of contact. Similarly in market.....



### What's A Follow-Through Day?

It is difficult to identify the start of a major stock market uptrend if you are relying on headlines and news. By the time reporters figure out what's going on in the stock market, the best part is over. At MarketSmith India, we have a defined set of rules to identify the upturn in the market. It will remove any personal judgment. It relies on a follow-through day (FTD), a device identified by historical research.

A follow-through day occurs if a benchmark index (Nifty in our case) delivers a strong gain (1.5% or higher) on a volume higher than the previous session. That big gain on rising volume is a follow-through day, which confirms that a new uptrend is underway.

A follow-through day can't pick the exact day when a market bottoms, but it can get you close to the bottom. The most powerful follow-throughs usually occur on the fourth to the seventh day of an attempted rally.

There will be cases in which confirmed rallies fail. A few large institutional investors, who have large funds, can run up the market on any particular day and create an impression of a follow-through. Hence, a follow-through day should be used in conjunction with other indicators to provide firm evidence. One of the other indicators is simply to check if there are fundamentally good stocks breaking out of sound bases.

A follow-through signal doesn't mean investors should go and buy with abandon. It just gives you the go-ahead to choose high-quality stocks with strong sales and EPS growth as they break out of their bases.

**How FTDs Behaved in the Previous Four Major Crisis:**

**2004-05 crisis:**

During the crisis, Nifty had corrected 36%. During the period, two follow-through days failed as the new low was made after the occurrence of a follow-through day.

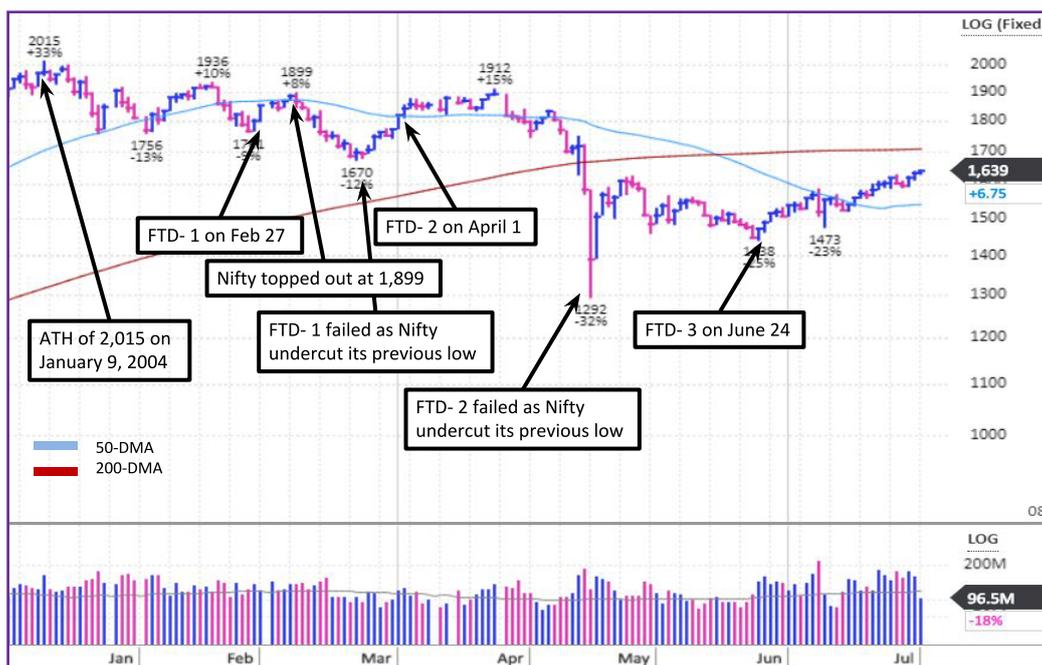
After a 10% correction on the index, the first follow-through day occurred on February 27, 2004. It advanced 5% in the next six trading sessions and failed to hold on to gains. Selling pressure gripped in, and Nifty made a low of 1,670 on March 23.

Again on April 1, Nifty staged a follow-through day and advanced 5.1% in the next 14 trading sessions. Even this time, the follow-through day failed as the Nifty made a low of 1,292 on May 17.

The third follow-through day (June 24, 2004) was successful, as Nifty advanced over 150% in the next 30 months.

Previous ATH	FTD_Date	Nifty	Advancement	% Gain	Date	Trading sessions	Next Low	% Decline	Date	Trading sessions
1/9/2004	2/27/2004	1,800	1,899	5.5%	3/9/2004	6	1,670	-7.2%	3/23/2004	10
2,015	4/1/2004	1,819	1,912	5.1%	4/23/2004	14	1,292	-29.0%	5/17/2004	15
	6/24/2004	1,470	3,774	156.7%	12/5/2006	~120 weeks				

**Nifty – Daily Chart, During 2004 crisis**



**2008–09 crisis:**

During the global financial crisis, Nifty had corrected 64%. During the period, four follow-through days failed as new low was made after the occurrence of a follow-through day.

After a 15% correction from its previous all-time high (Jan 8, 2008), Nifty had a follow-through day. Since then, it advanced almost 9% in the next ten trading sessions. However, selling pressure took over, Nifty made a low of 4,469 on March 18.

The second follow-through day occurred on April 15, and Nifty advanced 8.6% in the next 11 trading sessions. The second follow-through day also failed as Nifty undercut its previous low and made a low of 3,848 on July 2.

Similarly, the third (July 9th) and fourth follow-through days (September 8) also failed as the market kept on making lower lows.

The fifth follow-through day (November 4, 2008) was successful, as Nifty advanced over 100% in the next two years.

Previous ATH	FTD_Date	Nifty	Advancement	% Gain	Date	Trading sessions	Next Low	% Decline	Date	Trading sessions
1/8/2008	2/13/2008	4,929	5,368	8.9%	2/27/2008	10	4,469	-9.3%	3/18/2008	13
6,357	4/15/2008	4,879	5,299	8.6%	5/2/2008	11	3,848	-21.1%	7/2/2008	42
	7/9/2008	4,157	4,650	11.9%	8/12/2008	24	4,202	1.1%	8/28/2008	11
	9/8/2008	4,482	-	0.0%	9/8/2008	-	2,253	-49.7%	10/27/2008	32
	11/4/2008	3,142	6,339	101.8%	11/5/2010	~104 weeks				

**Nifty – Daily Chart, During 2008 crisis**



**2010–11 crisis:**

During the crisis, Nifty had corrected over 28%. During the period, three follow-through days failed as new low was made after the occurrence of a follow-through day.

In 2010, Nifty topped around 6,339 on November 5. After correcting 20% since then, it staged a first follow-through day signs of bottoming out on March 25, 2011. Since then, in the next eight trading sessions, it advanced 5% and failed to advance further. It made a low of 5,196 (8% below

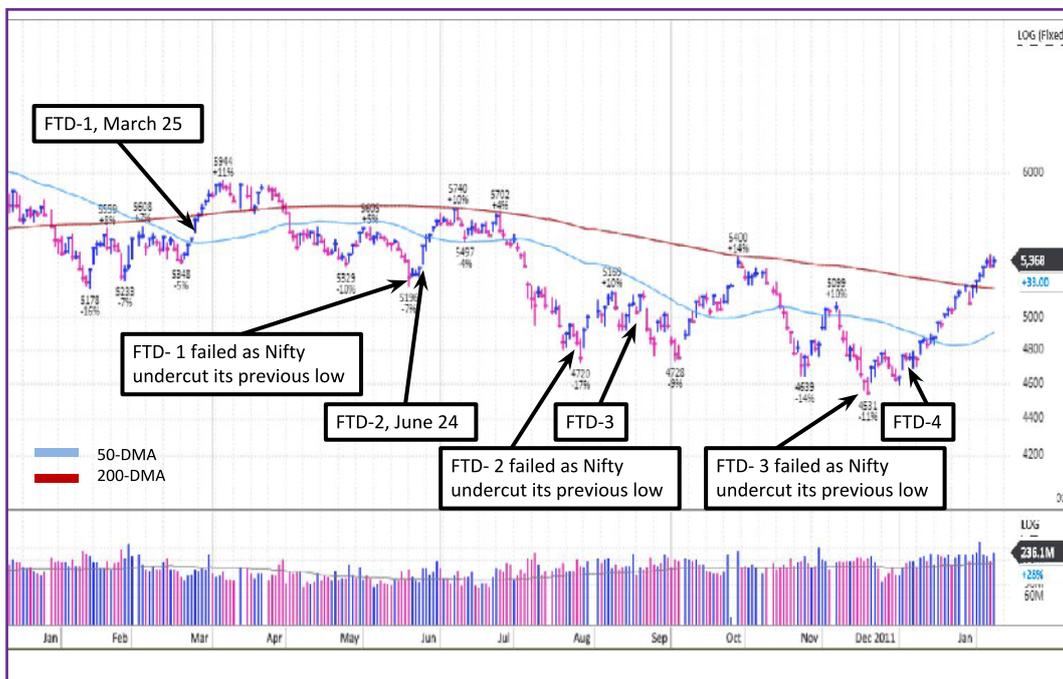
the first follow-through day) on June 20.

Similarly, second () and third () follow-through days also failed.

The fourth follow-through day (January 3, 2012) was successful as the Nifty bottomed out at 4,531 on December 20, 2011. Since then, Nifty advanced 91% in the next 39 months.

Previous ATH	FTD_Date	Nifty	Advancement	% Gain	Date	Trading sessions	Next Low	% Decline	Date	Trading sessions
11/5/2010	3/25/2011	5,654	5,944	5.1%	4/6/2011	8	5,196	-8.1%	6/20/2011	49
6,339	6/24/2011	5,471	5,740	4.9%	7/8/2011	8	4,720	-13.7%	8/26/2011	35
	9/20/2011	5,140	5,400	5.1%	10/28/2011	26	4,531	-11.8%	12/20/2011	34
	1/3/2012	4,765	9,119	91.4%	4/3/2015	~170 weeks				

**Nifty – Daily Chart, During 2011 crisis**



**2015-16 crisis:**

During the crisis, Nifty had corrected around 25%. During the period, two follow-through days failed as new low was made after the occurrence of a follow-through day.

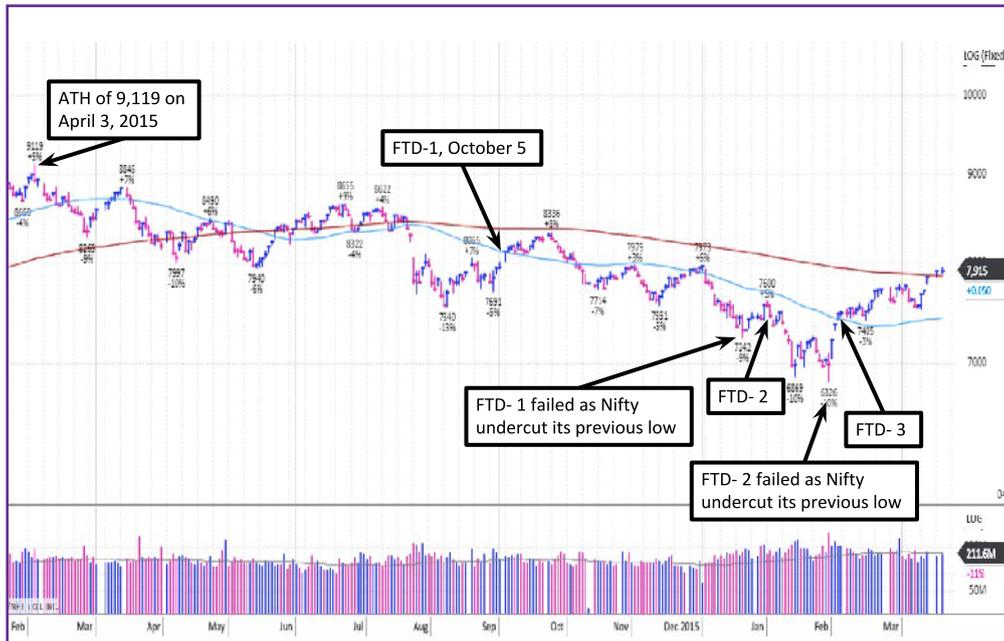
After making an all-time high of 9,119 on April 3, 2015, Nifty had corrected around 25% in the next ten months. During the correction, it had two failed follow-through days.

The first follow-through day occurred on October 5, 2015, and the nifty advanced a mere 2.7% in the next thirteen sessions to peak and succumb to further selling as it made a low of 7,242 on January 20, 2016. Similarly, the second follow-through day was also a failure.

The third follow-through day (March 03, 2016) was successful, as Nifty advanced 66% in the next 45 months.

Previous ATH	FTD_Date	Nifty	Advancement	% Gain	Date	Trading sessions	Next Low	% Decline	Date	Trading sessions
4/3/2015	10/5/2015	8,119	8,336	2.7%	10/26/2015	13	7,242	-10.8%	1/20/2016	58
9,119	1/29/2016	7,563	7,600	0.5%	2/1/2016	1	6,826	-9.7%	2/29/2016	20
	3/3/2016	7,475	12,430	66.3%	1/20/2020	~200 weeks				

Nifty – Daily Chart, During 2015-16 crisis

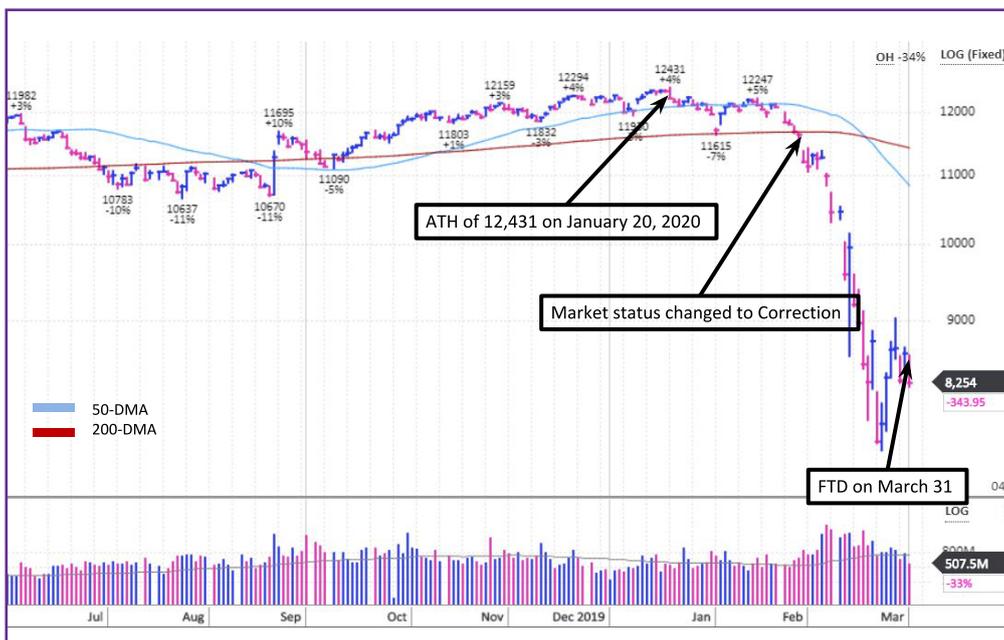


**2020 crisis:**

In recent times, Nifty had corrected around 33% from its all-time high of 12,431. However, it staged a follow-through day on March 31, 2020. If history is to be believed, this may not be the bottom of the market. We can expect the index to make another one or more lower lows.

Previous ATH	FTD_Date	Nifty	Advancement	% Gain	Date	Trading sessions	Next Low	% Decline	Date	Trading sessions
1/20/2020	3/31/2020	8,597								
12,431										

Nifty – Daily Chart, During 2020 crisis



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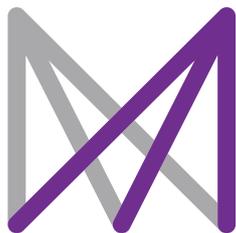
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