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AMIDST THE ONGOING CORRECTION…

(Patience & Planning are key)

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So, the world is over again. At least this is what I understand when I watch TV & Social Media. There was no doubt about the rise of the world to infinitum when Nifty hit 18K thrice, while when it corrects, then there are no hopes of life on the earth. When Nifty goes up, it never creates wealth, even in the remotest dream. However, when it corrects, the wealth created by generations together are lost; forget about wealth created by oneself.

Please note, the wealth created by Equities in the past is unparalleled to the wealth created by any other asset class and the story will remain the same even for 30 years hence. I am not trying to see beyond 30 years as I am not sure if I will be alive beyond that to justify/prove what I am writing today. Alongside, please also note, when we talk Equities, we talk about something that has material backing as it happens in the case of Gold/Silver/Oil etc. It is not Crypto which is nothing more than a story/fiction. I had warned enough about the Bitcoin crash and had published report too. Report is still available on my website. Keep watching Bitcoin going to dust, at least making the investments in crypto valued nothing more than dust. We are not even talking about Derivatives here as they do not fall into the category of investments.

Anyways, I have taken out my frustration. Let's begin.

Stock Market is undergoing its "Corrective Phase" and there is a lot of confusion prevailing all across as it happens in any other correction. During a catch up, my senior advised me, Nifty correcting is less of a problem than was the Nifty not correcting, as it was not providing valuation comfort to FPIs (Foreign Portfolio Investors); and I completely agree to this. As it is said, a picture is worth thousand words, so I use the below simple chart (removed all complexities from it) to explain you what is happening and what is likely to happen and therefore, what should be the plan of action. What you have to look for is the Red down arrow and Green up arrow. That's the crux of the whole story. While I have all the right to go wrong, I am of the opinion that this is a much-needed correction to set up the stage for next Bull Run towards 25K and then to 30K of Nifty. Therefore, **"Stay invested"** to reap the reward.

The Pattern depicted in the above picture is called **"Downward Sloping Channel"** which is expanding on the lower side and contracting on the upper side. It is not that straight forward to interpret this channel and hence it works better if the analysis is conjoined with the method/model that I follow i.e. **GeDeTeF.** This channel is formed when an intermediate cycle of a larger cycle is completed. i.e. when markets are trying to catch up with the fundamentals and preparing for the next leg of the bigger cycle. The Corrective Pattern is called "ABCDE" wave of correction when markets/stocks witness sideways correction in terms of time and price both. I am expecting the length of this correction to be 10-12 months, starting from October 2021. The ABCDE pattern had lasted for about 6 months in 2021 in between mid-February to early August and finally, the breakout took place on the upper side in the month of August.

While this channel can break either side, I expect this channel to be broken on the upside finally for the below mentioned reasons which is based on my concept of GeDeTeF.

This channel breaks on the downside only if Fundamentals deteriorate badly and are not able to keep the valuations "justifiable".

- The downtrend of this channel may get completed anywhere in the range of 14-15K.
- By then, Nifty would be trading closer to 15 PE (18 months forward) which is a comfortable zone to remain fully invested, per my analysis.
- Indian Economic growth for FY22 could be anywhere in the range of 7-8%.
- Indian Economic growth for the decade post FY22 is expected to average about 6% pa.
- Markets do about 1.5 times better than the expected Real GDP growth on conservative basis. This provides Nifty the ability to deliver about 10% CAGR on a conservative basis.
- Markets are not cracking like it happened during Covid when the whole market correction was finished in about a month. That was an aberration due to an event beyond comprehension.
- If Nifty correct closer to 14K, then it will be a correction of about 25% from the top of about 18,600.
- Nifty could consume about a year by the time this correction and consolidation phase is completed. This means that Nifty will lose about 10% of opportunity cost (the potential CAGR that Nifty should be generating based on the project GDP growth rate).
- Therefore, the effective correction, in total, will span to about 35% (Price as well as Time correction). Point to remember is that corporate profits are good up until now and are expected to remain good. This is adding EPS to Nifty and making valuations more comfortable.
- Long-term trailing EPS has already corrected and fallen below the long-term average as on 12 May 2022.
- On an average, corporate profits are up about 20-25% from pre-Covid level by the end of FY22. This makes a fair case for Nifty to be valued 20% above the pre-Covid level of 12,400. i.e. a level of 14,500-15,000 could be considered comfortable, in terms of valuation.
- China has failed to reward investors in last one year. If India falls about 20% from the top then it may make India lucrative to Foreign Portfolio Investors as compared to China. This may aid to stop FIIs selling India at least if not to begin buy India.
- Assuming Nifty FY23 EPS will be lowered to 950 and then it can be expected to grow by 10% on a conservative basis i.e. about 100 during FY24. This will make the projected FY24 EPS to about 1050.
- India can still secure a PE of 18-20 times one year forward with even 6% pa GDP growth by being the best/fastest growing economy in the world. This will be factored in Nifty/Sensex level by the end of FY23.
- This means that there is still a fair case of Nifty ending the FY23 in the range of 19-21K.
- Speaking of technical, Nifty should have made a new high when it headed towards 18K for the third time. However, it resulted into a **“Tipple Top”** in place of providing a breakout. This put Nifty again back into corrective mode. Nifty had already tested the 61.8% retracement of the rise from 14,150 to 18,600.

- As the above pattern has failed, Nifty should now head to test the 38.2% of the whole rise from 7,500 to 18,600. The 38.2% correction of the whole rise of Nifty from 7,500 to 18,600 is placed at about 14,365.
- Generally, 38.20% retracement of the whole rise is enough when Index corrects in sideways fashion. 50% or 61.80% are not ruled out but they are the possibilities only when the fall is sharp and sudden as it happened in the case of Covid. 50% retracement of the whole rise is placed at around 13,000 while the 61.80% retracement is placed around 12,000 mark of Nifty.

There are enough factors to believe the market is witnessing the most needed price as well as time correction. Further, 14-15K range of Nifty is decent for bottom formation. In case under-penetration takes place due to capitulation, then we will have to watch for 50% & 61.80% retracement levels.

Market is giving an opportunity to adjust the portfolio to exclude non-performing high valuation stocks and incorporate reasonably valued stocks/sectors that will participate in the future growth story.

So, Amidst the ongoing ABCDE correction, how should we have had planned the investments and how should we plan our future investments. Most of this **we demonstrated in our actions in between Jan-Mar 2022 and have explained in the weekly videos as well**. Let me explain the method that was adopted to play this and how we are positioned to play the next cycle.

How is investment normally planned in ABCDE corrective phase or say, how we played it.

- As per the plan, when Nifty attempted 18K+ for the first time, we lightened ourselves a bit.
- In the A wave of correction towards 16,350, we remained inactive as our buy range was below 16,000 on Nifty from valuation comfort standpoint.
- In second attempt of Nifty towards 18,000 i.e. wave B, we lightened again depending upon where or whether we had some room to book profits.
- In Wave "C" correction, we added positions below 16,000 mark of Nifty. I had explained this in videos as well.
- Nifty should have broken out of 18,200 for a new all-time high in Wave "D" which did not happen. This led to the beginning of Wave "E" correction. Anticipating that, in between 25-31 March 2022, we readjusted our position to the sectors which have the potential to benefit from reopening and are undervalued.
- As Nifty is undergoing correction of Wave "E", we remain put till there is a comfort of completion of the correction or there is an indication of resumption of Bull Run.

That's the whole strategy that we at our Advisory have followed from investment standpoint and that is what is suggested to general investors fraternity as well. By doing this, the portfolio may not remain immune to the ongoing correction but the probability of gaining much better return increases significantly when the tide turns. This is because per my strategy, richly valued fancy stocks were/are not the place to be in, rather undervalued stocks/sectors which have the potential to benefit from reopening are the place for us to be in.

How to strategies further for fresh investments.

- Wait for the completion of Wave "E" and therefore, a decisive bottom in place.
- Alternatively, wait for at least 38.20% retracement of the whole fall from 18,100 to wherever Nifty forms the bottom.
- Or, if Nifty falls below 15,000 then begin the staggered buying.
- Completely avoid the widely recommended stocks which have already run up and trading expensive on valuations.
- Spot opportunities in post Covid or opening up themes. They may make us wait, but will ultimately reward with safety.

Risk to Equities going forward.

- Contagion driven by crash in Bitcoin/Crypto as margin calls may trigger further sell-off in other asset classes.

- Triggering of stop losses giving rise to margin calls in Equity Derivatives or funded positions leading to system based emotionless unwinding of positions.
- Inflation shock in case it results into hyper-inflation in India, US, UK and Europe.
- Hawkish central banks turning super hawkish.
- Russia-Ukraine war prolonging and throwing oil price beyond control.
- Unpredictable Geopolitical risks.

I would like to sum up by mentioning that despite Equities being a risk-asset class, look and believe in the chart that I have shown you in this article. A picture is worth thousand words. And it says, that markets are correcting sideways in a wider downward sloping channel which is the combination of Price as well as Time correction. When Nifty has gone up from 7,500 to 18,600, what's wrong when it corrects to 14,000 or so. It makes the next leg of upmove even more robust and safer.

Cheers!!!

Happy Investing!!!

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