

From the Managing Director's Desk

TECHNICAL ANALYSIS AND MARKET PREDICTIONS

In 1995, when I first stumbled upon the art and science of technical analysis, I felt that I had struck a goldmine. I shared my ideas with fellow traders and investors but there were few takers. Few people had heard of technical charts and indicators in those days and fewer still used them.

Now more than 15 years later, you hear only about technical analysis and charts on business channels and newspapers. When ever any analyst, whether fundamental or technical, speak on any scrip, any sector or the markets, there always will be a corresponding chart on the TV screen - intraday or end of the day. Gone are the days when I used to get umpteen calls on a daily basis for technical studies of individual scrips. All the clients I meet today seem to be expert technical analyst and every other person I meet gives me his views about the market movements.

Well this may be the reason why people say that technical charts are less effective nowadays. Investors complain that exact stop losses get hit and then the markets moves in opposite direction. Technical analysis is nothing but a collective response of traders and investors, their greed and fear, this collective human psychology reflected in price movements.

Technical analysis still works, more so when more and more people follow it, unlike popular perception. Stop losses get hit because more and more people know where to put the stop losses and the smart operators, being aware where the stop losses are, make it a point to see them triggered, making the markets hollow, before the markets move in opposite direction.

Well whether people seemingly follow technical analysis or not, they still don't seem to make money. The markets moved up from Nifty levels of 2500 in April 2009 to 6300 levels in November 2010, a rise of 3800 points, ie., 150% in a matter of 18 months, and investors and traders should have made a small fortunes, though the reality is far from the truth. But in the subsequent correction and volatility of exactly 12 months, when the markets fell just 20%, most of the investors lost a majority of what they had made and the good percentage of the traders have stopped trading, having their capital completely wiped off.

Why is this happening? Well time and again the investors are committing the same old mistakes. Whether you are a trader or a sea-

soned investor, technical analysis will really help you. But as I mentioned earlier every other person is seemingly studying charts now a days. What percentage of them really follow technical analysis will be clear, if we consider how many of them make money or at least manage not to lose their capital.

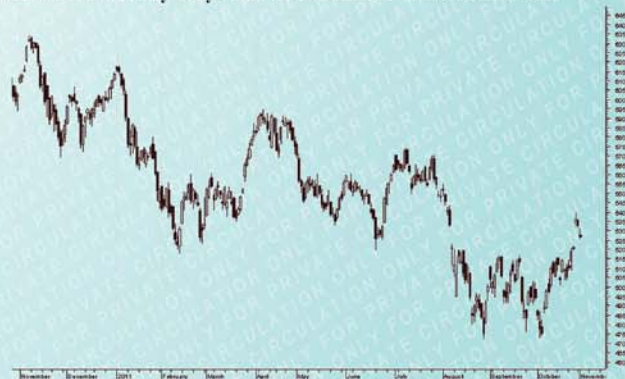
Whether you follow technical analysis or not, if you are trading the markets, follow these simple time tested rules.

- * Don't lose more than 10 % of your capital in a single trade.
- * Never trade without a Stop loss.
- * Don't average when in loss.
- * Averaging in profits, called pyramiding, gives you the maximum profits.
- * Never allow a profit position to run into loss.
- * When you are keeping overnight positions, never sell what is in profit and keep what shows loss.
- * Don't be in a hurry to book your profits but protect your profits with a trailing Stop loss.

These rules have been mainly taken from Gann Rules formulated by W.D.Gann (1875-1955) a successful trader, whose trading rules are considered the gospel truth for a trader. These seemingly simple rules are not at all easy to follow. With whatever trading experience I have, I still find myself breaking these rules often.

When you are risking most of your hard earned money and productive time, trading the markets, even if you don't find half an hour a day for technical analysis, spend 5 minutes to find out which of these rules you have broken, so that you trade better the next time.

NSE S&P CNX Nifty daily chart for November 2010 to October 2011



Sincerely yours
Rajendran. V

In This Issue

1. From the Managing Director's desk
2. Stocks in Focus
3. Current Market Scenario

Stocks In Focus

M&M : (CMP 870**)

M&M manufactures and markets utility vehicles and light commercial vehicles including three-wheelers. It has been the market leader in utility vehicles in India since its inception and currently accounts for about a half of India's market for utility vehicles. The group has developed a large product portfolio catering to a diverse customer base spanning rural and semi-urban customers, defence requirements and luxurious urban utility vehicles. Products are exported to several countries in Europe, Africa, South America, South Asia and Middle East. The company is one of the leading manufacturers of tractors and has recently forayed into the two wheeler segment

RELIANCE INDUSTRIES : (CMP 900**)

Reliance Industries is India's largest private sector enterprise, with interests in the energy and materials value chain. The Group's annual revenues are in excess of US\$ 58 billion. The flagship company, Reliance Industries Limited, is also a Fortune Global 500 company and is the largest private sector company in India. Reliance pursued a strategy of backward vertical integration - in polyester, fibre intermediates, plastics, petrochemicals, petroleum refining and oil and gas exploration and production - to be fully integrated along the materials and energy value chain. The Group's activities span exploration and production of oil and gas, petroleum refining and marketing, petrochemicals (polyester, fibre intermediates, plastics and chemicals), textiles, retail, infotel and special economic zones. Recently Reliance Industries has sold 30% stake in oil and gas block to UK BP Plc for US \$7.2 billion and formed 50:50 joint venture for sourcing and marketing of gas. The deal is likely to reward the company on the exploration front on a longer term.

INFOSYS : (CMP 2858*)

Infosys is a global leader in IT and Consulting which defines designs and delivers technology-enabled business solutions for Global 2000 companies. It also provides a complete range of services by leveraging their domain and business expertise and strategic alliances with leading technology providers. Infosys offerings span business and technology consulting, application services, systems integration, product engineering, custom software development, maintenance, re-engineering, independent testing and validation services, IT infrastructure services and business process outsourcing. They pioneered the Global Delivery Model (GDM), which emerged as a disruptive force in the industry leading to the rise of offshore outsourcing. Infosys has a global footprint with 65 offices and 63 development centers in the US, India, China, Australia, Japan, Middle East, UK, Germany, France, Switzerland, Netherlands, Poland, Canada and many other countries.

BAJAJ AUTO : (CMP 1756**)

Bajaj Auto is one of India's leading makers of two and three wheelers. It sells two wheelers under the brands Pulsar, Discover and Platina and holds around 27% market share in the Indian

two wheeler-market. Bajaj is also consistently adding to sale volumes through exports. Its plants are located at Waluj, and Chakan in Maharashtra and Pantnagar in Uttaranchal. Historically Bajaj Auto has consistently rewarded its shareholders through decent dividend payout and bonus issues. Higher disposable income may induce further demand in rural India for two wheelers and may impact the company positively in the future. Strong business outlook coupled with relatively high profit margins in the two wheeler sector, buttressed with shareholder-friendly management, makes Bajaj Auto a good long term bet.

YES BANK : (CMP 315**)

YES BANK is a professionally managed, state-of-the-art, high quality, customer centric, service-driven, private sector bank. In a short span of 6 years, YES BANK has fructified into a "Full Service Commercial Bank" that has steadily built Corporate and Institutional Banking, Financial Markets, Investment Banking, Corporate Finance, Branch Banking, Business and Transaction Banking, and Wealth Management business lines across the country, and is well equipped to offer a range of products and services to corporate and retail customers. The Bank also has a widespread branch network of over 200 branches across 149 cities, with over 290 ATMs and 2 National Operating Centres in Mumbai and Gurgaon.

GATEWAY DISTRI PARKS : (CMP 149**)

Gateway Distriparks is a world-class state-of-the-art logistics facilitator in one of the world's fastest growing markets-India. Armed with modern Container Freight Stations (CFS) at Dronagiri (about 9 km from the Jawaharlal Nehru Port), Navi Mumbai, New Manali, and Chennai, besides an Inland Container Depot (ICD) at Garhi Harsaru (near Delhi), Haryana and a newly-commissioned CFS at Vishakapatnam (a Joint venture with the Suri Group) the company provides logistics solutions that fulfill the needs of the international trading community as well as the shipping industry. In the current environment India's exports and imports are growing at very fast rates which augur well for the company's business and it is reflected in the good first quarter results. The company also qualifies as an attractive, dividend-yield stock. Investors who want to take exposure for infrastructure stocks can consider buying this stock.

SCRIP	BV Rs.	EPS Rs.	P/E
M&M	242	51	17
RELIANCE INDUSTRIES	496	64	14
INFOSYS	454	109	26
BAJAJ AUTO	166	106	17
YES BANK	109	20	16
GATEWAY DISTRI PARKS	63	9	16

* CMP as on 28-10-2011

** Capstocks PMS have holdings

BV - Book Value

EPS - Earnings Per Share

Current Market Scenario

Undue Volatility Playing in the Market:

Globally, stock markets are witnessing an undue volatility playing in the market fearing of double dip recession in the US and lack of permanent solution to the European sovereign debt crisis. Indian markets too are no exception. On worst days, global news flows are in a way that reminds us of the bad memories of the 2008 disaster. Rating agencies like Moody's, S&P are busy working overtime to downgrade banks and sovereign ratings. In addition to international issues our markets are impacted by domestic concerns also. Local news flow are flooded with negatives on inflation much higher than comfort levels which in turn makes RBI more hawkish, falling industrial production, cold political environment, delaying key reforms. The major reason behind the market volatility is that global markets are too closely interwoven, now thanks to technology, which has fastened news flows and more importantly, identical sets of investors playing in most of the markets. On intraday basis most of the markets are moving in tandem, though each market has its own set of fundamentals. Generally when the market is indecisive, which we are currently witnessing, the trend will be dominated by speculators who tend to swing on either side, depending on the tone and tenor of news. Commodities too are witnessing a similar volatility and various theories are flying around in the market to justify the price movements, though the underlying reason is speculation.

Fund Managers in a Dilemma:

Fund managers are in a tight spot on taking decision whether to live with the volatility or stay away from the market by holding back cash. Under current market conditions domestic institutions like the LIC which invest for long term are mostly playing like market makers. They were buying when the markets were weak and vice versa. Unable to digest the volatility, retail investors are shying away from the market and in turn focusing on alternate asset class like gold and the attractive fixed income segment. The worst affected are the fund managers who manage funds on behalf of clients with daily NAV disclosure. If they hold back cash fearing the market will fall further and on the contrary if market moves up, then their short term performance will be affected. If they stay invested and if the markets fall, then clients will be asking questions, why not convert to cash in spite of so much bad news flow! So, most of them are playing a balanced game now, by keeping above normal percentage of cash and holding defensive stocks.

Markets Have Discounted Most of the Negative News:

Human psychology is such that the mind will become bullish when stock prices move up and becomes bearish when it falls. Even if you hear analysts' views in business channels their tones

are skeptical and will mostly reflect current trends. In the initial stage of a down or up market, there always will be some contra opinions but on the trend continuing, a majority of the contra opinions will capitulate and will go with the market. Right now technical people are bearish, predicting the market will fall further, fundamentalists saying the economy is facing head winds which will deteriorate corporate performance in the future. If we keep on hearing these views, our minds too will tend to bias towards that view, instead of taking our own independent decisions. Most of the time the stock market tends to discount news in advance. Whatever the negative news we are hearing currently most of it is already in price. If we look at the benchmark indices they have fallen around 20 percent from the peak, indicating that most of the near term bad news is already in price. Any surprising positive news flow even from the domestic side may trigger a sprint rally in the market because most of the market participants have positioned themselves for a down market rather than the market moving up.

For Retail Investors the Answer Lies in Basics:

Basically investing in shares means taking a proportionate ownership in a company. When a company grows, valuation increases which in turn gets reflected in a higher stock price. Additionally shareholders will get the dividend. A majority of the retail investors do not buy shares with a view to proportionate ownership; instead they will be focusing on short term moves. Short term price movements depend upon various factors, most of the times totally unpredictable. Retail investors trying to swim into this volatility with limited access to news flows to make money will ultimately lead to losses. The convenient way to make money in the market is to follow the basics. While buying shares a retail investor should remember that he is investing in a business and do some analysis on the quality of business, its financials, and valuations. If the company fits into the criteria and valuations look attractive, then he should invest in the company and hold patiently. By doing so, the chances of making a decent profit over a period of time are far higher. Generally during a down turn, a lot of opportunities will be available as the market will be pricing stocks irrationally owing to the "FEAR FACTOR" and some investors will be rushing to exit the stock in illiquid conditions at throwaway prices. Some of the successful investors who follow these basics have made good money and even today in spite of so much volatility in the market their portfolio has performed very well indeed. Unlike most of the investors who are trying to predict the unpredictable these investors are actively looking for opportunities to invest now which is no doubt a prudent approach.

CAPSTOCKS SERVES YOU IN MANY WAYS !

New Internet Trading Platform – FLIP GOLD

Our internet trading platform is upgraded to a much user-friendly and widely accepted one by the adoption of FLIP software. Financial Investment Platform (FLIP) is a comprehensive online trading solution, which incorporates a full-fledged order management system, integrated with a multi-level risk management module, and a powerful streaming market data system. The key features of the platform include integrated usage of NSE, BSE, & FAO on a single market watch, availability of graphs of index and stocks, market watch with market depth of stocks integrated with all indexes, list of top gainers & losers, list of top volume and value available in a single screen. From the order status window, users could identify confirmed order, executed order, etc from a single drop down which can be exported to excel. The other features available are Offline orders, User portfolio, integrated Back office, and online transfer of funds. The mobile trading platform is also updated with FLIPME, a variant of FLIP software.



New Branches

Fourteen more branches have been opened:

Habsiguda in Hyderabad district, Adayar, Saidapet in Chennai District, Karur Town in Karur District, Thillai Nagar in Trichy District, Alakode in Kannur district, Kalpetta in Wyanad District, Edodi in Calicut district, Kunnathurmedu in Palakkad district, Bypass Junction, Aluva in Ernakulam district, Changanasserry in Kottayam District, Kidangumparampu in Alappuzha district, Varkala and Thiruvallam in Trivandrum District.

Free Account Opening Scheme

Capstocks has launched a Free Account Opening Scheme on this festive season. The offer is valid till December 31st 2011.

CAPSTOCKS EVENTS

Joint Awareness Programs & Investors' Meet

Joint awareness programs were held at several places in Kerala and Tamil Nadu in association with various Exchanges and agencies.

Joint awareness programs were held at Perintalmanna, in association with MCX and MCX-SX on 4 June 2011, at Coimbatore in association with MCX, BSE and CDSL on 10 June 2011, at Aluva, in association with BSE and CDSL on 11 June 2011, at Trivandrum, Nagercoil, Melepalayam and Tirunelveli in association with NSE on 14 May 2011, 02 July 2011 and 24 July 2011 respectively. Investors meetings were held at Angamaly, Madurai, Kuriachira, Poothole, Parassala and Sasthamangalam Ladies Branch, Trivandrum as part of the effort to create greater awareness among investors.

Derivatives on Global Indices

NSE which has been a pioneer in introducing of innovative and investor friendly products has introduced Rupee-denominated future contracts in S&P 500 and DJIA indices.

	S&P 500 Index Futures	DJIA Index Futures
Ticker Symbol	S&P 500	DJIA
Contract Size	250 units	25 units
National value	Contract size multiplied by the index level (Eg: if the current value is 1000 then the notional value would be 1000*250=Rs2,50,000)	Contract size multiplied by the index level (Eg: if the current value is 10,000 then the notional value would be 10,000*25=Rs2,50,000)
Ticket size	0.25	2.5
Trading Hours	As in the equity derivative segment	
Expiry Date	3rd Friday of the respective contract month. In case third Friday is a holiday in USA or in India the contract shall expire on the preceding business day	
Contract Months	Three serial monthly contracts and following three quarterly expiry contracts in the Mar-Jun-Sep- Dec cycle.	
Daily Settlement Price	Last Half hour's weighted average price.	
Final Settlement Price	All open positions at close of last day of trading shall be settled to the Special Opening Quotation (SOQ) of the S&P 500 and DJIA index on the date of expiry.	
Final Settlement Procedure	Final settlement will be cash-settled in INR based on the final settlement price	
Final Settlement Day	All open positions on expiry date shall be settled on the next working day of the expiry day (T+1)	
Position Limits	The Trading Member/Mutual Fund position limits as well as the disclosure requirement for the clients are the same as applicable to the case of domestic stock index derivatives.	



CAPSTOCKS AND SECURITIES (INDIA) PVT LTD.

Member: NSE, BSE, MCX*, NCDEX*, NMCE*, NSEL*, MCX-SX, DP-CDSL, Portfolio Manager**
SEBI REG. NOS.: INB231167439, INF231167439, INE231167439, INB01167435, INF01167435, MCX-12580*, NCDEX-00977*, NMCE-CL0465*,
INE261167439, IN-DP-CDSL-203-2003, INP 00001066. FMC-UMC Nos: MCX/TCM/CORP/0036, NMCE/TCM/CORP/0390, NCDEX/TM/CORP/0952

- Equities
- Derivatives
- Depository Services
- Internet Trading
- Equity Research
- Knowledge Centre
- Portfolio Management
- Commodity Trading*
- Currency Derivatives
- Distribution of Mutual Funds & Insurance*

Head Office: Capstocks Towers, Thakaraparambu Road, Fort, Trivandrum-695 023

Tel: 0471-2461745, 2463518, 2463735 Fax: 0471-2461946

email: capstock@vsnl.com Website: http://www.capstocks.com

Disclaimer : Capstocks & Securities (India) Pvt.Ltd. Do not accept responsibility for consequences of financial decisions taken by readers on the basis of information provided herein. The aim is to provide a reasonably accurate picture of financial and related opportunities based on information available with us, issued by the Investment Research & Analysis Department of Capstocks & Securities(India) Pvt.Ltd. Capstocks Towers,

Thakaraparambu Road, Thiruvananthapuram-695023, Kerala State. Edited by Rajendran.V.