Shadows of economic prosperity in india in retrospection of the capital market

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SHADOWS OF ECONOMIC PROSPERITY IN INDIA IN RETROSPECTION OF THE CAPITAL MARKET

Indian share market experienced a major fall between May and June last year. The intensity of the fall was so severe that it shook the confidence of the common investors. As a matter of fact, most of the world market had corrected and going by Elliot Wave Theory, it was expected that whatever be the magnitude of recovery herefrom, a greater fall would follow thereafter. The indexes started moving up but as expected, weakness gradually set in and towards 3rd week of July 2006 there was yet again a fall but surprisingly, the fall stopped no sooner than it began. To follow the correction, practically all over the world, was unprecedented market appreciation that left awe-inspiring highs of May 2006 lagging far behind and reducing all analysis of likely market crash to the status of ill-conceived misconception.

With regard to India, things were rather peculiar. Witnessing Advance/Decline Ratio above 1 (one) became an exception. However, irrespective of market losing significantly in terms of volume and most of the stocks failing to respond, the market index literally galloped upwards. The growth in index was seen solely concentrating either on a few sectors or had become stock specific. In spite of persistent divergence between market index and volume/ between MACD (moving average convergence divergence) and market index, the fall expected never happened. Corrections were there but each was short-lived and transpired to be tools for gaining on momentum with new highs being achieved as a sequel to each retracement.

I, personally, thought, to start with, that it could be the world market, in general, that was propelling the rise in index but soon came days when Indian market moved positive while world market corrected or vice versa. Therefore, the idea of similar circumstances prevailing worldwide was incorrect. With disparity in economic status; the third world and the advanced had to possess an item/factor of relationship, which was functioning as a common bondage that was providing momentum to market index of both with perspective/magnitude of effect differing from country to country.

Around July/August last year I chanced to look in to exchange rate of US Dollar to Indian Rupee and found that the exchange rate of hard currencies were gradually receding over the years. Software boom prevailing in India, naturally lead me to infer loss of revenue for export industry and BPO sector. Oil prices were falling but the charts indicated that the trend would reverse soon. Therefore, in the backdrop of revenue in BPO sector being hit by reducing rate of Dollars/other hard currencies and the prospect of dwindling oil prices reversing, the inference that followed was once again gloomy. Especially with respect to India, what transpired was that of a double onslaught; Firstly no more cheaper imports and secondly, significant drop in the incoming of BPO/IT sector.

Oil prices turned around during January 2007 and there was no stoppage in the slide of Dollar value in terms of Indian currency but the market indexes refused to change direction. As a matter of fact both NIFTY (NSE 50) of National Stock Exchange of India and SENSEX (BSE) of Bombay Stock Exchange reached new highs proving comprehensively that my logical deductions had missed the bull’s eye by a significant margin of error. This lead me to re-consider the whole proposition and draw up the link between dwindling Dollar value with ever rising market index in India. A direct correlation was obvious but the character of relationship was hidden under a mist of doubt till I recollected that Indian Government had introduced trading in derivatives during June 2000 being precisely the time when bulk investments from foreign institutional investors began to trickle in. To offer an extra carrot to foreign investors and enable them to hedge investments against sudden market fluctuations, the Government had opened the door to trading in derivatives to foreign investors also. Furthermore with Dollar/other hard currencies exchange value moving down, the investors were likely to earn extra on account of exchange gain. For example: US$ 100 brought in when $1 exchanged for Rs.100 would now fetch $106.82 with value of Dollar reducing to Rs.44.Thus an investment boom was justified but effects thereof had to be investigated upon. It was also essential to analyze as to how long the slide in Dollar value could continue.

And it was amazing to see what I saw. It was a sham being nurtured for over last seven years. The appreciation of market index was a ploy manipulated by a few being driven by the zeal of earning never-ending profit and in the pursuit, rendering the nation to a state of bankruptcy. The mechanisms deployed beat hollow any thriller ever penned by even the best in such business and thus started the analysis furnished hereunder:

Indian Rupee is seen gaining on exchange rate against US Dollar ($) and most of the other hard currencies since mid 2002. In order to simplify the research, however, I solely build up my hypothesis based on US$ only since it was and is the most popular and continues to be base/medium for international transactions. It was now necessary to turn attention towards the NIFTY (Market Index of National Stock Exchange of India) and find out whether the market index was reacting to exchange rate fluctuation. Daily chart for NIFTY and US$ exchange against Indian Rupee was observed reflecting distinct uncanny relationship sufficing elucidation herein:

CHART –1: NSE50(NIFTY) daily

CHART –2: US$ TO INDIAN RUPEE daily

In other words, it will not be absolutely fictitious to draw correlation between local currency appreciations with market exuberance. We had first assumed that steadily declining USD exchange value would directly affect export revenue especially that of BPO sector and thereby cause market retracement, which, obviously, missed the bull's eye, at least as of now. Regular flow of foreign investment maintained the supply position at a marginal disadvantageous level compared to demand so that the slide downwards could continue. In a market scenario where the index kept on rising, this, obviously, helped the foreign institutional investors in realizing extra profit out of exchange fluctuation over and above appreciation of investment. With exchange gain itself, often offering a decent rate of return, the investors could compromise in terms of expectations on Profit earning ratio (P/E ratio), Dividend yield etc. The reduction in desired yield ratios lead to higher rate of capitalization which, inter-alia, lead to selected scripts that tagged along the market index, moving from high to higher and from higher to highest plains.

Thus, we are now faced with a situation where physical/material returns out of investments do not matter much. So long the index rises and pulls along a few scripts, the investors would be happy since that helps them in realizing more returns, that too in hard currency, in comparison to domestic investors. Occasional corrections would not truly affect the gains and even if scripts just manage to move sideways without significant appreciation, the investors' interest should remain safeguarded under the backdrop of steady and systematic decline in exchange value of hard currencies. With returns following the Law of Diminishing Returns or facing a state of stagnancy, common domestic investors would gradually depart from market leaving more room for the Foreign investors and government to maintain balance, some how, in a volume less state.

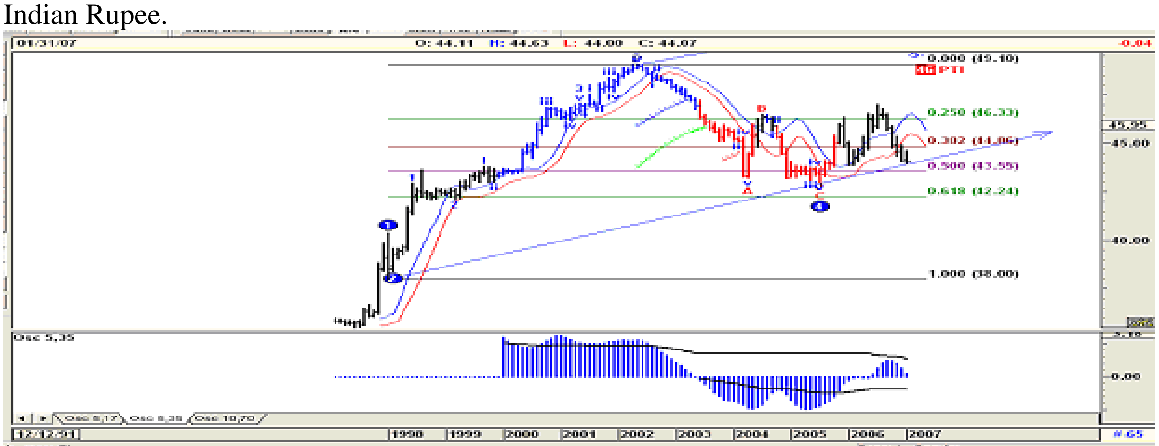
Paucity of volume is a boon for mania like condition since it associates inbuilt insurance/safety brake against sudden market decline. Share market movements are guided by human sentiment. If the common 'human', which bring in volume, are pushed out, Power Law fails to act. The market then moves along in linear progression, which is a misnomer under market dynamics since human sentiment is subjected to fractal movement.

Even for a market to plunge downwards/correct, volume is mandatory since the same, too, calls for buyers who would be willing to buy, at a lower price, any quantity that the sellers would offer to sell. With domestic buyers, with higher ROI expectation, escaping the market, there would be none to buy even if some foreign investor would desire to quit. Therefore, the state of volumelessness, by itself, builds roadblock for market index to correct beyond a certain allowable level. In other words, with market transactions effectively converging between a limited circle both script and index movements would follow set patterns that would ensure only and exclusively steady appreciation of investments for foreign investors only. Therefore, when market would correct, volumes would not happen. Likewise, turn around/ appreciation also, would happen out of almost void condition. The moral of the story, then, would be to some how make the index prosper so long the exchange rates decline as that would bring in more and more liquid foreign money in to the system. The index would, under this type of imperfection, aim at the sky effectively camouflaging the inner act of depriving commons to bring about the prosperity of a few flying in from abroad. In simple words, this is nothing but overpowering of a primary branch of economy in a manner akin to that of a masterly executed financial coup.

Let us look at Indian share market. Is this not the real situation now? For over six months now the index is rising with marginal or non-existent volume support. Government has no option but to play according to the tune set since action otherwise may lead to exodus of investors from abroad resulting in Reserve Bank being bereft of the last cent in terms of foreign exchange and economy running in to total doldrums.

What does this lead us to? Will US$ become softer currency in terms of Indian Rupee? How much so ever we may dream of becoming a super power by 2020, fact remains there is still a gap of 13 years between now and 2020. Thus as of now, this is a wishful thinking. There is a saying in Bengali, which goes as " sleeping on a torn rag and dreaming of a palace" and an antonym to above in English like " If wishes were horses, beggars would ride". In other words, with our treasury chest overflowing with foreign currency, we may dream of the riches which will be far from culminating in reality till the reserves evolve to become our own. Riches bought out of borrowed money would always associate the risk of vanishing in thin air, when the borrower would eventually ask for repayment.

Therefore, the prosperity we witness now in our capital market is not a permanent situation. It was a myth and remains so till the foreign investors derive extra utility out of their investment. Question, that the situation now leads to is " How long should that be?" The answer to the question is equally simple " till the time our soft currency gains on value against its harder counterpart of the rest of the world. Let us now have a look at the monthly chart for US$ to Indian Rupee.



<u>*CHART –3 US $ TO INDIAN RUPEE MONTHLY*</u>

The chart above indicates that US$ was gaining on Indian Rupee from June 1997. The appreciation continued, unabated, till May 2002 since when the present tilt downward commenced. The US$ to Indian Rupee exchange rate hit the recent low of Rs. 43 in May 2005. The slope downwards starting from May 2002 came to a halt during April 2004 wherefrom till July 2004 the exchange rates moved along the recovery path. From August 2004 till July 2005 the exchange rates favored Indian currency followed by, yet again US $ recovery till December 2005. January 2006 marked another fall of US$ wherefrom till July 2006 the local currency slipped in terms of value. The current decline of US$ started from August 2006 and continues through February 2007.

Let us compare the exchange fluctuation with movements of NIFTY (market index of National Stock exchange of India). Between May 2002 and February 2004 NIFTY appreciated from 1028 to 1810 levels and held on to 1796 levels till May 2004. May 2004 witnessed market crash in which NIFTY collapsed to 1292 levels but some how held on to 1690 levels till July 2004. Between July 2004 and August 2005, Indian market was blooming and NIFTY shot up to 2332 levels. US$ recovery till December 2005 did not cast any ill effects on the market but sudden rise in US$ value against India Rupee during May 2006 to July 2006 coincided with, yet again, a market crash in which NIFTY fell from 3775 to 2595. The market index in India has been rising upwards there since with Indian Rupee persistently gaining on exchange value to US $. NIFTY monthly chart is furnished hereunder to reconfirm the correlation drawn above.

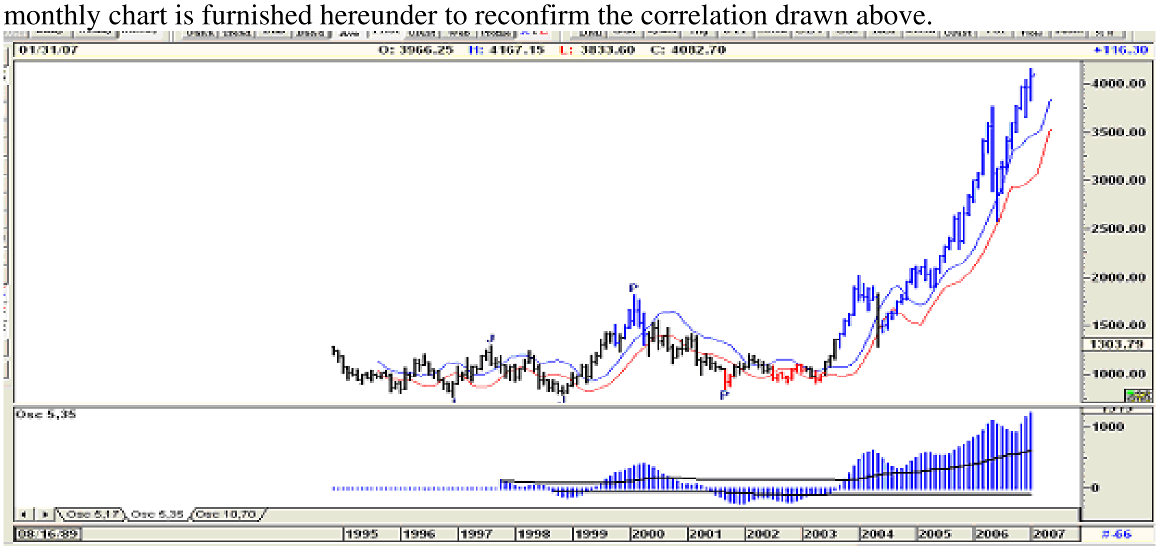


CHART -4

Thus, one thing is clear that there is an inverse correlation between NIFTY and US$ to Indian Rupee exchange value. If the exchange rates fall, NIFTY rises. Situation other wise, often lead to market collapse.

Now to inspect the possibility of likely duration of the exchange rate slide, we seek the help of Elliot's Wave Theory. Before moving in to the depth of analysis, we, once again refer to the monthly chart of US$ vis a vis Indian Rupee *(CHART-3)*. It may be worthwhile to state here that paucity of available data compels us to limit our study between June 1997 and February 2007, i.e. 10 years.

CHART-3 furnished above is segmented in to waves and sub-waves in terms of the Wave Theory and also includes Fibonacci Retracement Fan drawn between the low of Second Wave and the peak of Third Wave.

Based on 10 year's data at our disposal, if Wave Theory is applied, we see the First Wave forming between June 1997 and January 1998 with exchange rate appreciating from Rs.35.38 to Rs. 40.40. The correction seen during January 1998 and continuing through the following month should constitute the Second Wave in which the rate plunged to Rs.38 (5%). Appreciation herefrom till May, 2002 during which the exchange value of US$ increased to Rs. 49.07 must be the Third Wave which by all means, was the most dynamic. From May 2002 the slide downward constitutes what is termed as corrective Fourth Wave.

The Fourth Wave, as seen from the diagram above, has already yielded a zigzag ABC correction between May 2002 and March 2004 followed by a reverse zigzag lasting till December 2005. Present decline in exchange rate is consequential to a Flat Correction of which we are now in "C" segment. In order to determine as to how far the "C" can decline, let us draw a line joining the bottom of Second Wave and the lowest point of Fourth wave happening during July 2005. If the line drawn would prove to be the limiting factor, exchange rate would turn around and start appreciating from any level between Rs. 44.06 and Rs. 43.91. If C will breach the trend line, it might correct to 0.50 levels per Fibonacci Retracement level i.e. Rs. 43.55. The PTI (Profit Taking Index) is 46 which is more than good implying every likelihood of formation of Fifth Wave during which the exchange rate will, in all likelihood, appreciate above the high of Third Wave i.e. Rs. 49.07. With PTI handsomely positive, the Fourth Wave could terminate any time and it would be unlikely for US$ moving bellow Rs. 43 levels seen during July 2005.

If Fifth Wave will form normal, the exchange rate of US$ will, how much so ever it may appear odd now, appreciate to Rs. 52 levels between 2008 and 2010.

Present exchange rate Rs. 44.06 appreciating to Rs. 52 implies possibility of 18% value depreciation of Indian currency. In other words, NIFTY Future of 4150 level which in US$ value $94 now could crash to mere $ 79.80 then! Whatever may be the promise of becoming super power and GDP rising at rate above 8%, with local currency falling flat in international market, no Foreign Institutional Investor will be foolish enough to let his investment perish to nullity.

A question will obviously come in mind that with market recovering from earlier slumps of 10% or more, why should it crumble with progressive 18% depreciation of local currency. NIFTY is at 4200 levels and if it will eventually fall to 3450 levels; it would, most likely, offer entry to many who cannot afford and/or risk now. To answer the above doubt we draw inference to actual fluctuation of NIFTY between July 19, 2006 and February 01, 2007 viz a viz exchange rate difference. NIFTY had hit the low of 2920 on July 19, 2006 and attained a high of 4137 on February 01, 2007. The corresponding exchange values for US$, for the stated two dates were Rs. 47.04 and Rs.44.01.To put it forward mathematically, 6.44% exchange rate fluctuation, over a time frame of six and half months, mastered to bring about 41.68% appreciation in terms of NIFTY alone. If market will follow linier equations, (which is not expected), over a period between 1 to 5 years from now, 18% depletion of value of Indian Rupee should mathematically cause 116% correction in terms of NIFTY. Let us not be so pessimistic but chances are far too many that the prosperity of the market, witnessed now, to vanish in thin air in times to come.

We have discussed above about the pros and cons of the scenario of foreign investments flocking in to Indian share market especially under the influence of Indian currency gaining on exchange value against major hard currencies of the world. Having gone at length about what deadly outcome could be awaiting the market, it becomes our moral responsibility to elucidate in black and white the motive behind foreign investments flowing in to the domestic market.

Before plunging in to mathematical calculations leading to various derivation, it is important to state here that Indian Government allowed foreign investors to invest in index as well as script derivatives. With derivatives calling for investments to the extent of margin only, the profit prospective literally leaped up by geometric progression when this avenue of investment opened up for foreign investors.

With Government allowing absolute transparency, the investors became aware as to how to invest selectively that could not only boost up value of investments but also drag along the market index to a plane that was unimaginable. With index dwelling at unprecedented high, media as well as commoners had to opine in favor of economy booming up while the reality remained far bellow what was being projected.

Furthermore, index future in itself became a fabulous investment opportunity and allowed investors to derive not only astronomical returns but also an extra margin, in hard currency, that no one either truly cared to investigate or avoided to sincerely look in to.

Let us take the example of NIFTY Futures. NIFTY Futures are available in lot size of 100 and usually at a margin of 10%. In other words, by paying for 10 NIFTY Futures, one could reap the entire profit accumulating against 100 numbers.

NIFTY Futures on 10th May 2006 stood at 3745.4 and at 4142 on January 25, 2007. Therefore one who would have invested a minor sum of Rs. 37454 on the former date had accumulated a profit of Rs. 39660 by the later. To put it in percentage terms, a return on investment at 105.89% in barely 7 and ½ months.

US$ valued Rs. 44.83 on May 10, 2006 and Rs. 44.15 on January 25, 2007. Thus, an investment of US$ 835.47 which, due to reduction in US$ exchange rate valued $ 848.34 (exchange gain of $12.87) earned a return of US$ 898.30 by January 25, 2007. In other words, an investment of $ 835.47 yielded a return of $ 911.17 in barely 7 ½ months. The return in percentage terms comes to 109.06%. Therefore, foreign investors were earning an extra return of 3.17% out of NIFTY Futures in 7 ½ months (or say 5.07% per annum). The best part of the investment was that Indian economy was contributing a hidden cost being noticed by none! Exchange gain out of every 66 lots of NIFTY Future that called for an investment of US$55079, resulted in acquisition of 1 extra lot generating a total revenue/surplus of $60968 in 7 ½ months (110.69%). Converted to annual terms, the ROI came to 177.10%!

COST OF ONE LOT OF NSE FTR ON MAY 10,05 IN RS	DO IN US$	VALUE OF INV ON JAN 25,2007	PROFIT EXCLUDING EX GAIN	DO IN US$	
		$	RS		
37454	835.47	848.34	39,660.00	898.30	
EXCHANGE GAIN TO FINANCE 1 LOT OUT OF	INVESTMENT REQUIRED	EXCHANGE GAIN AMOUNT	PROFIT DUE TO NSE RISE	TOTAL GAIN IN $	ROI
66	55,079	848	60,120.13	60,968.47	110.69%
				ROI PER ANNUM	177.11%

177.10% return is something beyond imagination which even the best of business/enterprise cannot yield any where in the world and if a Government would allow its economy to be ransacked in this manner why should the investors not avail advantage thereof? We should be thankful that NIFTY has gone up to 4200 levels only by now and not 8400!

Media and all newspapers are agog with new highs of market index. Forecasts is either aiming at the moon or the sun. The smiling face of finance minister is featuring in every bit of news. Genius that he is, often remarks about endless growth. Market is supposed to be in absolute Bull phase with bear possibly becoming extinct from the lexicon of Indian share market. Yet, when we look in to our investment portfolio, with the exception of a few, nothing seems to move. Once a client of us had cursed his luck and asked us to refer him to an astrologer. The poor soul could not derive any logic as to why his investments were not faring well in the retrospect of market index moving from higher to highest plains.

In order to find out the truth we embarked on performing an autopsy of NSE 50 (NIFTY). Known that NIFTY index is weighted average of 50 scripts and that the index was 393 points higher than what it was on 10th May 2006,it was expected that most of the index based scripts would exhibit higher closing value on January 25,2007.

Security Symbol	Weightage	VALUE PER SHARE ON		
	%	May 10, 2006	INCREASE	DECREASE
ABB	0.80%	3248.95	10.76%	0.00%
ACC	1.03%	977.25	6.42%	0.00%
BAJAJAUTO	1.34%	3190.8	0.00%	13.95%
BHARTIARTL	6.04%	417.15	72.86%	0.00%
BHEL	2.85%	2392.1	2.25%	0.00%
BPCL	0.62%	464.1	0.00%	22.68%
CIPLA	0.99%	273.4	0.00%	10.79%
DABUR	0.43%	107.83	0.00%	4.76%
DRREDDY	0.69%	821.78	0.00%	7.07%
GAIL	1.12%	311.55	0.00%	8.59%
GLAXO	0.50%	631.25	0.00%	5.89%
GRASIM	1.30%	2371.5	21.25%	0.00%
GUJAMBCEM	0.97%	116.9	18.05%	0.00%
HCLTECH	1.05%	603.95	10.08%	0.00%
HDFC	2.06%	1362.8	23.77%	0.00%
HDFCBANK	1.70%	871.05	22.39%	0.00%
HEROHONDA	0.77%	879.85	0.00%	18.51%
HINDALCO	1.02%	154.75	0.00%	32.50%
HINDLEVER	2.42%	279.85	0.00%	22.73%
HINDPETRO	0.48%	357.45	0.00%	10.16%
ICICIBANK	4.03%	660.75	50.05%	0.00%
INFOSYSTCH	6.31%	1628.13	37.64%	0.00%
IPCL	0.44%	294.4	0.00%	3.87%
ITC	3.35%	205.05	0.00%	13.27%
JETAIRWAYS	0.27%	961.8	0.00%	19.59%
LT	2.05%	1407	14.79%	0.00%
MARUTI	1.36%	952.95	0.00%	0.51%
M&M	1.12%	703.15	31.16%	0.00%
MTNL	0.46%	217.5	0.00%	20.80%
NATIONALUM	0.70%	323.85	0.00%	28.61%
ONGC	9.43%	989.47	0.00%	6.90%
ORIENTBANK	0.29%	255.5	0.00%	13.82%
PNB	0.81%	486.9	5.37%	0.00%
RANBAXY	0.74%	505.1	0.00%	21.34%
REL	0.56%	629	0.00%	20.12%

RELIANCE	8.96%	1169.8	17.17%	0.00%
SAIL	1.86%	94.15	18.85%	0.00%
SATYAMCOMP	1.61%	392	21.26%	0.00%
SBIN	3.32%	1002.15	17.39%	0.00%
SIEMENS	0.97%	1180.07	0.00%	3.66%
SUNPHARMA	0.95%	901.55	15.32%	0.00%
SUZLON	1.90%	1366.25	0.00%	5.93%
TATAPOWER	0.56%	585.55	5.08%	0.00%
RCOM	4.88%	335.85	29.98%	0.00%
TATAMOTORS	1.76%	986.25	0.00%	5.94%
TCS	6.05%	1010.85	30.13%	0.00%
TATASTEEL	1.42%	668.1	0.00%	23.65%
VSNL	0.61%	479.95	2.22%	0.00%
WIPRO	4.41%	542.6	20.03%	0.00%
ZEETELE	0.64%	227.59	43.55%	0.00%
	100.00%		**21.91%**	**13.83%**

It was amazing to notice that, on January 25, 2007, out of 50 scripts, it was 25 (exactly 50%), which had closed better than its position on 10th May 2006. With a split of 50:50 the bull phase, as projected by media, was under severe doubt. Amongst index based scripts, if 50% would fall and 50% record rise, it becomes almost impossible to vouch for a very rosy picture about the market.

The best part of above statistics was that while recording a 50:50 split between sunny and gloomy, scripts which appreciated were those enjoying higher weightage for NIFTY calculation. Rests were mostly having lesser presence in index calculation. If scripts appreciated, the appreciations were of magical proportions like: Bharti Airtel by72.86%, ICICI Bank by 50%, INFOSYS by 37.44%, Reliance 17% to name a few. With bulk of the weightage (65.97%) favoring the ones rising, NIFTY was bound to dazzle. 25 scripts which declined in value, could truly not raise much ripple as they mastered a total presence of only 34.03% in the weightage for NIFTY computation. Average weightage enjoyed by each script that appreciated was 2.64% while the same for those declining was 1.36% only. When market growth instead of being spontaneous happens to be so selective, normal market interaction cannot be the prime mover. Presence of external influence is unquestionable, irrespective of whether the same is being acceded or not.

To elucidate the factor of complexity, discussed above, two alternative propositions were hypothesized. In alternative -1, an investor was purported to have invested Rs. 1,000,000 in index-based scripts, in proportion based on weightage being used for index calculation. In Alternative –2, investment amount was identical, split in each of 50 NIFTY scripts.

Security Symbol	Weightage	**ALTERNATIVE –A**	PRESNT VALUE OF INV	PV IN ALT -B WAS
	%	**1,000,000.00**		RS 20000 IN EACH
ABB	0.80%	8,000.00	8,860.83	22,152.08
ACC	1.03%	10,300.00	10,960.84	21,283.19
BAJAJAUTO	1.34%	13,400.00	11,530.77	17,210.10
BHARTIARTL	6.04%	60,400.00	104,409.54	34,572.70
BHEL	2.85%	28,500.00	29,142.18	20,450.65
BPCL	0.62%	6,200.00	4,793.95	15,464.34
CIPLA	0.99%	9,900.00	8,831.78	17,841.99
DABUR	0.43%	4,300.00	4,095.43	19,048.50
DRREDDY	0.69%	6,900.00	6,412.34	18,586.48
GAIL	1.12%	11,200.00	10,238.36	18,282.78

GLAXO	0.50%	5,000.00	4,705.35	18,821.39
GRASIM	1.30%	13,000.00	15,761.99	24,249.21
GUJAMBCEM	0.97%	9,700.00	11,450.81	23,609.92
HCLTECH	1.05%	10,500.00	11,558.78	22,016.72
HDFC	2.06%	20,600.00	25,496.81	24,754.18
HDFCBANK	1.70%	17,000.00	20,806.73	24,478.50
HEROHONDA	0.77%	7,700.00	6,274.82	16,298.23
HINDALCO	1.02%	10,200.00	6,884.59	13,499.19
HINDLEVER	2.42%	24,200.00	18,700.20	15,454.71
HINDPETRO	0.48%	4,800.00	4,312.55	17,968.95
IPCL	0.44%	4,400.00	4,229.62	19,225.54
ITC	3.35%	33,500.00	29,056.21	17,346.99
JETAIRWAYS	0.27%	2,700.00	2,171.12	16,082.35
LT	2.05%	20,500.00	23,532.75	22,958.78
MARUTI	1.36%	13,600.00	13,530.07	19,897.16
M&M	1.12%	11,200.00	14,689.90	26,231.96
MTNL	0.46%	4,600.00	3,642.99	15,839.08
NATIONALUM	0.70%	7,000.00	4,997.38	14,278.22
ONGC	9.43%	94,300.00	87,788.86	18,619.06
ORIENTBANK	0.29%	2,900.00	2,499.33	17,236.79
PNB	0.81%	8,100.00	8,535.03	21,074.14
RANBAXY	0.74%	7,400.00	5,820.67	15,731.54
REL	0.56%	5,600.00	4,473.32	15,976.15
RELIANCE	8.96%	89,600.00	104,980.13	23,433.07
SAIL	1.86%	18,600.00	22,106.64	23,770.58
SATYAMCOMP	1.61%	16,100.00	19,523.30	24,252.55
SBIN	3.32%	33,200.00	38,974.35	23,478.52
SIEMENS	0.97%	9,700.00	9,345.15	19,268.35
SUNPHARMA	0.95%	9,500.00	10,955.74	23,064.72
SUZLON	1.90%	19,000.00	17,872.86	18,813.54
TATAPOWER	0.56%	5,600.00	5,884.52	21,016.14
RCOM	4.88%	48,800.00	63,432.01	25,996.72
TATAMOTORS	1.76%	17,600.00	16,554.26	18,811.66
TCS	6.05%	60,500.00	78,730.50	26,026.61
TATASTEEL	1.42%	14,200.00	10,841.82	15,270.17
VSNL	0.61%	6,100.00	6,235.36	20,443.80
WIPRO	4.41%	44,100.00	52,934.63	24,006.63
ZEETELE	0.64%	6,400.00	9,187.05	28,709.52
	100.00%	**1,000,000.00**	**1,145,076.46**	**1,040,442.51**

The outcome of above imbalance in appreciation amongst index based scripts lead to significant variation in outcome of two alternative investment propositions. While Alternative –1 presented appreciation by 14.5%, the Alternative –2 fell short by miles at 0.40%.

If for argument sake we ignore derivatives, the Alternative 1 in US$ terms, due to external factor of exchange gain, posted a return of 16.27% which was 1.77% higher than the one calculated above.

If we consider a third alternative in which the investor would invest same Rs. 1000,000 split in the ratio of weightage but ignoring those with weightage bellow 1.5%, the Present value would rise to Rs. 1,201,979 on 25th January 2007. The ROI would stagger to 20.20% if invested in Rupee and to 22.05% if invested in US$.

Security Symbol	Weightage	SELECTON	IF INV WAS 1000,000)	VALUE PER SHARE ON		PRESENT VAL OF INV
	%			May 10, 2006	January 25, 2007	
ABB	0.80%	0.00%	0.00	3248.95	3598.55	0.00
ACC	1.03%	0.00%	0.00	977.25	1039.95	0.00
BAJAJAUTO	1.34%	0.00%	0.00	3190.8	2745.7	0.00
BHARTIARTL	6.04%	6.04%	80,544.07	417.15	721.1	139,231.29
BHEL	2.85%	2.85%	38,005.07	2392.1	2446	38,861.42
BPCL	0.62%	0.00%	0.00	464.1	358.85	0.00
DRREDDY	0.69%	0.00%	0.00	821.78	763.7	0.00
GAIL	1.12%	0.00%	0.00	311.55	284.8	0.00
GLAXO	0.50%	0.00%	0.00	631.25	594.05	0.00
GRASIM	1.30%	0.00%	0.00	2371.5	2875.35	0.00
GUJAMBCEM	0.97%	0.00%	0.00	116.9	138	0.00
HCLTECH	1.05%	0.00%	0.00	603.95	664.85	0.00
HDFC	2.06%	2.06%	27,470.33	1362.8	1686.75	34,000.28
HDFCBANK	1.70%	1.70%	22,669.69	871.05	1066.1	27,746.00
HEROHONDA	0.77%	0.00%	0.00	879.85	717	0.00
HINDALCO	1.02%	0.00%	0.00	154.75	104.45	0.00
HINDLEVER	2.42%	2.42%	32,270.97	279.85	216.25	24,936.92
HINDPETRO	0.48%	0.00%	0.00	357.45	321.15	0.00
ICICIBANK	4.03%	4.03%	53,740.50	660.75	991.45	80,637.18
INFOSYSTCH	6.31%	6.31%	84,144.55	1628.13	2241	115,818.73
IPCL	0.44%	0.00%	0.00	294.4	283	0.00
ITC	3.35%	3.35%	44,672.62	205.05	177.85	38,746.77
JETAIRWAYS	0.27%	0.00%	0.00	961.8	773.4	0.00
LT	2.05%	2.05%	27,336.98	1407	1615.15	31,381.18
MARUTI	1.36%	0.00%	0.00	952.95	948.05	0.00
M&M	1.12%	0.00%	0.00	703.15	922.25	0.00
MTNL	0.46%	0.00%	0.00	217.5	172.25	0.00
NATIONALUM	0.70%	0.00%	0.00	323.85	231.2	0.00
ONGC	9.43%	9.43%	125,750.10	989.47	921.15	117,067.42
ORIENTBANK	0.29%	0.00%	0.00	255.5	220.2	0.00
PNB	0.81%	0.00%	0.00	486.9	513.05	0.00
RANBAXY	0.74%	0.00%	0.00	505.1	397.3	0.00
REL	0.56%	0.00%	0.00	629	502.45	0.00
RELIANCE	8.96%	8.96%	119,482.60	1169.8	1370.6	139,992.18
SAIL	1.86%	1.86%	24,803.31	94.15	111.9	29,479.45
SATYAMCOMP	1.61%	1.61%	21,469.53	392	475.35	26,034.54
SBIN	3.32%	3.32%	44,272.57	1002.15	1176.45	51,972.72
SIEMENS	0.97%	0.00%	0.00	1180.07	1136.9	0.00
SUNPHARMA	0.95%	0.00%	0.00	901.55	1039.7	0.00
SUZLON	1.90%	1.90%	25,336.71	1366.25	1285.2	23,833.66
TATAPOWER	0.56%	0.00%	0.00	585.55	615.3	0.00
RCOM	4.88%	4.88%	65,075.34	335.85	436.55	84,587.29
TATAMOTORS	1.76%	1.76%	23,469.80	986.25	927.65	22,075.29
TCS	6.05%	6.05%	80,677.42	1010.85	1315.45	104,988.00
TATASTEEL	1.42%	0.00%	0.00	668.1	510.1	0.00

VSNL	0.61%	0.00%	0.00	479.95	490.6	0.00
WIPRO	4.41%	4.41%	58,807.84	542.6	651.3	70,588.92
ZEETELE	0.64%	0.00%	0.00	227.59	326.7	0.00
	100.00%	**74.99%**	**1,000,000.00**			**1,201,979.24**
IN $			22,306.49			27,224.90
IN KG GOLD			3.16			4.21
FOR EVERY INR MILLION INVESTMENT:						
GAIN IN IN RS						201,979.24
GAIN IN US$						4,918.41
GAIN IN GOLD KG						1.06
EXTRA $ EARNED						412.96
EXTRA GOLD IN KG EARNED						0.42

The above statistics indicate that for every Rs. 1000,000 investment, if made in US$, there would be an additional income of Rs. 18232 (US$ 412.96) in hard currency and who would pay for the same? Who else? But the common domestic investors! In other words, whatever rise be there in market capitalization, more than lions share would be going out, not only in flesh but also with a drop of blood!

Investment norms in India are peculiar also. While a non-resident Indian is literally discouraged to invest in derivatives, foreign institutional investors are welcomed. With most, if not all of the above scripts having derivatives, comprising of Futures and Options, the gain perspectives would multiply manifolds almost to the extent being astronomical. Sample studies of such fabulous gain possibilities have also been illustrated little later in this study.

Thus, it is quite clear from above that Indian market, especially since 10th May 2006, is not under Bull influence even though the market index has moved in to outer space. If the market is not under Bull then what is it under? To find out the true picture, we performed a survey. It was imperative, in view of the fact that the index (NIFTY) had appreciated from 3754 to 4147 between May 10, 2006 and January 25, 2007, majority of scripts, quoted in the stock exchange, would exhibit higher comparative closing especially if the market was under Bull influence. Accepted that all scripts do not perform equally well but when market index rises by over 10% in 7 ½ months, majority of the scripts should fare better to bring about such market brilliance. The media supports the fact that Indian economy has entered in to a phase of persistent economic growth, which, if correct, would reflect in terms of share prices as well. Dow theory states that price of a script, at a given time, is the sum total of all information pertaining to the same. The theory extended in terms of market index should testify the economic state of the state of commerce of the country and if market index has moved for better, shares in general should not go in the reverse direction.

In order to move in to the depth of such analysis, we plotted down closing values of all scripts, found in our charting software, for both May 10, 2006 and January 26, 2007. With total number of scripts quoted in stock exchange being 1450 and the software providing data for 790 active ones, the sample size was comprehensive.

To our utter surprise it was detected that while 274 scripts were featuring better closing values on 25th January 2007, 514 scripts were negative and their closings on the given date was much lower than what existed on 10th May 2006. Given a scenario, where 65% scripts move downwards (35% upwards) even an insane would find it difficult to infer existence of bull influence in the market.

Instead of making this study bulky by furnishing data of 790 scripts, two daily charts (one of declines and the other of advances) are furnished hereunder since they would illustrate authenticity of our findings stated hereinabove.

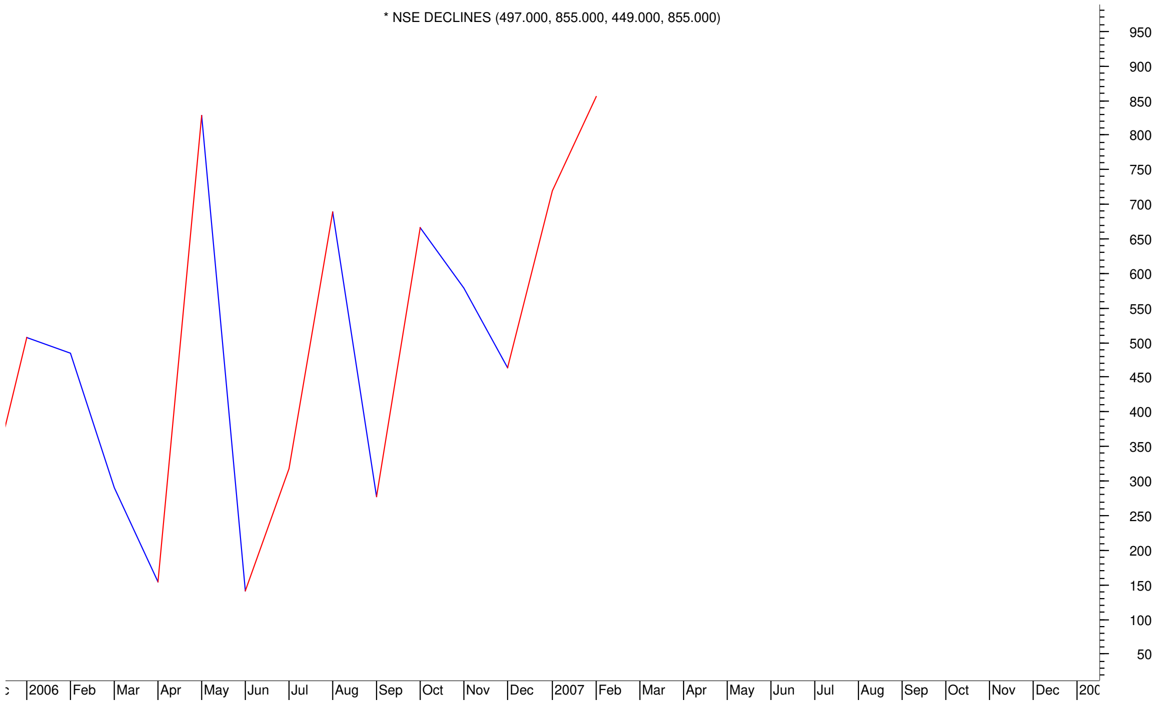


CHART –5, NSE DECLINES MONTHLY

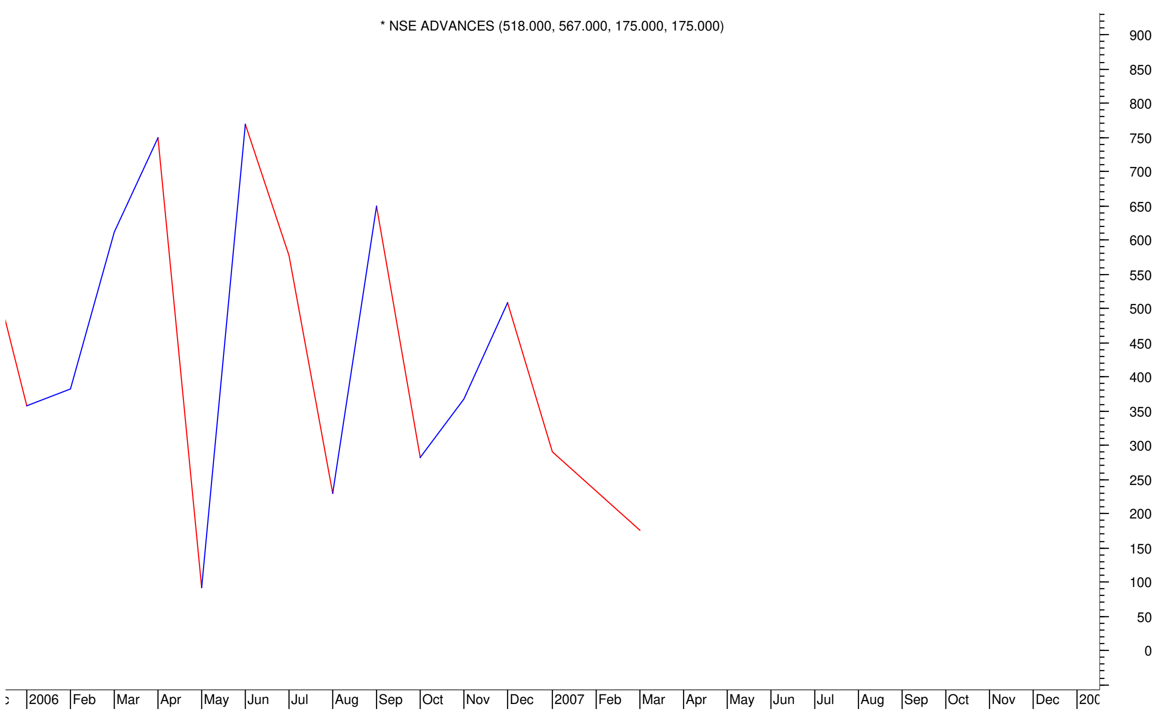
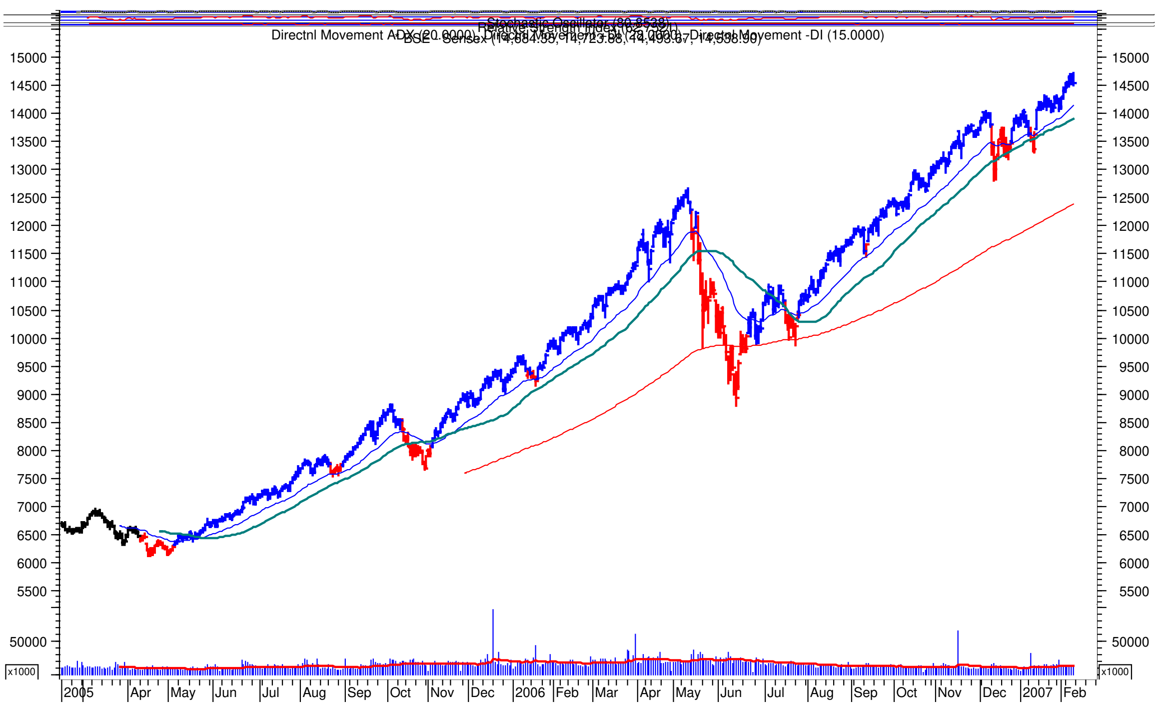


CHART-6, NSE ADVANCES MONTHLY

With 65% scripts actually moving lower than its value on 10th May 2006, the so-called economic prosperity was, therefore, only a fairy tale that was being projected to suppress the actual state of affairs. The market was not truly bearish too since index appreciation under bearish trend sufficed being followed by correction of magnitude higher than that of appreciation. Under the present scenario there was and is one-track movement for the index, i.e. upwards and if any correction would happen, the same would invariably be incomplete.

We are, therefore, left with the choice of hailing presence of bullish trend and positive market sentiment but bullish market presupposes presence of volume as more and more participants would flock in to earn profits out of the market.

As NSE 50 (NIFTY) includes derivatives also volumes often vary on monthly settlement of derivative positions. Furthermore, NIFTY being a rather new exchange, its system, till now, often generates data, which are not truly reliable (e.g. spikes etc). We furnish here bellow SENSEX (BSE) chart for volume analysis. SENSEX (BSE) relates to Bombay Stock Exchange, which runs parallel to NSE and enfolds much higher listing of shares but no derivatives. If market sentiment would be positive, commoners would invest and absence of derivatives would hardly matter.



<u>CHART –7 SENSEX DAILY</u>

BSE SENSEX daily chart, furnished above, besides the fact of the index appreciating from 12624 to 14526 between 10th May 2006 and 05th February, 2007, testifies that with the exception of November 16, 2006 and January 09' 2007, the market found it difficult even to maintain volume matching the ever declining moving average levels. Thus what does the scenario evolve? A volume less market where 65% script is on downward trend.

If any one wishes to call this a bull market, let him or her go ahead, we would rather not buy the bet, as the same is too difficult to digest.

CHART-8 BSE SENSEX WEEKLY UP TO 2005

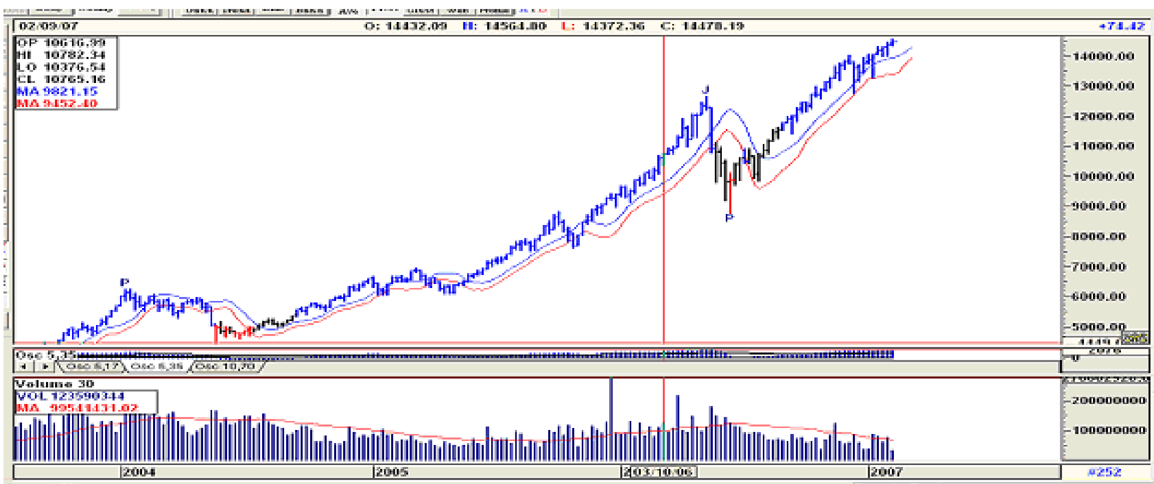


CHART-9 BSE SENSEX WEEKLY 2005-2007

CHART –10 BSE SENSEX- MONTHLY

Let us now analyze the market. Amongst Indian stock exchanges, as stated earlier, Bombay Stock Exchange with market index of SENSEX represents the commercial India the best with highest number of scripts enlisted and its legacy dating back to over 100 years. Paucity of available space compelled us to furnish above the weekly chart of SENSEX part wise. The first is the weekly chart up to 2005 and the second shows weekly SENSEX movement since 2005 up till now. The third is the monthly chart, which combines data of both the former charts and exhibits before us the composite picture to derive opinion thereupon.

From the first chart we find that volumes had been on an upward trend before 2000 and was maximum between 2003-2004. It needs no additional elucidation to infer that influx of volume in stock market is a synonymous to economic prosperity that boosts up sentiment and aspirations of the multitude who, then flock the market to elevate their economic status. Therefore, we may easily draw the conclusion from charts furnished above that Indian economy was going through a phase of real growth since 1990. The third chart pinpoints the growing stage. The upliftment started precisely from 1990 and attained its crescendo by end February 2000. Between March 2000 and May, 2003 was a period of uncertainty followed by unprecedented market growth that failed to boost moral of participators to the market.

Between 2000 and 2001, most of market participators had derived profit out of their investments and/or their enterprise. From 2001 till 2003 was a period to watch with Governments changing but the same was not felt as fruits out of economic development could well hold the economy together. 2002-03 ushered a new phase of manipulative investments mostly funded by foreign money and the index grew irrespective of upward swing truly gripping the country at large.

Market dynamics are best explained in terms of Elliot's Wave Theory. Based on above, we can segment wave structure on the third chart as under:
1st WAVE – It started around February 1990 and continued till end of October the same year. The economy earlier was passing through a long phase of slump and the new era was not expected by many to last resulting in a temporary slide starting during October 1990 that lead to 2nd WAVE.

2nd WAVE- the corrective 2nd Wave, which rather justifies being referred to as wave of disbelieve, lasted till end January 1991 whereafter the real swing upwards started leading to the most dynamic wave of prosperity called the 3rd Wave.

3rd WAVE - the wave of general improvement commenced during February 1991 and went on till end of February 2000. The economy prospered, industries flourished and the country leaped forward to an era of renaissance that managed to generate three main factors amongst the multitude, which were:

a) Aspiration
b) Attitude and
c) Ambition backed by adequate surplus to materialize the above two A's.

People during this phase learned to aspire for a better life, better education and better future. The attitude changed drastically. Work culture improved. The mass realized the lesson " learn more to work more; work more to earn more and earn more to live more. Such aspiration and attitude reaped rich dividends and surplus, which in turn raised the level of ambition leading to elevation of both aspiration and attitude to levels higher than earlier.

4th WAVE – Since everything in universe is perishable and the 3rd Wave, too, had to come to an end. The 4th corrective wave of encashing profits of 3rd wave started from March 2000 and went on till April 2003. The phase witnessed political disturbances resulting in unstable economy but the hope of another exuberance lived on. The mass could never forget the sunshine days of 3rd wave and awaited an opportunity to plunge in, once more. Another factor greatly influencing the Indian Capital market was introduction of internet trading in the National Stock Exchange and introduction of derivatives in June 2000.Foreign investors, too, realized that Indian economy or rather the stock market was on the verge of 5th wave which could be short lived but prospects were there for the indexes and scripts even surpassing the highs of 3rd wave. To add extra cream topping to the cake was prospects of earning profits out of derivatives, which were being newly introduced in India. Adept to the commerce of derivatives, the foreign institutional investors could well understand that they would beat the locals hollow in very little time and gradually achieve a situation where they would control the market. Bonus to such expectations were commencement of decline in exchange value of hard currency which meant, even if market would not rise to expectation, the gain out of exchange rate fluctuation would compensate for the loss.

5th Wave – the normal part of the wave started from May 2003 and possibly went on till end March 2005. There was no economic prosperity as such but with expectations running high, sudden influx of some (not the multitude) lead to steep jump of the index. Government changed during May 2004 leading to mass scale exit of the common investors resulting in crash of 17th May that offered fresh entry for foreign investors and mutual funds as they knew nothing radical was likely to happen. Cost and/or significance irrespective, the new Government proved anxious to bring in more and more foreign currency in the vaults of Reserve Bank and the investors were only too ready to oblige with local currency steadfastly gaining on value.

The above lead to extension of 5th Wave which now has taken the shape of Mania. Corrections happened occasionally to book small profits and to force domestic investments out of market. The world history has witnessed many manias with the most recent happening in US in which DOW multiplied over 10 times. The most severe mania recorded, till date, is Tulip Mania occurring between 1634 and 1637, in Holland, in which the index appreciated by 17 times.

What is the extent of mania in India? The present cycle commenced when SENSEX was at 659.16 and on 6th February 2007 it reached a new peak of 14564.8. In other words, the present cycle saw SENSEX multiplying 22.096 times setting possibly a new world record.

Everything said and done, there is a small anomaly in the concept of mania with respect to SENSEX. The high of 3rd Wave experienced SENSEX at 6150, which was 9.33 times higher than where the cycle began. Though there is no hard and fast rule that mania cannot happen in 3rd wave, if happening it would be the first example of its kind in the world. In order to eliminate the confusion, we need to re-consider the NSE-50 (NIFTY) monthly chart where data is available since 1995.

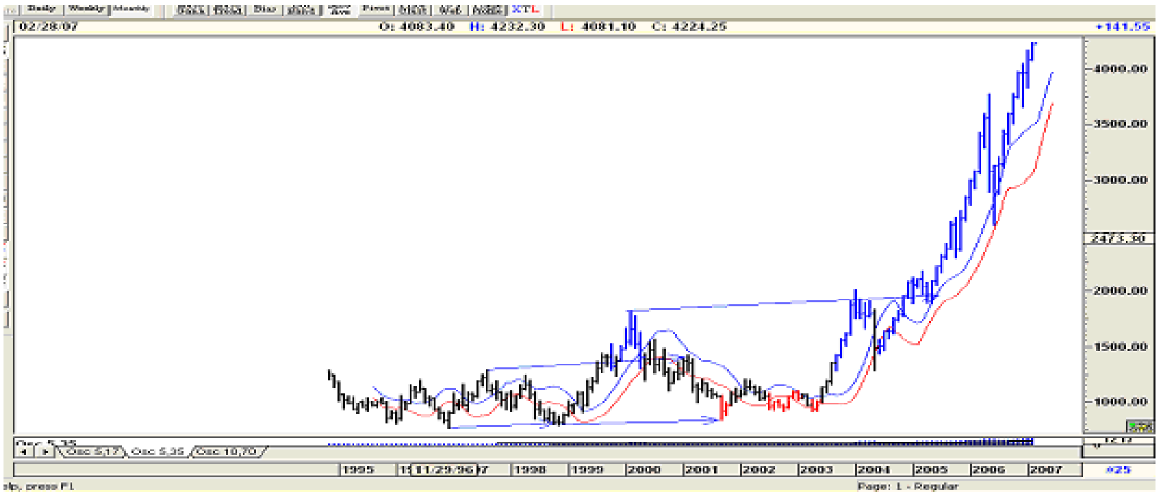


CHART-11, NIFTY MONTHLY

NIFTY monthly chart leaves us with no option but to consider December 1996 as the starting point of the WAVE cycle and the high of August, 1997 as the peak of 1st WAVE. The peak of 3rd Wave will be the same happening during February 2000. From February 2000 till end April 2003 would be profit booking 4TH WAVE that would lead to upward 5TH WAVE which normally should have ended during March 2005. In other words, the cycle began with NIFTY at 775 that due to mania have now gone up to 4232 levels. To put it in simple words, index has multiplied 5.46 times over a period of nearly 10 years. The multiplication factor smoothened to 5.46 looks much more rational than 22 times factor we obtained with respect to SENSEX. Existence of mania is undisputed. I have just attempted to make it appear less ominous.

Therefore as evidenced by various charts, calculation and explanations furnished above one thing is for certain that Indian Capital Market is under the grip of severe mania. Furthermore, it is also established that the cause of mania was primarily linked to investment from foreign institutional buyers who indulged massively in derivative trading to maximize on profits since exchange rate was offering an extra cushion of security as well as liquid surplus funds to trade in.

The mania is a gift from BJP ministry who as if introducing a new fashion, inaugurated derivative trading in India and allowed foreign investors entry to the same also. For Congress Government it was a choice between political ambition and economic scruples/ diligence in which the former prevailed. In all likelihood the coalition ministry at the central government did not contemplate that they would survive a full term and hence what was happening in the capital market truly did not matter as blemishes of the same would eventually fall on the new comers who would perish being crushed under the likely avalanche and thereby laying path for Congress to return back to power again. It is unknown if events will exactly follow designs contemplated but undoubtedly the debacle will be there with poor country men being pulverized under the likely crusade.

I have alleged that allowing foreign investors to trade in derivatives is one of the main reasons behind occurrence of this mania. Mania had already set in but opening the floodgates of derivative trading to mutual funds and foreign institutional investors took the situation beyond control since bulk of new investments flew in and a good chunk shifted from scripts to derivatives. Hand in hand to investments flocking in, came the urgency of extrapolating market in a manner to shift the focus of attention from market in general to becoming index based. At the end of the day it hardly mattered if market moved forward or backward so long index appreciated and a few scripts staged outrageous appreciation.

Index was made to correct, at least twice, to create panic amongst common investors to generate room for the main players to gain additional holding. Thus, we witnessed corrections between October and November 2005 and between May and June 2006. Therefore, what prevailed was endless lure to earn profits to the extent of unimaginable proportions. Let us site hereunder a rough calculation of profits on derivatives between May 10, 2006 and January 25, 2007 supposing margin of 20% and likelihood of investors ploughing back exchange gain in securing fresh positions:

Security Symbol	VALUE PER SHARE ON		LOT SIZE	INVESTMENT IN	TOTAL INVESTMENT	TOTAL PROFIT	PERCENTAGE OF GAIN
	10-May-06	25-Jan-07		LOTS	US$		
BHARTIARTL	417.15	721.10	1000	67	124,552	462,615	371.42%
HDFC	1,362.80	1,686.75	300	67	122,071	149,146	122.18%
HDFCBANK	871.05	1,066.10	400	67	104,031	119,824	115.18%
ICICIBANK	660.75	991.45	700	67	138,100	352,976	255.59%
INFOSYSTCH	1,628.13	2,241.00	200	67	97,225	187,261	192.61%
LT	1,407.00	1,615.15	200	67	84,020	64,362	76.60%
RELIANCE	1,169.80	1,370.60	300	67	104,783	92,883	88.64%
SAIL	94.15	111.90	5400	67	151,801	147,566	97.21%
SATYAMCOMP	392.00	475.35	600	67	70,226	76,859	109.45%
SBIN	1,002.15	1,176.45	500	67	149,610	134,345	89.80%
RCOM	335.85	436.55	700	67	70,194	107,904	153.72%
TCS	1,010.85	1,315.45	250	67	75,455	116,562	154.48%
WIPRO	542.60	651.30	600	67	97,205	100,319	103.20%
							148.47%

US $ TO INR =	Rs
5/10/2006	44.83
1/25/2007	44.15

Thus if a foreign investor had chosen scripts enjoying over 1.5% weightage in NIFTY computation and invested in derivatives with the factor of ploughing back of exchange gain, his profit on investments in barely 7 ½ months would be between 371% and 76%, average say 148%. 148% return in 7 ½ months equated in annual terms work out to 237%. I am not saying other scripts are avoided. The scripts are divided in to groups in a manner that while profit taking is done in one group, the other gets ready for investment. When the second group would be ready for being harvested the first will be there for investment again. Thus, we experience some times auto sector pulling up the index, some times it is cement/banks etc. The moral of each day is not to allow index to slip bellow a certain level and even if corrections are mandatory for profit taking, to invest in a manner so that the index not only recovers what it lost but also gain additional ground too. That is exactly what a mania is supposed to be. Corrections are there in mania as well because if market would be completely devoid of corrections, profit taking will not be there and the momentum would gradually slow down. Corrections/retracement whichever term may be used, under influence of mania are subject to premature termination. Corrections are used as ploys or tools to gain on momentum since each of such downfall marks exit of some common investor who yield their holdings to the ones controlling the market movement. And come to think of it, why should this not happen when index derivatives yield 177% and script derivatives 237%? If we take an average of 207% {(177+237)/2} return on investment from market and foreign investment of about US$ 50 billion, the return alone per year is $103.5 billion and the progression moves on and on.

Why are we calling this a mania? Normally when a motive wave in a Wave cycle gets extended in a manner which leads to index or value of the script/index multiply over 4 (four) times,

occurrence of mania is interpreted. There is as such no thumb rule but when growth in index takes proportion akin to that of absurdity, the diagnosis often point to mania. To quote *Robert R Prechter Jr in View From the Top of the Grand Super cycle*: "Historians characterize a mania as a kind of madness that takes hold of a population. The widely shared illusion of endless huge profits that propels a mania also produces another kind of madness: anger. Though
The media report new highs in averages with giddy demeanor; it is a clown mask that hides a miserable soul".

What happens hereafter? Science of technical analysis has not advanced to the extent to pinpoint, in advance, likely turning point of mania. We have already seen to what gigantic proportion the mania has grown and there is no certainty that it will not grow further. Mania is a bubble that keeps on bloating up till it bursts leaving devastation behind. It is often referred to as a state of anger or frustration that mounts to a crescendo based on void and then collapse with virulence multiplied many folds.

World history has witnessed many a mania with each one of them had ending some time or other. Therefore, the one happening in India will also break and bring back index to where it began. The day hard currencies launch their come back forcing third world currencies to a beating retreat, the investments, which have flocked the market and have grown many folds, will, too, announce their withdrawal and then the true picture will emerge for the world to behold. The exodus can never be gradual. It will be a mass exit that will raise a huge holocaust with destructive power beyond imagination.

I have stated earlier that no authentic theory has, till date, developed by which one can pre-calculate likely magnitude and time duration of mania. However, effectiveness of Fibonacci Time Studies in estimating turning points is unquestionable. In order to check, on NIFTY monthly chart, whether Fibonacci Time Studies succeeded in pointing out turning points, Fibonacci Time Zones were drawn from the starting point of the cycle i.e. December 1996. The chart embodying the time zones is displayed hereunder:

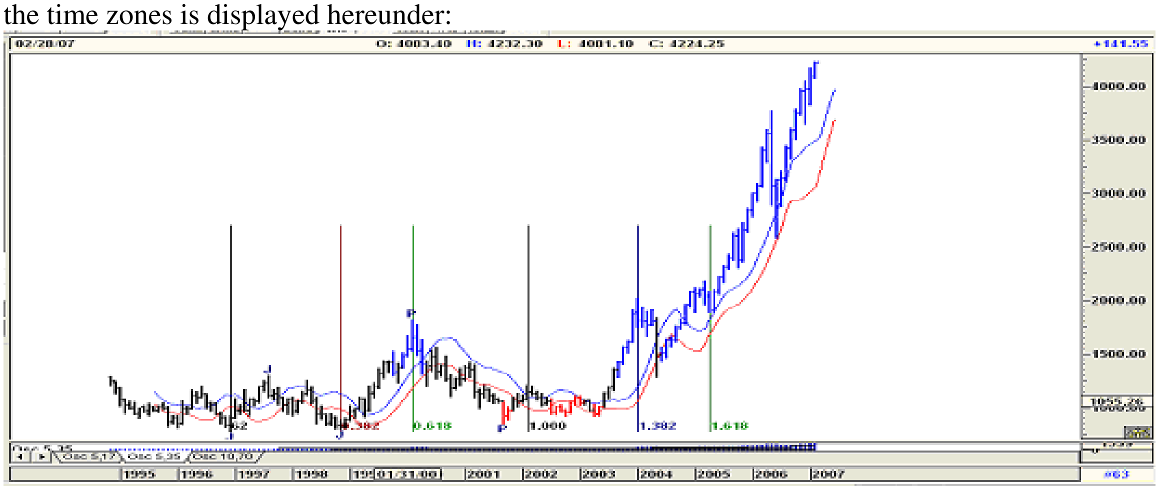


CHART-12 NSE 50 MONTHLY WITH TIME ZONES

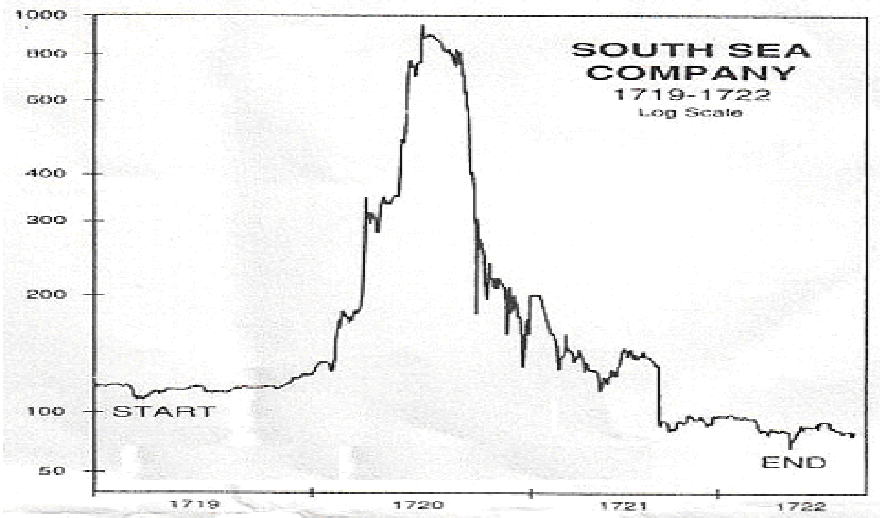
The chart above explains by itself as to how effective and precise Fibonacci Time Studies have been in exactly pinpointing each and every turning point. However, as luck would have it, my software did not allow me to extend the time zones. In order to circumvent the problem, I shifted the beginning point of the time zone from December 1996 to the point of beginning of 5th Wave i.e. April 2003.

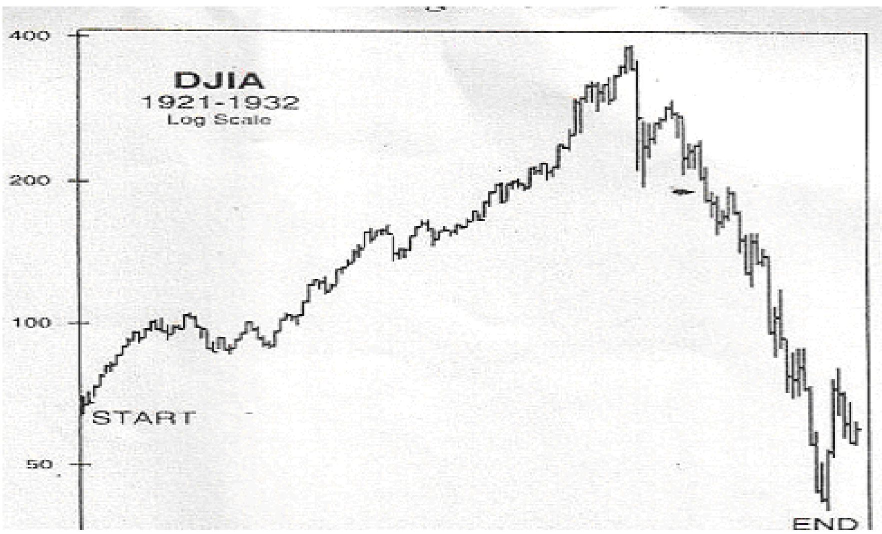
CHART-13 NSE 50 MONTHLY WITH TIME ZONES EXTENDED

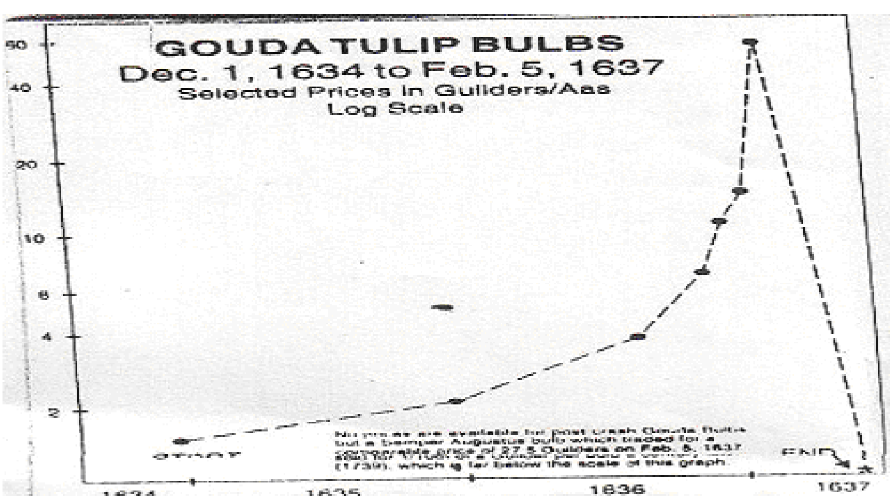
Chart thus obtained looked equally interesting with time zones pointing out with accuracy two major corrections experienced by stock market during May-June 2004, May-June 2006. The two earlier corrections spaced exactly 2 years between them with 2 being a Fibonacci number. Thus, if same cyclic order will be maintained, we may witness a major disturbance during May/June 2008. If we follow the Fibonacci Time Zone, the earliest turning point comes little closer to August, 2007 which will be the month in which India will be celebrating its 60th year of independence.

Significance of August, 2007 will be best explained if we remember here Kondratieff cycle. Known by the Israelites, identified by the Mayas of Central America centuries ago and rediscovered in the 1920s by economist Nikolai Kondratieff of Russia, the Kondratieff cycle is a repetitive pattern of financial and economic behavior that lasts on average between 50 to 60 years. In other words, considering the fact that India gained independence on August 15, 1947 and its economy started afresh from 0 (zero) level since then, 60 years later, during August 2007, if journey back to zero begins, such retardation will only follow the law of nature.

In order to economize on the size of this article, I am not venturing in to explaining how mania develops and as to how it crashes. However, since visual presentation is always more comprehensive than explanation though words, I am furnishing hereunder three charts of past manias to authenticate my hypothesis that the mania happening in India, too, will collapse one day in near future, possibly before this article gets eventually published and if luck prevails, noticed.


SOUTH SEA COMPANY
1719-1722
Log Scale
1000
800
600
400
300
200
100
50
START
END
1719
1720
1721
1722


DJIA
1921-1932
Log Scale
400
200
100
50
START
END


GOUDA TULIP BULBS
Dec. 1, 1634 to Feb. 5, 1637
Selected Prices in Guilders/Aas
Log Scale
40
20
10
4
2
1636
1637

I am suggesting or rather breaking my voice hoarse in my attempt to convince everyone that the mania will collapse one day. Why should it? If profits were coming who would wish the sunny days to end? But is not a must for everything in this universe to end one day or the other? The funds from overseas also depart one day since even utility is subject to Law of Diminishing Returns? Thus, one day or the other, the investors will think it wise to withdraw this money which have grown beyond simple imagination and apply the same either in their own land or else where.

What could be the magnitude of this investment? I could manage to get some data from a leading share broker website called sharekhan.com. The data is as under:

FI Activities				
Dated	Purchase(RS Crore)	Sale(Rs Crore)	Investment(Rs Crore)	Investment($US mm)
Feb-07	7283.7	7753.3	-469.7	-103.3
Jan-07	90104.4	89120.2	984.2	225.2
2006	989080.2	919710.8	70063.7	15257.4
2005	529591.6	440368.1	89789.56	20468.8
2004	371340.4	292373.5	86946.6	17955.22
2003	187977.6	127979.6	61180.8	13186.78
2002	92958.2	85699.6	7259.2	1567.8
2001	103522.4	77301.6	26258.2	15665.2
2000	149583	136843.2	12741.16	3447.4

Leaving aside the statistics of February 2007, since incomplete, the foreign investments from 2000 to January 2007 come to US$ 87774 millions. Today, as I write on 08th February 2007, the US$ closing value was Rs. 44.01 yesterday. If we calculate on most conservative way and consider that investments only flocked in on the 30th June each year, the accumulated exchange gain alone would sum up to Rs.139.198 million equivalent to US$ 3,163 million. The exchange gain alone if invested in NIFTY futures is yielding $ 5599 million per year.

Let us leave aside, for the time being, the exchange gain factor and concentrate on funds that came in. If NIFTY index is representing the market and have grown from June 30, 2000 closing of 1471.45 to 4223.4 by February 08, 2007 the market along with its scripts have hypothetically grown 2.87 times in 4 months less than 7 years. Forgetting about scripts, its seasonal fluctuations etc, if only 20% of investments were made in index future and rest in prime stocks that we see touching the ozone layer now (cumulatively represented as NIFTY only) the present value of investment will come to US$ 499,757 millions or say US$ 500 billions. The working is furnished here under:

FI Activities							
Dated	Investment($US mm)	closing us$ val	exch gain	NIFTY ON JUNE 30	NIFTY ON FEB 08,2007	VALUE OF 80% INVESTED IN STOCK	VALUE OF 20% INVESTED IN FUTURE
-		IN RS	IN RS		4223.4	us$ mm	us$ mm
Jan-07	225.2	44.07	14	4082.7		186.4	15.5
2006	15257.4	45.87	28,379	3128.2		16,479.3	11,134.9
2005	20468.8	43.46	-11,258	2220.6		31,144.0	36,460.9
2004	17955.22	45.95	34,833	1505.6		40,293.3	67,680.4

2003	13186.78	46.36	30,989	1134.2	39,284.4	75,673.4
2002	1567.8	48.81	7,525	1057.8	5,007.7	10,407.1
2001	15665.2	46.99	46,682	1107.9	47,773.6	94,069.1
2000	3447.4	44.6	2,034	1471.5	7,915.9	13,067.7
	87,773.80		139,198		188,084.5	308,509.2
			3,163			
				TOTAL		496,593.8
				PLUS EXCHANGE GAIN		3,162.9
	US$ to Indian Rupee on February 08,2007=44.01					499,756.6

The above calculation is possibly most conservative, as it does not take in to account surplus out of investment of exchange gains. Another vital point drastically rationalized is possibility of investment in derivatives to the extent of 20% only and taking no exposure in options which, if taken in to account would certainly push the value of investment above $ 1000 billions. We have also ignored the possibility of reinvestment of gains that would grow much faster than the original under multiplier effect. Thus the sum of $ 499.75 billions is only indicative. The actual could be multiples thereof. Even if we move with $ 499.75 billions amassed in 7 years time the income generation per year comes to US$ 71.39 billions: a figure which could possibly be exceeding the 5 year budget allocation of Indian Government. Not to forget here that this huge sum of US$ 499.75 billions have grown out of base investment of US$ 87.77 billions only. In other words, a poor country like India is contributing $ 71.39 billions to developed countries in the world and to add insult to injury adding the sum while calculating GDP for the Nation.

The levels of sanity of those sitting at the helm of finance and those controlling the capital markets of this country truly astonishes. No wealth is created, no industry has developed yet out of thin air more than $ 71.39 billion liquid asset is getting siphoned to the credit of foreign investors and we are talking of becoming a super power! Why should not ties with US, UK, Japan etc prosper? We are after all allowing them to earn this money from our country. No wonder with investments booming and multiplying possibly at a rate higher than our population growth, the charts of capital markets of prime exchanges in the world are also dazzling with glory. If what is happening in India is also being practiced in other third world countries, we are back to the era of colonization if not in a situation much worse.

Now we arrive at the climax of the scene. The investment that has grown in geometric progression is still retained in India. Why? Since the same is constantly being ploughed back to appreciate more and more. It is something like cancer where cells multiply in rapid proportion and ultimately start rotting with blood not flowing in. Alike circumstances are bound to develop here. It is us, common citizens who are feeding the investors from our resources being canalized thorough either stock exchange or banks etc. But one day the sources would also dry up. Even if the income will generate, it would not get realized in material terms. Furthermore, with volumes drying up a situation is not far where it will be a handful of mutual funds and foreign investors only to trade amongst themselves. The confidence, the hope, the hunger would start dwindling then and exodus will start. $500 billions or multiples thereof will start departing and the rush will shoot exchange value out of the roof. The 5th Wave of US$ chart vis a vis Indian Rupee will come in to being and possibly lead to a mania there as well.

Globalization, decontrolling of economy etc are no doubt good when it comes to developed economy. Applied to third world, they initially dazzle but with eyes less powerful due to malnutrition, the dazzle results in blindness that cripples the economy possibly beyond repair.

Bibliography:

a) View From The Top of the Grand Super cycle By: Robert R Prechter Jr.
b) Market Analysis For the New Millennium By: Robert R Prechter Jr.