Mkts currently at inflection point: Aletheia SG Cap

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Suneil Pavse, Co - CIO, Aletheia SG Capital feels that feels that the markets at an inflection point. "What's happening here is the S&P, the broader indices in United States are driving the global markets and I think it will continue to happen for next eight months or so and at that point, I think then we will have to revaluate," he said.

Excerpts from CNBC-TV18's exclusive interview with Suneil Pavse:

Q: One word on our own market and what do you see happening over the shorter-term period as well. Do you see more pressure on indices like the Sensex and the Nifty?

A: We are at an inflection point here; in fact most of the damage, I think 85% is pretty much done. What's happening here is the S&P, the broader indices in United States are driving the global markets and I think it will continue to happen for next eight months or so and at that point, I think then we will have to revaluate. What we do at Aletheia is, we focus on the turning point, the larger and the smaller turning points within the market for last 20 years and it has forecasted pretty on a high probability basis.

The turning points are based on some of the pattern recognition over the longer scale as well as some of the inter-market analysis that we do. We got the pattern at the tops of this market last year twice and the bottom thrice and it did a good job at it.

What tends to happen is the bull market usually longs for every four-and-a-half years across the world and that's been a consistent pattern if one goes back in history. And at the end of four-and-a-half years what sets in, is the consensus view becomes the economic view and then you get a price appreciation to the exuberance stage in a parabolic motion and that parabolic motion usually ends up in a top and at that point in time, the apex of it ends up putting in a triangular top and at the top of the triangle - its usually a blowout in the financial system i.e. the Fed gets itself in a pickle or there is a overhang of some kind of a business blowout and at the end of the pattern, you get a price destruction where the pattern begins. In this case was 1,200 on S&P and we are revisiting those areas.

Q: Is that the extent of the downside you see for the US market that the S&P having broken 1,300 will go no more southward than 1,200. Will bottom out there?

A: That's what I think so because historically the market tends to bottom out when the sector which contributes towards a problem gets decimated 80-90%. The sector which got us into this pickle is the housing sector within United States and that's decimated down to 90%. Similarly the financials are down almost 70% in US.

Look at the tech sector; it went down 90% and that's where we bottomed out and similar situation do happen and that's a reason why there is a downside here - 85% damage is done here and that's where we are looking at on the pattern recognition on a bigger scale picture will zoom into the current level and then give a roadmap. But that's where the pattern is happening.

Q: The differences of opinion of course lie on the time-wise correction or the time wise duration these markets will go through this whole phase of weakness. What do you see on that?

A: That's an excellent point; usually in our opinion this is what we think is when the triangular top is also a function of time and price. Whatever destruction you get enough in terms of a price, you get the similar time-wise level that it needs to move sideways i.e. we moved down almost six months in a row here - some markets more then the others and basically you need to move sideways in the trading range for that period of time also another factor that we are also looking at is, we may argue that lot of the emerging markets have collapsed 35% or so and we are looking for the headline numbers. But what happens is, if you look at US; US market on the face of it, it could be 15% correction but the fact of the matter is if you convert that in an absolute other currencies i.e. the euros or other currencies, we are decimated almost 30% as much as the emerging markets and so that is quite destruction.

Destruction, on a standalone basis doesn't have any merit because the oversold can remain oversold forever but the fact is, the triangular top formation theory has somehow, in a high probability basis, is a good level and that's what I am looking.

On the current side of the S&P, the currencies have been the biggest movers in this market. The currency is the most powerful market segment in the world; the equity just comes as a buy product of it. Today is an action in terms of - Yen has ruled this world. Over last 12 months we been telling all our investors that yen has been ruling this world; wherever Yen goes the market has been going in an opposite direction. There is a deleveraging in the financial sector because all the Yen carry trade; all the money that went into these emerging markets even the US markets are based on the Yen theory. What happened today, was actually Yen broke the 12 years high and that's where all the programme traders came in and collapsed this market and usually that's what happens.

Let's go back in what's exactly is happening right now; on January 22, we made a high volume intra-day reversal with a sign of strength of 60-70 points in S&P almost to a tune of 90% volume reversal. In my experience of last 15 years, very seldom these kinds of reversal do happen. That reversal on a standalone basis, again doesn't have merit. What it needs to do is – you need to have an after-shock theory just like the earthquake - you made a bottom, you are testing the bottom. There are various metrics by which you test the bottom.

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