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Half of BSE 500 stocks below their 200-DMA

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Nearly half of the BSE 500 components have slipped below their 200-day moving average (DMA) following the recent sell-off. Moreover, a fifth of the top 500 stocks are currently trading more than 10 per cent below their 200-DMA, signaling a weak trend in the market.

The Sensex and the BSE 500 indices have declined over 6 per cent from the peaks touched last month. The correction has been steeper in the broader market with the BSE MidCap and the SmallCap indices declining 8.8 per cent and 11 per cent from their peaks, respectively.

The 200-DMA, nearly a year's average, is analysed by traders to understand the market sentiment. A fall below this level indicates a weak trend.

Sequent Scientific and Bank of Maharashtra are among the stocks that are trading more than 30 per cent discount to their 200-DMA. MCX, Kwality and Dena Bank are down more than 25 per cent from their 200-DMA, data showed. According to experts, these stocks are out of favour and investors should look for improvement in fundamental metrics before buying them.

Meanwhile, stocks that continue to buck the market trend are graphite stocks. HEG is currently trading 151 per cent above its 200-DMA, while Graphite India is trading 83 per cent premium to its 20-DMA. These stocks gained even in a falling market on Friday.

Overall, investors, especially those from overseas, have been cutting their equities exposure amid a spike in the US bond yield. Also, high valuations due to a delay in earnings recovery is providing little support to the stock prices.

"There was a lot of froth in the mid- and small-cap space, thanks to the flood of flows into the space. On the other hand, their fundamentals remained weak for multiple reasons. Hence, a steep correction was imminent in this space. Investors should brace for more volatility in this space as markets are staring at multiple uncertainties in the near- to medium-term, including state elections, rate hike by the US Federal Reserve and how monsoon will pan out," said G Chokkalingam, founder, Equinomics Research and Advisory.

The last year was one of the least volatile years for Indian markets as strong portfolio flows and low interest rate regime globally took equities northward. However, 2018 would be different due to several potential headwinds.

Under the current circumstances, brokers have been advising their clients to stick to blue-chip stocks with good earnings visibility and avoid mid-caps. This is in a stark contrast with their calls earlier when they recommended a lot of smaller stocks in anticipation of superior returns.

Market players are currently suggesting that investors should avoid the 'buy the dip' mantra for mid- and small-caps and shift their preference to large-caps.

"The scales are now clearly in favour of the large-cap stocks with good earnings visibility. These stocks are less volatile, capping downside for the investors. Many stocks are available at cheaper valuations, thanks to the recent market correction," said B Gopkumar, chief executive officer, Reliance Securities.

ON A WEAK FOOTING

Stocks below their 200-DMA

In ₹	Last price	200-DMA	Diff* (%)
Sequent Scientific	76	111	-32
Bank of Maharashtra	19	27	-30
MCX	723	1,023	-29
Kwality	90	123	-27
Dena Bank	23	31	-27

GOING STRONG

Stocks above their 200-DMA

In ₹	Last price	200-DMA	Diff* (%)
HEG	2,901	1,155	151
Graphite India	713	390	83
Rain Industries	392	220	78
Jindal Steel	272	160	71
Radico Khaitan	336	198	70

Data as of Feb 9; DMA: day moving average
* difference from DMA; Source: NSE, BSE