

# Cover Story

## INTERVIEW

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#### Is it a good idea to buy 52-week high stocks?

Like all milestones, 52-week high is a key indicator of a stock's performance especially when the entire equity market industry thinks and tracks returns based on an annual basis. Reaching a 52-week high for a stock is a testament to the underlying strength of the stock as well as an indication of the things to come for the existing trend. Conversely, if a stock fails to breakthrough its 52-week high, a significant pull-back can be expected. The two most important things that this marker can highlight are: a) visibility and b) FOMO.

Not only do 52-week highs create headlines but they also catch the attention of momentum traders and day traders. Many investment websites and trading systems have filters which highlight this data, thereby adding more social media attention. Those traders or investors who have missed participating in a particular stock may have the fear of losing out on an opportunity which in turn fuels more participation in the same.

#### How best to use the 52-week high information in trading and investing decisions?

Tracking relative performance can throw some interesting insights when comparing multiple stocks from the same sector or comparing a certain stock with the broader market index like Nifty or Sensex. For example, if stock A hits the 52-week high before stock B of the same sector doing identical businesses, one can look to add or trim positions based on this data. One also needs to check the recent technical setup of the stock if the targets of the previous price pattern have been achieved or not before making any investment decision. Generally, if a stock hits 52-week

highs on expanding volumes, it can be a reliable indicator for momentum traders trying to make a quick entry and exit. Alternatively, if a stock hits 52-week highs on declining volumes it would mean that majority of the participants are not interested at higher levels and it may be a profit booking opportunity. One also needs to check the overall sectoral strength as one or two stocks going at 52-weeks high in an otherwise laggard sector may indicate caution. The ideal scenario to trade long on 52-week high stocks is good technical setup i.e. risk reward, expanding volumes and strong sectoral strength.

#### What is your outlook on markets? Where do you see outperformance coming from?

Nifty is expected to remain range-bound in December with resistances placed at 17,800 and 18,000 while downside supports are placed at 17,200 and 16,900. Structurally, this is still a bull market which saw a 10 per cent correction from the top in October and November. The correction at around 16,800 turned around to be a brilliant buying opportunity in December so far. Any bouts of volatility can be further used as adding opportunities.

A slightly event-based outlook means we could be headed for a pre-budget rally in January 2022 followed by a brief pause and then we can see Nifty testing 19,000-19,500 somewhere in February or March 2022. Sector-wise, we are bullish on banks, especially the heavyweights in Bank Nifty. PSEs could be in favour of bulls especially given the relative setup of Nifty PSE index with Nifty. Sugar is another sector where we could witness relative outperformance in the medium term.

