

*Buying on RSI  
divergences in Nifty  
and Selling on  
Divergence of BSE  
Smallcap/Nifty*

**Nooresh Merani**

**[www.nooreshtech.co.in](http://www.nooreshtech.co.in)**

# RSI Divergence on Nifty

## The Matrix

Nifty 50 RSI	Trader	Investor ( SIP on RSI )
RSI @ 30	Buy only if Higher Top Higher Bottom, Major Support with Strict Stoploss below supports	30-50% existing cash to be deployed.
2nd Bottom Positive Divergence.	Buy for a bounce back. 38-50% of the move as target. Stops at 2-3% below entry or Candlestick/Channel stops.	30-50% existing cash to be deployed.
3rd Bottom Positive Divergence	Beg Borrow Steal and Trade. Ready to digest 3-4% Nifty dip.	Beg Borrow Steal and Invest.

Will focus only on the Triple Divergence

- RSI Triple Divergence to be seen mainly post a good 10% correction from the peaks. Larger the correction better.
- The 3<sup>rd</sup> bottom does not stay for a long time and hardly gives you a chance to jump in.
- Acting either on 2<sup>nd</sup> bottom or post the confirmation of Triple Divergence is an equally good strategy.
- Triple Divergence is a great time to Invest as well as Trade.
- Ideally it should work similarly on finding Tops but it does not as Topping out is a slow process. Panics happen faster.
- Triple Divergence is seen once in a few years.
- The tough part is not to spot but to be able to act contrarian and digest the short term pain after entry.
- The only time it did not work was in October 2008.

# Triple Divergence - 2011 Nifty





# Triple Divergence - 2013 Nifty



# Triple Divergence 2013 Zoomed Version



# Triple Divergence - 2016 Nifty





# Triple Divergence - 2018 Nifty





Selling on  
Divergence of BSE  
Smallcap / Nifty

# Why BSE Smallcap Index ?

- BSE Indices are not tracked as much and we find BSE Smallcap as the best indicator for looking at froth/momentum in the markets.
- The reason to look at it is because it has the lowest of the smallcaps and is not limited by no of stocks like Nifty Small 100. As of now the index has 861 Stocks !!
- **The S&P BSE SmallCap is designed to represent the bottom 15% of the total market cap of the S&P BSE AllCap. The index is designed to represent the small-cap segment of India's stock market.**

# *Momentum Divergence of BSE smallcap with Nifty/Sensex*

When Nifty makes lower tops or is struggling to make strong moves and BSE Smallcap Indices continue to make higher highs or much stronger moves.

After this we generally see a good correction of 10-25% on smallcaps and 5-15% on the benchmark. The tough part is this divergence can stick for a couple of months also.

So the strategy is to ride with strict stoplosses but start avoiding leverage.

Not the best time to put fresh money and if you are a conservative trader/investor keep increasing cash and go to high cash.

After this formation one can keep increasing cash on the way down too



# Nifty/Smallcap – Crazy Momentum

BSE SMALL-CAP INDEX (18,719.19, 18,893.34, 18,717.29, 18,881.04, +206.510)

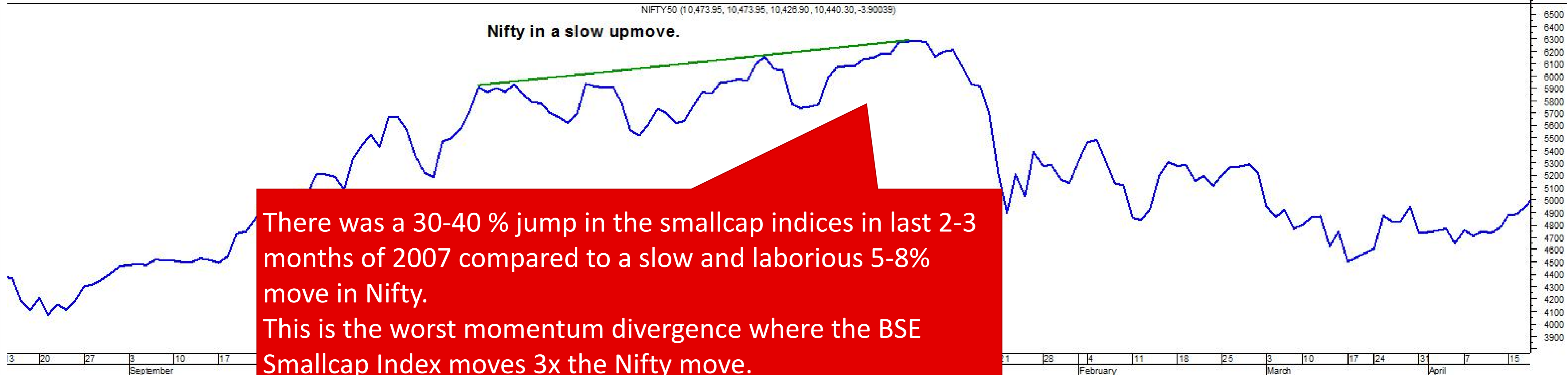
Bse Smallcap up 30% in last 2-3 months of 2008

Huge Divergence and speed



NIFTY50 (10,473.95, 10,473.95, 10,428.90, 10,440.30, -3.90039)

Nifty in a slow upmove.



There was a 30-40 % jump in the smallcap indices in last 2-3 months of 2007 compared to a slow and laborious 5-8% move in Nifty.

This is the worst momentum divergence where the BSE Smallcap Index moves 3x the Nifty move.

We all know what happened post January 2008.

# Nifty/Smallcap 2010. Smallcaps rally harder than Nifty/Sensex

BSE SMALL-CAP INDEX (18,719.19, 18,893.34, 18,717.29, 18,881.04, +206.510)

BSE Smallcap a much stronger move with new highs



NIFTY50 (10,473.95, 10,473.95, 10,426.90, 10,440.30, -3.90039)

Nifty new highs but not as strong a move



Nifty/Sensex new highs though marginally higher but the Smallcap Index did a much stronger move. This was not as strong a divergence like 2007 but being cautious and acting after breakdown would have helped.

# Nifty/Smallcap Momentum & Panic Divergence in 2015-2016

BSE Smallcap hits a new 52 week high

BSE SMALL-CAP INDEX (18,719.19, 18,893.34, 18,717.29, 18,881.04, +206.510)  
New 52 week high again

3 higher tops and back to previous highs

Good Corrections of 10-25% after the divergence !!

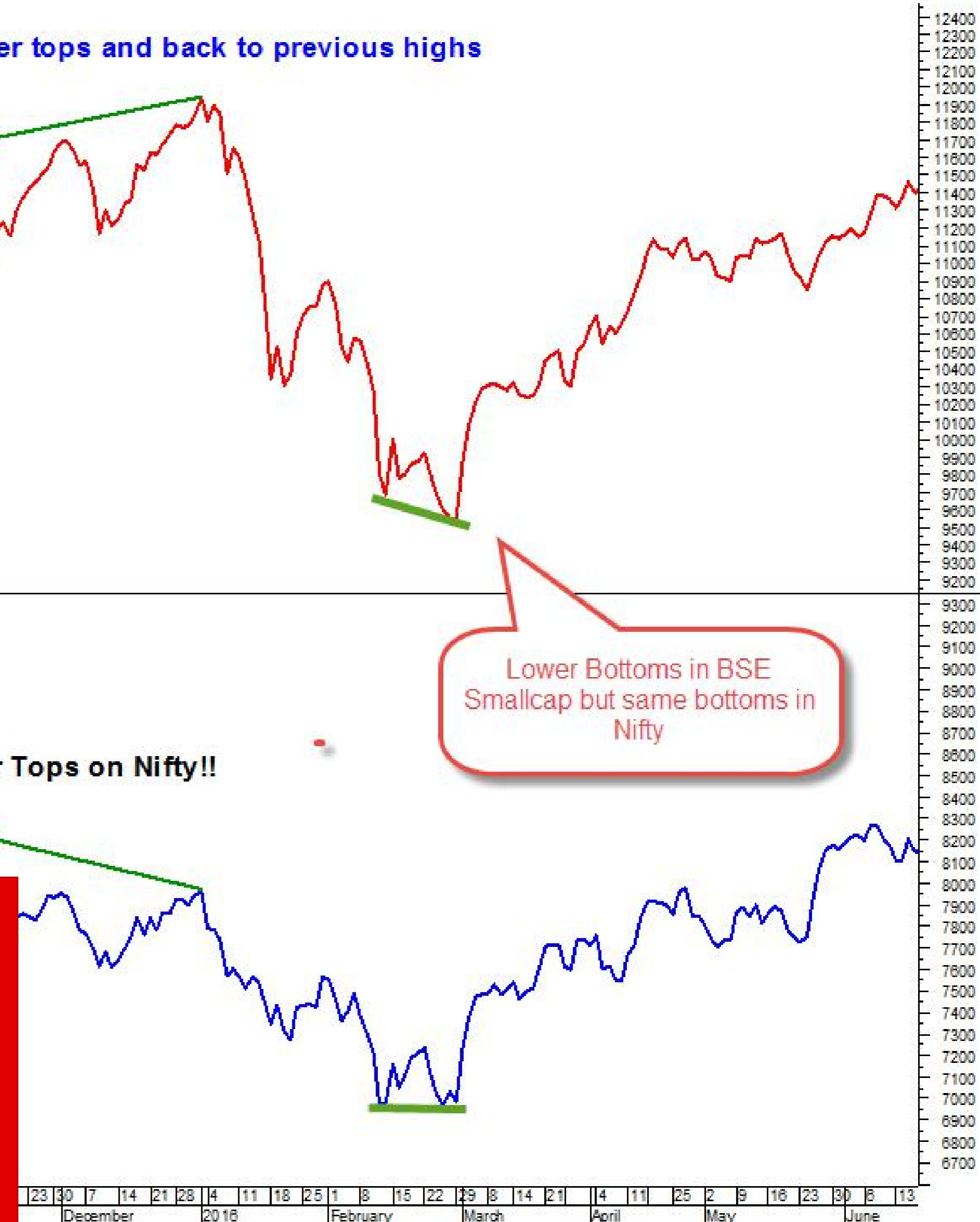
Lower Tops on Nifty!!

Lower Tops on Nifty!!

Lower Tops on Nifty!!

Lower Bottoms in BSE Smallcap but same bottoms in Nifty

Quite a lot of divergences in 2015 in the period when Nifty topped out at 9100 but BSE Smallcap Indices hit new 52 week highs 2-3 times. The first two divergences in the year were followed by a good 10-20% correction in smallcaps. The last one in end of 2015 was the classical one which lasted 2 months and did 2-3 new highs and back close to 52 week highs whereas the Nifty kept making lower tops.



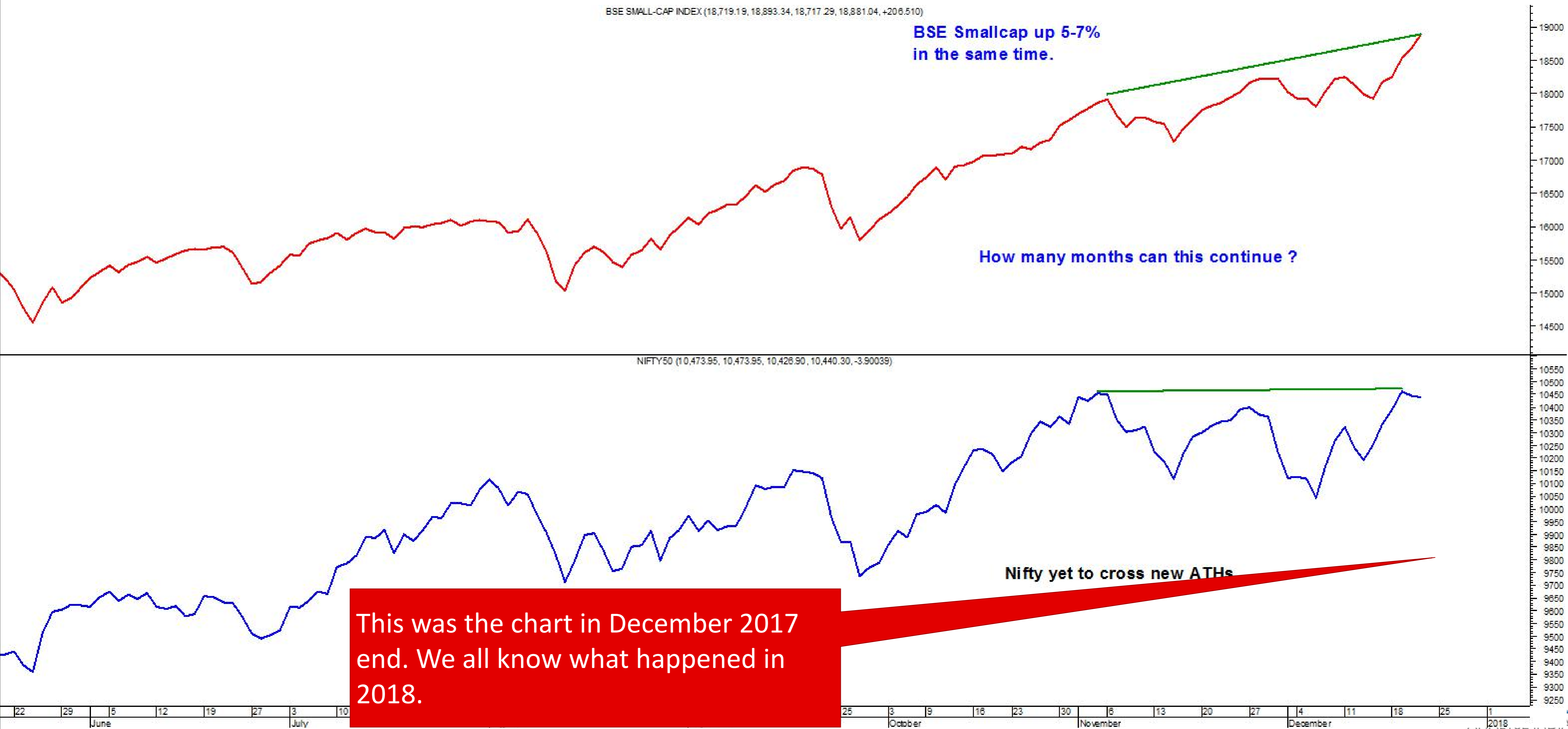


# Nifty/Smallcap 2016 pre - Demonetization and Trump.



This was again a classical one with 2 months of newer highs on BSE Smallcap Index but Nifty kept making lower tops.  
The Demonetization event helped the correction which again 10-20% in Smallcaps.

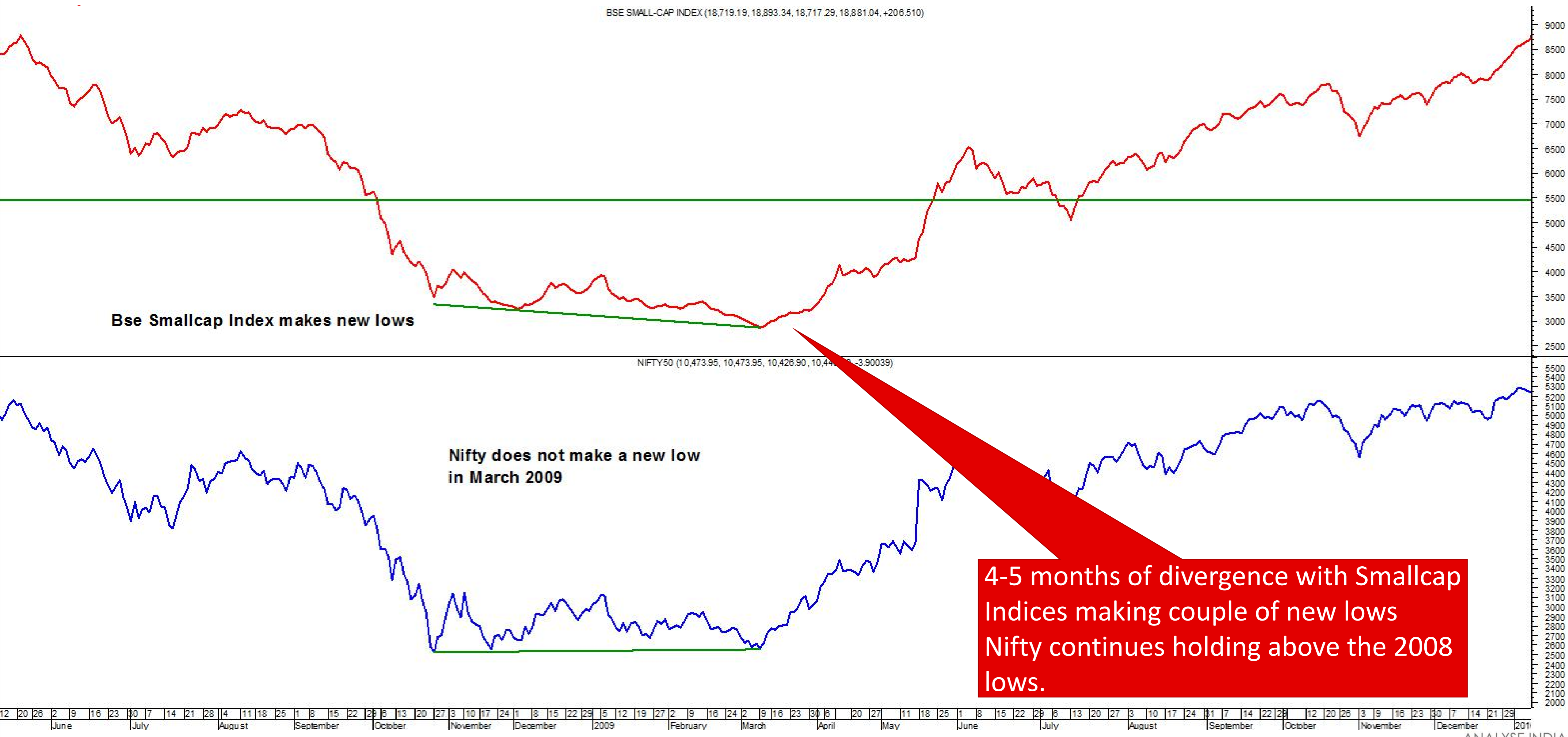
# Nifty/Smallcap 2017 end – How long can it continue ?



Buying on Panic  
Divergence – BSE  
Smallcap/Nifty

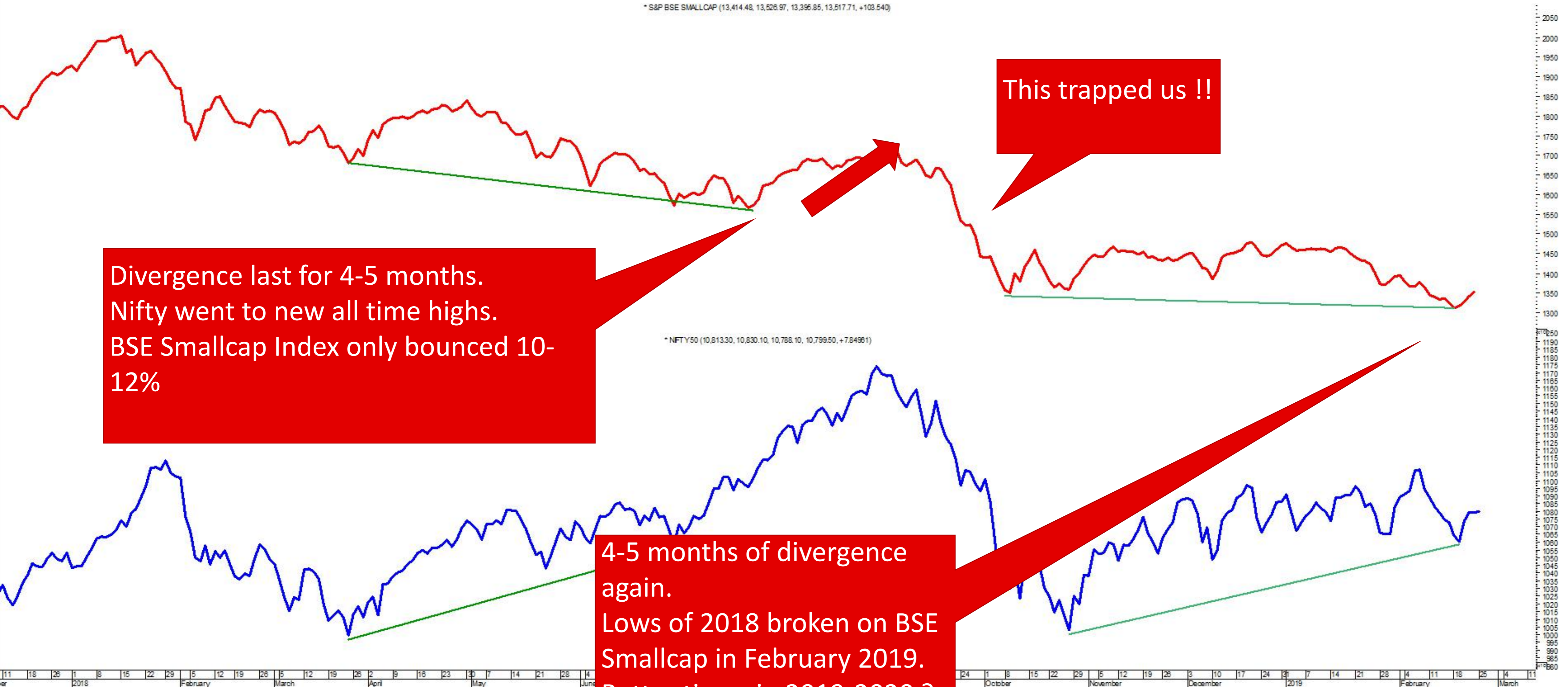


# Nifty/Smallcap – Panic Divergence in 2008. Smallcaps make new lows Nifty/Sensex does



*Panic Divergence*  
*Some times it*  
*doesn't work !*

# Smallcap Divergence Bounce and Flop 2018-2019



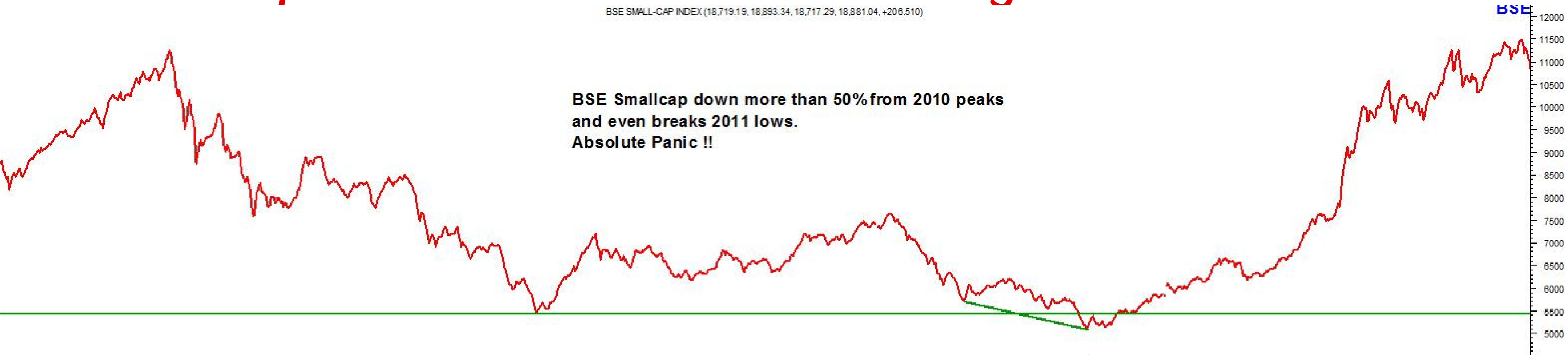


*Panic Divergence*  
*When it Works !!*  
*déjà vu 2013*



# Nifty/Smallcap Panic Divergence 2013. Smallcaps break 2011 lows but Nifty holds

BSE SMALL-CAP INDEX (18,719.19, 18,893.34, 18,717.29, 18,881.04, +206.510)



NIIFTY50 (10,473.95, 10,473.95, 10,426.90, 10,440.30, -3.90039)



BSE Smallcap Index was down more than 50% from 2010 peaks.  
BSE Smallcap Index did a stronger downmove and also broke 2011 bottoms where as the Nifty was 10-15% higher than those lows.  
This signalled extreme panic in the markets and the reversal since then has been amazing. Almost 4x move in Smallcap Index from 2013-2018 !!

- What is the Best Case !!
- Buying when Nifty Triple Divergence co-incides with BSE Smallcap and Nifty Panic Divergence.
- Selling on BSE Smallcap and Nifty – Momentum Divergence.
- One such round with full allocation is all you need.
- For example buying in August 2013 at 5100-5300 Nifty and selling in Mid to end of 2015 at 8500 or a BSE Smallcap Index at 5200-5500 to 11500-12000 in 2 years would imply a crazy return even if it was a random portfolio.
- Similarly buying in February 2016 and selling in end of 2016. Would be a move from 7000 to 8500-8800 and BSE Smallcap from 9500 to 13000-13500.
- Focus on getting one full cycle right and it can do wonders to your investment/trading returns.
  
- Today at 13500-12000 BSE Smallcap Index is the Risk-Reward placed similarly ?

# THANK YOU

**Nooresh Merani**

[www.nooreshtech.co.in](http://www.nooreshtech.co.in)

[www.analyseindia.com](http://www.analyseindia.com)

**Twitter = @nooeshtech**

**9819225396**

[nooeshtech@analyseindia.com](mailto:nooeshtech@analyseindia.com)