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“Quantitative approach for asymmetric results”



Time to downshift exposure in equities? Who is lying? SP500 or Copper?

- Overall picture:** equities reached quite a remarkable level, however soon a retracement is needed. Indeed we are entering in the weakest period of the year and looking back at the last few years, if someone would have followed the old adagio *“sell in May and go away”* would have been incredibly right and safe. Is this 2011 back again with Spain? Between now and May I am expecting equities to bounce up before starting something that at the beginning it will look like a retracement.
- US Equities:** very strong upward trend, however it seems that on the weekly chart a top has formed (1419 Sp500 future points). Confirmation on trend inversion only with the breaking of 1380 SP500 future points.
- VIX:** current level of volatility is compressed below historical level of between 16-18.
- EUR/USD:** coherent with the idea of an immediate bounce up of equities, EURUSD could arrive at 1.34 or bit higher, before starting the descent to 1.20 usd circa.
- European equities:** indexes here weaker than the US, particularly Eurostoxx, FTSE Mib and Ibex: the latter now also below 8,000 index points (with a bearish Head and Shoulder in place, neckline 7,800 index points, first target 6,300 points ultimate target can be as low as 2,800 points). Bund is trading sideways.. is it may be ready to take off?
- Japan:** chart looks terrible, only if you are long.
- Gold and Silver:** as investors switched to on the *“risk button”* they are moving their holdings from safer investments to riskier and therefore selling gold and silver to add their equity exposure. However thanks to them, they are only providing better entry price for the two metals for increasing long exposures.
- Commodities (DJ UBS Index):** bearish scenario, especially looking at Copper with a bearish head and shoulder in the making. Is this metal telling us something about the economy? Maybe also about China? Platinum is also mimicking Copper.
- CFTC Report:** little bit of data mining, especially concerning the result of the combination of the futures contract of the E-Mini Sp500 plus the Globex Sp500.

Each topic has been studied as a stand-alone analysis. No conclusions have been drawn on one instrument, as a consequence of an analysis of another one. The idea of a Big Picture report is to see whether putting together all these stand-alone analysis, an overall trend is forming or not.

SP500 future weekly chart



Since the low in October the future is inside a wedge, that typically in Elliott wave theory not only indicates a termination of the trend, but in particular can also signal a dramatic termination of trend; similar to compressing a spring that sooner or later it will bounce back violently. On the blue lines some important static levels, such as: 1,373 ó 1,280 ó 1,230 ó 1,117. Diminishing volume is also another signal that is reinforcing the idea that we are now experiencing a distribution at these levels, and in these weeks. Trend inversion may be confirmed with the breaking of 1,380 future points. Breaking the 1,429 top will call for the achieving the next level, 1,500 future points.

VIX Index weekly chart



VIX is still trading low with no sign of change in the trend direction. However at a closer look, it resembles quite remarkably the inverse of the SP500 future as the VIX has been forming a wedge since the beginning of this latest bullish leg for equities (October 2011). Therefore a confirmation of the change of trend in the VIX will be present only at the violation of that wedge. Static levels and possible target of the possible increase of VIX are 27 points and then 37.

EURUSD weekly chart



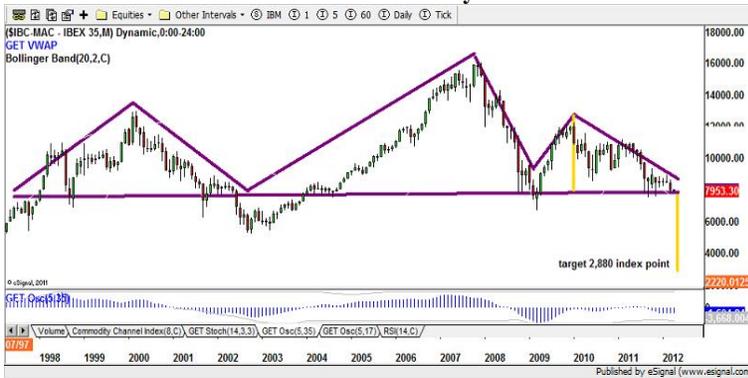
The EURUSD in the last few years has been achieving lower highs and in April 2010 it also broke the previous low. Right now the exchange is trading lower and it seems that the most probable scenario is arriving at 1.20. Alternative scenario will be considered only when the downward trendline will be once again violated and the exchange rate will overtake last year high of 1.50.

Eurostoxx 50 future weekly chart



Eurostoxx is one of the weakest index in Europe unfortunately with good company, namely IBEX and FTSE MIB, On this weekly chart it is clear to see the previous wave 3 and the following abc pattern, with wave c forming a wedge. Last week the lower part of the wedge has been violated signaling weaker momentum and also the beginning of wave 5. Target of wave 5 is around 1,770 future points. Short can be opened, with a stop loss above the max weekly of March 12 (2,601 future points).

Ibex 35 Index monthly chart



The chart here is the Spanish index IBEX 35 on a monthly time frame. I had to use this higher time frame to show you the big bearish Head and Shoulder has formed, it is a fact this one. Right now the index is flirting with the neckline which is at 7,800 points. Projecting the full length of the head, we go into negative territory, so I am just projecting the length of the right shoulder targeting 2,800 index point. It looks like possibly, we are approaching another very intense summer. Before opening short I will wait a retest of the neckline (bounce up), once this will be violated.

Bund future weekly chart



The Bund future after the run up from April to October 2011 is quietly trading sideways, evidence of that is the channel that in fact is easy to spot. This Treasury, together with Gold, can be an indicator of the pressure that is present in the equity markets. This sideways movement can be labeled as a continuation channel of the previous upward movement. Change in the direction of the trend will be taken into account only with the breaking of the support of the channel. Target of the violation of the channel (both directions) can be found in the chart.

Gold future weekly chart



Nothing much to report on Gold, trading lower but still above the 1,630 usd and the more important 15,23 usd. Doubled the position at 1,630 usd and now waiting for more action. It is also possible to see on a weekly chart (better on the daily one) a bullish head and shoulder. Similar structure can be also seen on the Silver, which is an identical trade to the one with Gold. Some of you may remember I drew this chart on October 6th 2011.

Dow Jones UBS Commodity index weekly chart



This overall index for Commodities is trending upward since the low on March 2009. However is dangerously trading next to the support which is starting from that very low. An upward trend can be seen only when the previous high in 2008 will be violated and the whole movement that started from the low is only at this stage a bounce. Breaking this trendline may call for visiting the 120 points support of May 2010 and in case that support may be violated, the index may see again the 2009 low of 100. Breaking the February high at 149 will be definitely a bullish signal setting the next target at the next static level of 165.

Copper future weekly chart



I drew this chart first in February 2012 and since then a lot happened in the market, but nothing changed at Copper. So far it didn't break the recent high and it is just trading sideways. I think that with this report the reader is now well aware of what a bearish Head and Shoulder is, and can easily recognize it in this chart.

Nikkei 225 index weekly chart



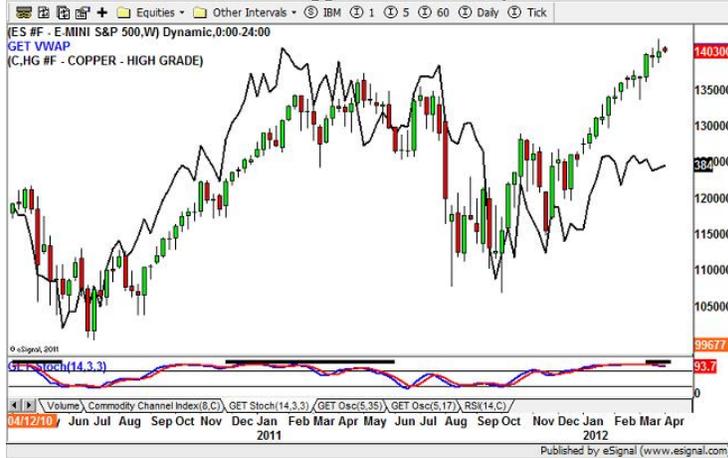
The Nikkei has been inserted well in a channel since the high of 2010 and since then it respected remarkably well the channel.

The safest trade would be then to short the Nikkei at these levels with stop above the upper channel line, and go long on the lower one.

As the index didn't break yet the channel patience may be the best strategy now, and in case of continuing strength I have already set target for the long position, which is the orange line. 12,600 points is also the static support of the 2008-2009, which once violated it produced the free fall to 6,830 points in October 2009.

Short positions are possible below 9,805 points (low of March 12 weekly) with target the low end of the channel first, then the channel width projection, at 5,600 points.

SP500 and Copper futures weekly chart

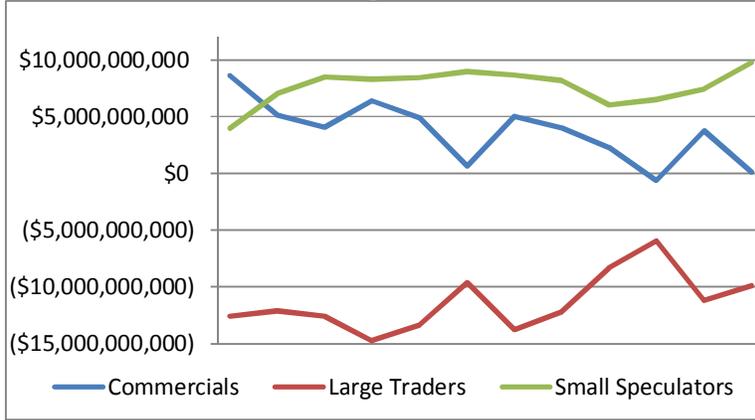


This chart, first sent to you in February 2012, to me shows how most probably the current highs we are experiencing in the equities may not be so solid.

Typically in a strong economic cycle, Copper tends to outperform equities but since the beginning of this year, notwithstanding the amazing performance of equities, Copper is lacking behind quite considerably, with no sign of wanting to play catch up.

Looking back, when this situation happened in the past, it was the SP500 that retraced.

CFTC Net Position on Sp500 futures since Dec. 27th

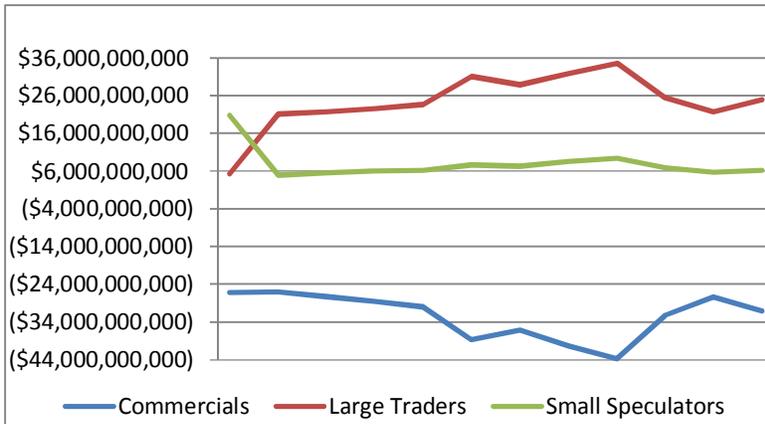


In this chart my intention is to look for the entire net position concerning the current contract outstanding for the SP500 future. In fact looking only to the E-Mini is only half of the picture and may lead to wrong assumptions.

On the contrary, this chart shows the total position that each player in the market has combining the E-Mini and the Globex, in dollar terms.

This is a lagging indicator, which I look to spot any dramatic shift in total position owned, especially by the Large Traders.

CFTC Position on Gold Comex since Dec. 27th



This is the Gold CFTC report and shows that, despite the price of Gold has been going sideways for a while, Large Traders are recently increasing their position.



Mr. Maggioni has been working in the financial markets for the last 11 years covering different roles and working in tier 1 consulting companies and banks worldwide.

In recent years his studies have been focused on the psycho-emotional aspects of trading and how those aspects have an impact on traders' behavior.

Before starting this venture, he was head of a hedge fund desk at HSBC Private Bank in Monaco and before that he was employed at Credit Suisse Asset Management (CSAM) in Zurich covering the in-house single manager hedge funds.

Most of his experience in hedge funds was gained while working in a Swiss family office where he was in charge of the research and analysis as well as due diligence for US and European hedge funds. He also performed quantitative analysis and portfolio construction for several funds advised by the family office.

Prior to that he worked as an external consultant for KPMG Financial Services in the Milan office. In 2002 he has been hired by Ernst & Young LLP, San Francisco as auditor for hedge funds, auditing large single funds and fund of funds. In 2000 he joined Ernst & Young in Milan as an auditor for mid-sized companies.

Mr. Maggioni holds an MBA from IUM and a Portfolio Management degree from the University of Chicago GSB.

Useful Links:

European Central Bank: www.ecb.int
Bank for International Settlements: www.bis.org
International Monetary Fund: www.imf.org
Federal Reserve: www.federalreserve.gov
US CFTC www.cftc.gov

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