The Big Picture Report

March 12th, 2014

francescomaggioni.com
IT +39 393 70 40 234
UK +44 757 681 62 43

"Quantitative approach for asymmetric results"

Are we there yet? No - Are we there yet? No - Are we there yet? No – Are we there yet? No - Are we there yet? No - Are we there yet? No -

Figure 1: monthly chart of the SP500 future

Lately there is this discussion among market partecipants and analysts about whether are we finally arrived at the top of the markets and a retracement (at least) will soon materialize. So like babies when they get bored travelling in a car, constantly are asking if "are we there yet".

The answer typically that fathers (and myself in this case) give is: "we are close, but not there yet" so bored investors can as of the moment in which this report is prepared, sit back and relax and enjoy the landscape.

With this report my intention is to give some information on how I see the current the state of markets and try to give some possible time and price targets.

The above on Figure 1 is the monthly chart of the SP500 future index which still do not show any inversion candle. On the contrary, the last three months look like an accumulation process (more so than a distribution) before a new leg up will be made. Of course nobody knows where the index will break this sideways movement, so in case it will be broken on the downside, then it will be quite a confirmation that it was a distribution process rather than an accumulation process.

What however can be seen from the chart is that the fast CCI is already divergent with the price action, signalling a possible fatigue for this index.

Below a number of charts (presented randomly) that I am watching and that may give me and you additional information.

SP500 future daily chart

Going into shorter time frame than the monthly one and precisely on the daily the index draw a rare bearish figure called the M that proved to be correct. That M figure also shows that the index is inserted in a channel that now has been broken to the upside.
Targets are the quartiles of the distance between the upper line of the channel 1947 and the lower one 1865 future points, and that you find already written in the chart.

You can also note that the Oscillator is divergent signaling that the current upward trend has less power than the previous one, usually labelling the latter movement as an ending wave 5.

Short term the index should jump to one of those ending targets before inverting (at least short term).

Historical level of Margin Debt in US Markets

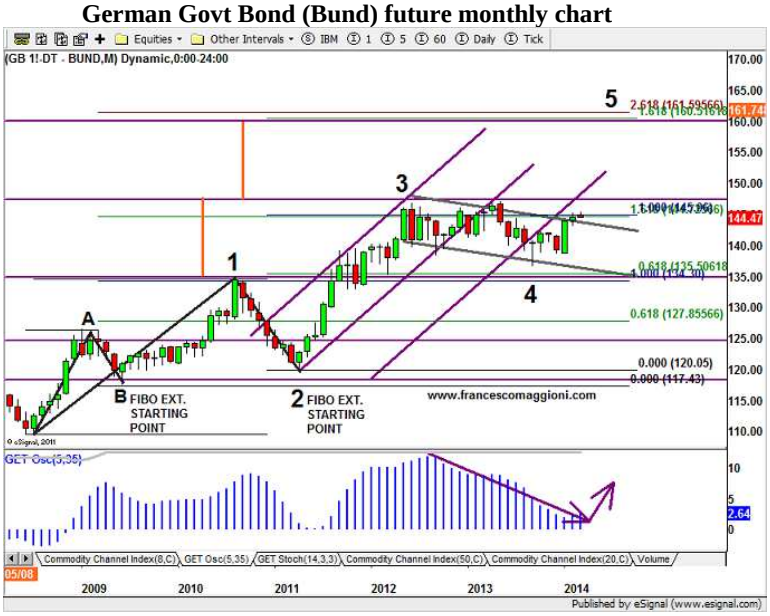
I am sure many of you already know that the current level of margin debt reached in the US markets broke any previous record high.
That gives basically three very important information to anyone who cares about his or her investments:

1. Markets are extremely stretched to put it mildly;

2. What have been driving markets upward in the last 20 years has nothing to do with improvements in macro data or technology, but it has to do with one and only thing, called LIQUIDITY.

3. Liquidity isn't forever.

German Govt Bond (Bund) future monthly chart



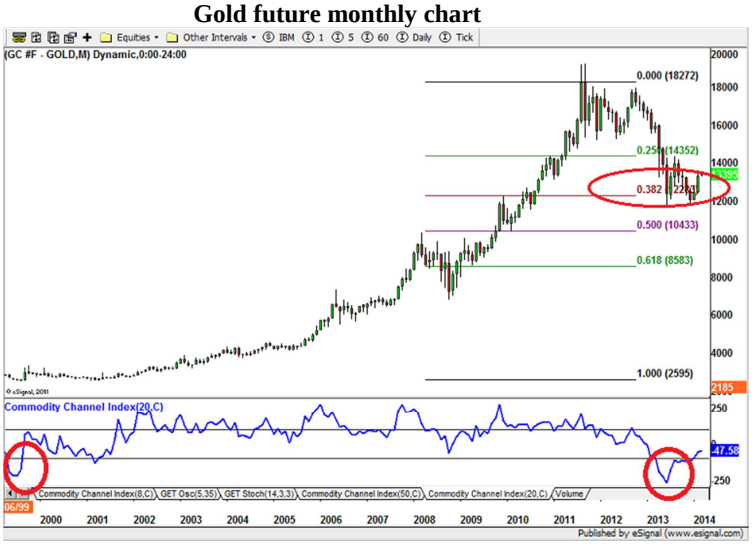
How bad is the situation in equities? One answer can be derived watching the safe assets namely the US T-Bond and/or the Bund.

Despite the media are trumpeting that macro data are showing most of the time (not always) that at least in US (but also Germany) the recovery is accelerating, safe assets don't move downward but on the contrary are close to their all time high (low) price (yield).

On the Bund, as crazy as it sounds, I am expecting indeed a new upward movement to a price target of 160 as an ending wave 5.

A bearish trend for the Bund will be confirmed only with the violation of September low at 136.60 future points.

Gold future monthly chart

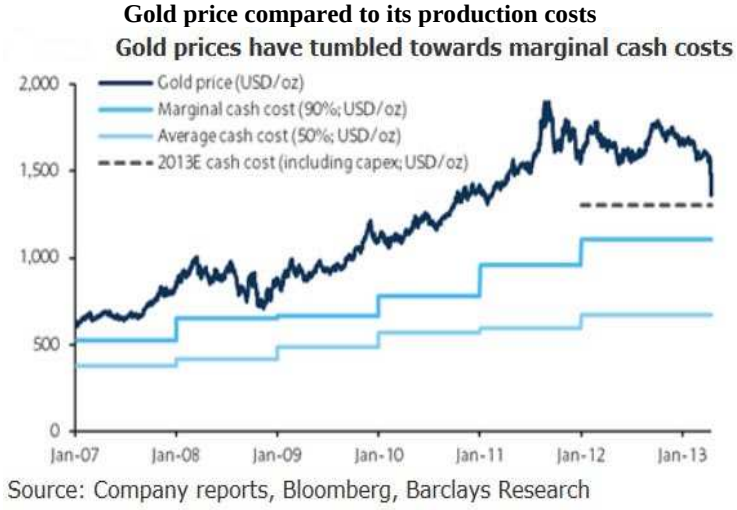


Another safe asset is gold that turned sour for many investors.
Many of you know what I think about gold, and you can find my complete report at the link at the end of this report.

The CCI 20 periods has been only twice in the last 15 years in a strong oversold territory. The second time happened last year when gold made a not so deep retracement (38.2% sharp) looking at its overall trend.

If it is even conceivable to think about the Bund at 160 future points, it should sound reasonable to see Gold at least at a double top.

Gold price compared to its production costs



A second chart is needed to fully understand the logic behind gold price movements.

In fact the current marginal cost of production (90% percentile) in 2013 was estimated between 1,250$ and 1,300$ including capex, as shown in the chart.

It does not necessarily mean that gold price will not go below that threshold, but it is safe to assume that lower the price of gold will be, the lesser quantity will be available, as miners will not be incentivized to work, driving the price of gold back up that level.

Copper future monthly chart

If US positive macro data would really signal a true recovery, this should be also seen in the price of Copper. Not only, Copper is also seen as a proxy for how good or bad China is doing.

So where is Copper today?

It has been two years now that I have been saying that the equity market does not reflect the real economy, and today the situation is even more stretched.

Both China and US, at least in the economic activity point of view, are not doing as great as the equity market.

Copper violated the neckline of the bearish H&S and therefore more downside should be expected.

Commitment of Traders 5 year chart on SP500

Another very important sign of the recent weakness of the equity market is the recent change of net position for the Large Traders.

As you can see from the chart the LT became for the first time in two years net short, giving a bearish signal for the market.

One of the strongest signal that a bull market is close to an end is in fact witnessing the Large Traders to move from net long to net short position while the market is still going up.

The reason behind is that LT want to maximize their profits and so they are willing to unload their position and start building a short position with the market making marginal new highs. In this way they are sure to lock in the best price as soon as (they decide) the market will invert its course.

Right now LT closed their shorts and are marginal long, cancelling the bearish signal. Still it is important to watch their moves in the near future.

Conclusions:

SP500 possible movement in the next 14 months

Looking at all these charts, my personal conclusion is that we are approaching fast the end of this bull market created, once again, by her majesty Liquidity and not by anyone else.

As in previous liquidity driven bull markets, even this one will end and I suspect that similar to the say: "the taller the giant, the heavier the crash will be when it falls" what lies in front of us is nothing yet seen in current generations. I will be very happy to be proved wrong.

In the very short term I am expecting new marginal highs during the month of March, and then starting at the end of March or at the latest in April, a strong correction to materialize. Once the correction will be over, the US market will move slowly to a lower high by September and then, I expect everything to start.

Looking at all these charts, my personal conclusion is that we are approaching fast the end of this bull market created, once again, by her majesty Liquidity and not by anyone else. As in previous liquidity driven bull markets, even this one will end and I suspect that similar to the say: "the taller the giant, the heavier the crash will be when it falls" what lies in front of us is nothing yet seen in current generations. I will be very happy to be proved wrong.

On the SP500 a key level remains the 1,280 future points and therefore I would expect to see the index around this level in the first half of 2015.

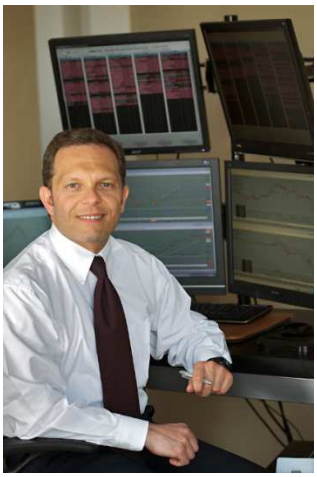
Once again, I have been wrong in the past, I could be wrong in the future. My job is to follow the market, but anticipate theoretically all its possible moves. And that also means the least probable ones.

At this link you will see my view on the US market since october 2012 where I already forecasted a masterplan and a plan B scenario (which became the actual plan):

http://www.francescomaggioni.com/pdf/2_PDF_201309%20DJIA%2050%20years%20lookback%20and%20forecast%20by%20FMaggioni.pdf

It is a good exercise for everyone, to be aware of the unknown unknowns, as most of you already learned through reading my reports.

Link to the Gold report:
http://www.francescomaggioni.com/pdf/4_PDF_20140121%20Flash%20Report%20Gold_JPM_EN%20by%20FM.pdf



Mr. Maggioni has been working in the financial markets for the last 15 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