Flash report SP500

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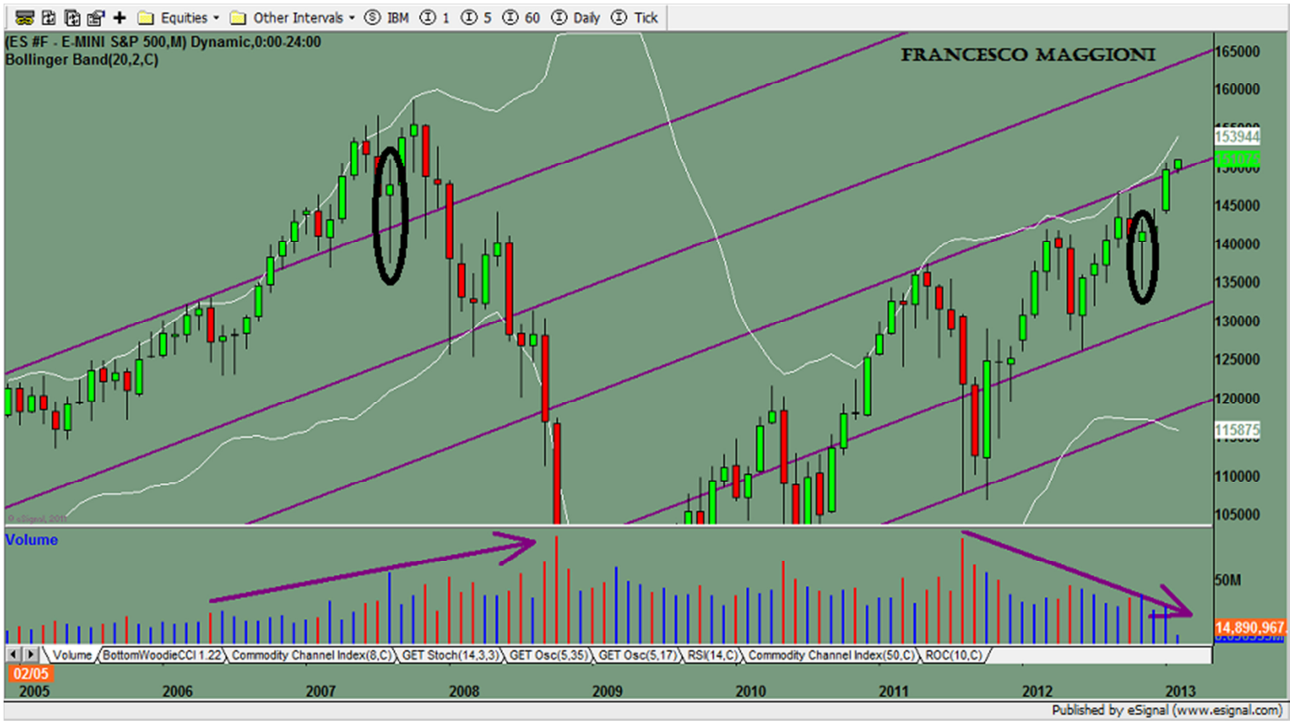
Francesco Maggioni
francesco.maggioni@gmail.com
IT +39 393 70 40 234
UK +44 757 681 62 43

"Quantitative approach for asymmetric results"



I just would like to share with you a brief analysis on the SP500, monthly chart. As the job of a technical analyst is to read the market and anticipate its most probable direction, it is also true that no alternatives must be left out.

Difficult right now therefore to be bearish, as evidence is telling us quite the opposite. However looking at a higher timeframe it may give us a hint of where we are right now in the cycle of the latest upward movement started in 2009. In addition, just playing the game of spotting the differences and similarities with past events, it may (or may not) comfort our current vision on the market.

Let's look at the main difference and the main similarity:

VOLUME:

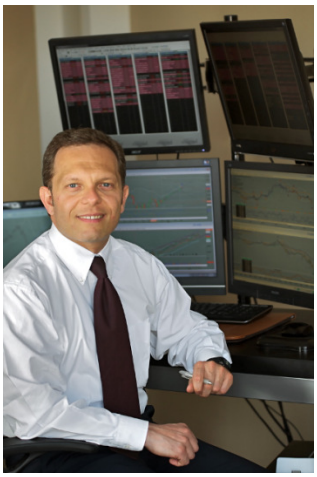
Clearly a major difference with the 2007, where volume was sustaining the upward trend, showing that quite everybody was invested in the equity market.
Not so much the situation in which we are right now, where volume has been decreasing drastically since 2011. It is true that in fact in these days we read articles mentioning the "great rotation" , from bonds to equity investments.
Such rotation is a possibility, although Bill Gross in a tweet a couple of days ago, told otherwise. Or at least it is not the rotation we would expect: in fact he noticed that at PIMCO the rotation was from money market funds to equity investments.
Very possible that such unexpected rotation will fuel additionally this last part of upward movement.
From a traditional technical analysis standpoint, a decreasing volume is associated with a corrective pattern, and not a primary one. Therefore on the other hand, the primary trend should be the (possible) upcoming downward trend.

***Conclusion**: evidence is telling us that the primary trend is not the current one, but in the near future, as months will pass by, we will see if volume from the unconventional rotation is happening and sustaining the market for further new further highs.*

CANDELSTICKS:

Here we have the exact opposite compared to the volume situation.
It is worth noting that in 2007 the month of August produced a "long legged doji" candlestick, which fueled the market for the subsequent two months run up resulting in achieving an all time high for the index. Quite a similarity for the November 2012 candlestick!
The reason why I say this is the opposite situation of the volume, is because such bullish candlestick might be therefore (on a pure "let's find the similarity with 2007" game) a signal of a major downward movement ahead of us, in the very near term. After the August 2007 candlestick, the market continued its trajectory for another two months before inverting.

***Conclusion:** as this time, the long legged doji happened last November, making this month (ideally) the month of the inversion of the market.*
It will be interesting to see how events will unfold, and from a technical analysis point of view, if a trend inversion might happen, we should also witness from then on a spike in volume.



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
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