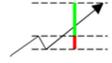


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“Quantitative approach for asymmetric results”



BTP: will it keep its head above the neck?

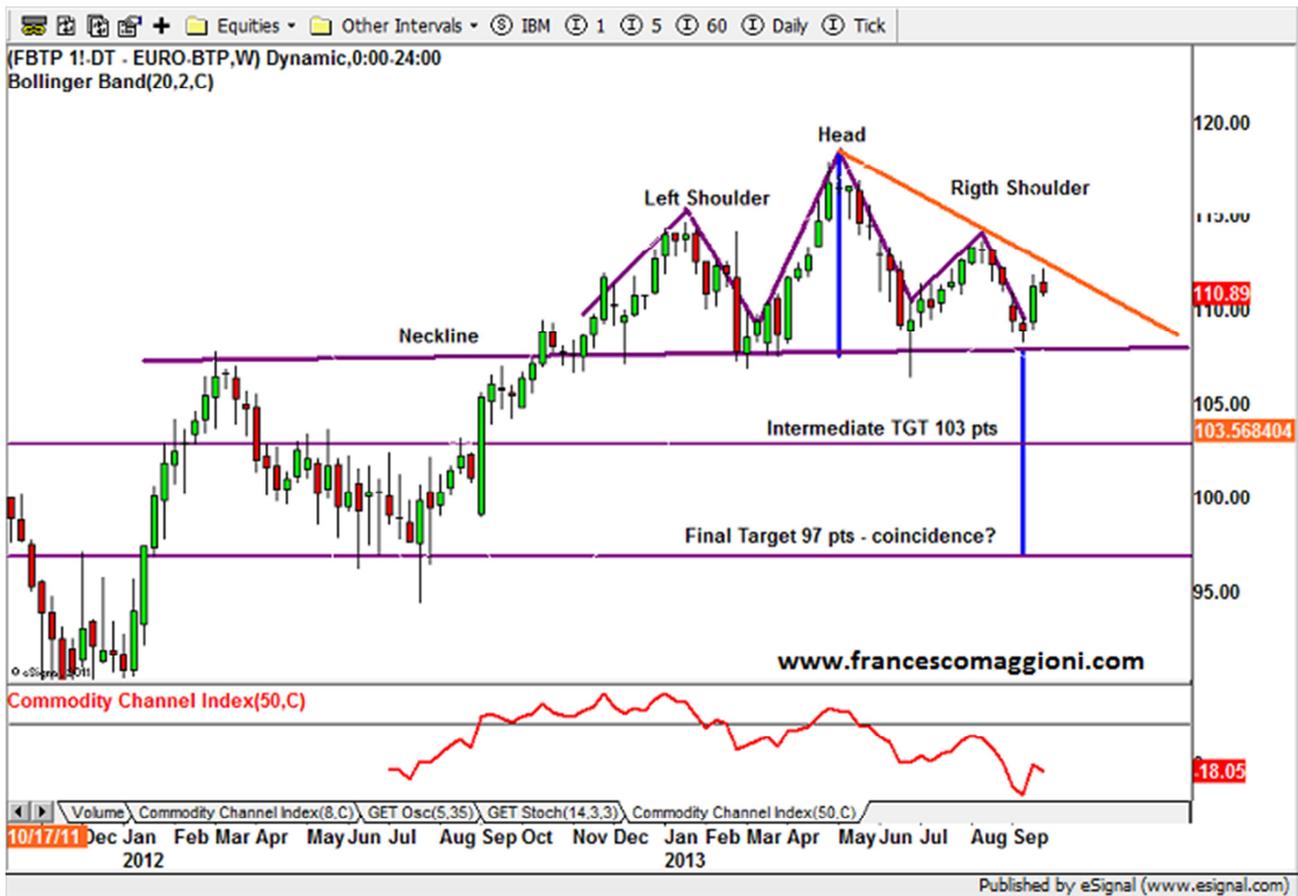


Figura 1: BTP grafico settimanale

The weekly chart of the Italian government bond “BTP” is showing a classic technical analysis figure, a bearish Head and Shoulders.

The reason why this figure is a bearish one it’s because it failed on the third round to achieve higher highs after those set in January and May 2013.

Basically buyers couldn’t outpace sellers in this latest run of the future, and to better visualize it, just imagine to have heavy clouds above the right shoulder which not only block the BTP to further gains but also bring it down towards lower prices.

As of now the bearish figure is not yet confirmed, as the needed confirmation will arrive only with the breaking of the neckline that hasn't happened yet.

If that will happen it will indeed be a major event, since that level (108 pts) has been a strong level since 2011.

Being first a strong support since March 2011, then once violated in June of the same year, the BTP went almost straight to the 88 low before resuming an uptrend that has been stopped at 108 level sharp in January 2012.

From then prices have been retraced back to 97 points and only in January 2013 (twelve months after) the Italian bond was able to finally break the 108 threshold.

So the 108 pts level is definitely a "Maginot line" which should not be crossed, and if crossed, it will bring potentially serious consequences.

How to use this chart even if the bearish figure has not been confirmed? Well, at this moment there is a less probabilistic but inexpensive possibility to enter short positions with a very small stop loss, which should be put above the recent high at 112.14 therefore less than two figures.

For those who prefer to wait the confirmation then and enter with a higher probability, it is imperative to wait the violation of the neckline at 108 points. However this entry normally, as it comes with a higher probability comes with a bigger stop loss, as in fact it should be put still above the high of the right shoulder, meaning more than 4 figures.

However a more efficient entry at that stage will be to look at shorter timeframes, such as 60 minutes ones, and put short positions with a stop loss on that chart instead of the weekly one.

At this time the current weekly candle is not completed yet, therefore we need to wait another six hours and see if this candle will be indeed an inversion one as it seems right now.

Targets for this possible trade are an intermediate one at 103 future points and a final target at 97 points which is projected the height of the head to the neckline, down from the violation of the neckline.



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
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