Flash Report P&G

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"Quantitative approach for asymmetric results"

Procter (but not) Gamble: if you bet on a downside

Figure 1: P&G monthly chart

The chart above is the montlhy one for Procter and Gamble: it is a recent news that the company wants to eliminate in various ways as many as hundreds brands. That is a news that should make investors think, and I immediately went to look at its monthly chart, to discover something that management (probably) knows (also in light of the news of such move), but not the average Joe.

Basically it is now clear that P&G top is already behind us and that no matter how hard it is now fighting to stay up there, the fate for the stock is mainly downward. This precise and timely chart is what I am expecting on major indexes, which may or may not happen.

The stock after achieving its recent all time high at 85.82 dollars in November 2013 retraced back to the static support to rebound until April 2014, when it actually achieved a lower high. That is the SIGNAL, in capitol letters.

It means that the lower high is a retracement of a bigger downward movement: such movement can be in three waves (ABC) or five ways (1,2,3,4,5). Either way the safest trade is in the downside, maybe taking a better approach going into the daily chart.

The real "gamble" here is to try to buy the stock hoping for new highs. I am not saying that it is not possible, only that has less probability of success, in particular with the current chart analysis.

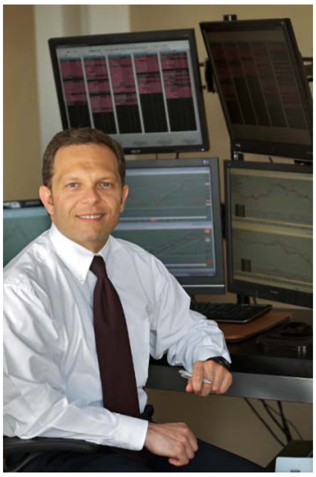
Another important reason that is suggesting that the major trend is downside is volume. As you can see from the chart volume has been quite divergent while the stock continued its move upward. Major trends are the ones where everybody (volume) wants to participate: in this case the higher the stock was going, the lesser crowd wanted to be involved in the stock, basically telling that very few (lucky) people believed in higher valutations.

Because of this increasing thin trading, I would expect at some point a strong move downward with explosion of volumes. The first target could be the intersection of static and dynaminc supports highlighted with a black circle in figure 1. **Such intersection is also a time and price target: 68 dollars by January 2015 at the latest.**

What if I am wrong?

The overall structure will be invalidated only at the crossing of the recent lower highs at 83 dollars, which sholud be also the firm stop loss on this monthly chart (smaller stop loss can be set looking at daily chart for instance), should anyone take my main view.
If 83 dollars will be violated, then the next target is the all time high at 85,82 dollars. If that also will be violated the next target will be an area around 90 dollars.

A quite interesting note is to see how the 2010 flash crash low on P&G coincides with the angle of the upper trendline and also that such low has been working as a dynamic support (see Figure 1) for the 2012 and 2014 retracements.



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.

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