

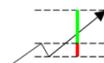
# Flash Report Swatch

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*“Quantitative approach for asymmetric results”*



## Swatch: a scary “rounding”



Figure 1: Swatch monthly chart

Starting from today I will also keep a closer eye to Swiss stocks, the reason will be explained at the beginning of 2015. Still Swiss stocks represents quite a substantial part in big portfolios, namely of pension funds and alike.

I selected Swatch because the monthly chart that you can see in Figure 1 is very intriguing, giving evidence that no matter which market or instrument you look at, basically everything has some sort of harmonic behaviour.

The chart is a monthly one: what immediately caught my attention was the price action from the IPO to the 2001 low. As I sensed, such distance, here highlighted with the purple segment called AB, works as starting point for the entire movement that the stock did in the subsequent 13 years, since this very moment.

In fact the two major highs of the stock, the July 2007 high and the November 2013 high are respectively the 161.8% and the 261.8% of the AB segment.

The 261.8% is typically the ending point of corrective movements, and indeed the 2013 high should be the top of wave C of an ABC movement that started from the 2001 low.

To give strength on this trend inversion scenario is also the fact that last August the stock violated the support in which it has been inserted since the 2009 low. It is also important to evaluate how such support has been violated. Sometime violation could result in bull or (as in this case could be) bear traps. However the September candle was a long red one meaning that sell action was powerful compared to the buying army.

If someone is still doubtful that we are witnessing a trend inversion on this stock, well, there is another signal bluntly there. It is called rounding top, shown by those two black semi circles on the price and below on the volume.

Rounding tops are indeed formations that may form at the end of an extended upward trend and indicates a reversal in the long-term price movement. Most literature of rounding tops will look at the price action only, but real rounding tops forms specular movements in price action as well as on the volume, as it is the case here on Swatch.

What can we do with all these pieces of information then?

Swatch is clearly inverting its bullish structure that started in its last part on the 2009 low but really started on the 2001 low. It actually violated its dynamic support and its descent stopped at the static support, that the previous high became when violated.

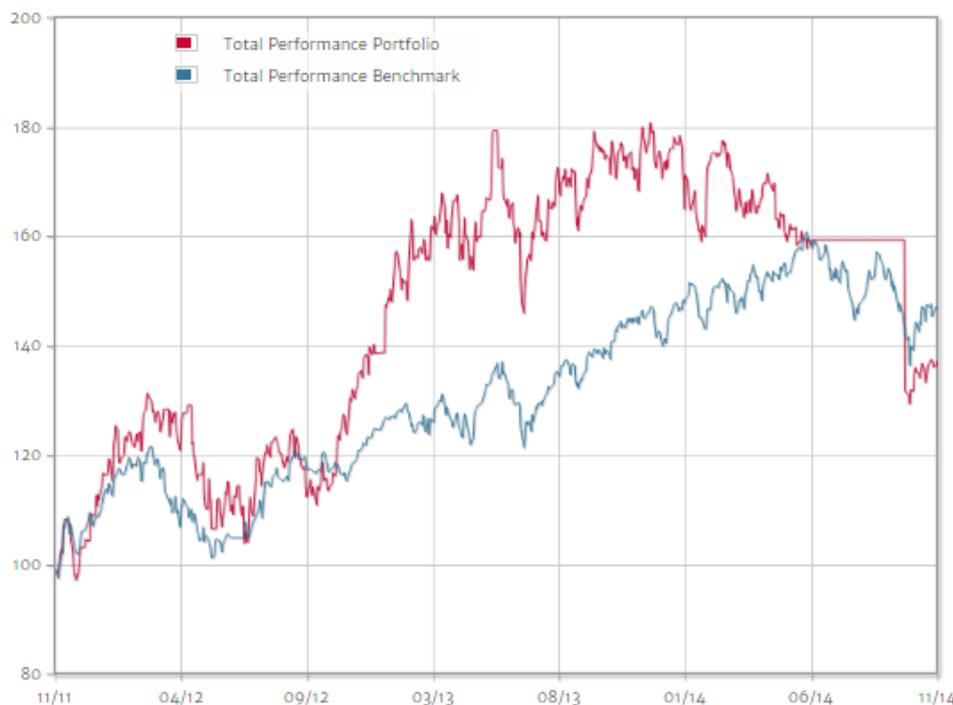
Trend is therefore short and any meaningful bounce should be considered good entry point for shorts. On the chart I would expect a meaningful bounce to arrive at the previous-support-now-resistance around 500 CHF before resuming its descent. If that will happen, don't expect the stock to resume its bearish trend until February-March of next year.

If the current low at 417 CHF should be violated earlier, without achieving the 500 CHF, that will be confirmation that bearish trend is back in force. In any event, sooner or later, when (and not if) such low will be violated the next target are:

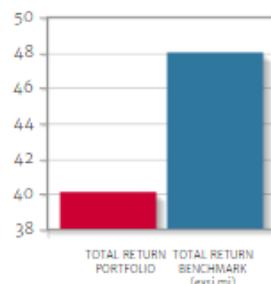
- 386 CHF as it is the 2007 high;
- 340 CHF;
- 290 CHF
- 250 CHF

What else can be derived from this chart and stock? Swatch is a luxury company and mostly concentrated to do well in China. It looks from this chart that QE effects have been already vanishing long before the October end of QEs but most importantly, that China is really decelerating fast, or faster than anticipated.

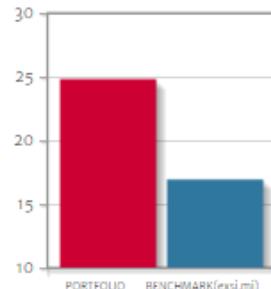
[At the following page you can find useful risk/return statistics for Swatch, taken directly from my new feature "portfolio backtesting" that you can find on my website.](#)



TOTAL RETURN PORTFOLIO **40.08%** TOTAL RETURN BENCHMARK **47.96%**



**VOLATILITY**



**OVERALL STATS**

	CAGR	SHARPE RATIO	CORRELATION TO BENCHMARK	MAX DRAWDOWN FROM START	VOLATILITY
Portfolio	2.45%	0.56%	0.37%	-2.82%	24.79%
Benchmark(exsi.mi)	2.66%	0.97%		-2.53%	16.92%

**ANNUAL PERFORMANCE**

	2011	2012	2013	2014	TOTAL RETURN
Portfolio	-20.71%	27.41%	32.88%	4.36%	40.08%
Benchmark(exsi.mi)	1.19%	16.61%	13.69%	7.22%	47.96%

**STATISTICS ON PORTFOLIO COMPONENTS**

WEIGHT	ANNUAL PERFORMANCE				VOLATILITY	TOTAL RETURN FOR SINGLE INSTRUMENT	RETURN CONTRIBUTION
	2011	2012	2013	2014			
100% UHR.VX	4.36%	32.88%	27.41%	-20.71%	24.81%	40.08%	40.08%

**CORRELATION MATRIX INSTRUMENT**

	UHR.VX
UHR.VX	-
exsi.mi(benchmark)	0.37



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:	<a href="http://www.ecb.int">www.ecb.int</a>
Bank for International Settlements:	<a href="http://www.bis.org">www.bis.org</a>
International Monetary Fund:	<a href="http://www.imf.org">www.imf.org</a>
Federal Reserve:	<a href="http://www.federalreserve.gov">www.federalreserve.gov</a>
US CFTC	<a href="http://www.cftc.gov">www.cftc.gov</a>

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