Flash Report FCA (eur)

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"Quantitative approach for asymmetric results"

FCA (eur): Ferrari in pole position for its most important Gran prix?

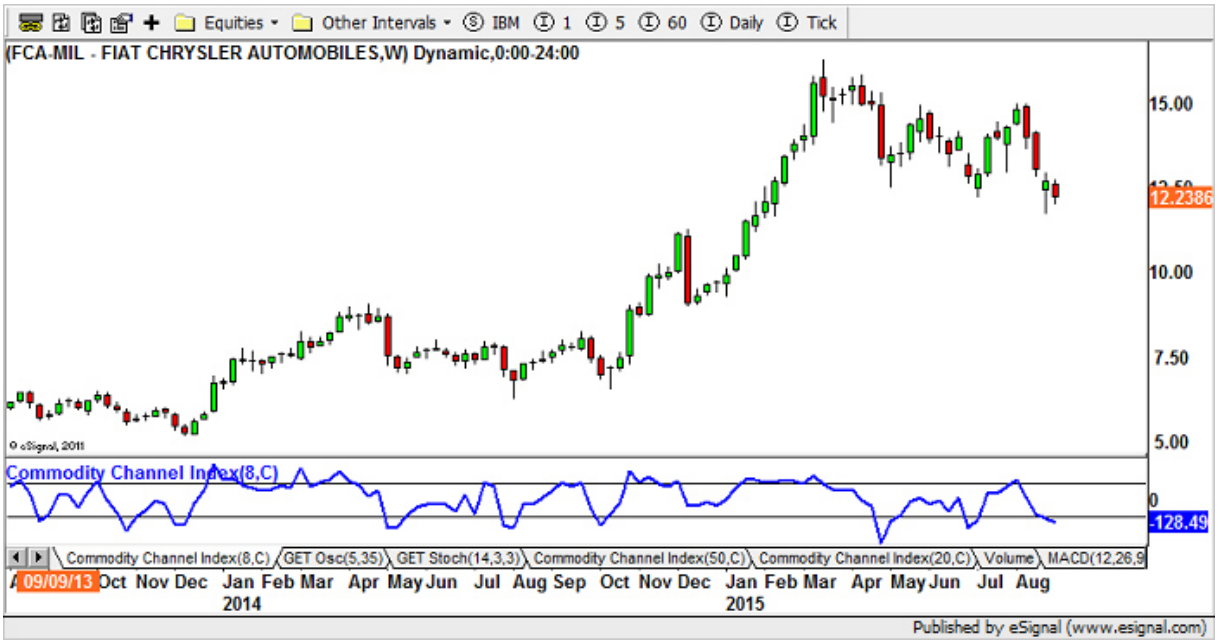

Figure 1: FCA in Euro, weekly chart

The above weekly chart is the FCA, Fiat Chrysler Automobilies NV, the stock listed in the Milan Stock Exchange, not the chart of the NYSE listing.

As you can see the chart dates back in mid 2014 and since then it can be noted how just until the end of 2014 the stock has been mainly in an accumulation mode, and only in 2015 the stock took off making some 100% in just few months.

Is it now over? It could very well be, but in my opinion the subsequent move after hitting the 16,29 euros mark is merely a correction within an intact bull trend.

First of all let's look at the two opposite trend: the bullish one of the first part of 2015, and the actual bearish one. It can be very well noted that the bullish one is much more harmonic and linear compared to the jagged and complicated in which the stock is now inserted. Therefore the bullish trend can be safely labelled as impulsive while the current one as a correction.

If the current trend is a correction, it means it is a correction within an impulsive (major) trend, that in this case means: correction in the downtrend, impulsive (major) in the uptrend.

My opinion is that FCA is inserted in a correction which should end soon and resume its upward major trend to likely new all time highs, around 17,50 before year end (my plan A).

The year end target coincides also with the IPO of Ferrari which should take place in the coming Fall.

Another way to effectively check if this is a correction or not, is simply check the "price and time" relation of the two movements. The last bullish trend went from October 2014 to March 2015 (6 months) for a price excursion of 10 euros circa (from 6 to 16) or an exact 150%. Current correction has been lasting for 6 months for a price excursion of a mere 5 euros, or 30%.

The natural question is now: "Is then the correction ended now?"

There are signs that the correction is now in its terminal stage, but clear indication that is ended, not yet. A decisive indication (but not with 100% certainty, as it is not possible in financial markets) that the correction is ended is only with the breaking of 12,94 euros, or the high of last August's weekly candle, that is also an inversion candle, from a bearish trend to a bullish trend. Last week's candle is an inside, so market participants aren't sure on where to bring the stock from here.

Signs that the correction isn't over yet will be the breaking of the low of the same candle, therefore the breaking of 11,71 euros. However even if the breaking does occur, just below there is an important static support at 11,20 euros which should not be broken for any reason.

In the last few days we experienced quite a rollercoaster in the stock markets, but the fact that last week's FCA price action has been contained within a tight range, is a (potential) sign that buyers are now stepping in and at least contrasting the whole sellers pressure.

What if I am wrong? What if the current trend, even though up until now has been in a corrective mode, will accelerate to the downside (see Figure 4 as my Plan C)? As said, the area around 11,20 should be consider a "Maginot line" which should never be crossed.

Or what if the stock starts trading higher, but will not make new All Time Highs? (see Figure 3 as my Plan B).Below you will find the same weekly chart as presented on page 1, but with my studies.

Figure 2: FCA in Euro, weekly chart with my Plan A.

You will see the inversion candle the one before last week, you will see the current channel in which the stock is inserted, which technically is labelled as a “continuation flag” (continuation of the previous trend, in this case, the bullish one), you will see the static support at 11,20 euros, and you will aslo find my intermediate targets from here to the ATH I expect.

Basically I am dividing the distance between 12,20 euros (now) and my possible target (17,50 euros) in quartiles, which surprisingly results in the same important price areas that the stock already recognized in the recent past. If the stock starts trending higher, an alarm should go off at the arrival of those three intermediate targets, because if I am wrong, the stock could potentially reverse its course on those targets and nose dive again (see Figure 3 for my plan B).

Interesting to note that the 50% intermediate target corresponds to the upper line of the channel and a sensible resistance that the stock recognized in four different occasions, in the last six months. Therefore extra importance should be given to that level.

Figure 3: FCA in Euro, weekly chart with Plan B

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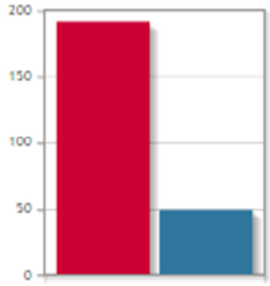
Figure 4: FCA in Euro, weekly chart with Plan C

Important disclosure of potential conflict of interest:
at the time this report is issued, Francesco owns share in FCA.

At the following page you will find some statistics on FCA and the comparison to the Eurostoxx 600 index.

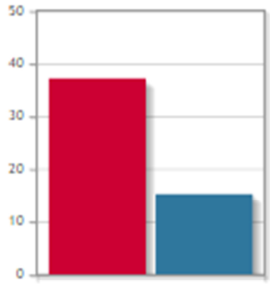
TOTAL RETURN SELECTED PERIOD

PORTFOLIO	BENCHMARK
191.93%	49.25%



VOLATILITY

PORTFOLIO	BENCHMARK
37.22%	15.21%



OVERALL STATS

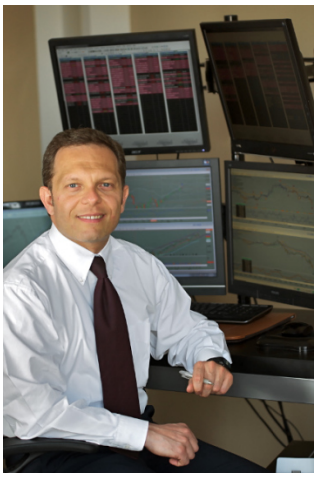
	CAGR	Sharpe ratio	Correlation to benchmark	Max drawdown from start	Volatility
Portfolio	42.97%	1.14%	0.38%	-25.78%	37.22%
Benchmark(exsi.mi)	14.29%	1.24%		-2.84%	

ANNUAL PERFORMANCE

	2012	2013	2014	2015	Total return selected period
Portfolio	2.16%	56.99%	61.34%	35.62%	191.93%
Benchmark(exsi.mi)	13.69%	16.61%	2.47%	18.05%	49.25%

PORTFOLIO COMPONENTS STATISTICS

Weight	Annual performance				Volatility	Total return selected period for single instrument	Return contribution
	2012	2013	2014	2015			
100% FCA.MI	2.16%	56.99%	61.34%	35.62%	37.22%	191.93%	191.93%



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