

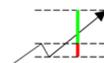
# Flash Report SoundEnergy PLC

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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”*



## Playing the bottom on Oil with an extra bet(a) company



Figure 1: SoundEnergy PLC monthly chart

The above is a monthly chart of Soundenergy PLC, an European and Mediterranean oil and gas exploration and production company, listed on the London AIM.

London AIM focus on smaller and growing companies, in this case SoundEnergy is not the typical ENI Spa or Shell size of company with a total market cap. of only 80 mil. Pounds.

However these companies tend to outperform their bigger peers, in addition with the price of Oil flirting to the lower price range of the last 10 years, some see a potential for a rebound for the black gold. If indeed a rebound will materialize, oil companies will benefit from that. Smaller oil companies will react even stronger, being higher beta type of companies.

Despite in which sector SoundEnergy PLC operates, it is its monthly chart that caught my attention. I am aware that at a first glance the chart doesn't look very interesting, but I will explain in details why I am very interested in this stock.

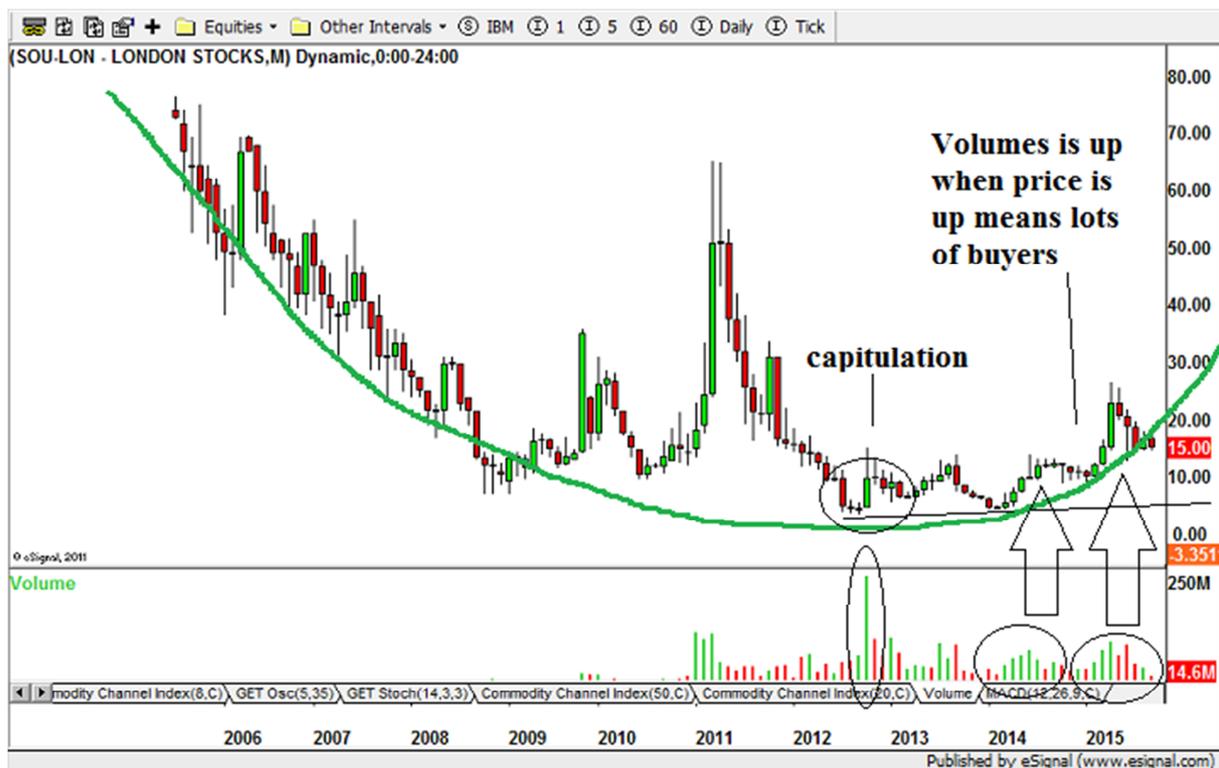


Figure 2: SoundEnergy PLC monthly chart

Now the same chart brings many more interesting pieces of information. First of all it seems that the stock **completed a fairly long rounding bottom** and is now moving up following the same circular shaped trajectory that did in the way down from its listing in 2005 to 2012. It is a 7 years decline period. If markets are specular in price and time, as Gann said, we may see a top for this stock in 2019 (7 years from the 2012 turning point).

The year 2012 marks a turning point for different reasons. First of all because since then the stock is moving up with higher lows, but also because the **October 2012 candle saw an explosion on volumes, typical of capitulation pattern**. A capitulation happens when after a long and steady decline, all investors are losing money and fear and physical pain for this potential loss is at maximum: until a moment when all investors can't take that anymore and sell the stock at the same time. From then on, the stock starts to go up, an inversion is happening. Capitulation can easily be spotted on this chart therefore.

From October 2012 the stock started indeed a new path upward, and it is expected to continue to do so.

Then volume comes into play again. In fact higher volume coincides with higher prices, meaning that are real and lots of buyers who are driving the stock up. This is the healthiest path for a stock when its price goes up because lots of investors want it. Different story would have been if the stock would have been going up with lower volume, which would have meant that large traders were sellers, and would have waited small investors to bring the price of the stock up before hammering it down.

The chart is then telling that there is interest in the stock, but which are the reasonable targets?



Figure 3: SoundEnergy PLC monthly chart with potential targets

Reasonable targets are enlisted on Figure 3. Interesting to notice that the stock moved fairly quickly outside the current range in the past, between 14 GBp and 32 GBp but not this time, or at least not until now. It wouldn't surprise me if the stock would make a strong move upward all of the sudden, similar to what it did in the past. A first target is then in a price range of 28 GBp and 39 GBp where a number of different methodologies arrive at the same area.

Projecting the same width (100%) of the previous upward movement (AB purple line) brings the stock almost exactly to the static resistance of 39 GBp (36,75 GBp to be precise).

Fibonacci extension of ABC shows that 161.8% is at 50 GBp while 261.8% is at 71 GBp. Both very close to the nearest static resistances.

**But what if I am wrong?** And the current upward trend despite the higher volume, results in a simply rebound before resuming a downward trend?

Critical on the monthly chart is the January 2015 low at 8,67 GBp. A violation of this level would strongly suggest the stock is directed to test the all time low or even breaking it. A closer level to monitor is the June 2015 low at 12,70 GBp as it sustain the stock from that moment onwards.

Even looking at lower timeframes the levels remain the same. In any event as said in the title, since this is a small cap with high beta it may have wider and sudden movements and it should be treated as such and not as the typical oil megacaps that may have smaller swings. So position sizing is a must in this case.

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



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>
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