Big Picture report

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"Quantitative approach for asymmetric results"

In the last few weeks I have been doing analysis on a variety of instruments and all of them on long time time frames (weekly or monthly) seem to be pointing south, namely stocks (single names, not indexes for which there is no sign of change In the upward movement yet) and Copper. On the other hand Gold and Vix are suggesting that more volatility to say the least can be seen in the foreseeable future.

My goal is to highlight possible scenarios that may unfold and find ways to take advantage of those scenarios with my trading. In addition to that my goal is also to look for a plan B, an alternative scenario to the one presented, often opposite to the master one, so that at least I know what to be expected in case I may be wrong (which can of course occur), close positions (stop losses) which were set for the master plan, re-evaluate and eventually open positions using the plan B.

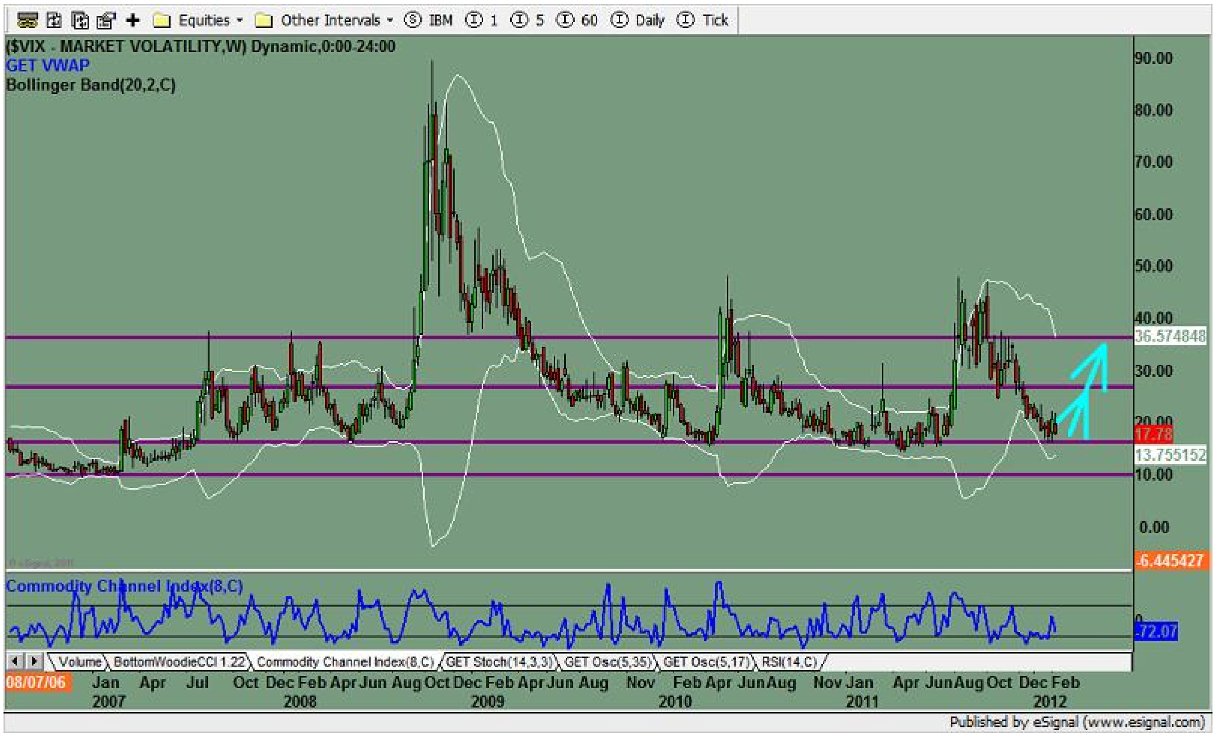
The idea of a big picture came to me after the recent analysis I did on the Copper future (HG) which in these days seems to be unfolding a bearish pattern on the weekly chart (a bearish head and shoulder).

Copper is one of the leading indicator of expansion/contraction of the industry worldwide, so a decrease in price of Copper may signal increased inventories, maybe due to less demand, due to less production activity. This can be a way of reading the price of Copper.

Gold (GC) has been the safe heaven when things turn sour.

In the above weekly chart you can find the SP500 (ES) in the candlestick form, the Copper (HG) in the black line, and the Gold (GC) in the yellow line.

It is interesting to note how Copper mimics the movement of the SP500,even sometimes with Copper having bigger swings (overperformance) in the bullish side. On the other hand, in the instances when Copper tends to underperform the SP500, it is interesting to note that is the latter to retrace and not Copper to spike up (see 2008). Right now Copper is underperforming the SP500 which could be a meaningful alert for an anticipation of a change in trend in equities. Another alert can be Gold which is trending up together with the SP500, which may signal that there are people buying gold in this moment to protect themselves from future situations that we cannot foresee right now.



In addition the VIX (weekly chart above) is currently trading around 17 which is an historical important level, below which there is only 10 as the all time low of the VIX in the period 2006-2007.

Another evidence of change in the direction of equities may be VIX approaching 22.

In the equity side we can safely say that it seems that there is a compression of volatility and prices (in the form of lower ROC) which may call for more volatile prices in the near future.

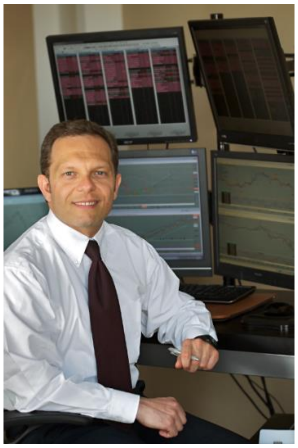
Even the EURUSD seems to be headed towards 1.20 as prices violated again the downward trendline and today may be a powerful resistance, as it was a powerful support for many months in 2011.

For what concern Treasuries, above we can see that the BUND does not seem to be headed down anytime soon as it is now almost a year trapped in a very linear channel. Inside a channel I would expect the BUND to be headed to the floor of that channel, which will be confirmed once it will violate the low of two weeks ago (136.93).

If for any reason it will instead break the resistance of the channel (140), the possible target of the movement could be the projection of the width of the channel, which is 147.

Target of the violation of the support instead (unlikely in the near future) will be the same projection, which means 125.

Even though the above study calls for a change in the trend of equities, right now such change has not materialzed yet and therefore I am not opening any position in that direction. However it seems to me that Copper is probably starting to signal that equities are (entering) in an overstretched bullish phase.



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 tradersô 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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