# Big Picture report

## December 24th 2012

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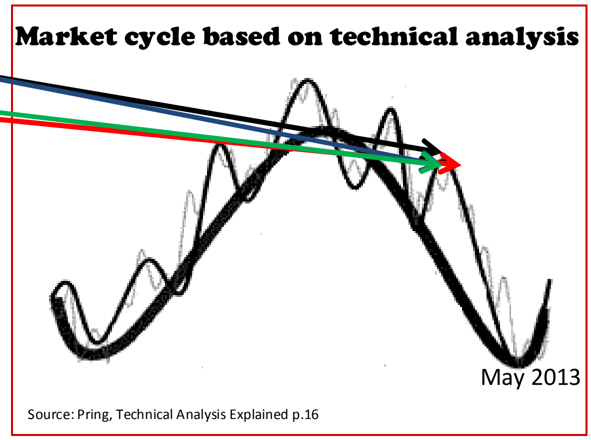
*"Quantitative approach for asymmetric results"*

Source: Pring, Technical Analysis Explained p.16

☐ **Overall picture**: Probably a difficult moment for many money managers, as equities are too high to going long safely and for the same reason, difficult to enter in a short position. Typically the most difficult wave to trade is wave 2 or B because it tends to pull back even 100% of the previous movement. In many different instruments, it seems we are in such wave (2 or B) and therefore as of now it is difficult to really have a clear picture. Caution has never been so important as probably this very moment. Commodities not supporting equities. Personally I feel like as if I am back in August 2008, of course I can be wrong.

☐ (red line) **US Equities:** the downward movement lasted nine weeks and the subsequent upward trend lasted five weeks: so far this recent movement at this stage can only be labeled as a pull back. Next week may be important for setting the tone of the following incoming trend. On a weekly and monthly timeframe, the upward movement has lost momentum.

☐ **VIX:** going higher and definitely changed trend direction since August 2012. Expected to be higher in the near future.

☐ **EUR/USD**: last four weeks have been surprising and probably caught many market participants by surprise. The Exchange broke important resistances vigorously. Does it look like a bull trap? Last weekṡ candle is an inversion one.

☐ **European equities**: relative to the US, Europe is stronger in the upward movement therefore longs may be more welcome here rather than the American indexes. Important resistances very close to these levels, it will be interesting to see what will happen next. Be open to any possibility.(Dax is the black line, Eurostoxx the blue and FTSE Mib the green one)

☐ **Japan**: chart does not look terrible anymore. The Nikkei left the bearish channel vigorously, however the movement started in mid-November looks like an exhaustion final movement.

☐ **Gold and Silver**: After breaking the wedge both are pulling back, in a typical wave 2 fashion. Longs now have probably the best risk/return profile.

☐ **Commodities (DJ UBS Index)**: the chart here is still the same despite the differences that occurred in basically all the above charts. Therefore commodities are not supportive of this latest upward movement, which raises more than one question.

***Each topic has been studied as a stand-alone analysis. No conclusions have been drawn on one instrument, as a consequence of an analysis of another one. The idea of a Big Picture report is to see whether putting together all these stand-alone analysis, an overall trend is forming or not.***

**SP500 future weekly chart**


Looking at time and price consideration, and in both cases, **this latest upward movement can only be labeled (as of now) as a mere retracement**, and it fits perfectly in the behavior of a ñwave bò or (more probably) a ñwave 2ò. These two waves are nicknamed **the ñscary wavesò as they tend to retrace even 100% of the previous movement** creating doubts on the vision that market participants have. Price retracement has been more than 75% while time retracement is now 55% (five out of nine weeks). Then, they tend to shift suddenly.

Considering the upward trend from a larger prospective, it is losing steam and it is clearly shown from the Price Oscillator below the chart (purple arrow).

Last weekôs candle is an indecision one.

**VIX Index weekly chart**


Probably we can find clearer signals in the VIX, as after completing a five wave impulsive downward structure, is now going to completing a subsequent ñabcò pattern, which calls for a higher VIX.

The recent low is higher than the previous one, stating the fact that **a trend inversion has happened.**

**EURUSD weekly chart**


The Exchange rate is either continuing giving us false signals or it is anticipating a continuation of the upward trend for equities. After breaking important resistances (green and purple lines) the signal generated was a long one. However right now is too early to call for a confirmation, also because last weekôs candle is an inversion one.

**Bull trap possible, also because it is in an overbought situation.**

**Eurostoxx 50 future weekly chart**


The European index is more resilient having higher lows and higher highs. However so steep upward trends and breathless are typical of ñwave Cò pattern and therefore could be signals of trend exhaustion.

**Last weekôs candle is a continuation one, so next week we could expect a new high.**

However overbought situation calls for caution and stop below last weekôs low.

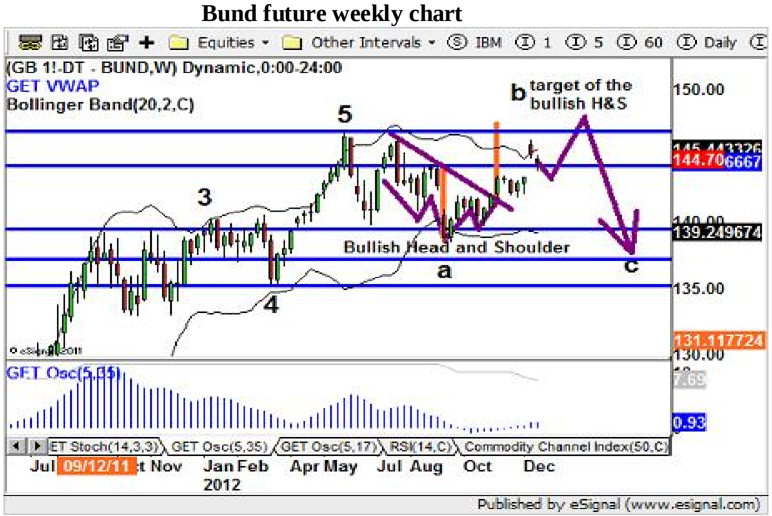
**Ftse Mib future weekly chart**


After the low in July the Italian index started an impressive run up which should continue next week too as last weekôs candle is a continuation one.

Possible targets are double top 16,700 points or even 17,100 points if exuberance will be substantial.

**However indicators are in the overbought situation** and soon I expect a trend inversion.

**Bund future weekly chart**




Very close to the target of the bullish Head and Shoulder, which may have been difficult to trade due to the higher price of the subsequent future contract.

Expected continued weakness from two weeksô ago high probably to close the gap still open, before resuming a final upward leg.

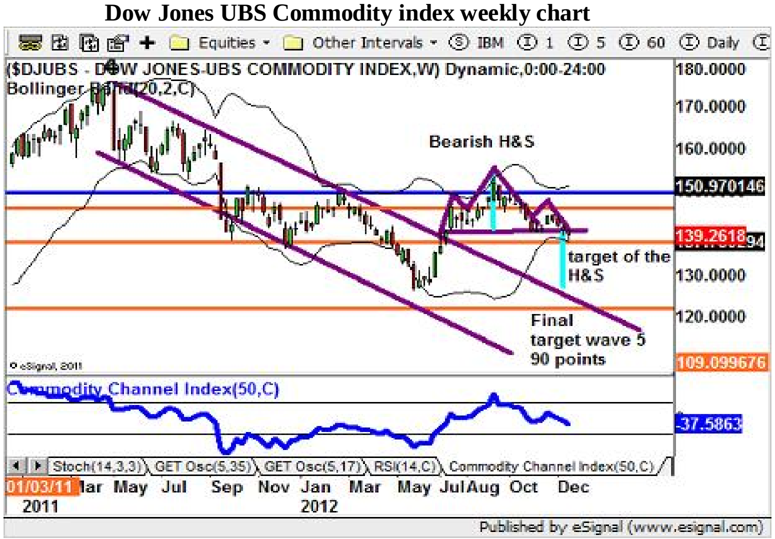
**Gap is closed below 143.48.**

**Gold future weekly chart**


Similar to the Sp500 future but on the opposite side, there is more than a possibility that **Gold is now completing a minor wave 2 of the nascent upward wave (5)**. If that will be the case, using Fibonacciøs extension it is worth looking at some possible ending values for subsequent wave 3,4 and 5.

Last weekøs candle is an inversion one, so longs are welcome. Confirmation may arrive at the breaking of last weekøs high at 1,704 usd. Primary target for wave 3 is 1,900 usd, while final target wave 5 is above 2,000 usd.

**Dow Jones UBS Commodity index weekly chart**

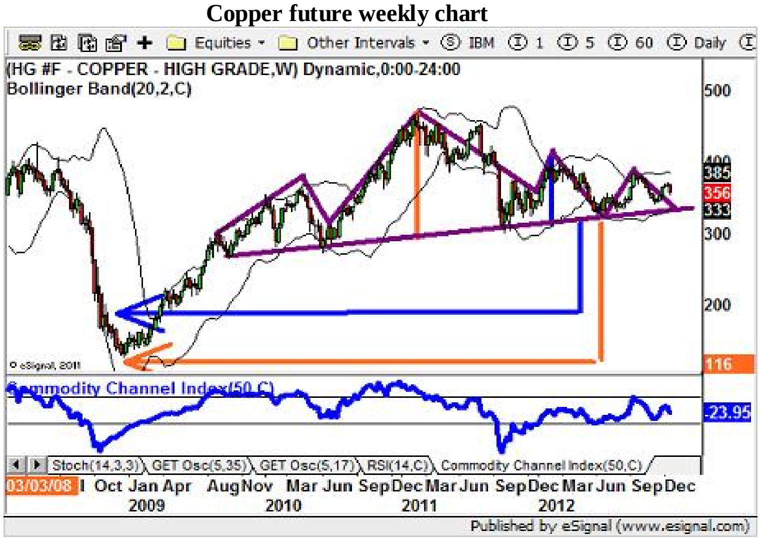



**Commodities are not supporting the exuberance that we see in equities**, and making some consideration on expected inflation (thanks to Helicopter Ben) it seems that inflation is nowhere to be seen in the near future looking at this chart.

Last week the commodity index broke the neckline of the recent bearish Head and Shoulder, having for target the exact upper line of the bearish channel.

Only returning above the 150 line will call for a trend inversion.

**Copper future weekly chart**




Do you remember the movie ñHighlanderò with Christopher Lambert?

Well Copper reminds me of such movie, because it doesnøt matter how many shots it receives, it never dies.

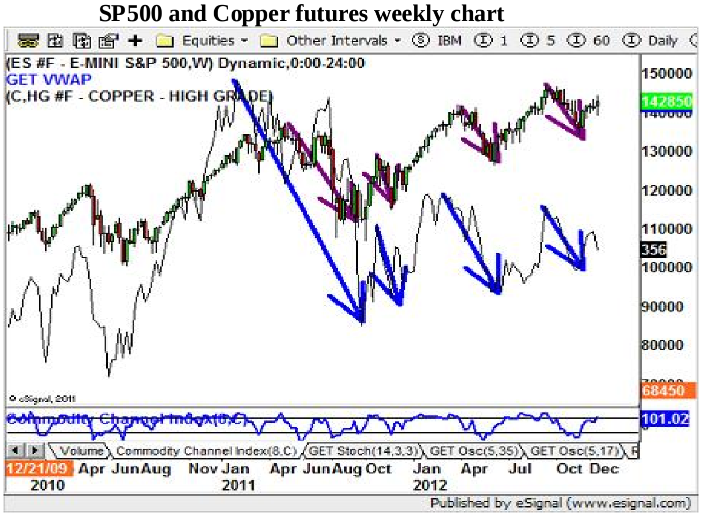
And still my view on Copper, despite so many lives, is still bearish. Drawing lower highs and then flirting with the same neckline (for more than thirty six months now!) **looks to me like a recipe for a pressure cooker to explode.**

As usual, any bounce up is still a good point to enter/increase shorts.

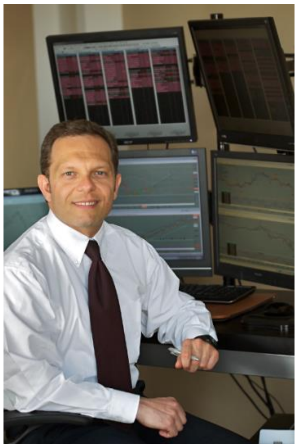
**Nikkei 225 index weekly chart**


The Japanese index broke the horizontal resistance at 9,260 points and did a breathless run up for seven straight weeks.
In the space of less than two months broke the large bearish channel in which has been comfortably for more than thirty-six months. That is impressive.
However as for other instruments analyzed before, at this stage caution is imperative and it is possible we are witnessing just a bull trap. Last weekŝ candle is not an inversion, but an indecision one, and breaking last weekŝ low would probably bring the index to test again the (former) resistance at 9,260 points. **Such level is to me a threshold between continuation of the upward trend or, if broken, resuming the downward trend.** Longs to be opened or increased, only around that level. Overbought situation in place.

**SP500 and Copper futures weekly chart**



As you know by now my thoughts on this chart, I would like to draw your attention on the downside, rather than the upside movements of this chart.
Interestingly enough, not only Copper clearly has been now underperforming the SP500 for more than a year now, but every time there was a downward movement, not only Copper outperformed the equity index, but also started such movement before the SP500.
**It seems like Copper is giving us two signals**: **the first one is a long term one**, that this upward movement in the SP500 started in August 2011 is suspicious (which does not mean to be short!); **the second one, short term**, as an anticipatory signal of a subsequent downward movement that the SP500 may follow. In this latter case, the signal on Copper is correctly in place for the last two weeks now.



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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