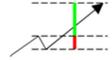


Francesco Maggioni
francesco.maggioni@gmail.com
IT +39 393 70 40 234
UK +44 757 681 62 43

“Quantitative approach for asymmetric results”



FIB: Reading the trend with Gann boxes and angles



Figure 1: FTSE MIB Future index monthly chart

The above is the monthly chart of the Italian future index, FTSE MIB called FIB. The study you see and in which prices are within is the Gann box.

The Gann box is designed using important pivot points, in this case the February 2011 max and the July 2012 low. Automatically the software draws the complete set of sixteen boxes of which the main Gann box consists of, as each box represent 25% of the whole (a 4x4 matrix).

Inside the Gann box trendlines are also derived using specific angles that again, are Gann angles. The lines you may be most familiar with are the 45 degree ones, which intersect at the very center of the main box, and coincidentally is where the prices are arriving in these months.

Each box is divided horizontally in quarters where relevant importance is given to the first quarter (25%) and the fourth one (75%)

Now here is how to use this theory and knowledge to implement a market strategy on this index:

1. Prices have recently violated the resistance to the entrance of the third box and in doing so the first price target is the upper resistance of the first 25% set at 18,432 points. Once there it is important to see if the index will break that resistance because in the lucky event that will do so, the next target is the lower side of the 75% within the box, which is the 19,825 future points level.
2. Within a box, the most sensitive levels are the 25% and 75% whereas the 25% are usually sellers' level and 75% are buyers' level (in an upward movement). That is why in the recent period we witnessed a slower movement of this index compared to the one that brought the index from 15,440 to 16,850 points: the reason is because starting from the 17,700 level there is increased selling pressure that wasn't there before.
3. Currently prices are approaching the intersection of the two main trendlines, the brown ones which Gann calls them the 1x1. It is worth noting how the upward 1x1 has been so far an attractor for prices, meaning that despite the substantial dispersion of the movement the brown trendline worked as a mean reverting tool. Usually intersections of trendlines (and the 1x1 is the capitol one, or also vertical boundaries between boxes) are relevant zones for trend inversions or where relevant situations happen, that is why I consider the incoming weeks and months very important for the future of this index.
4. Geometric property of the market: so below as above. Sometime happens that the market makes a movement to be the copy of a previous one, but in the opposite direction. The last instance where the index went through the vertical boundary of a box was July 2012 when the market made an inversion from bearish to bullish, therefore I would consider to witness the making of a similar but bearish candle in the next boundary, which is set for December 2013. Target of this potential final bullish movement which will then potentially become a bearish one is 20,521 points.
5. In addition to Gann it is also worth noting that the Supertrend (red line) is also passing by the same level of the low side of the last quarter of the current box at 19,825 points. The supertrend tends to act as a magnet to prices, so it could be expected the reaching of that level, or near there.

How do I use this information for my work:

the index is in a bullish trend and the first target is the 18,432 points which is resistance of the first 25% of the current box.

If the index will be able to break such level a decisive reaction can be expected which should arrive at the 19,825 level, as said earlier, where the supertrend and the low of the 75% are.

If the reaction will indeed be so strong, it is also possible to see the index arriving at the 20,000 points and once there, remember the geometric property and carefully see if the index will draw a bearish candle (as it drew a bullish one on July 2012)

Charts are obtained using the eSignal and AdvancedGet software – www.esignal.com



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 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

Disclaimer

Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The writer does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Any opinions expressed in this report are subject to change without notice. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, investors should contact their local sales representative. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments.