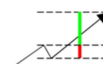


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“Quantitative approach for asymmetric results”



Bund: the impossible may become reality



Figure 1: Bund monthly chart

The chart above is the monthly one for the ten year German government Bond, called the Bund. I have been warning investors and traders alike since September 2013 that the only position that would have made money, was a long one and indeed the instrument went considerably up, close to its all time high. Only the violation of that candle's low would clearly undermine the uber longish structure in which the German champion is in since 2008.

So no time yet to go short, but if it doesn't go down, does it necessarily mean it will go up, and to which target?

When I meet other analysts and I mention them my ultimate target on this instrument, they raise their eyebrows and look at me suspiciously as if I was joking in reality, or not.

I am well aware that my ultimate target on the Bund is more than ambitious, but the only successful investment here is in buying it, going long, not the other side: so it is imperative to find duable targets, and that's what I did.

Still the Bund is now close to its all time high reached in 2012 and 2013 during those (mini) crisis, stating that perhaps Europe is not in such good shape as the media are telling us. Just food for thought here.

Let's look at the chart now.

One of the easiest way to find a possible 5 waves structure of the Elliott Wave Theory is to find a wave 3 first, since wave 3 is the strongest and most powerful among all fives and can be easily recognized by its ample width on both time and price, and by the width of its major indicator, the "Oscillator". Looking at the chart in figure 1, all the above requirements are fulfilled by the movement from 2011 to 2013, and therefore that movement is labelled as a clear wave 3.

After wave 3 comes wave 4 which is a countertrend one.

From the Elliott rule of alternation, if wave 2 has been sudden, violent and deep, the next countertrend wave, wave 4 will be shallow, long in time and basically a congested movement, as in deed is the overall movement that started from the high to basically January 2014. Such movement can also be called a "continuation flag" in classic technical analysis.

Low of wave 4 can be found when the "oscillator" from its peak of wave 3 comes back to close, around zero, even fractional negative is fine. Indeed the oscillator arrived at its low at the same time that the Bund did its low with the September 2013 low.

In addition to that just recently the Bund also broke the flag resistance (grey line) stating that has actually left the wave 4 continuation flag and is now ready to target previous or new highs.

Let's now look at potential target for wave 5.

A first target is to copy and paste the width of the horizontal channel (orange vertical line) in which the Bund has been moving since 2011 which brings to the 160 future points level.

The same target comes by using Fobnacci extensions from previous A,B and 1,2 movements, namely the 261.8% and 161.8% extensions.

Is it too ambitious of a target? Do you raise your eyebrow too? Not a problem, let's then divide the upper channel into quartiles, in this way we will find additional 3 partial target from current level to the 160 points one. You can see the quartiles above wave 1.

The overall long term bullish structure will be undermined only by the violation of the low of January 2014 candle first, and September 2013 after. A first weakning sign of the trend may be found if the recent March 2014 low will be violated, below 142.07 future points.

For the Bund too it seems we have to follow the: "Buy the dip" technique.



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.

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