

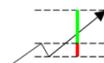
Flash Report DAX

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“Quantitative approach for asymmetric results”



DAX: much ado about nothing (recently)



Figure 1: DAX future monthly chart

The above is the monthly chart for the German Index DAX. It is important to have a look at it right now because many pieces of information can be derived from it. Firstly that the index has been diligently inserted in a channel for almost three years and that it moved out upwards only in two instances, in 2012 and late 2013: those two instances resulted more in a bull trap rather than a true acceleration of the trend.

Since June this year then, the index is shifting lower and sideways, which is telling us that the strength, momentum, time and price correlation, has vanished, at least temporarily. You can see my horizontal arrow on top.

Another indicator of the lost momentum can be derived watching the candles of August and September which basically lock the index inside a wide range from 8903 to 9451 future points. Those two candles are one the exact opposite of the other, one (August) is a bullish one while September is a bearish one.

There were two previous instances where the DAX moved sideways before resuming its bullish trend and can be seen at points (1) and (2) of the same chart. However it is important to realize that we are not in 2012 or in 2013 anymore. We are in a much different situation.

It can be noticed how different is today from those instances simply looking at MACD below the chart.

Anyway looking at the chart we will get a clear message on where it wants to go only when breaking August low or September high. Until then, at this timeframe, it is not possible to give indications.

Let's look at the daily chart then and see if we can get some indications.



Figure 2: DAX future daily chart

The recent descent of the future has been inserted in a tight channel. The channel can be slightly wider if we consider Highs and Lows prices: in the chart I take in this case only Open/Close prices.

What we see is a steep correction (as of now) since the August low hasn't been violated, maybe just yet. However the current October 2nd low is at 9216 future points, not much lower of the 61.8% retracement from the high, which is at 9278 future points.

On this time frame any long position can be opened only at the breaking of the bearish channel: such breaking can happen easily, what we want is a confirmed breaking. Very often the breaking of the channel brings immediately the retest of the previous channel as a support. So what I am expecting is a possible movement as shown in Figure 2.

Considering the next bullish movement a mere retracement, the 61.8% one is at 9615 future points which coincides with the black line that cut the whole chart.

Such black line comes from the monthly chart, so extra attention at that level is imperative.

To wrap up all the above, we can derive from the monthly chart that the German index is giving signs of losing momentum: at this stage it is too early to call it a mere retracement only or an outright change of trend. The situation is complicated due to the recent August and September candles that give no help at all to understand which direction the index will take. We will know it only at the breaking of a 500 points sideways channel in which it is inserted since August.

On the daily chart it seems that the September sell off can be labeled as a retracement and long positions can be opened only at the breaking of the tight bearish channel.

At 9615 future points we have a juncture of resistances: one is a trendline that starts from the all time high on the monthly chart and the other is the 61.8% retracement of the current bearish movement.

The daily set up will be invalidated only at the breaking of recent low at 9166 or even worse at 8903.



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.

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