

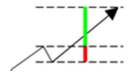
Flash report BestBuy



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“Quantitative approach for asymmetric results”



One of the most popular stock lately has been Best Buy (ticker: BBY). Despite the US stock market is achieving new highs almost every day, there is an increasing pressure on retailers as they see continuing shrinking of either profits in absolute terms or profit margins. This may signal that the US consumer is not spending like few years ago. It is also a recent news that Saks Fifth Avenue (ticker: SKS) is considering a number of option for maximize its shareholders return, among others a possible buyout. JC Penny (ticker: JCP) is another example of a retailer battling for surviving.

Clearly Best Buy has been affected by this consumer “austerity” and it is evident in its stock price movements. Above you see the monthly chart for BBY.

From a stock around 2 US dollar, it went up to a staggering 60 USD, and then from its high in 2006, well before we had any clear indication on what could have happened from late 2007 and on, the stock started its new bearish impulsive movement.

It seems that on December 2012 the stock concluded its bearish impulsive movement, with the low at 11.20 USD being the low of wave 5. A hint that such a low will be defended is the size of volume that has been created around that price.

From that level the stock had a strong reaction that led to the current level of 26 usd. Right now the monthly candle is taking the shape of a doji one, but to be sure it is imperative to see how it closes at the end of the month.

However what it is interesting is that if the December 2012 low is actually a wave 5, to have a completed bearish impulsive movement the stock needs to make an additional "ABC" corrective structure. Since the impulsive movement was bearish, the subsequent corrective one will be bullish.

The current high could be then labelled as wave A: now a bearish movement will be a wave B. Each wave has its own style and character, and wave B is called the "scary" wave, because it tends to do up to 100% retracement of the previous movement. A such deep retracement will scare all the investors who believe in this stock, creating a high volume capitulation situation, but this time with a double bottom or a higher low. Of course this is an extreme approach, but I would tend to expect such deep retracements in these conditions of stocks at all time (or close) low (as BBY is now) or all time high.

If that will be the case, a long position will be ideal, because having a tight stop loss at below the low of that month's candle or below the December 2012 low (usd 11.20) the risk/reward ratio will be substantially skewed towards the reward. In fact the subsequent wave C could be as long as to reach the 2.618 fibonacci extension of this A-B movement.

So possible future targets are as follows: first target wave C at 29 usd, then C' target at 39.6 usd (the 1.618 fibo extension of the wave A-B movement) and then the C'' target at 56 usd which is in fact the previous all time high close. The stock did go higher, but never closed at those higher level (on a monthly chart): the 56 usd is then the all time highest close.

On the left of the chart I am also showing how geometrically precise the bearish movement was, as the length of wave 3 was exactly 2.618 extension of the previous wave 1-2 movement.

Instead of waiting for this long entry, shorts are possible with a stop above this month candle's high, usd 27.37, better to see how this candle will close first.



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.



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