

Herbalife: despite the fuzz, risk is in the upside



Figure 1: Herbalife (ticker: HLF) weekly chart

The above is the weekly chart for Herbalife, a company that has been in the news and still is due to a battle between hedge fund managers trying to advocate reasons to define whether this company is acting in illegal behaviour or not. Of course I am not going to join this discussion firstly because in one of my role as technical analyst, I don't care what the company does or does not. I only look at charts, and one of my motto is indeed: "You name it, I'll trade it".

Secondly I have no capabilities, knowledge or connections to enter the discussion with valid arguments to state which side for me is the correct one.

So let's look at the chart and see what we can derive from a pure and simple price action.

What has already happened and **completed is a bullish head and shoulder** which you can see drawn with purple lines. The target has been already achieved and has been surpassed also due to most probably the momentum that the stock has been experiencing since the beginning of 2013.

The stock **since the December 2012 low has been inserted in an upward channel** (blue trend lines) and here is an important fact that can be used to predict future movements of the stock. Despite the recent new highs, the stock wasn't able to touch the upper side of the channel, not

even getting closer. It actually did get very close in the previous attempt around mid September 2013. However since September 2013 the stock moved upwards with higher lows. The **September – December 2013 movement can be labelled as a wedge**, clearly shown with the black lines.

The interesting part right now is that **the upper part of the wedge has a lower slope than the one of the channel** (blue lines) which means that potentially the recent movement of the stock is “divergent” from the movement of the whole year in which is inserted. In other words it looks like the stock is losing steam, momentum in these weeks because it has not the power it had before to be pushed to higher levels. And if a stock doesn't go higher, it goes lower.

However right now there are no signs in the weekly candles that can confirm a trend inversion. It is true that the CCI 50 period (red line below the chart) is signalling a medium term overbought condition, yet again divergent with the recent price action (stock is doing higher highs, while the indicator is doing lower highs).

What to expect from now on:

The main trend started at the beginning of this year is a bullish one, and right now it is back to all time highs. Last week candle isn't an inversion one so it could happen to see the stock violating the upper side of the wedge and previous All Time Highs (ATH) and a **duable target will be the upper side trend line of the channel, at 82 usd**.

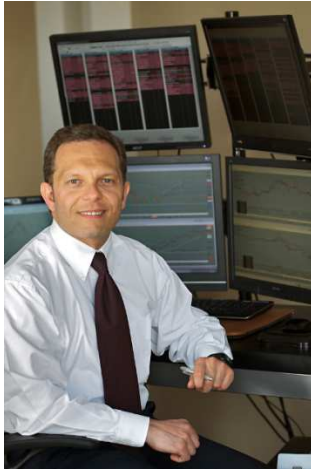
Retracements are physiological so a better entry would be to wait a pull back and then try a long.

However what makes me a bit skeptical is the presence of the **wedge, since those formations tend to materialize at the end of a trend**, so chances are we are witnessing the highs of the stock.

If a retracement (as it will be seen at the beginning) will materialize, expect the breaking on the lower side of the wedge around 69 usd, then expect a bit of flirting with the channel lower trend line around 65 usd.

To my way of see this, **a violation of the channel will very likely confirm that it will be a trend inversion happening, and not a mere retracement**. So the line in the sand is 65 usd.

If that will happen here are multiple targets for potential short positions: 59 usd, 49 usd and 41 usd which respectively are the horizontal purple lines and multi year static levels that the stock recognized.



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.

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