



Samsung Electronics: combo analysis with one direction only



Figure 1: Samsung Electronics monthly chart – Seoul stock exchange

This report is on the most famous among the Samsung companies, the Electronics one, the one that makes smartphones and not only just that to be as clear as possible. I make this remark since last week I sent a report on a different and unexpected Samsung company, which many of you didn't know the existence until then, I presume, and it was the Samsung Maritime and Fire Insurance.

The chart I use in this report is a monthly one, and you will see it is different from the Insurance one.

It will be a very interesting reading as the stock's price action is giving me the chance to present you at least four different analysis. A bit of concentration is required on your end; however I will try to make it as clear and easy as possible.

1. Analysis: long term

Looking at the monthly chart it is clear that the overall trend in which the stock is inserted is a bullish one. The strongest movement has been the one that started from the 2009 low and that saw its completion few months ago with a historical high. Since then the stock entered into a retracement phase and important is now to try to predict or understand how deep it will be both in price and time this corrective movement. Since I am using the term retracement I am implying that after this correction a new bullish trend should resume which most likely could break previous all time highs. However as we are looking at a monthly chart it is possible that the retracement can last quite few months, if not even a year or so.

2. Analysis: bearish head and shoulder

In the chart you will see that I labelled the head and the two shoulders that make the bearish figure, while the neckline is the purple trendline. The December red candle has vanished any hope for new highs for those who were long the stock, bringing them at a brutal reality all of the sudden. Such red candle has the meaning of a wall right now, up to that point no trespassing for longs.

At this point the stock is flirting at the neckline. Please note that the neckline has been violated already few times in the past giving false signals: actually on this time frame the stock did broke the neckline (triggering a short signal), but never closed below it, so the message is that additional confirmation will be required if a short position is to be opened.



Figure 2: example of a "three black crows" set

December red candle is a strong bearish one and the January one opened in gap down, so short term sentiment seems to be very bearish.

On a **candlestick analysis** it seems that the last month's red candle and the current January one are forming a potential three red candles inversion set known as "three black crows" which tends to appear at the highs as an inversion set.

If the bearish head and shoulder will be confirmed (through the violation of the neckline), what could be the final target?

Natural target for an either bullish or bearish head and shoulder is the transposition of the distance between the head and the neckline at the place where the neckline violation occurs. In this case the target is set at 920,000 won as you can see from the vertical orange lines.

It is however desirable to find intermediate targets as there is no assurance that the stock will arrive at a such deep one. One of the easiest way is to divide the distance between the current

price and the final target of the bearish head and shoulder into quartiles: in this way we actually found four different targets which upon arrival, they can trigger at least a change in the stop loss level or a trailing profit at some point.

It is interesting to note that each quartile level precisely corresponds to a significant lows in some previous but key monthly candles: those lows became also valid static supports. I hope you realized that this coincidence is not a result of any sort of "fitting" or any chart manipulation from my side, but it is so, naturally. What does it mean then?

It means that Samsung Electronics obeys very diligently to specific geometric relationships that can be found in different ways, giving strong validation of such theory.

Coming back to the bearish head and shoulder, when such pattern is invalidated? Only at the breaking above the right shoulder which means in our case above the December candle high set at 1,5 mil. won. That is the ultimate level for a stop loss, but since this is a monthly chart, I would suggest to find a smaller one via looking at shorter timeframes.

3. Analysis: Elliott Wave

The whole price movement that started in 2006 seems to be an impulsive bullish five waves structure which has completed only three waves so far. The strongest movement, which is the one that started from the 2009 low to the 2013 high (the head of the previous study) can be labelled as a powerful wave 3.

Since those highs have been achieved a corrective movement started which is therefore the following wave 4, still in the making. Wave 4 is formed by a set of 3 corrective waves ABC and right now the stock is behaving as it is starting a final wave 5 of the first wave A. If that is the case then wave 5 (of wave A) should break previous lows.

If so it is safe to assume that the completion of such corrective pattern will take quite sometime as only to complete wave A is taking more than 11 months, then we should wait for a pull back up (wave B) and the final bearish movement wave C. It seems that it won't be efficient in a time and price analysis to be invested in the stock until the whole correction will end, likely around 2015.

I understand that this is quite a forecast, but this is the risk and the advantage of looking at such high timeframes as the monthly ones.

What are the targets for the coming bearish wave 5? The levels and quartiles found in the previous bearish head and shoulder will be very relevant even in this analysis.

Please note that the overall ABC movement can have a final target of 700,000 won circa without compromising the bullish 5 waves structure. Such final level corresponds to the brown trendline 1x3 of the Gann box (next study) which should be seen as ultimate support.

Let's see the chart on a different angle: from the price action it could also be safe to assume that the stock overall movement has been a pretty huge three waves ABC pattern with the 2013 high as top of wave C. Even in that case the only possible outcome is a new downward corrective ABC movement, and currently the stock is anyway still in the process of finishing a first wave which is formed by 5 sub waves. Still the most probable outcome for the months to come is a bearish movement rather than a bullish one.

4. Analysis: Gann Box

Looking at the chart you will note that the whole price movement is inserted into a set of boxes which form a bigger box. Such box is drawn using as pivot points (and therefore its height) the 2009 low and the 2013 high.

The box is divided into quartiles (blue lines) and has also trendlines that cross it in its entirety. This is the result of the Gann box, created by WD Gann **which has the goal to create a grid in which the stock moves and gives hints to where the next move can be as well as to highlight supports and resistances, not only those that can be derived from past movements.**

Within the bigger box there are then smaller one, in total are 16 but here you see only half of them.

The stock has been sensing the supports and resistances of each of the smaller box: the highest precision is notable in the period between July 2009 up to November 2011 when the stock hit both the high and the low of the second box before starting a strong bullish movement that brought the stock to break the resistance of the second box and also move thorough the whole third box just to stop at the green trendline 2x1. At that point the stock pulled back and then resumed the bullish trend ending its course at the all time high which is the top of the box and also the arriving point of the green trend line.

After analysing the past movements, how can we use this box system? The first important consideration is that the stock is currently at the low / support of the fourth box: that is a very sensible area since it is both the floor of the box and the level in which the neckline of the bearish head and shoulder passes.

The violation of this floor would mean for the stock the entering into the third box, the one below the current one and a possible arrival target is at 1,2 mil. won which is the level of the brown trendline. Such level also corresponds to the third quartile of the distance from the neckline to the final head and shoulder target, therefore it is to be expected some sort of bullish reaction at this level.

If this level should be also violated be prepared to see the action of the stock to increase velocity since in its previous bullish movement the stock literally flew from one box to the other in December 2012, leaving almost zero levels for intermediate supports.

Similar to the Elliott analysis, the most important support is the lower brown trendline 1x3.

If the stock will reverse the current course and move upwards a new bullish trend can be labelled only at the violation of the recent December highs which corresponds to the right shoulder high. Possible targets for this improbable upward trend to be resumes earlier than I expect is at 1,674 mil. won which corresponds to a 161.8% Fibonacci extension of the movement: October 200 low to January 2011 high - January 2011 high to August 2011 low.



Mr. Maggioni has been working in the financial markets for the last 13 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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