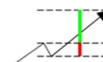


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*“Quantitative approach for asymmetric results”*



## Sotheby's: perfect share to do market timing

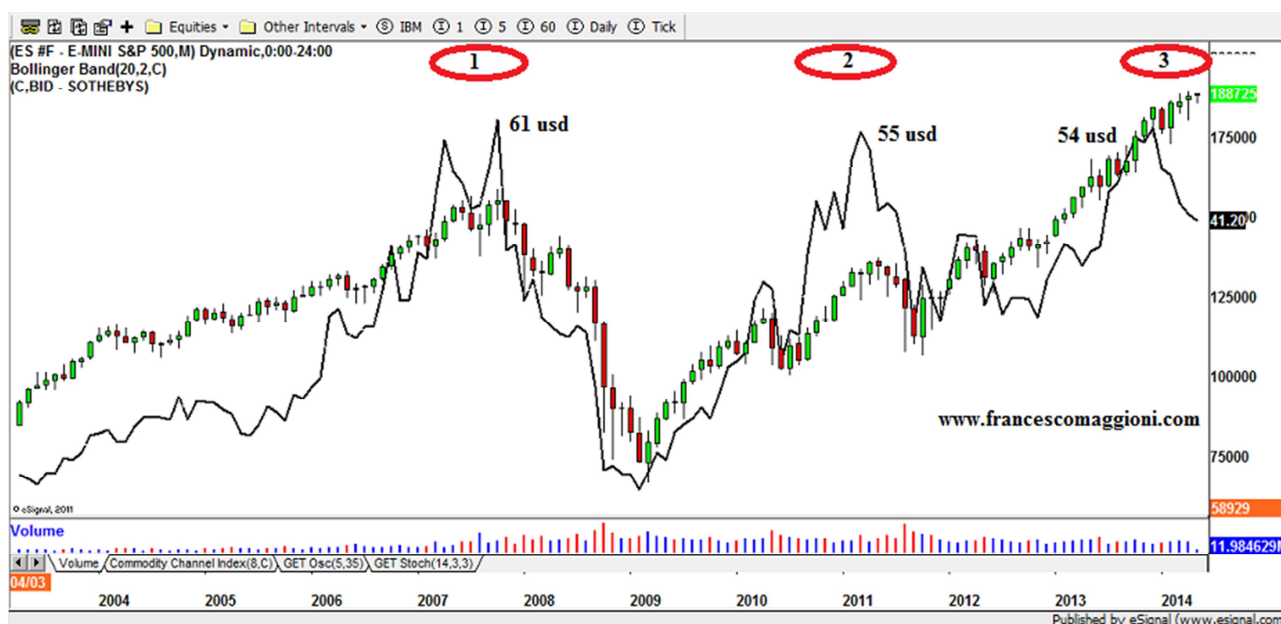


Figure 1: Sotheby's monthly chart

The above chart contains two different instruments: the candlestick one is the future of the SP500 index while with the black line is the world's famous auction house Sotheby's, with the ticker "bid".

Why am I bringing to your attention this chart? There are a number of reasons but first of all because Sotheby's has perfectly timed the market in the previous two tops, in 2009 and in 2011 as you can see from the red circles above each top.

Can Sotheby's therefore be used to time the market? Unfortunately it seems that after two perfect occasions, this time Sotheby's is not really helping in spotting the top in the SP500. However if we use the stock as an indicator, we can only record that the indicator (the stock) is divergent with the index and therefore a possible change in trend could be expected soon.

In addition the indicator (Sotheby's) is also making lower highs from the 2008 all time high, which was 61 usd: in fact it arrived at 55 usd only in 2011 and in November 2013 it stopped at 54 dollars.

Not a good sign either.

With the American equity market showing overall such strength, it is not a good sign that Sotheby's is actually at a staggering -20% from its recent peaks, bringing the stock in an outright bear market, similar to the Nasdaq Internet Index (<https://finance.yahoo.com/q?s=%5EQNET>).

Nobody will act upon only by looking at this chart but this is another sign among many others that testifies that the US market is stretched and an increase in volatility must be expected soon. What this will bring to investors in the near future is too early to tell, but in my opinion it calls at least for a decrease in the exposure to the American equity market.

It is then interesting to study the Sotheby's case in particular. In fact the company has been targeted by the hedge fund manager Daniel Loeb, from Third Point which now is in the board of directors with three seats.

The question is then, why a hedge fund manager should target an auction house? Of course the first answer is that he perceives that the company is currently undervalued and wants to extract more value from it; maybe there is another reason which is well hidden to mainstream public and is a coming substantial increase in inflation in the US. Even though data are showing a very low level of inflation, on the other hand the most popular bank note in America is the 100 dollar bill, or dining in a very good restaurant will cost around 70 dollars plus tip each, or 1 gallon of gas (in New York) costs an average of 3.77 USD while the average was at 2.78 USD in 2010 only, an increase of 35% in just four years (source: <http://newsroom.aaa.com/wp-content/uploads/2014/03/10-Most-Expensive-Avg-Gas-Prices-3-17-1.jpg>)

What is exactly my point? The point is inflation in the US is already increasing.

The "smart money" seems to already be already at work to protect themselves from future substantial increase in inflation, if not outright trying to get advantage of it. What instruments can be used to protect people's wealth in time of inflation or hyper inflation maybe combined with a loose in faith in fiat money? The best investments are the one called "collectibles" which means vintage cars, gold coins, vintage stamps, jewelry and paintings or artistic artifacts in general, all being the business in which Sotheby's is in.

That's why Sotheby's is well on the spot, for those two main reasons: the first as a divergent signal if we look at the stock and its behaviour in recent years in calling market tops, the second as a possible flagrant signal that "smart money" are working to cope with increase inflation in the not so distant future.



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.

#### **Useful Links:**

European Central Bank:	<a href="http://www.ecb.int">www.ecb.int</a>
Bank for International Settlements:	<a href="http://www.bis.org">www.bis.org</a>
International Monetary Fund:	<a href="http://www.imf.org">www.imf.org</a>
Federal Reserve:	<a href="http://www.federalreserve.gov">www.federalreserve.gov</a>
US CFTC	<a href="http://www.cftc.gov">www.cftc.gov</a>

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