Flash Report Deutsche Bank

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"Quantitative approach for asymmetric results"

Deutsche Bank: not enough homework to pass AQR tests

Figure 1: Deutsche Bank monthly chart

The above chart is the monthly of Deutsche Bank. I think it is interesting to have a look at some European banks stocks as we are fast approaching October 26th, when the ECB will release the results of the Asset Quality Review (AQR), a test as the name suggests, to evaluate the quality of major european banks. It is well known, or at least it should, that one of the most troubled bank in Europe is not Unicredit, as many would think, but the German champion: one of the main concern is the amount of leverage that this bank still has, which is similar to a pre 2009 level. At the link a bloomberg article (http://www.bloombergview.com/articles/2012-09-16/will-germans-pick-up-the-tab-for-deutsche-bank-too-): it is true is from 2012 but nevertheless things haven't changed.

In any event, even if you believe the bank is the best in the world, it is useful to look at the chart.

The very first thing that investors should notice is where the stock is today, trading around 24 euros. That threshold is the last line of defense before dropping to its 2009 low, or a quarter-of-a-century support, as you can see from my purple line. Not an improvement I would say.

So it is facing right now a critical moment of truth. Looking at the movement since its 2009 low, the bank did a 2010 high which never came close later on. Actually the chart is very similar to the FTSE MIB, the Italian index. Both have a high immediately after a major low. What that means is that the high is just a pull back within an impulsive downward trend. In fact looking at time and price relations, highs should come at the of a trend, in an impulsive upward movement, not at the beginning. To have a better idea of what I mean, just look at the chart of the american index SP500 and you will see clearly that right now it is at the top, after 5 years from the bottom. That's a bullish structure.

So from the 2010 high DB did lower highs giving signs of increase weakness, not strength. Being again at 24 euros is very troublesome, especially with its index, Dax at all time highs, or close to it now. No good at all, Why? Banks are pro cyclical, so in an economy that is expanding, markets go up and banks go up too because they provide the blood to the system. In this case it is an anomaly having the Dax at all time highs with its leading bank at multi year low. A scary divergency.

Let's now draw some simple trendlines to the chart above and see what we can learn. See below.

Figure 2: Deutsche Bank monthly chart

Drawing trendlines from the 2010 is easy to note that any line is a bearish one, and there are absolutely no sign of any type of trend inversion, at least long term. As said before the stock is flirting with its last line of defense before moving very fast to its 2009 low. But that is just half way through the target.

In fact the whole structure from 2007 and onwards is a five waves impulsive structure, with the 2009 low being low of wave 3, high of 2010 is top of wave 4 and now the stock is moving to the end of this structure, which means a lower low of the one in 2009, precisely around 8 euros, as low of wave 5.

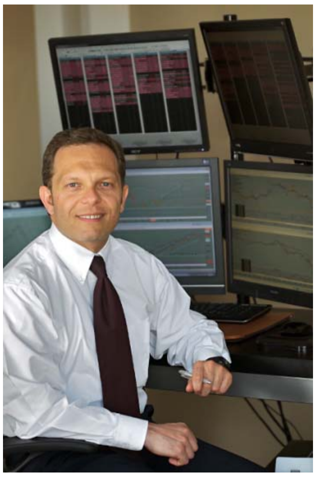
That is my master plan, which is saying already if DB is passing the AQR test or not.

What if I am wrong?

I have no privileged information on the status of AQR, but I can be wrong in my view on DB looking at the charts. Fair enough.

The chart is bearish but a different path for the stock will be possible only if it starts to move far up from this dangerous “Maginot line” of 24 euros and from then on, start doing higher lows.
To change outlook completely it needs to violate the January 2014 high of 40 euros, but confirmations will arrive only at the violation of 2010 high of 55 euros.

I know those are very far targets, but in this chart are the two resistance that form a lid on the run of this stock.



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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European Central Bank:	www.ecb.int
Bank for International Settlements:	www.bis.org
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