

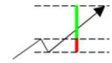
Flash Report Tod's

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“Quantitative approach for asymmetric results”



What is the real luxury? It's to be able to select.

Few days ago I have been discussing with an investor who happily told me that he bought the Italian luxury leather company TOD'S at 46 euros, and now it is at 60. His goal was to sell it when the stock was between 80 and 100 euros. The discussion was indeed on the possibility that the stock could actually arrive at his preferred level, which I have doubts at least in the short term since I know very well the chart. So I hope you like the idea of sharing my thoughts which lead to one question: is it a better investment TOD'S or another luxury equivalent, LUXOTTICA?

Let's start with TOD'S:

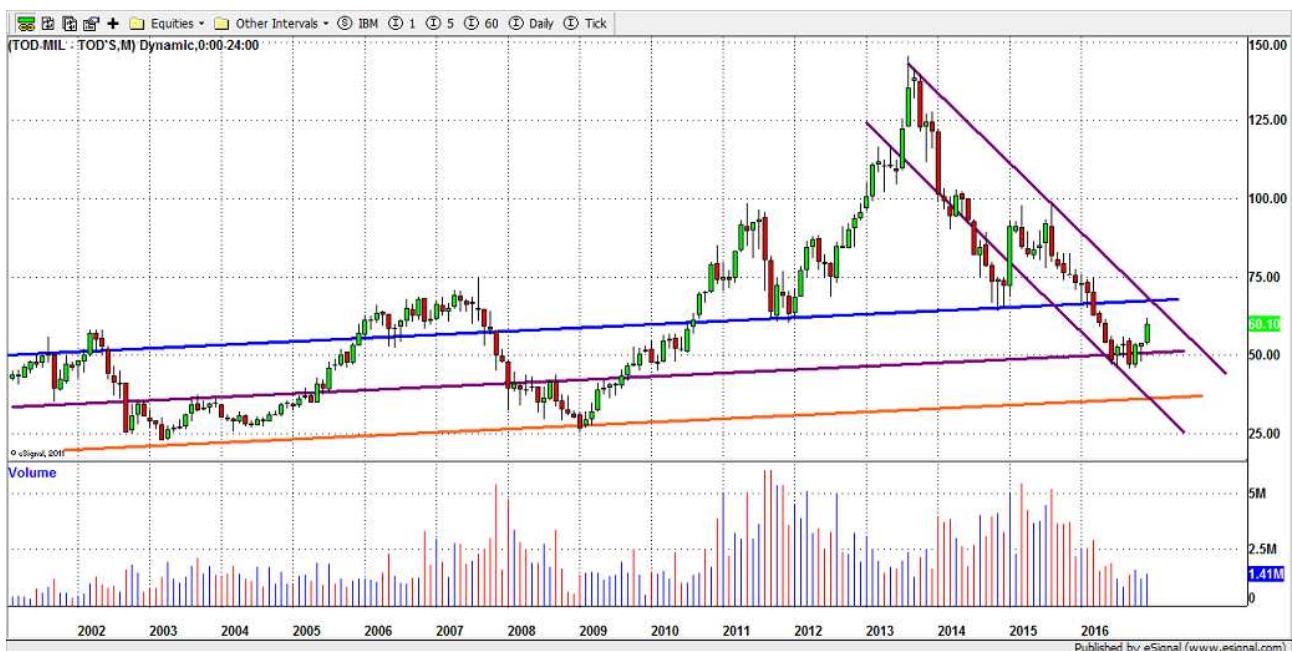


Figura 1: TOD'S monthly chart

As it can be seen from the monthly chart on Figure 1 TOD'S violated an important dynamic support which is the blue trendline and went straight to the subsequent support, the purple trendline. From such support the stock is moving upwards in what today can only be labelled as a bounce within a well established bearish trend. Evidence of the fact that the recent upward movement is a bounce is the absence of any spike of volumes that should have materialized at the recent support. Spike in volume would have been a capitulation which didn't happen, at least not yet.

It is important at this point for me to explain which is the mean difference for me between a bounce and a trend.

The main difference is to be seen in the expectation of the width of the price and time ratio, let me explain.

Let's look at the figure 1 chart and look at TOD'S in the 2009-2014 period: it can be noted that the stock went from 25 euros to 140 euros (+600%) in 60 months. In the same period if I would have been a master at spotting the tops to go short, what kind of results I would have obtained? A 10% in 3 months in 2010, a 40% in 8 months in 2011 or a 20% in 4 months in 2012.

While from the 2014 highs the stock arrived at 50 euros or a -65% performance in 24 months. A substantial performance in a substantial period of time. The same approach can be applied in that period. Going long from 2014 would have returned a far less interesting result compared to going short.

The conclusion is: the trend is your friend. Following any trend leads to maintain positions for longer with a higher return compared to fight the trend. Main task then is to recognize where the main trend goes.

For what concern TOD'S there are no signs whatsoever of any trend inversion right now but it is fair to note that its bearish trend is now aged and an inversion can be happen soon. Which signs would make me state that there is an inversion on this stock?

I have two main scenarios:

1. My favourite scenario (figure 2): the stock continues in its bounces until the blue trendline where it will fall the resistance (former support) from where it will resume the bearish trend to a new low landing at the orange trendline around 30 euros. I then expect, at that level, a volume explosion which will set the inversion.



Figura 2: TOD'S favourite scenario

2. The stock after reaching the blue trendline (figure 3) resume the bearish trend but instead of violating the recent lows, it makes a higher low and then inverts.



Figura 3: TOD'S secondary scenario

In both my scenarios I am not a buyer at these prices but wait to see how the situation evolves. Since the charts presented are monthly, it is possible that I will have to wait sometime before making an entry; my ideal time cluster is to buy the stock after February 2017.

Going back to the discussion that led to this report, the message I was trying to pass to the investor I was talking to was that TOD'S therefore is still in a bearish trend and therefore it might be better to look for alternatives in order to surf a bullish trend or at least, one that has all the characteristics to be labelled in a bullish trend. The selection is in a stock listed in the Italian stock exchange and is in the luxury business too, therefore very similar to TOD'S. The alternative is called LUXOTTICA.

Below in figure 4 you can see a monthly chart in which are present both the stocks.



Figura 4: monthly chart comparison TOD'S - LUXOTTICA

At the chart above there is LUXOTTICA in candlesticks while TOD'S is in lines. Clearly LUXOTTICA is in a bullish trend as it even didn't violate the 2014 low. Of course the stock may violate those lows at any time in the future, but the overall situation is very different from TOD'S which instead violated such lows, strongly.

Which one of the two will have a wider price and time expansion going long?

I leave the answer to you.

On a different note, even though it doesn't pertain my way of working (at least directly) it is interesting to know that since 2015 the European luxury sector is giving signs of weakness. An example is the Hermes profit warning few months ago (source: <http://www.wsj.com/articles/hermes-stretches-profit-margin-still-cautious-on-luxury-outlook-1458721915>) where it refers to external events as a reason for such warning. I don't believe that a singular event in a city is a reason for a global slowdown in sales of bags worth thousands of euros each.

Is luxury a sector I would buy? Well, it is not the one on top of my list. There are other more interesting sectors. My personal opinion.

Importante disclosure di un potenziale conflitto di interessi:

al momento in cui questo report viene diffuso, Francesco NON possiede azioni Tod's e Luxottica



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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