Flash report JCPenny

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"Quantitative approach for asymmetric results"

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Figure 1: JCPenny (bloomberg ticker: JCP) monthly chart

A name that in the last few months has been tweeted a lot is in fact the famous US retailer JC Penny as it is going under growing pressure due to a battle that a famous hedge fund manager unfortauntely lost.

The above is the monthly chart because I believe it is important to have the whole picture clear in order to really understand what is going on on this stock, and the monthly chart really does the job.

In fact it is eye catching at what juncture the company is right in this moment, or better, this month.

The stock is close to do a double bottom with the low of the year 2000 at 8,68 usd and recently it also violated a dynamic support made by the orange trendline, which was able to stop the descent in the 2007-2009 crisis.

So the future for the stock doesn't seem so bright, but the current depressed prices for this stock are happening with a much different situation than the previous ones.

There are a number of reasons to belive that what we are witnessing in these days are the final stage of a bearish moviment from where the stock has definitely a substantial upside potential.

This situation is very similar to the one I highlighted on Nokia last year in June, but of course since I don't predict the future, each analysis is a stand alone and cannot be replicated.

However let's look in details at this chart:

1. Volume: this is the major indicator that is confirming that what we are witnessing in these months is the capitulation on this stock, meaning that at these levels everybody is selling this stock. The lowest price is reached with the highest volume, so after these months there will be no seller left, and therefore the field will be all for the buyers, which potentially can drive the stock at least back to the first static resistance (purple line) at 16.43 usd and then to the orange trendline at around 20 usd.

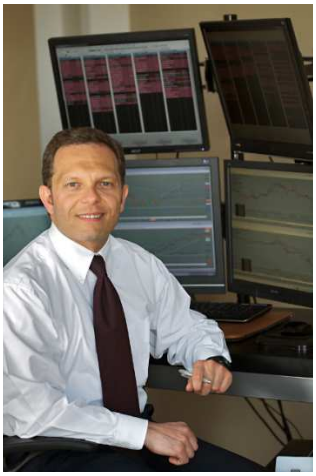
2. Oscillator: this indicator shows the strength of a particular movement, and it is easy to see that it is widest on the 2007 descent than this one, which translates to a lesser strength of the descent this time. In an Elliott Wave context, this means that we are witnessing to a final fifth wave of an bearish impulsive five wave structure.

Those two indicators together brings conviction that soon we will see a reverse in the direction of this stock, but right now it is too early to call it.

In fact it did not reach yet the double bottom at 8.68 usd which now it is too close to avoid it, and I suspect that it will also break that level, just to add drama to an already complicated situation, just to convince the last shareholder to get rid of the stock.

There is not yet an inversion candle on the monthly chart, therefore it calls for a continuation of the bearish trend, wait for an inversion candle and that will be a good entry point to try long positions with a limited stop loss below such candle low.

However to declare trend inversion for good, the stock has to first leave the bearish channel in which is inserted since 2010 and that will take time.



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.

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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