

# Management Joint Trust SA (MJT)

## Reflation, or the effect of a cyclical upturn into 2017

GSCGI lunch, 16<sup>th</sup> September 2016

*Timing markets since 1969*



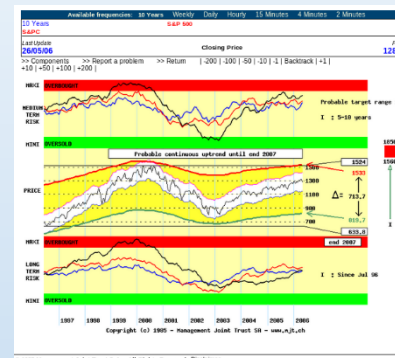
# Management Joint Trust SA, Geneva

## Long standing excellence in Finance and Technology

47 Years  
Anniversary



1969 - 2016



Founded in 1969

1982: Microfiches, Reuters feed

1985: online (X25)

1997: [www.mjt.ch](http://www.mjt.ch)

2009: mobile version

### Academia & Awards:

1984 and 2011: presented to the STA, Society of Technical Analysts (UK)

2013: Jean-François Owczarczak receives Bronwen Wood Award for best CFTe exam paper in the world in 2012 (delivered by IFTA), Presentation to SAMT (Swiss Association of Market Technicians)

2015: Finalist in “the technical analyst” Awards, “Best Specialist Research” Category

April 2016: presentation to Market Technicians Association, Zürich ([mta.org](http://mta.org))

International Federation of Technical Analysts webinar ([ifta.org](http://ifta.org))

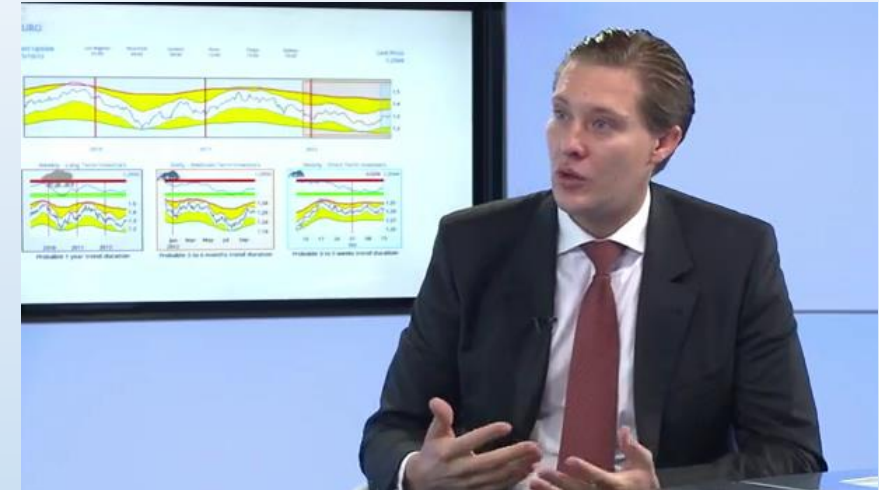


# Who we are



MJT was founded in 1969  
by M. Edouard Owczarczak,  
a Harvard Business School Graduate,  
lecturer in Financial markets  
at the University of Geneva for 20 years  
and former Allied member of the NYSE

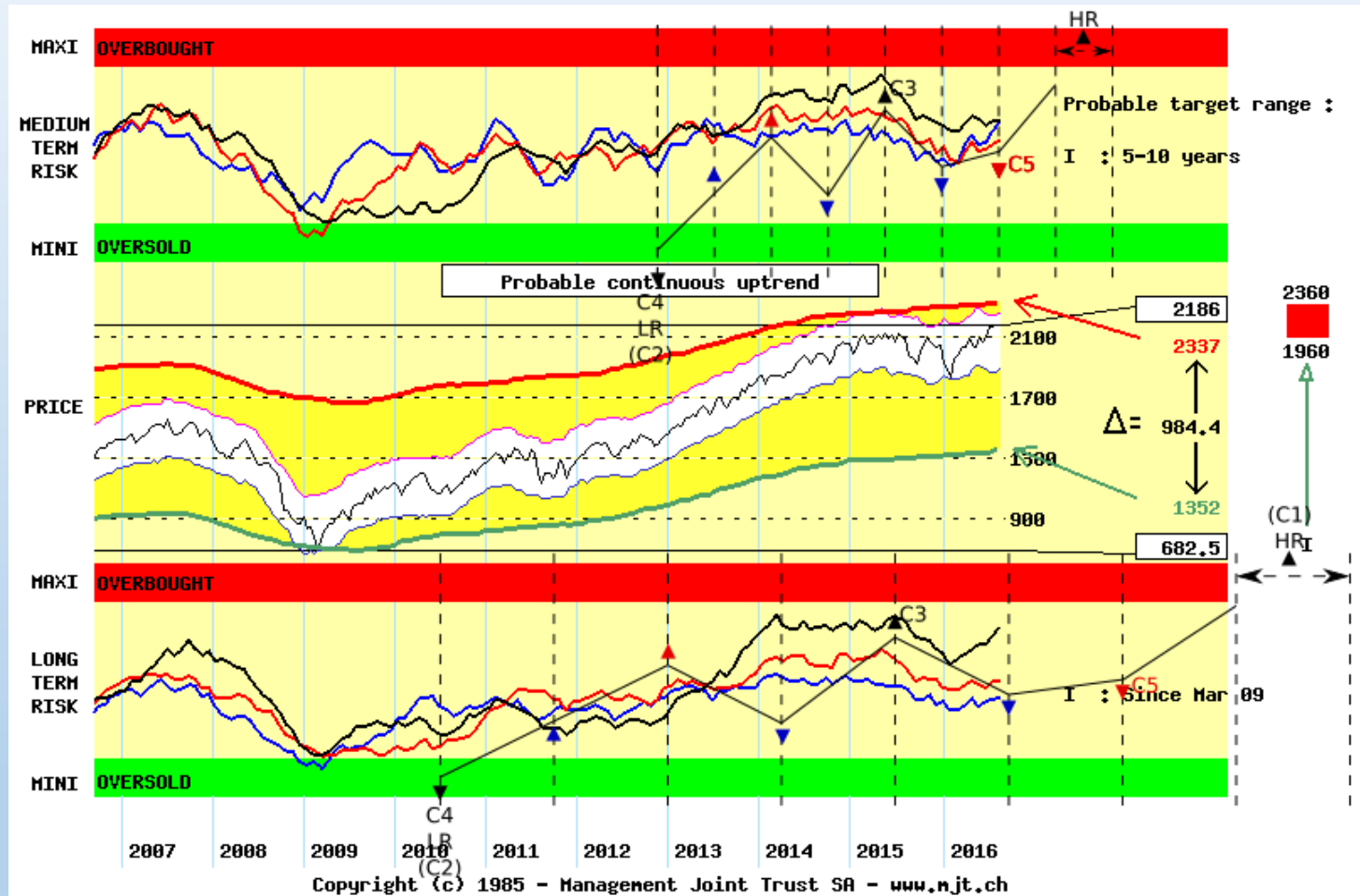
Edouard Owczarczak  
is President of the Board of MJT



Started his career in 1998  
as an Investment Banker in London  
Since 2003 with MJT,  
advising institutional clients  
Holder of the Bronwen Wood Award 2012  
Finalist in the 2015 TA Awards

Jean-Francois Owczarczak, lic oec HSG,  
CFTe, MSTA, FRM and CEO of MJT

# S&P500, bi-monthly chart (today)



Following an intermediate top (Case 3) made in July 2015 on our long term oscillators, this bi-monthly chart is now in a resume uptrend mode toward end 2017/2018

Our medium term oscillators are close to confirm an acceleration up (Case 5) towards the Spring 2017 in first instance.

Initial targets towards 2'350 could be revised up as the move accelerates.

The image displays three stacked charts illustrating market sentiment and price trends from 2004 to 2013.

**Top Chart:** Shows MAXI (OVERBOUGHT) in red, MEDIUM TERM RISK in blue, and MINI (OVERSOLD) in green. A text box indicates "Probable continuous uptrend until Aug 2015". The price range is marked as 1692 (top) and 682.5 (bottom), with a difference of  $\Delta = 887.3$ . The price is currently at 1807.3.

**Middle Chart:** Shows PRICE (black line) with a shaded yellow area representing the probable continuous uptrend until Aug 2015. The price range is marked as 1692 (top) and 682.5 (bottom), with a difference of  $\Delta = 887.3$ . The price is currently at 1807.3.

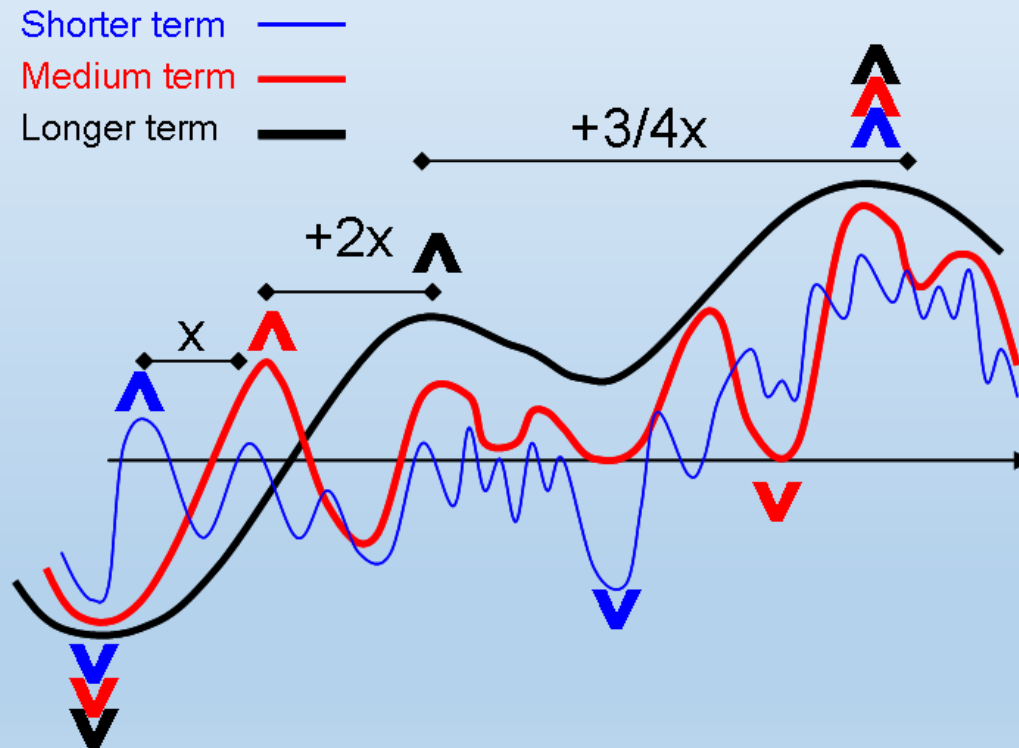
**Bottom Chart:** Shows MAXI (OVERBOUGHT) in red, LONG TERM RISK in blue, and MINI (OVERSOLD) in green. A text box indicates "Since Mar 09". The price range is marked as 1692 (top) and 682.5 (bottom), with a difference of  $\Delta = 887.3$ . The price is currently at 1807.3.

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Targets that were calculated at the time were only slightly underestimated (circa 2'130)

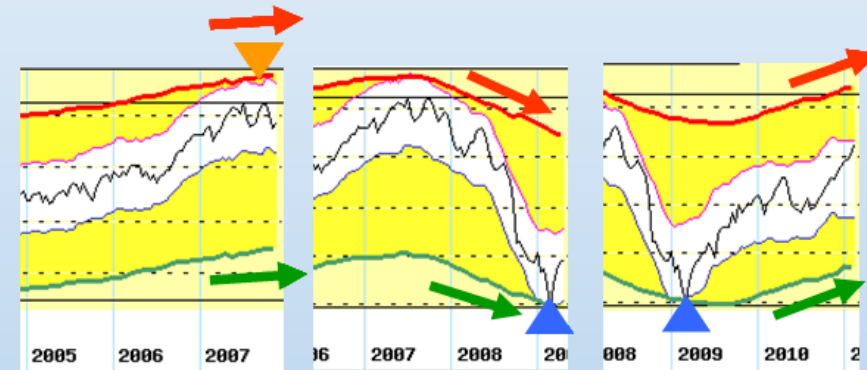
# Methodological brief

**Timing oscillators:** different prices cycles are captured by our 3 Timing oscillators. Monitor how their relative positioning defines specific situations (Cases) to always know where you stand within the Trend (e.g. please see below the ideal Uptrend Case succession sequence)

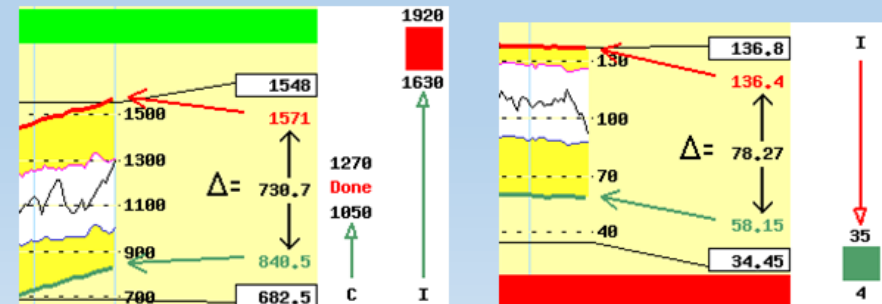


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**Trend direction:** the direction of FinGraphs' large envelope will help you decide either to apply an uptrend or a downtrend model. Contacts between the wider and thinner envelopes will help you anticipate and confirm market turning points (e.g. S&P500 bi-monthly, extracts from the 2005-2011 period).

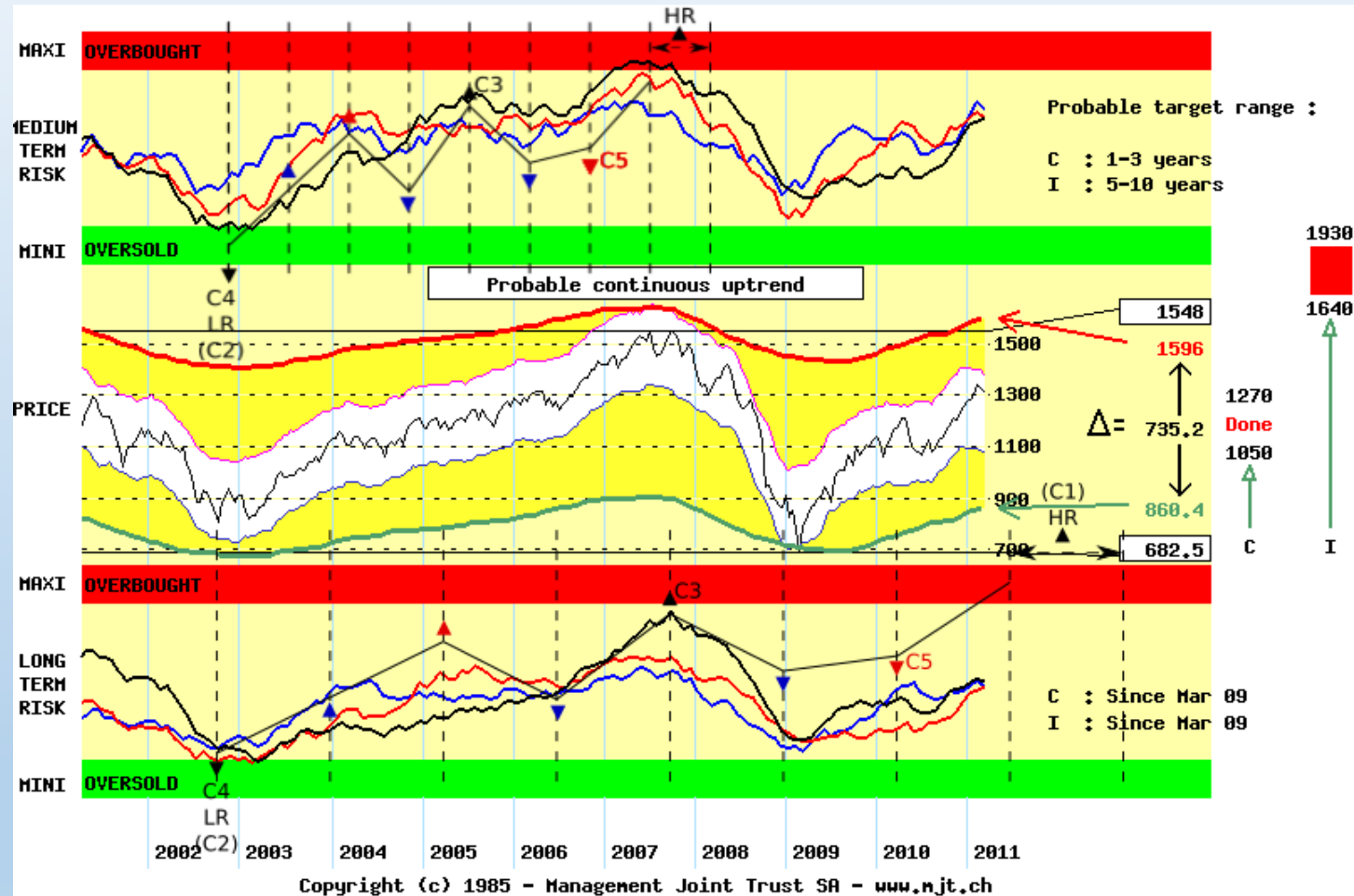


**Price targets:** based off historical volatility, they can highlight price potential or risk and, once achieved, define take profit or stop loss areas (e.g. below S&P500 in early 2011, Brent in October 2014).





# Another historical examples (S&P500, bi-monthly, 2002-2011)



From end 2005, our longer term oscillators were projecting a Case 3 end 2007, a top which was eventually confirmed mid January 2008

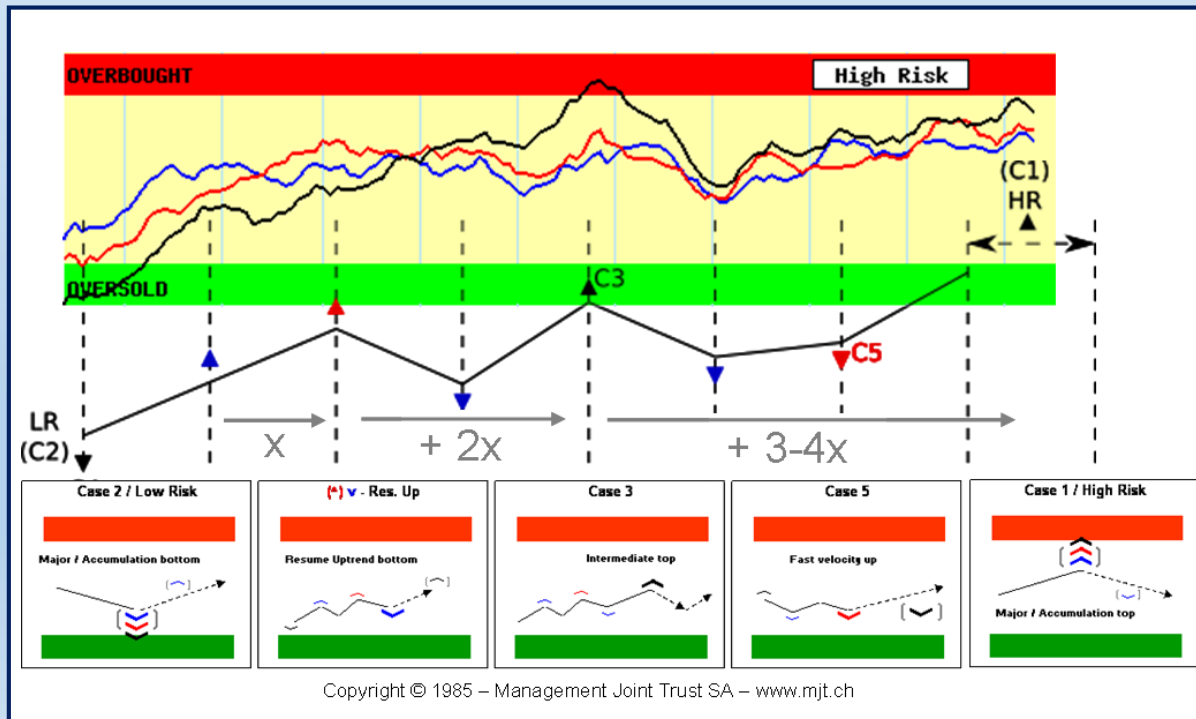
Following the crash, a Low Risk was actually confirmed in May 2009 on a blue bottom, before a Case 5 added further support to the recovery in 2010.

The Decider allows for the anticipation and confirmation of key scenario events

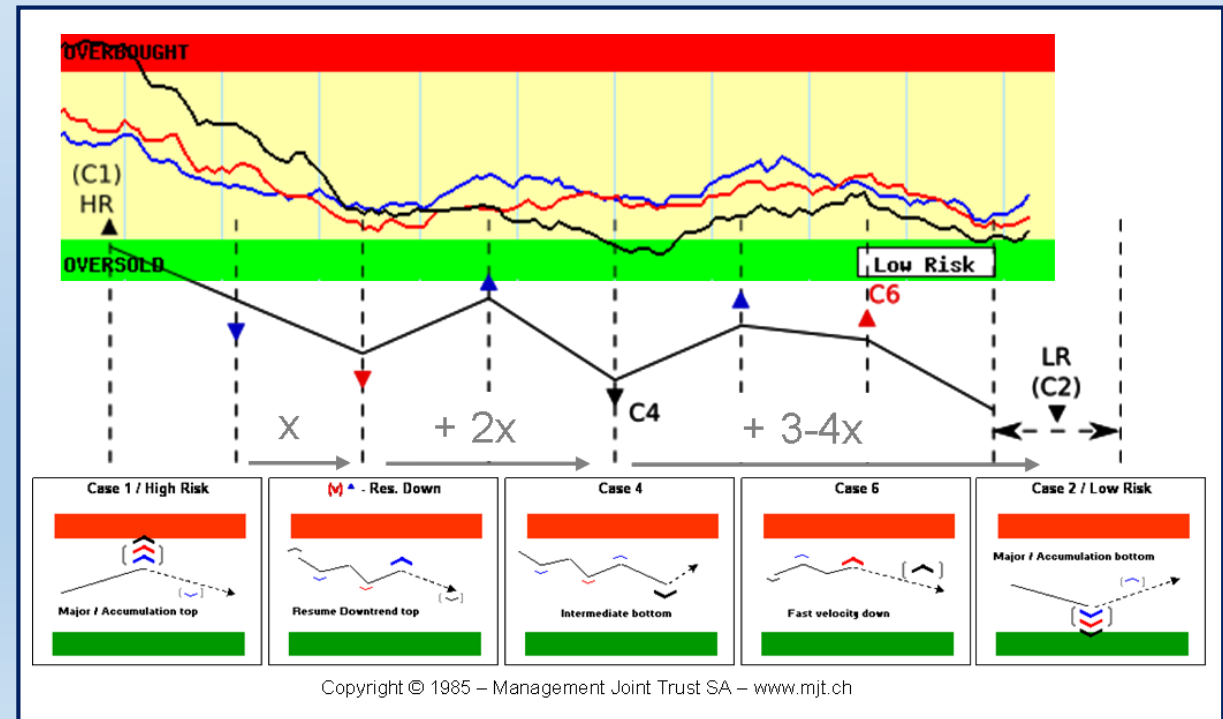
# Derived models

MJT's Timing oscillators allow investors to position themselves along the trend (uptrend or downtrend). Indeed, their relative position defines specific cases (Low Risk, Intermediate Top, Fast velocity up, High Risk), so that when you know where you are, you can anticipate the probable future sequence of events. Trend Direction and Price targets are factored into the algorithms to favor either an uptrend or downtrend sequence.

## Uptrend model

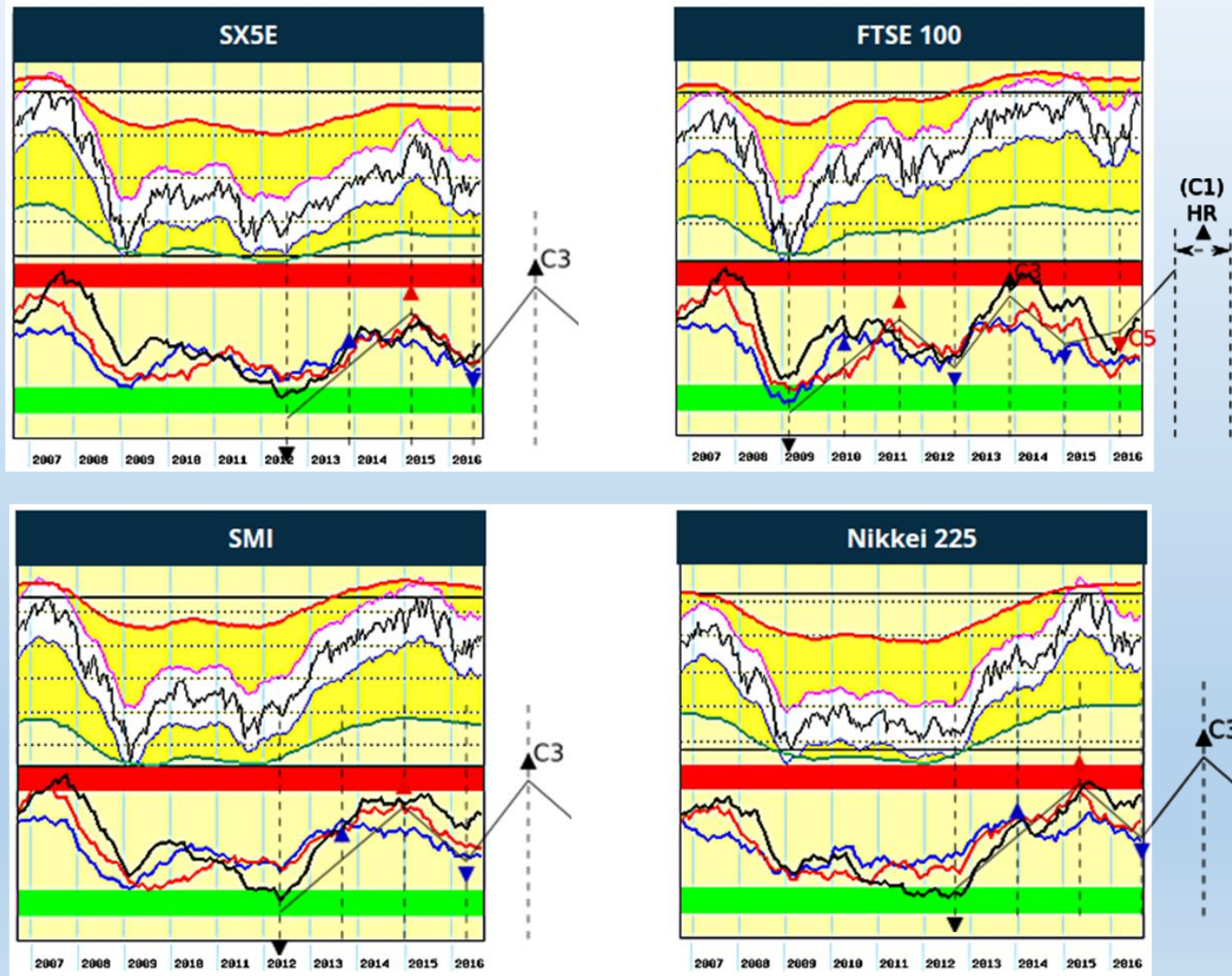


## Downtrend model





# Other major equity markets (Mosaics: visual intermarket analysis)



Despite some asynchronicity in the exact timing and the degree of our long term oscillator tops:

Red top on SX5E in 2Q15

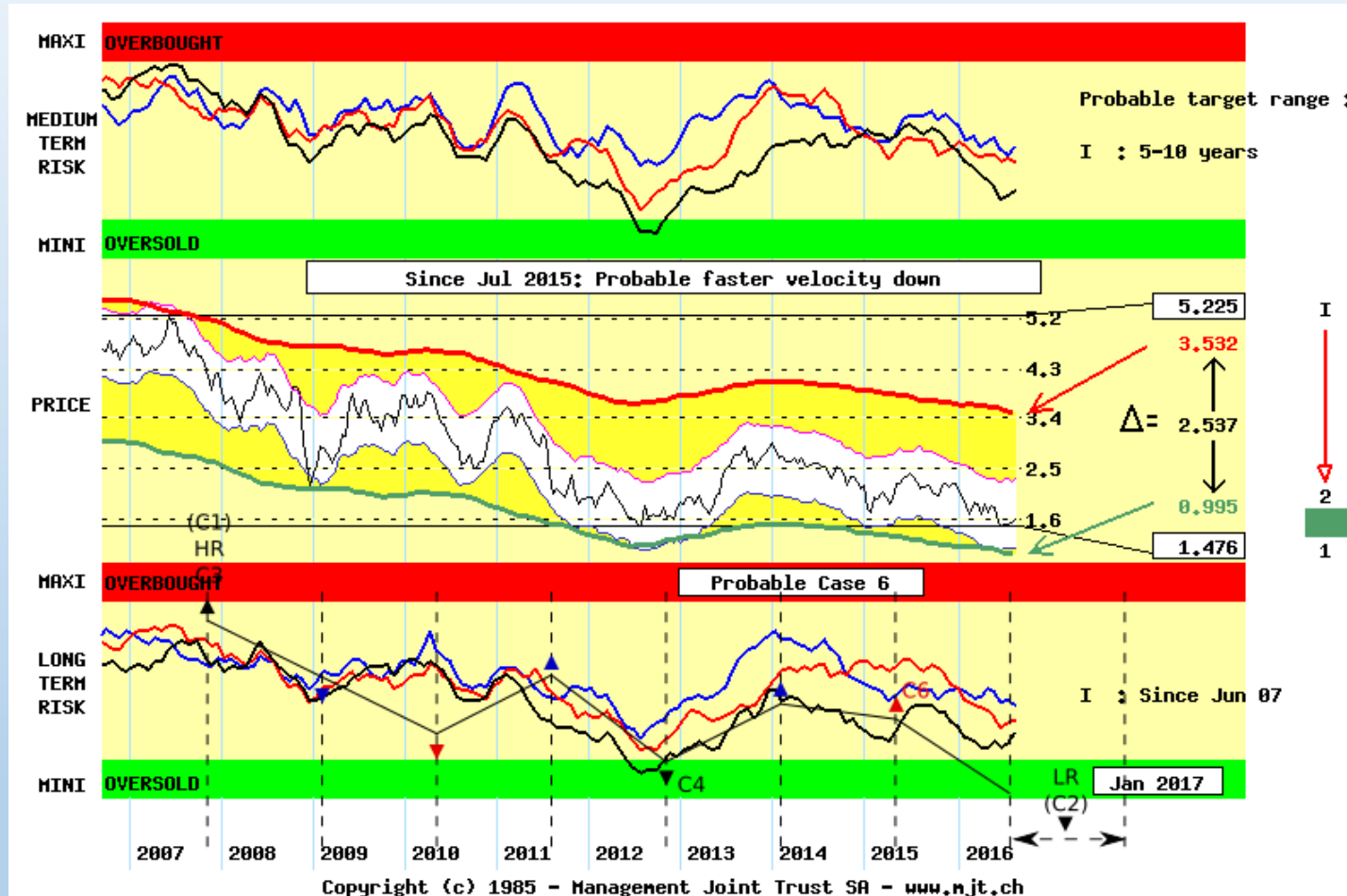
Case 3 on FTSE100 early 2014

Red top on SMI end 2014

Red top on Nikkei mid 2015,

**the present configurations confirm a resume uptrend situation (blue or red bottoms) in all 4 markets.**

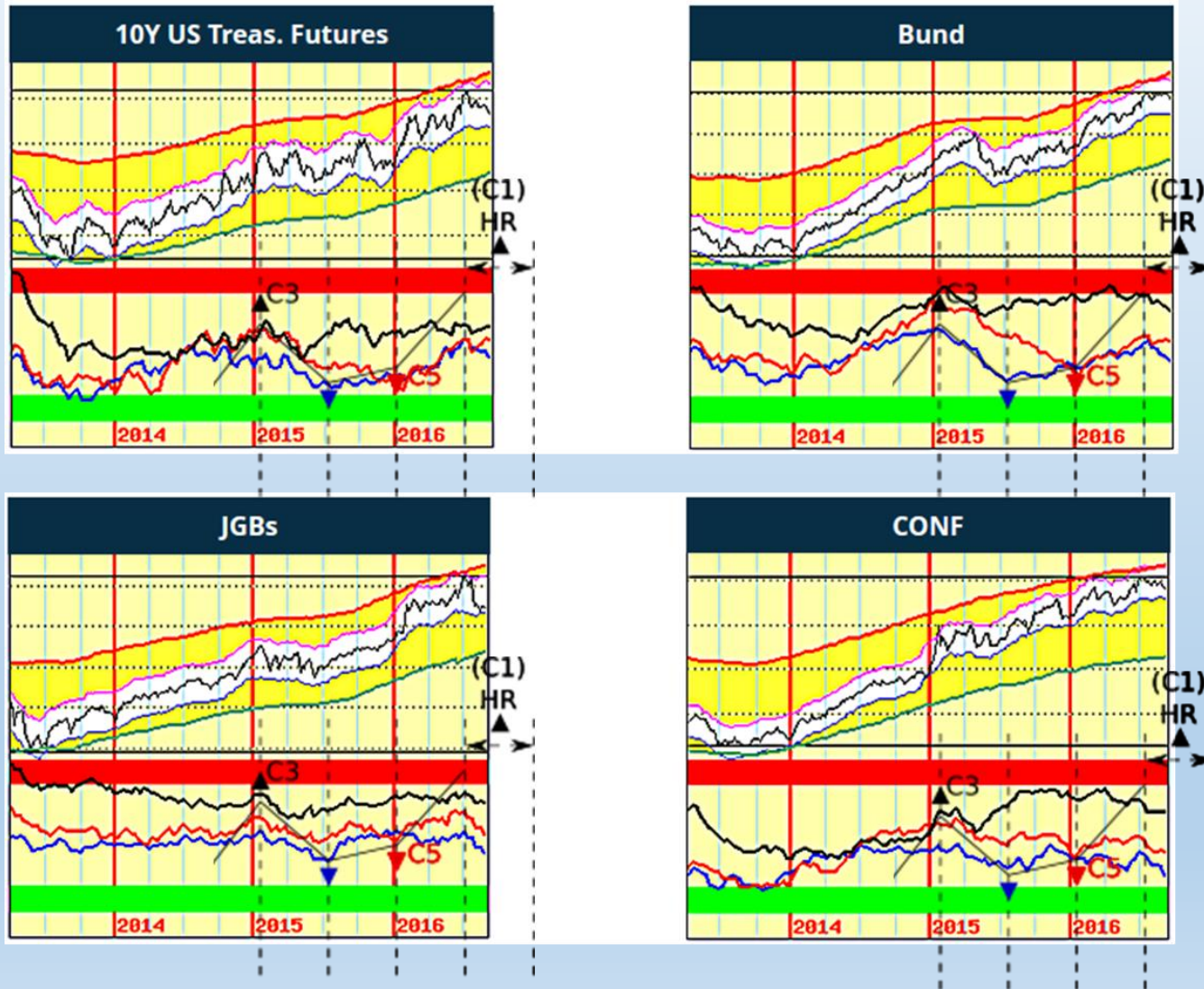
# Towards a correction up in long term yields (US 10 Year Treasury)



As equity markets resume their uptrend, the bond market may be approaching an important top (low in yields).

Following their rebound in 2012-2013, US Treasury yields resumed their downtrend in a succession of descending tops (Case 6 on our longer term oscillators). This acceleration down should be coming to an end between now (our suggested model position) and January 2017 (automatic message).

# Has the correction down in treasuries already started?

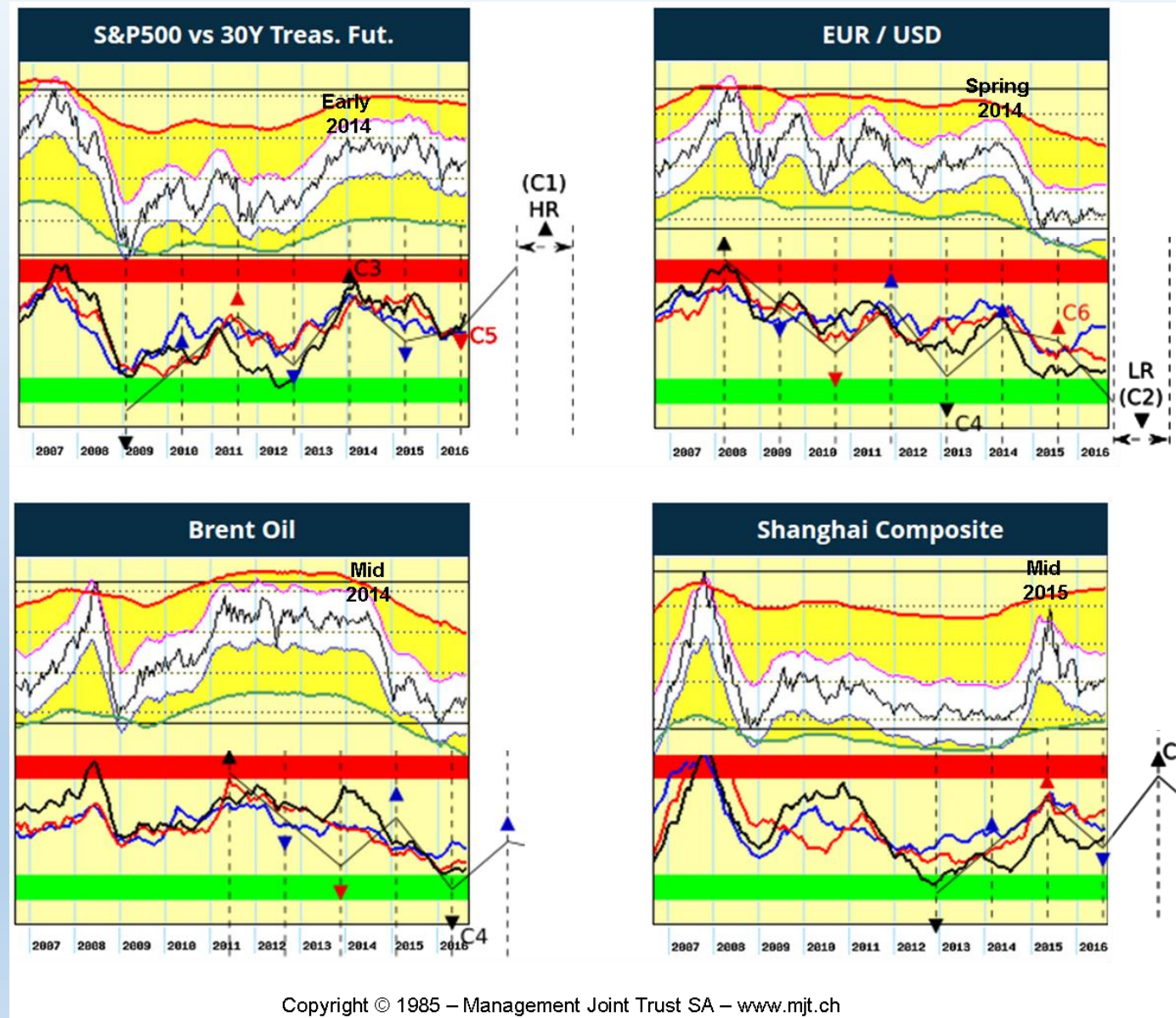


The Weekly charts of the main 10 Year global treasury futures have all reached High Risk zones following the Case 5 made in early January 2016.

The correction which could have started mid 2016, could last up to 12 months. Prices could correct down by circa 10% or in yield terms circa 100 to 150 bps (RE: also see the previous 10 year chart).



# Where we come from

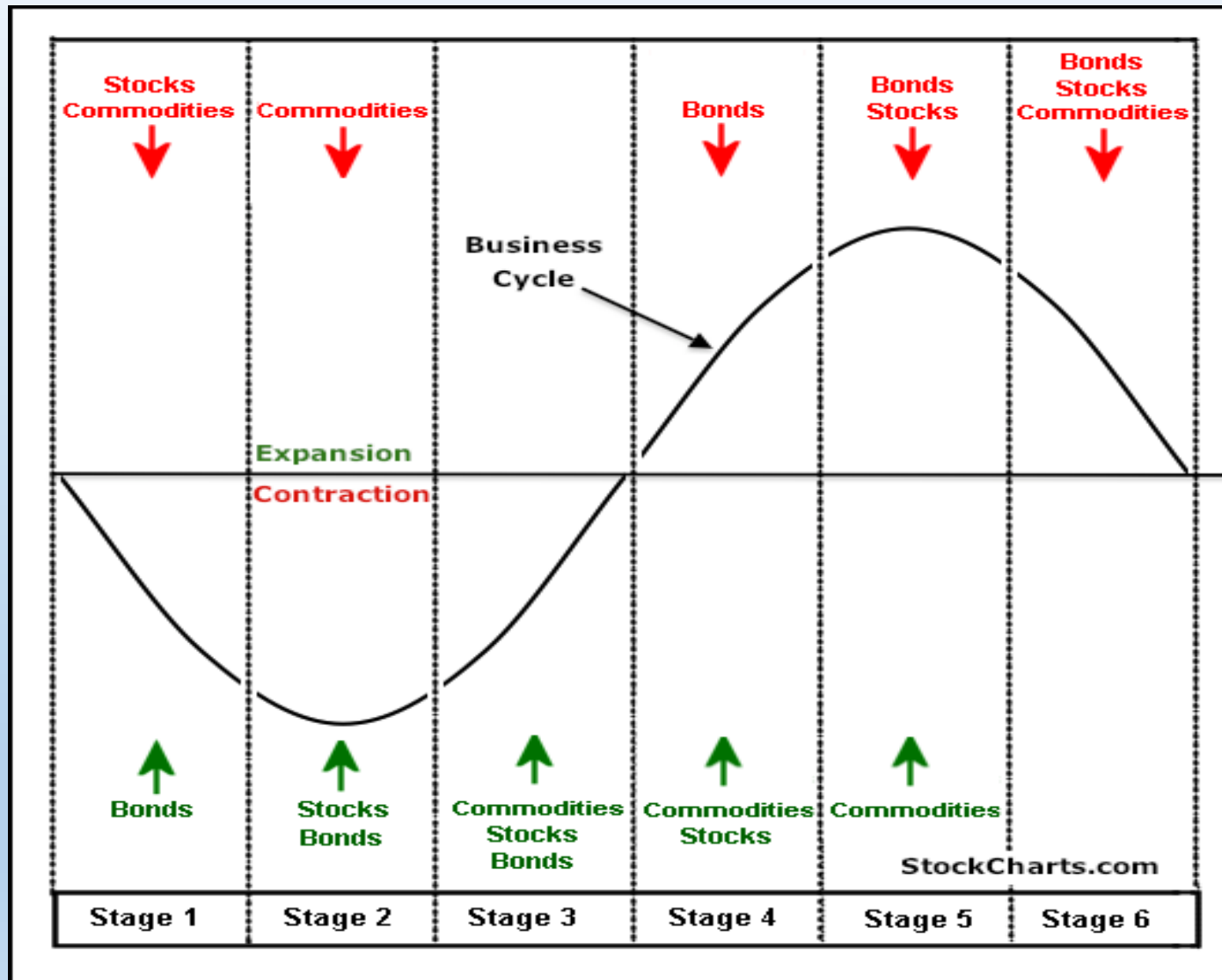


Since 2014 and the start of tapering, the S&P500 has been in a correction down vs the long term US Treasury futures.

2014 also saw the resurgence of the European crisis and the crash in oil prices resulting in widespread monetary easing (ECB, BOJ, PBOC)

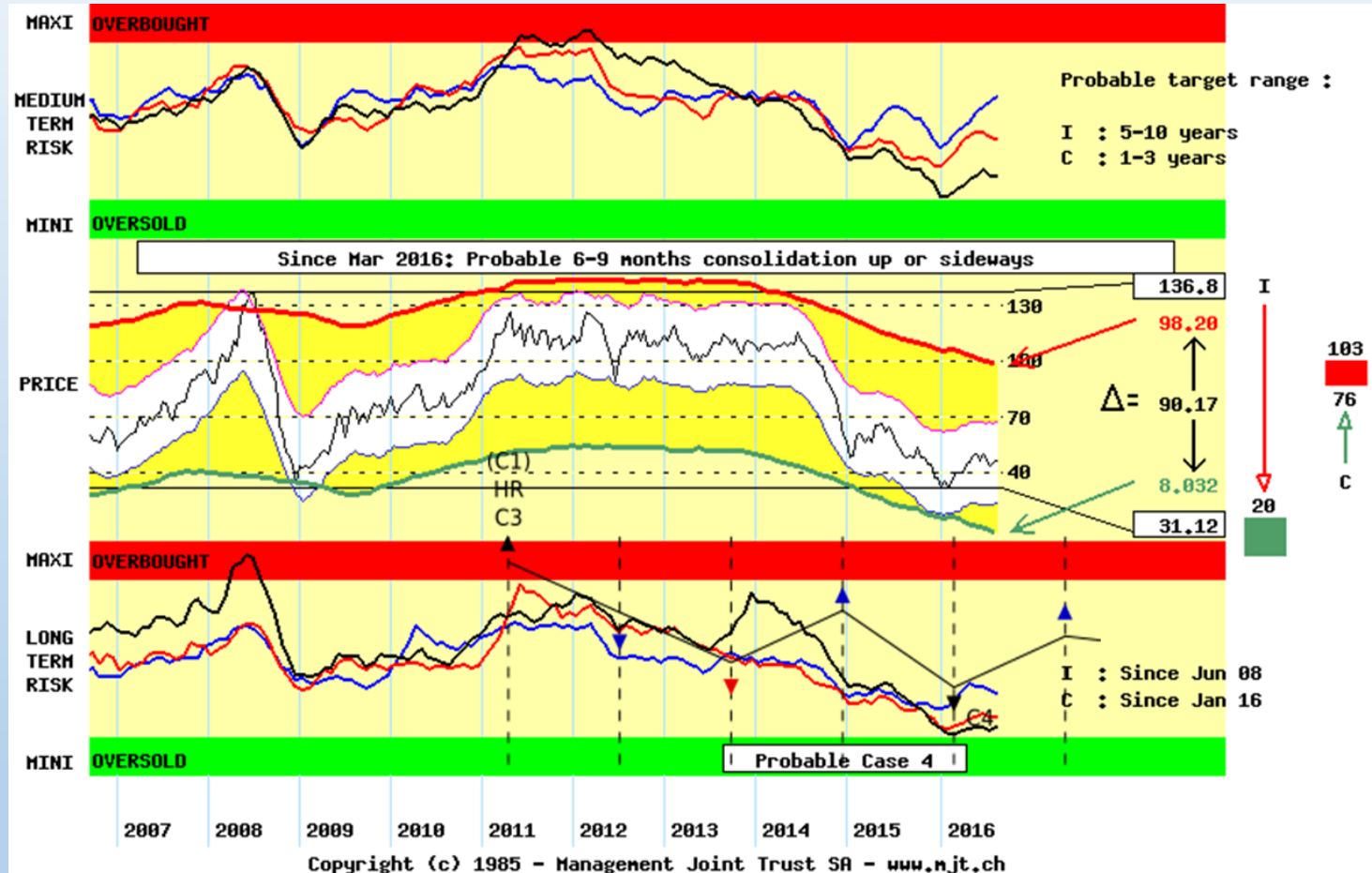
As result a new highs were made on equities during 2Q and 3Q 2015, only to be reversed until early this year.

# Pring Turner Business cycle (MJT's interpretation)



With equities resuming their uptrend and bonds topping out, the Pring Turner Business cycle would position us possibly in late stage 3 early stage 4, on the verge of an acceleration up in the economy. With monetary policies still mostly accommodative, we believe this could trigger a period of reflation and with it an acceleration up in interest sensitive assets, oil & commodities especially.

# Commodities: Key to reflation (Brent Oil as a proxy)

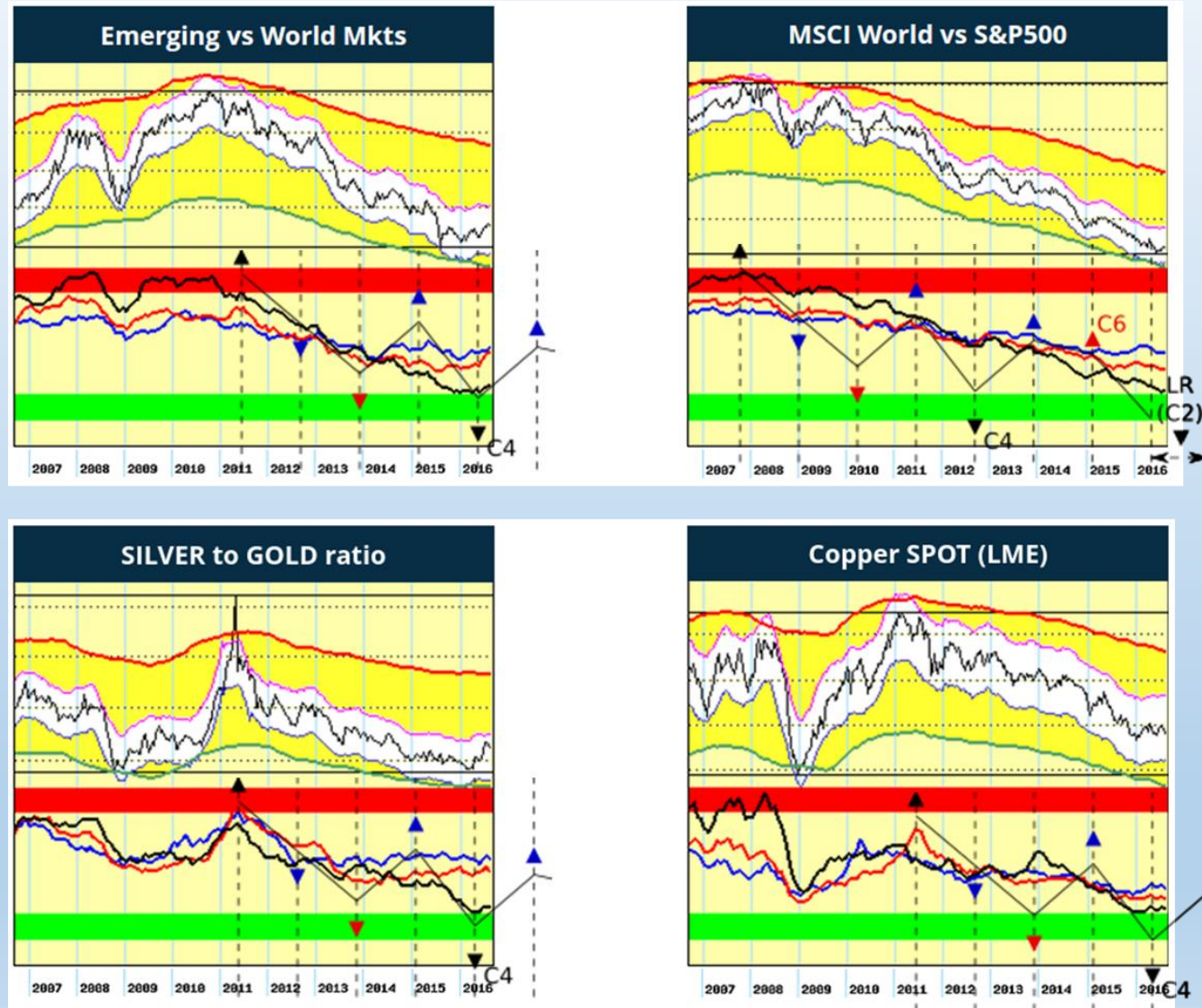


Our automatic messaging has identified a Probable Case 4. A Case 4 is theoretically an intermediate bottom, but the reaction up could still last 1 to 1.5 years (possibly into mid 2017 in our present case).

Targets (right hand side of the charts) show that impulsive targets down (towards \$20) have almost been reached and that the correction up which is underway could lead us back towards \$76, and possibly even above \$100.



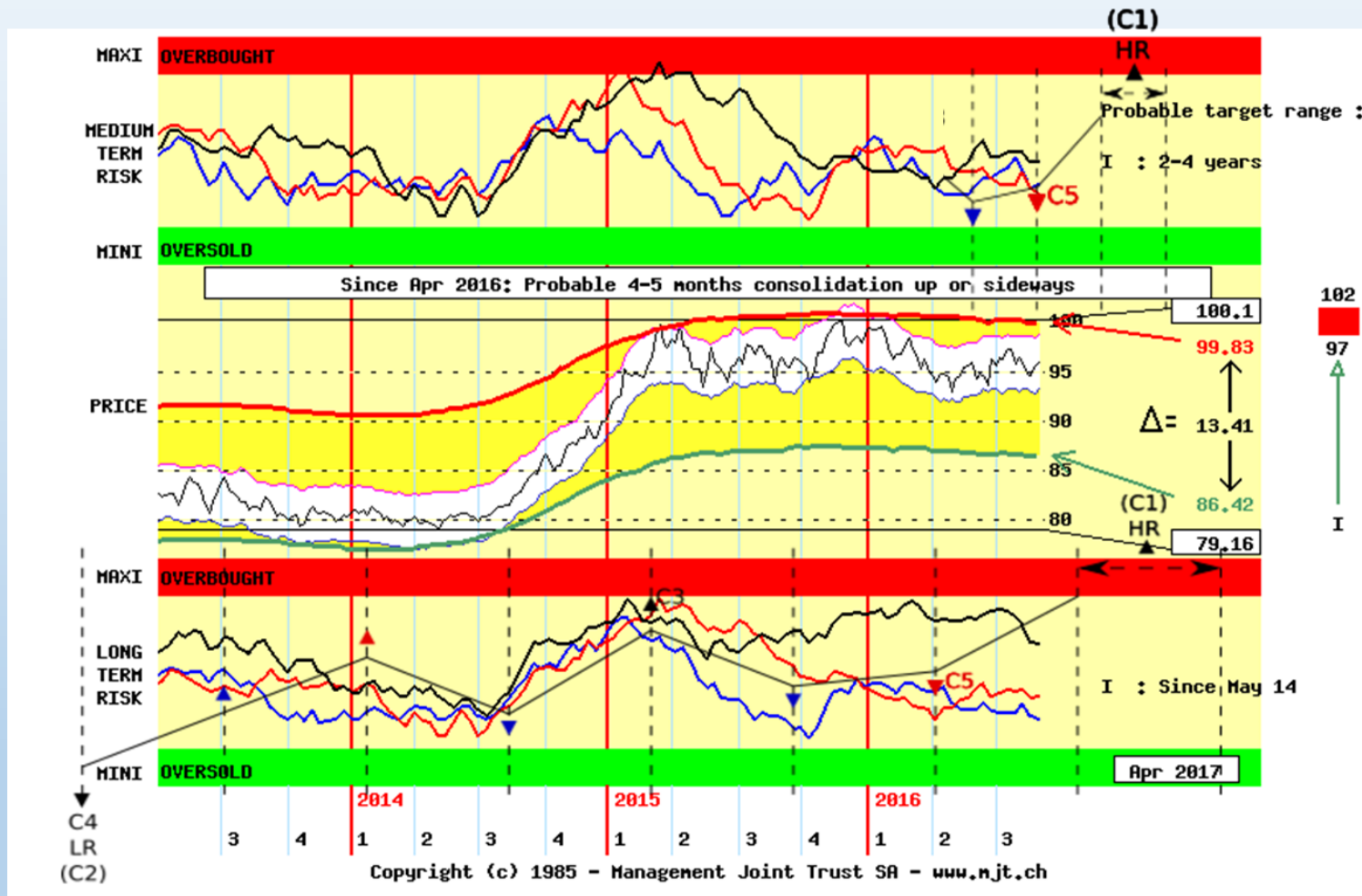
# Commodities: Key to reflation (confirming important lows)



As the recovery accelerates and commodities enter a second leg up, we expect the reallocation of capital into Emerging Markets to increase (a Case 4) as well as more generally, capital flows out of the US into other markets, which today show cheaper valuations levels and higher return perspectives.

Case 4 intermediate lows on the the Silver/Gold ratio and Copper could also confirm economic improvement.

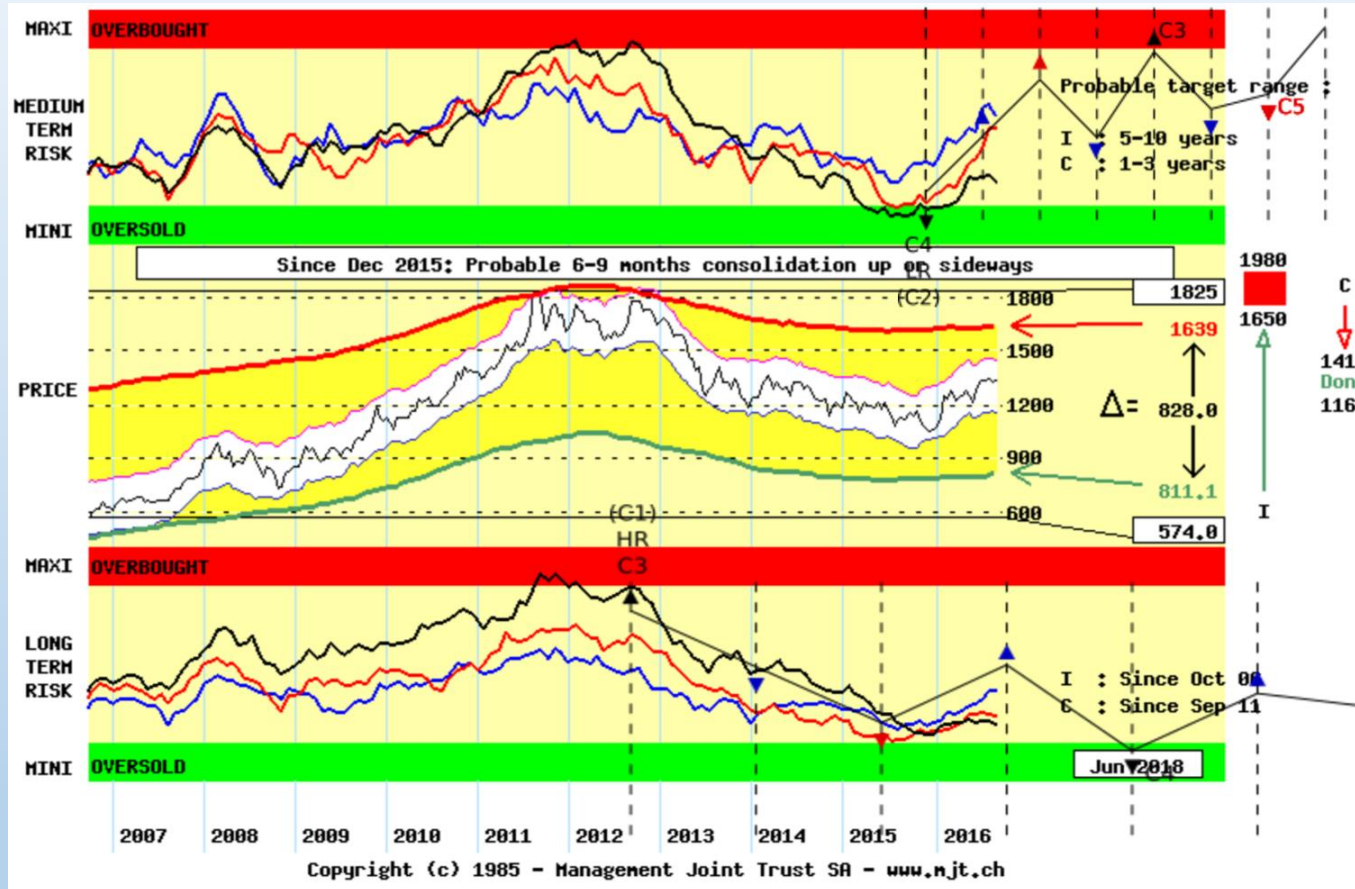
# As commodities rally, what happens to the US Dollar (Dollar Index)



Since its strong uptrend in 2014, the Dollar Index has struggled to move much higher. It is now approaching a High Risk zone on both our long term and medium term oscillators.

Over the next few months, the Dollar Index may attempt a last move up to re-test its highs. Yet, the trend looks exhausted, as confirmed by our automatic messaging system which is already positioned in a downtrend

# Gold, a defensive commodity (bi-monthly chart)

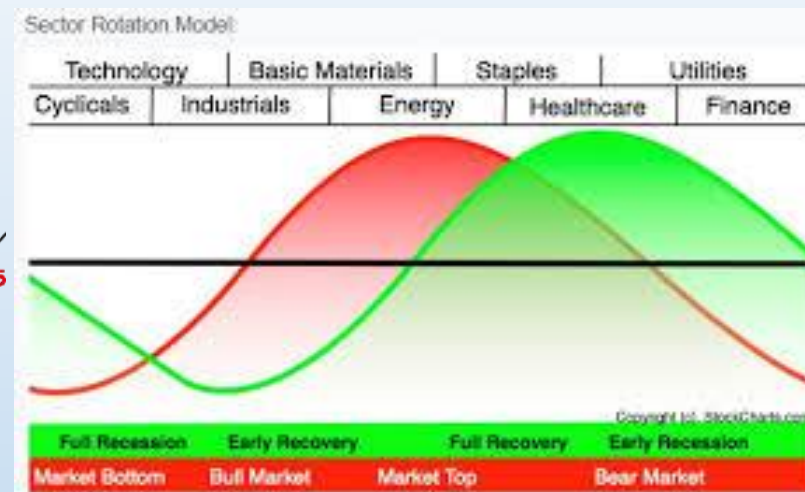
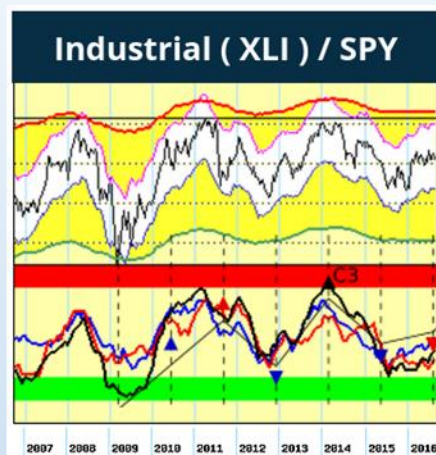


Following its correction down from late 2012, Gold has been on the rise since December last year. It has been a clear winner in the bumpy transition towards potential reflation (USD correcting down, January risk asset sell-off, the FED having been «on-hold», Brexit).

Our longer term oscillators could justify further weakness into 2017, if, for example, reflation and economic growth substantially accelerate.



# Looking for confirmations in Sector rotation

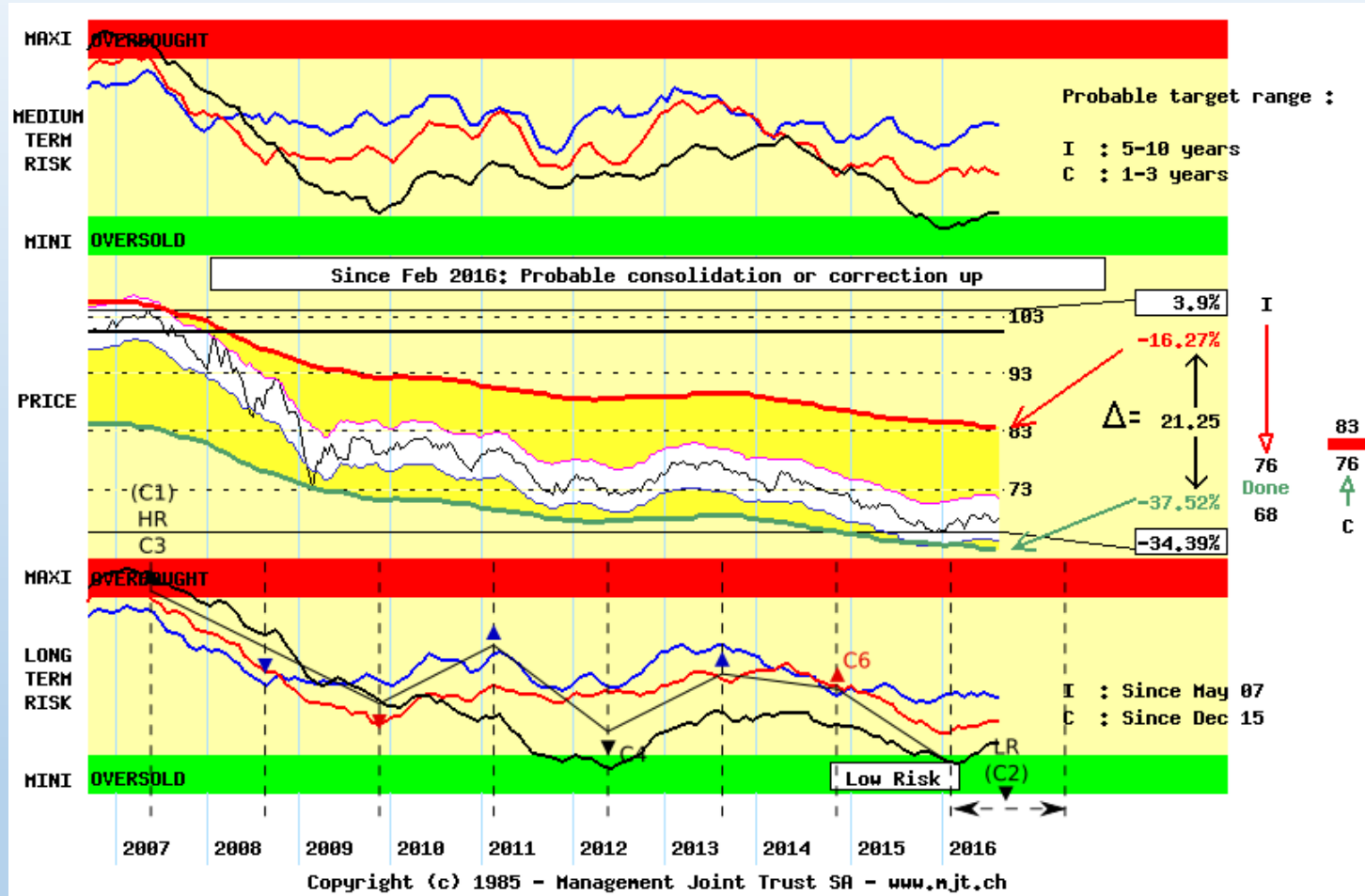


Similarly as our review of the Pring Turner model, we also look at sector rotation to position ourselves in the cycle.

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Early cycles movers (Consumer Discretionary and Technology) performed strongly in 2015. Now Industrials, Basic Materials and Energy could be the next sectors to outperform, which would confirm the reflation story. As interest rates correct up, Financials should also benefit.

# Value vs Growth is Low Risk (respective S&P500 ETFs: IVE vs IVW)

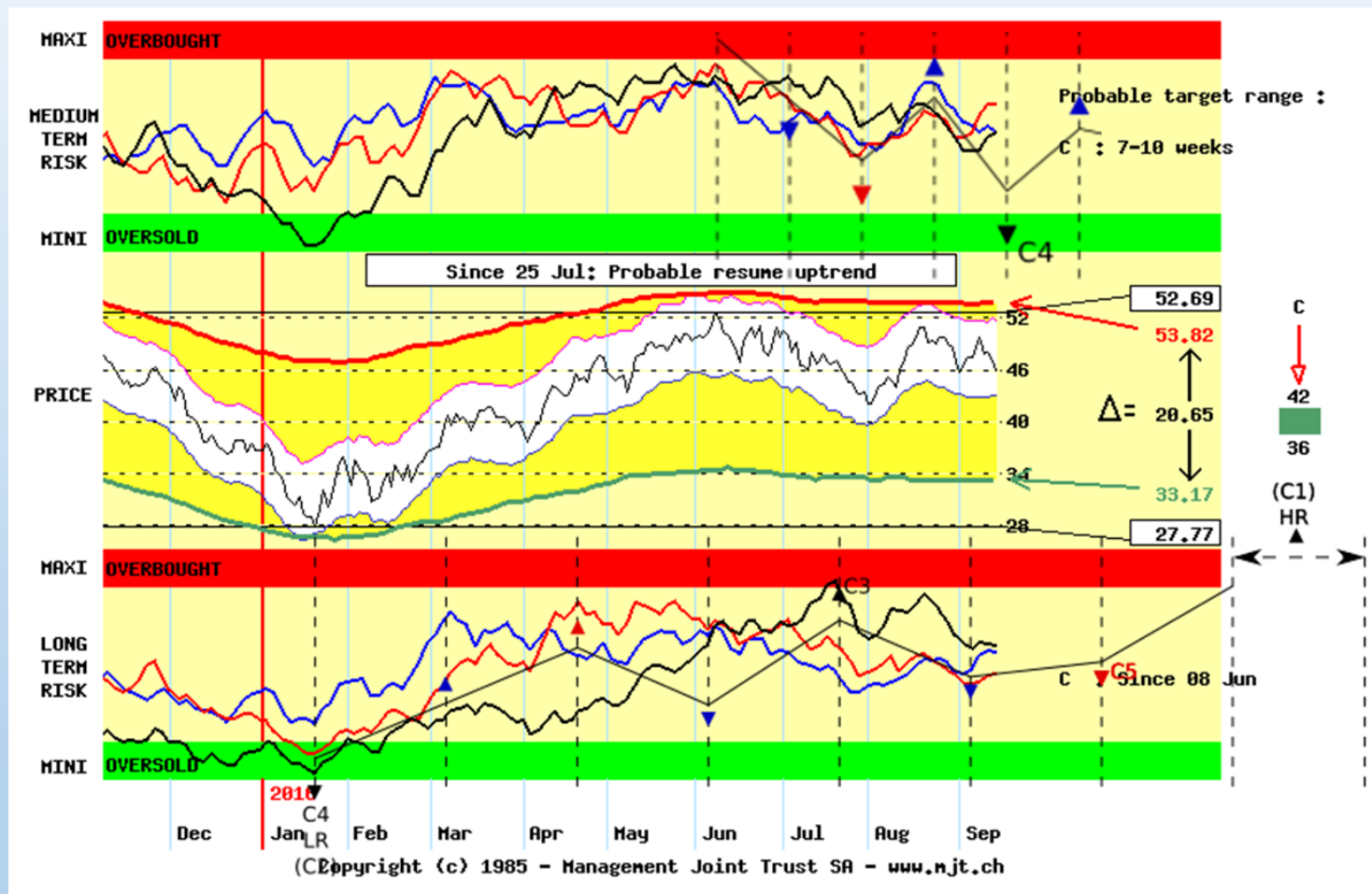


The Value vs Growth theme plays well into many of the arguments developed above:

When cyclical recovery accelerates, typical value sectors such as Industrials and Energy usually outperform.

At the same time, a correction up in interest rates should benefit Financials (another value sector) and negatively impact long dated cash flow projections (typical of growth sectors such as Technology and Healthcare).

## Monitoring the reflation scenario: Oil Brent Daily chart



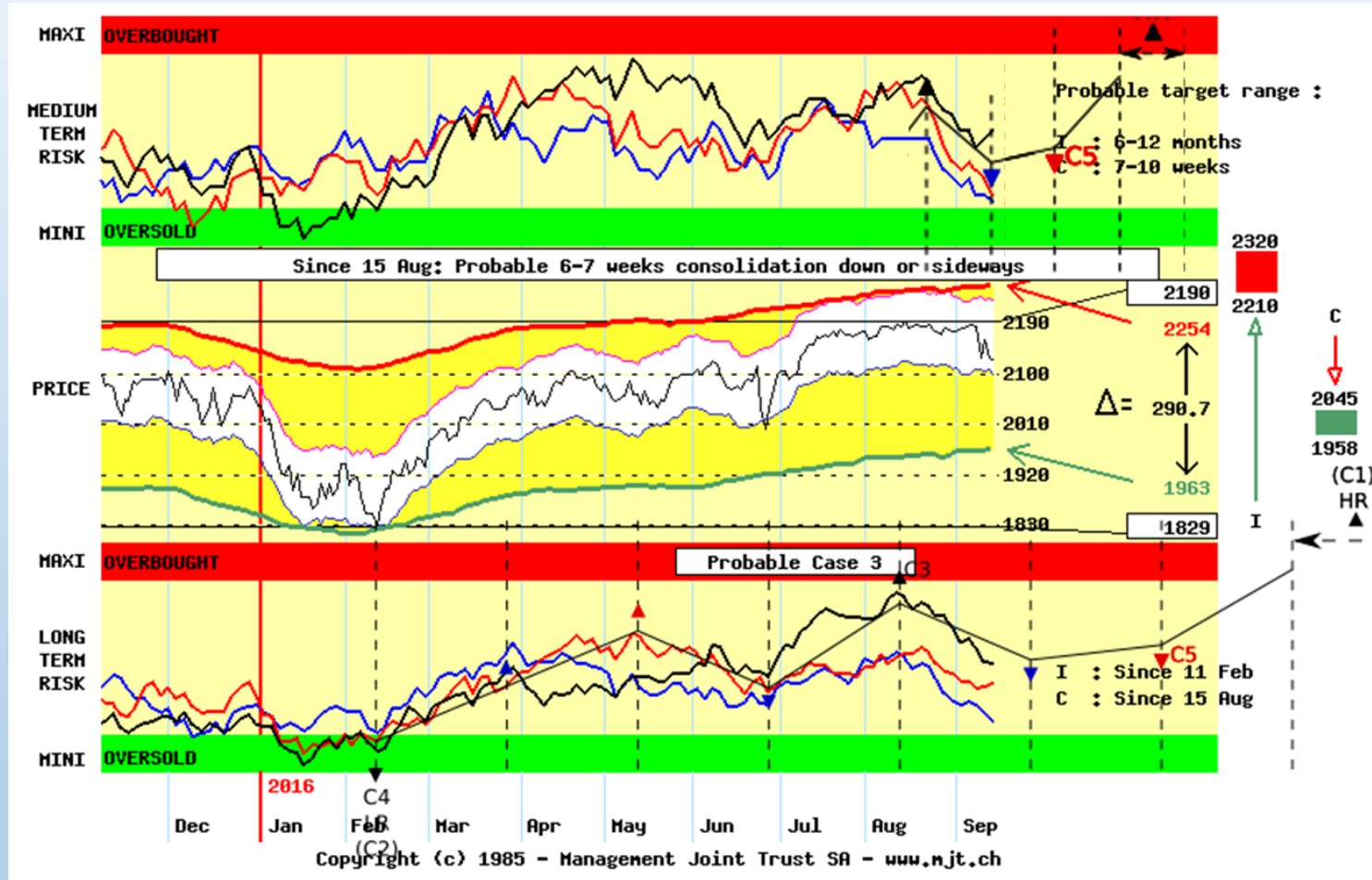
According to the model on our long term oscillators, Oil topped out a bit earlier than planned. That said, if we do follow the model through, Brent could now be in a position to resume its uptrend.

The medium term oscillators are now approaching the timing of a Case 4 (C4) black bottom and could offer welcome support.

Going forward, we remain confident with our global deflation scenario as long as Brent Oil can hold above \$36.



# Monitoring the reflation scenario: S&P500 Daily chart

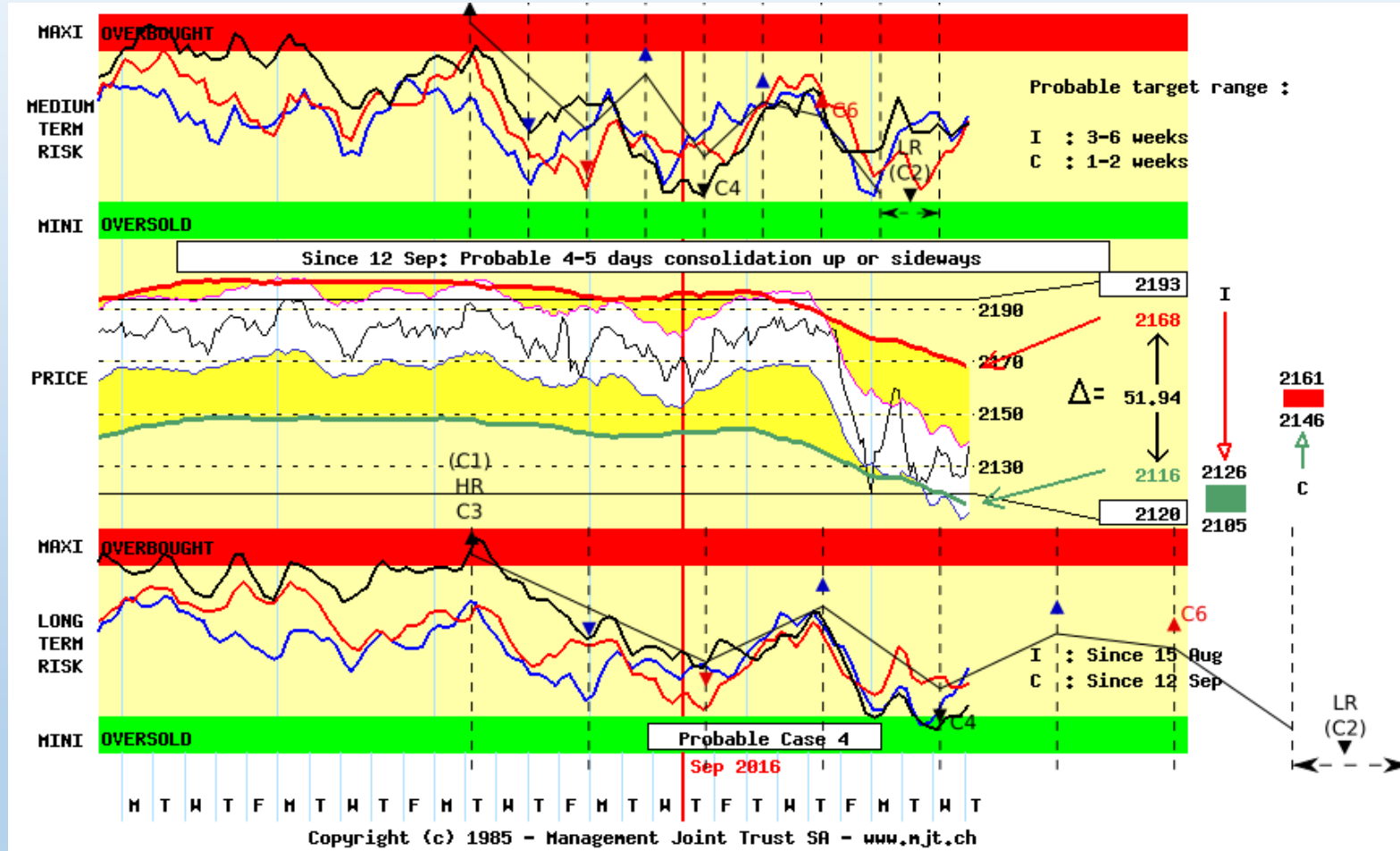


Mid August, the S&P500 reached a Probable Case 3 intermediate top on our long term oscillators .

Typically, a Case 3 would see prices consolidate from 3 weeks to 1.5 months. Following that, prices would typically resume their uptrend on a blue bottom and accelerate on the following higher red bottom.

Going forward, we remain confident with our global reflation scenario as long as the S&P500 can hold above 1'958.

# Monitoring the current sell-off: S&P500 Hourly chart



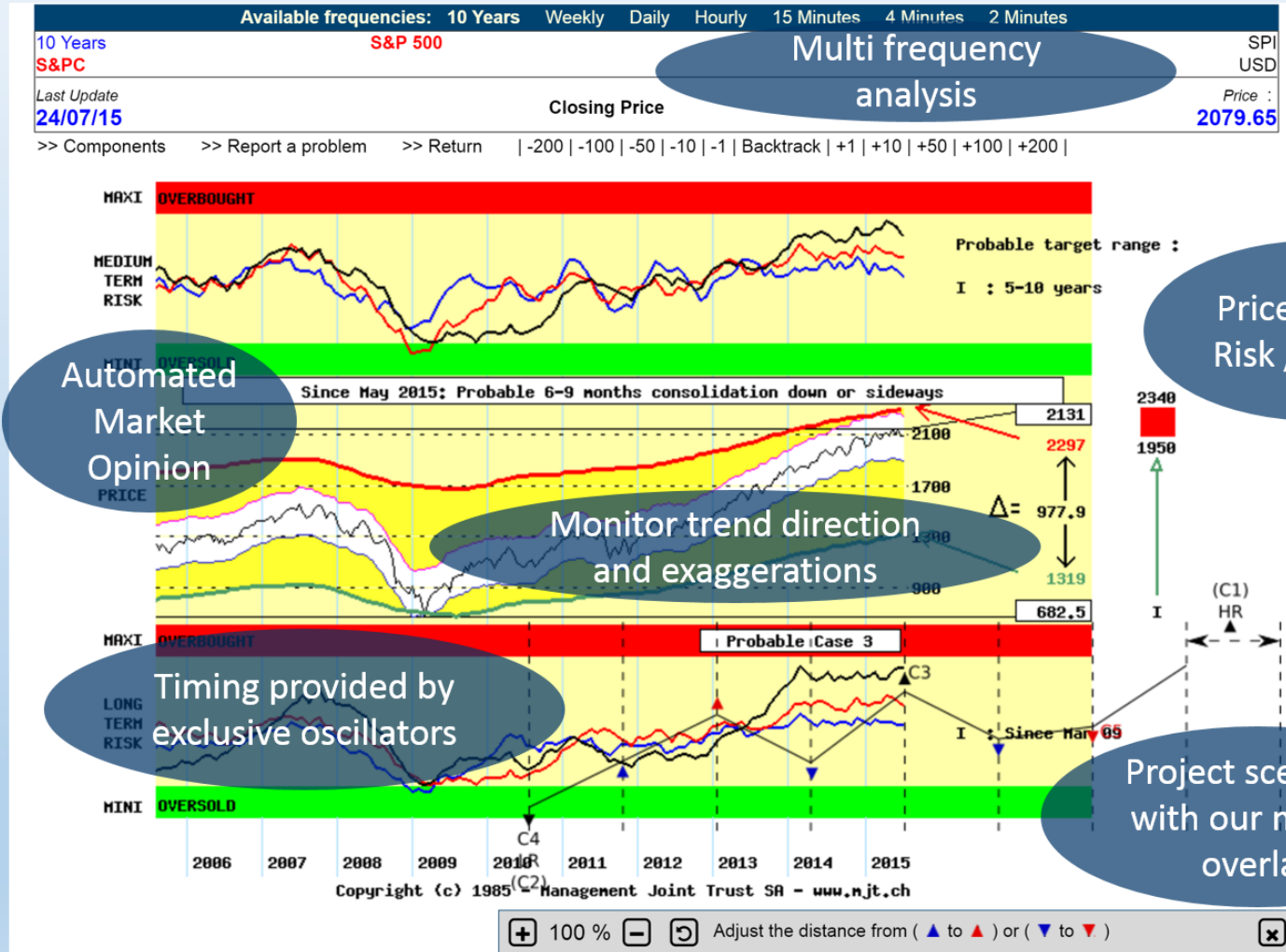
The perspective of higher long term interest seems to come as a surprise to the markets. Indeed, VIX has just exploded from 11 to above 17.

We believe an intermediate bottom could have been made. Further re-tests towards the second half of September are possible until equity markets can build a base to resume their uptrend

# Main scenario take-outs

- A reflation period may be just around the corner as long term interest rates start to rebound and inflation sensitive assets could confirm a second leg up.
- These developments seem to come as a short term shock to complacent equity markets as volatility has just exploded. Yet, in this context, monetary policy should remain accommodative for now, which should help stabilize risk assets during September and bring further medium term support to a cyclical expansion.
- As the theme develops, we will seek the following confirmations: equity markets hold, China further stabilizes, cyclical equity sectors & commodities outperform and the Dollar resumes its downtrend (except for USD/JPY, which may enter a period of correction up).

# How do we work with you:



The Decider's flexibility in terms on investment horizons and coverage (5'000 instruments across all asset classes) attracts investors from all corners of the institutional investing community.

MJT will typically coach clients on the product as well as provide bespoke advisory services on strategic and tactical asset allocation through regular meetings and conference calls.

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