



**Diagram 1.0:** Showing Amazon Daily Chart with MACD

Chart Data By:



Diagram 2.0: Showing Amazon Daily Chart with Volume

Chart Data By:

## **Done By:**

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## **Background:**

Amazon was founded in 1994 by Jeff Bezos. It started out selling books online and later went on to diversify sales by adding CDs, apparels, electronics and now, almost everything. Within just 20 years, it has grown to become the largest internet-based business in the United States. Amazon is headquartered in Seattle, Washington and boasts a workforce of over 130,000 employees. It is listed on NASDAQ with revenues of over \$74 billion in 2013. Jeff Bezos remains the Chairman, President and CEO and has a net worth of over \$30 billion.

## **Technical Analysis**

### **Trend Analysis**

Price is on a downtrend, forming series of lower highs. We can observe **Elliot 5 waves** since the beginning of 2014 (see the Diagram 1.0). Price is ranging below all 3 SMAs (in days: 20Red, 50Blue, 200Black), as confirmed with a major downtrend all year long. There are plenty of bullish crossover signals between MA20 and MA50 throughout the years; however, the bearish sentiment was too strong, that MA20 was quickly returned below MA50 and MA200. From past observation of Amazon, as long as MA20 and MA50 are still below MA200, the trend would still remain a downtrend.

### **Moving Average Convergence Divergence**

On the short-term level, we can use **MACD** as trending signals to spot short-term retracement. AMZN price movement seems to follow MACD bearish crossover signal very well. (See the red arrows on the MACD indicator, all red arrows indicated bearish crosses, and followed by 1 strong downtrend). Blue-arrow indicated bullish crossover, even though Amazon price hasn't responded well to this signal, there were instances where blue-arrows signalled

retracements (or corrective waves, for periods about 1-month to 2 months).

### **Volume Spread Analysis (VSA)**

From VSA point of view, we spotted various trading days where trading volumes were exceptionally high in 2014 (See the arrow the Diagram 2). 4 of them were Amazon's quarterly announcements. In 2014, Amazon produced consecutively disappointing quarterly results (End of Jan, Apr, July, and October).

In the recent few trading periods, we start to see increasing trading volumes which were accompanied by rather strong bearish candles (red colour), the subsequent bullish candle (blue colour) is not strong enough to rally higher than opening price of previous days. This indicates buying power paled in comparison to stronger selling pressures.

Moreover, this is during the end of November-December, festive seasons, when we would expect Amazon sales to pick up, and consequently boosting Amazon share-prices (2012 year-end and 2013 year-end). However, it wasn't the case this year.

### **Price Target**

Based on technical analysis, it appeared that Amazon is forming a series of lower highs and possibly a descending triangle. It suggests a short-position on Amazon shares. In order to find out where the target price level might drop to, we can utilize Fibonacci projection. We can see that price was supported and ranged around 38.2% and 50% Fibonacci level.

Currently, it is being supported at 61.8%. This would be the time to enter short-position before it continued its downtrend. The next level of support would be the 52-weeks support of (\$283.54), a quite significant price level. Our recommended **price target** would be \$279.27 (Fibonacci level 70.6%), estimated time of intersection with price would be around 2015 mid/end of January based on current projections.

## **Fundamental Analysis:**

Reported Revenues and Earnings Per Share (EPS)

	FY2014 (m)	FY2013 (m)	FY2012 (m)
March			
• Revenue	\$19,741	\$16,070	\$13,185
• EPS	0.23	0.18	0.28
June			
• Revenue	\$19,340	\$15,704	\$12,834
• EPS	-0.27	-0.02	0.02
September			
• Revenue	\$20,578	\$17,091	\$13,806
• EPS	-0.95	-0.09	-0.6
December			
• Revenue		\$25,587	\$21,268
• EPS		0.52	0.21
Total			
• Revenue	\$59,659	\$74,452	\$61,093
• EPS	-0.99	0.59	-0.09

**Diagram 3.0:** Summary of Key Fundamental Data

Amazon stock took a freefall after reporting latest quarterly loss of 95 cents per share and revenue of \$20,578m (lower than estimate of 20,840m). It also experienced a steep decline in earnings per share in the most recent quarter in comparison to its performance from the same quarter a year ago. This company has reported somewhat volatile earnings recently. Share price of Amazon has declined 18% and underperformed the S&P500. Reflecting on the company's sharp decline in earnings per share compared to the year's earlier quarter, there is no surprise that investors are losing confidence in the company.

Amazon net income has been facing some weaknesses for a period of time. Gross profit margin for Amazon is lower than expected (coming in at 28.92%, compared to an expected 34.98%). Quarter-to-quarter numbers has shown a significantly underperforming net profit as compared to S&P 500 and the internet retail industry.

Net loss declined by an eye-watering **965.9%** when compared to the same quarter one year ago, declining from -\$41million to -\$437 million. \$170 millions of loss came from Firephone, Amazon's failed attempt to break into lucrative smart-phone market. Amazon cut Firephone price, selling at loss to try to gain market-share and this backfired on them. Amazon current return on equity (ROE) has also slightly decreased from the same quarter one year prior. This exposes a major weakness in the organization. Compared to other companies from the internet, catalogue retail industry and the overall market, Amazon's ROE significantly trails industry average and S&P 500.

## **Speculative Factors:**

Amazon credit rating stands just three notches from the lowest investment grade, (junk rating) and appears to be on a negative trajectory in the eyes of Moody's. The rating agency expressed concern around Amazon's "prodigious growth oriented spending" and questioned "the timing of potential positive returns" from its growth initiatives.

It raises questions about their over leveraged balance sheet. With high debt, it will hurt the company efficiency in net-profit making and future earnings

## **Long-term threats from Competitors:**

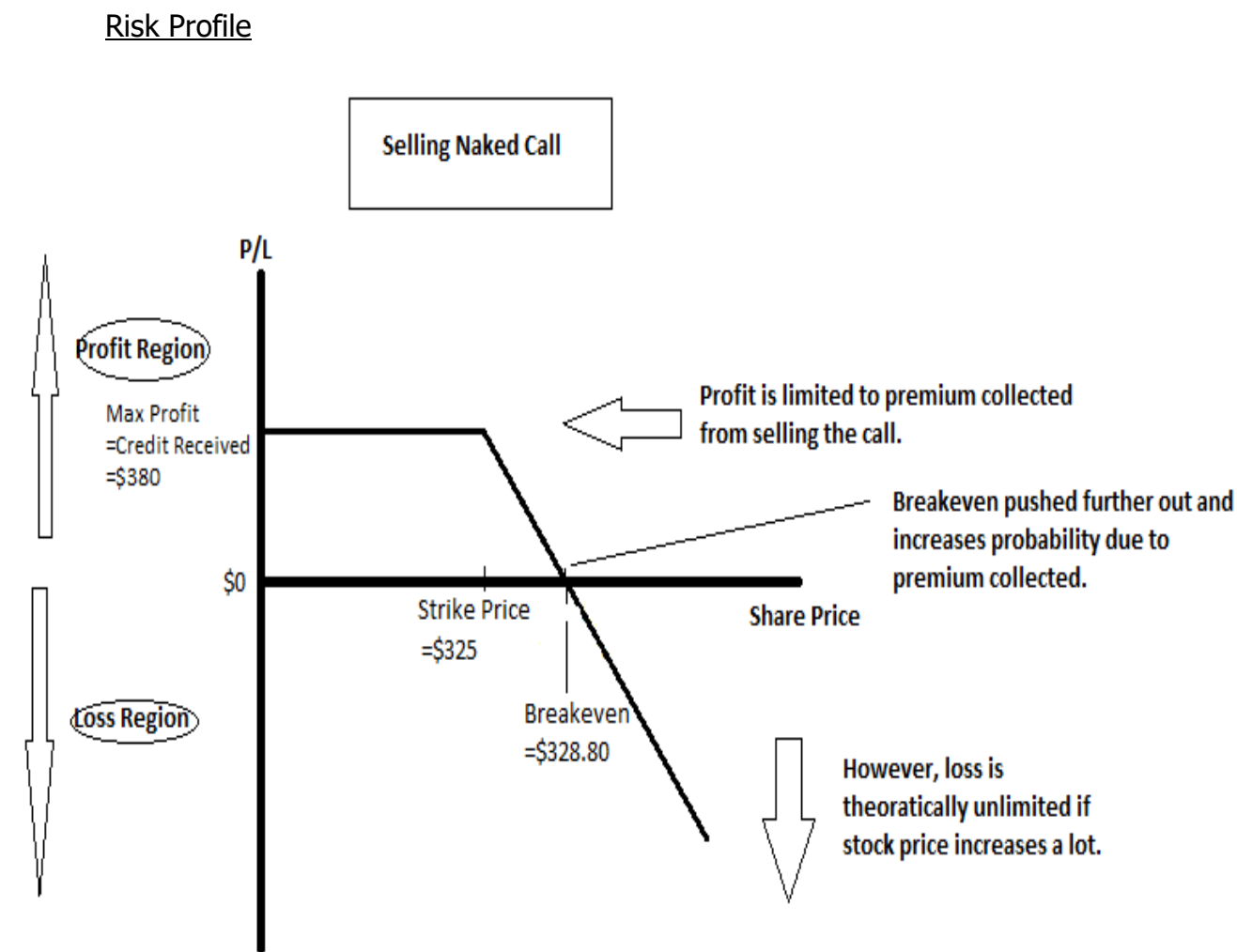
Chinese Internet giant Alibaba just completed the biggest initial public offering in history and Amazon has been looking over their shoulders since then. Alibaba isn't trying to beat Amazon head on, but by surrounding them from around the edges. Instead of targeting the U.S., the company plans to take its e-commerce platform strategy to emerging markets around the world, where the customer base and retail network resembles the home market more closely.

If Alibaba manages to do that, Amazon will not only suffer severely but it will also affect their future earnings and potential expansion plans outside of America.

## Options Alternatives

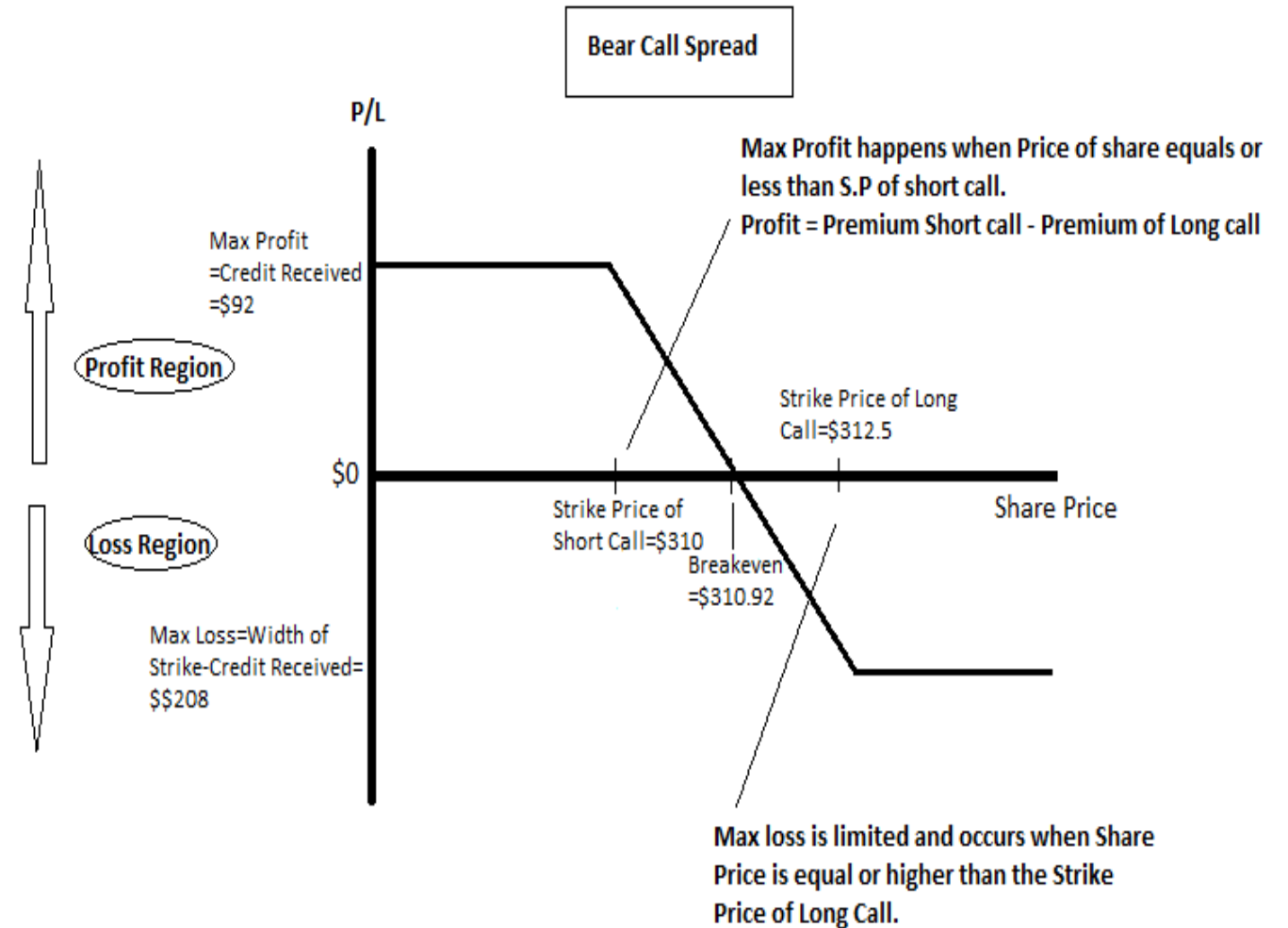
AMZN is a highly traded stock with high liquidity for both stock and options. Liquidity is important because it depicts how easy it is to enter and exit the trade at your desired price. There are many options strategies to consider. As our directional bias here is to the down side, the trade to consider would be **selling a Naked Call** and **selling a Bear Call Spread**.

To take advantage of the faster theta decay curve, one can consider selling options with 30-50 days to expiration. In this case, the most suitable would be the JAN4 15Weekly options or JAN5 15Weekly options with 34 days and 41 days to expiration respectively, as of 20 Dec 2014.



**Diagram 4.0:** Selling of Naked Call Risk Profile

As an example, selling the JAN4 15 325 Naked Call for \$3.80 credit would give one an 80% Probability Of Profit (POP) and a 12.87% Return On Capital (ROC). Alternatively, selling the JAN4 15 310/312.5 Bear Call Spread for \$0.92 credit would give one a roughly 66% POP and a 4.09% ROC.



**Diagram 5.0:** Selling of Bear Call Spread Risk Profile

The difference between the two strategies is that the naked option has theoretically unlimited risk. The securities exchanges however, margin the naked position for a two standard deviation move. The naked option also allows for faster opportunities to take profit quickly through reaching one's profit taking zone fast. More open positions can also be opened simultaneously for more profits.

This gives one a higher winning percentage. On the other hand, the Bear Call Spread has a lower risk as an additional option is bought for protection. This gives the spread a limited risk. However, when it comes to profit taking and opportunities, there are less due to the premium paid to purchase the protection. The two strategies both have their pros and cons. Thus, when it comes to choosing between the two strategies, it is up to the individual's risk appetite and trading duration.

## Conclusion

In summary, based on the collective opinion using the S.O.F.T approach, considering all the various factors, we are of the opinion that outlook on Amazon is bearish. In the subsequent weeks and months, should we spot more signs of weaknesses we would initiate a short position. But should prices look to range and stagnate, we may adopt an option selling strategy as illustrated above.