



An Anatomy of a Collapse: Citigroup

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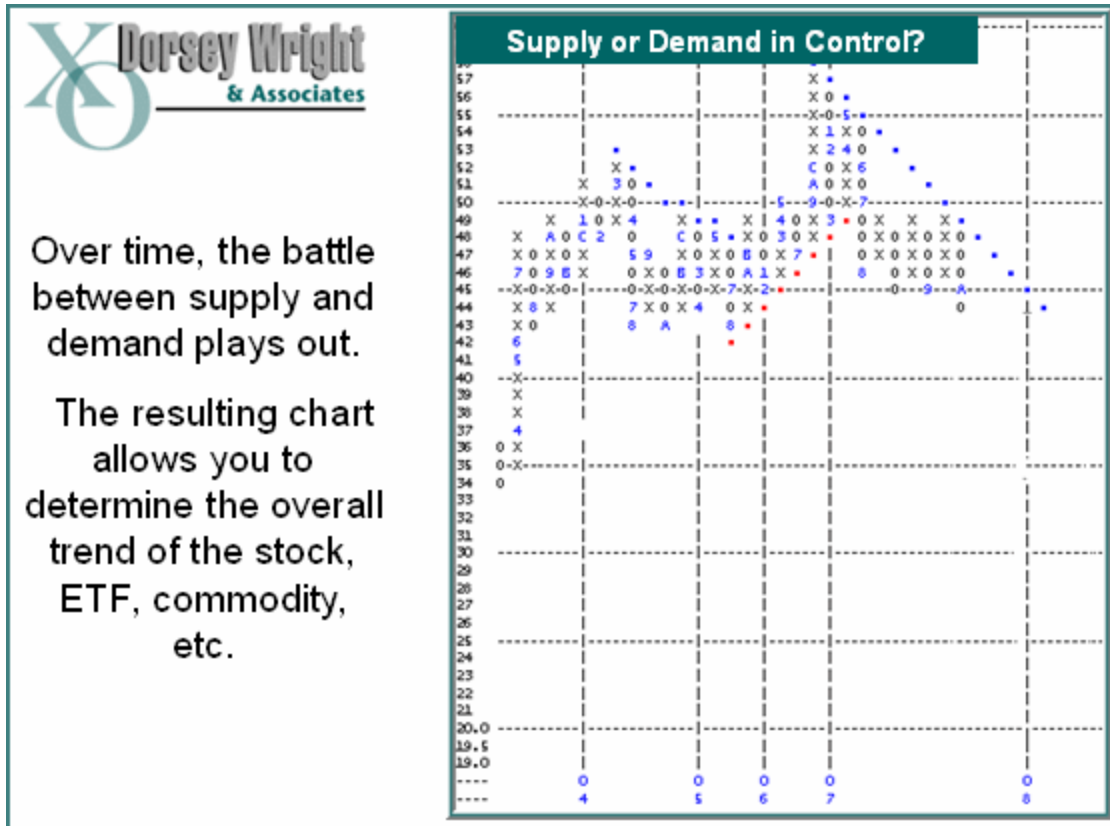
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One of the most effective presentation tools that we have used over the years to explain the importance of incorporating technical analysis in some capacity within an investment game plan is the “Anatomy of a Collapse”. The concept is very straight forward but leaves a client or prospect with a very clear understanding of how differently technical and fundamental research is developed. We begin by looking for a widely-held, S&P 500-ish, stock that has endured a substantial decline in recent months with enough headlines such that the average investor has likely read something of the matter. Recent examples over the years have included [Marsh & McLennan \(MMC\)](#), [Krispy Kreme \(KKD\)](#), [Martha Stewart Living \(MSO\)](#) and [Fannie Mae \(FNM\)](#), each of which experienced very public un-doings, with the “cause” of said decline being revealed only after the stock was already un-done. The reality of these collapses runs counter to the way most investors like to envision the stock market, which is as an efficient machine with information being equally shared and quickly incorporated into the price of a stock. What we find, however, is that the technicals very often foreshadow the coming demise of the fundamental picture in such extreme cases as those mentioned earlier. From time to time we like to provide new examples for you to use in prospecting campaigns, and today a recap of Citigroup [C] certainly fits the bill.

Citigroup has been at the forefront of the headlines over the past year surrounding the subprime crisis or credit crunch, and only recently have Financials in general, and Citigroup in particular, been moved to the sidelines to make way for headlines about Oil, energy prices, and how each presidential candidate plans to “fix the problem”. At any rate, the bottom line here is that Citi was once a leader in the Financial sector; however, things changed...at least in the technical picture of the stock. The underlying company itself may not have changed, which is apparent in the fact that the fundamentals indicated no signs of trouble in the upper 40's, the 30's, or even the \$20 range for that matter. However, the Point & Figure chart clearly showed multiple breakdowns through key levels of support from July to October of 2007.

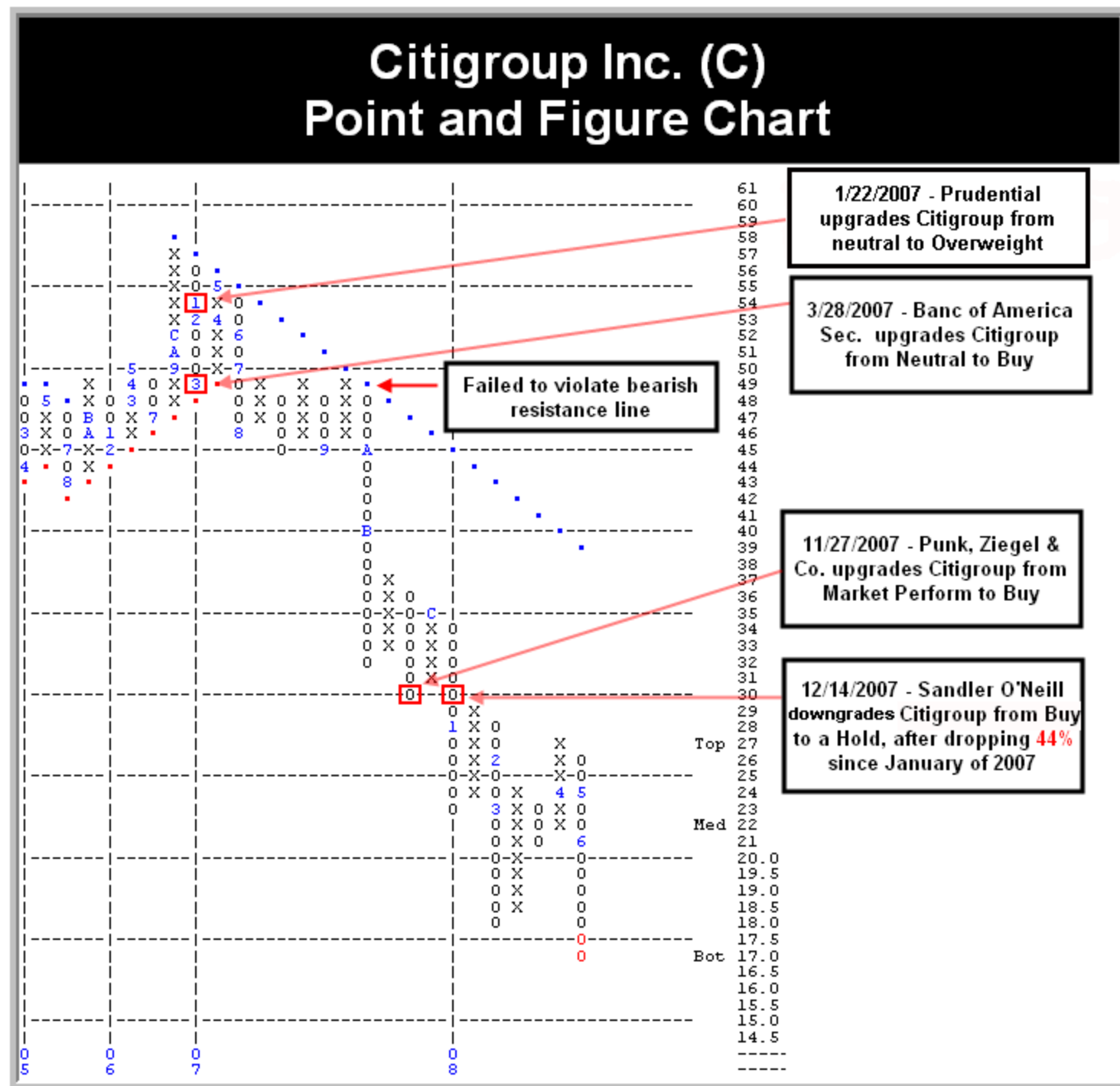
This stock has been a great example of the benefits to incorporating the Point & Figure methodology into your risk management discipline. As a matter of fact, it has been such a good example that we have been using this stock as an example to those both well versed in the Point & Figure Methodology and to the uninitiated, alike. Generally, the discussion will begin by making a case for incorporating some sort of tactical allocation as opposed to simply buying and holding. Then after a brief discussion about the basic tenets of a Point & Figure Chart we will flash a slide on the screen that looks a lot like the image that is shown below with the question of is supply or demand in control?



Inevitably, after a few seconds of reluctant silence, there will be a few voices in the room that will chime in and say “Supply!” My next question is generally, “Okay, now that we know supply is in control would you be a buyer of this stock or a seller?” Again, people will chime in and every response is always and emphatic “SELL”. You will notice that in the slide there is no mention of what stock we are talking about. It is not until after we reveal that the stock in question is actually Citigroup that the moans and groans begin. By covering up the name on the chart you are able to unemotionally evaluate the technical merits of the stock without the feeling of, “Citi is one of the world’s largest banks, there is no way the value of the stock could fall 70% in the matter of less than 2 years, right?!?” The reason for the moans and groans in the crowd is because just a few seconds earlier everybody said that they would sell the stock, not knowing which one it was; however, the truth of the matter was that most of the crowd did not sell the stock, and if they listened to the fundamental analysts many were likely continuing to buy shares of the stock because it was a great “value” at \$30. So in that vein I guess they would say that the stock is a tremendous value at these levels.

Let's recap how Citigroup has traded over the last three years. During 2005 and 2006 Citigroup was making great advances, creating an all time high of \$57 in December of 2006. Then, after a period of consolidation in early 2007, supply took the helm of this ship. Citigroup began its course for a downward trend that would lead to a phenomenal technical collapse with a breakdown at \$48, which violated the bullish support line can caused the overall trend of this stock to shift to negative. During the later summer months of 2007, C was unable to penetrate its bearish resistance line despite three valiant efforts to do so, and then ultimately broke down again at \$44, a spread quadruple bottom sell signal. Despite the technical breakdowns in the stock the deteriorations were not apparent in the fundamentals of the company.

As a matter of fact, there were multiple fundamental upgrades on the stock early in 2007 in the upper 40's to mid 50's as firms upgraded the stock to a "Buy" or "Overweight" posture virtually at the top. Even in November and December of 2007, there were a couple more fundamental recommendations to buy the stock after it had nearly been cut in half. All the while, this a stock never warranted enough merits to be deemed a strong technical attribute stock. Shares of Citi fell below the 3 technical attribute level back in September of 2004 and has not been back above that level since. The following chart will tell you the rest of this story.



While there were still many people that felt Citi was a good company, the health of the stock was not enough to warrant a buy recommendation if you were just willing to follow the PnF chart. Below are some of the comments that we wrote about Citi as far back as June of 2007, just months after Prudential and Bank of America put "Buy" recommendations on Citigroup.

DWA Comments on Citigroup:

06/29/2007 - [\[C\]](#) Citigroup, Inc. (\$51.810) - Banks - Shares of C have formed a lower top at \$55 and the stock is now back at a test of the bullish support line. Trend is currently the only positive attribute and a move to \$48 would cause that attribute to flip negative. For the time being there is little here to make a case for new investment at this time, the sector is Unfavored and the stock has negative RS. Others look much better.

10/18/2007 - [\[C\]](#) Citigroup, Inc. (\$44.190) - Banks - Shares of Citigroup remain beneath trend and despite being widely-held remain a 0 for 5 stock in terms of technical attributes. The stock broke a spread quadruple bottom at \$44 on Wednesday, further reason to remain on the sidelines here. Others look much better, though the stock does present ample support around \$43, suggesting others look much more attractive for short sales as well.

11/21/2007 - [\[C\]](#) Citigroup, Inc. (\$31.05) - Banks - This stock broke a double bottom at 31 yesterday. This takes the stock to lows last seen in March of 2003. Trend is negative as are the relative strength charts. This stock has zero positive attributes and we would avoid it for now.

03/05/2008 - [\[C\]](#) Citigroup, Inc. (\$23.090) - Banks - Bad news continues to be the nemesis for C, as Tuesday's market action drove the price of this stock down another dollar. This action caused the trend of the C to give a sixth consecutive sell signal, the first of which coming back at \$48 when the overall trend of this stock shifted to negative. The stock remains a 0 for 5'er and shows no signs of putting in a bottom quite yet. This breakdown causes the C to fall to the lowest level since the end of 1998. For the next support on the chart we would have to look at the bottom of the ten week trading band, which is currently at 19.50.

So, the lesson learned here it that you must listen to the Point & Figure chart in order to unemotionally follow the imbalances of supply and demand. What the reason turns out to be for a stock falling, whether it is reaction to earnings news or not, the bottom line for C is that the price of stock fell because there were simply more people selling the stock then there were people buying the stock. It is this simple economic concept, the same thing that drives the price of produce in a supermarket that drives the price of stocks on Wall Street: Supply and Demand. The Point & Figure chart does not care if the stock underlies a good company or not. There is no preconceived bias and there is absolutely no emotion in the Point & Figure chart. It is only concerned with the price action of the stock in order to record the imbalances of supply and demand. Below you will find links to some of the other Anatomy of a Collapse Articles that we have done in the past.

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