

24 Oct 2016

Big Buy Out = Big Top:
AT&T and Time-Warner

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ICAP Technical Analysis



"What is it, Lassie—is Timmy in trouble?"

(Is AT&T the new Timmy?)

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Big Buyout = Big Top?

Big Buy Outs = Big Top

Ever had that feeling when you knew something was missing but you could not figure out what it was? In situations like this one knows one will be able to recognize the missing item the moment one sees it. This report expands on just such a 'Eureka' moment I had over the week-end.

What has the case for a major top in the stock market been missing? It had been missing someone trying to buy Time-Warner. That ingredient for a major top is now in place.

Big Buy Outs = Big Top, Jan 2000

- CEOs herd just like fundamental analysts and lowly investors.
- The CEOs do not like to hear this, but it is true.
- After a major bear market in equities, when stock are very cheap, no CEO is interested in buying another company. They are too fearful about their own future.
- They should buy out a company when the stock price is cheap, but they never do.
- After a major bull market in equities, when stocks are very expensive, that is when CEOs get the irresistible urge to buy other companies.
- A bubble in equities is a bullish sentiment extreme.
- And into a bullish sentiment extreme analysts are bullish on everything, investors are buying anything, and CEOs go hunting for a big company to buy. The bigger the better.
- In January 2000, in what is widely regarded as the worst merger of all time, AOL and Time-Warner decided to make a go of it.
- Two months later the Dot-Com bubble burst.
- And two years later AOL took a \$99 billion write off.
- In the January 2000 hot-house atmosphere of a bullish sentiment extreme the merger of two completely different corporate cultures seemed utterly brilliant.
- What could possibly so wrong?
- With the deal-makers blinded by bullish enthusiasm, no one could think of anything that could go wrong.

Big Buy Outs = Big Top, Oct 2016

- Over the week-end it was announced that AT&T will spend \$85.4 billion dollars that they do not have to buy Time-Warner.
- What could possibly go wrong?
- Just like in January 2000 we are hearing promises of “the next wave in innovation”
- We are hearing “the dawn of TV everywhere” whatever the heck that means. And does anyone even want that?
- The NY Times talks about the buyout “as the worlds of media, communications, and technology collide.”
- I have absolutely no doubt that it is a collision.
- The big question is whether it will be a train wreck.
- As the chart on the next pages attests, AT&T is buying Time-Warner right into the 50% retracement of Time-Warner’s decline from the \$189.61 Dot-Com peak to the \$13.75 low of 2009
- And even more scary, the \$107.50 buy out price is only four dollars a share from the $.618 \times A = C$ up from the \$13.75 low.
- So it looks very much like AT&T is facilitating the completion of a massive bear market correction in Time-Warner.
- However the real eye opener is in the chart of AT&T.
- That chart is the chart of a train wreck, deal or no deal.
- We do not cover individual stocks. We will not now be covering AT&T or Time Warner. This is a technical tutorial.
- So let us check back in the year 2020 to see how this whole thing worked out, or did not.

OBSERVATIONS

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TWX - monthly

- Buying into Key Resistance**
- The 50% retracement of the entire 189.61 to 13.75 decline is **\$101.69**
 - Of an ABC bear market correction up from the \$13.75 low, the $.618 \times A = C$ target is **\$103.50**
 - The buy out price is **\$107.50**
 - I could not make this stuff up.
 - My imagination is way too weak.

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Train Wreck Experiment

- We do not cover individual stocks, and we will not now be covering TWX or T. This is a one-shot thought experiment.
- We are exploring what can happen when a bullish sentiment extreme manifests as a massive buy-out.
- We know what has happened in the past under similar bullish enthusiasm. So lets check back in, say, year 2020.

T - monthly

Average price of these 3 targets = 43.79

$A = C \text{ of "B"} = 45.02$

$.618 \times "A" = "B" = 44.20$

$.618 \times <A> = <C> = 42.16$

C of "B"
43.89

<A>
39.00

30.97

$.618 \times "A" = "C" = 18.53$

$"A" = "C" \text{ in } \% \text{ loss} = 13.83$

