

## How to analyze a sector: Energy

This document was written in December, 2009 by Pascal Willain as part of a training program on the use of the Effective Volume tools.

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The author is French speaking.  
This report has not been proof-read for the proper use of English language.

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Sector analysis is never something easy and it must be handled quite differently depending on the state of the market.

For example, after a sell-off, the general market will issue a "buy" signal when we will start detecting short covering patterns in a few sectors. Usually, within one day, this pattern spread around and the whole market stages a reversal. In such an environment, I invest in the sectors that show the strongest "Thrust" of money: that is the one time push of money that turns the sector and forces shorts to cover.

Because Eric asked my opinion on the coal sector, I'll take that sector first.

You can see in the figure below that I drew four "buy" signals.

In a sector, a buy signal is generated when the MF signal has been into negative territory and is now crossing over its 20D average.

This indicates that the flow of money is reversing. The blue signals correspond to a "buy" signal issued by the 20DMF after an oversold condition.

Blue signals are stronger, because they are confirmed by the whole market.

Of course, this does not work all the time for all the sectors. This is why you have money management techniques.

Today, at the very right of the figure, we can see that the sector has pulled-back, but that the MF is still positive.

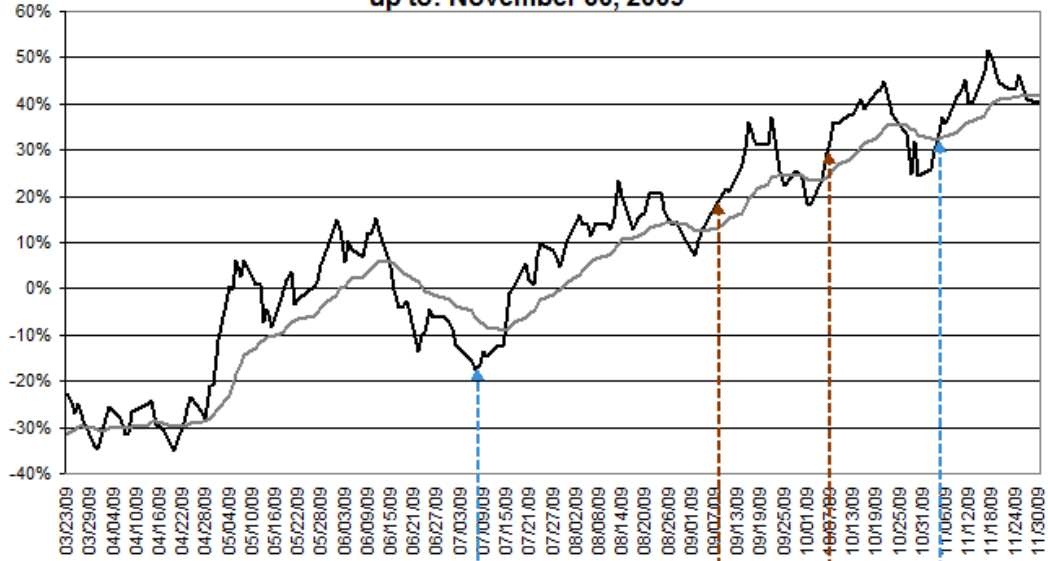
For me, in this side-way market, this type of pattern means that money has not left the sector and it might indeed reverse back up from here.

I would however have preferred to have seen money flowing out before a buy signal was generated.

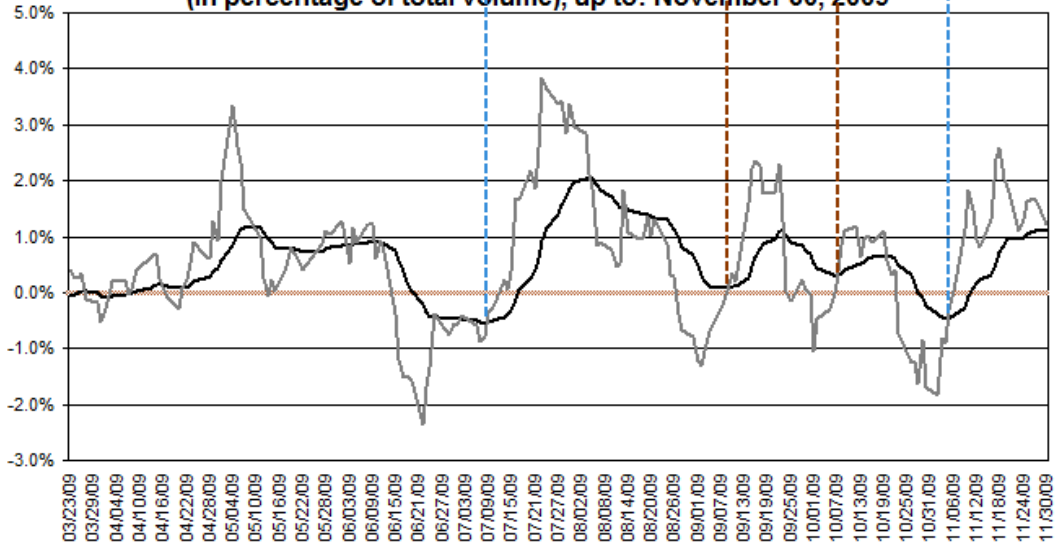
Therefore, buying here gives you less probabilities of success than buying when you get a true "buy" signal....

But the coal sector might be pulled up by the whole energy sector.

**Coal: Sector Price Change,  
up to: November 30, 2009**



**Coal: 20-day, Large Player's Strength  
(in percentage of total volume), up to: November 30, 2009**

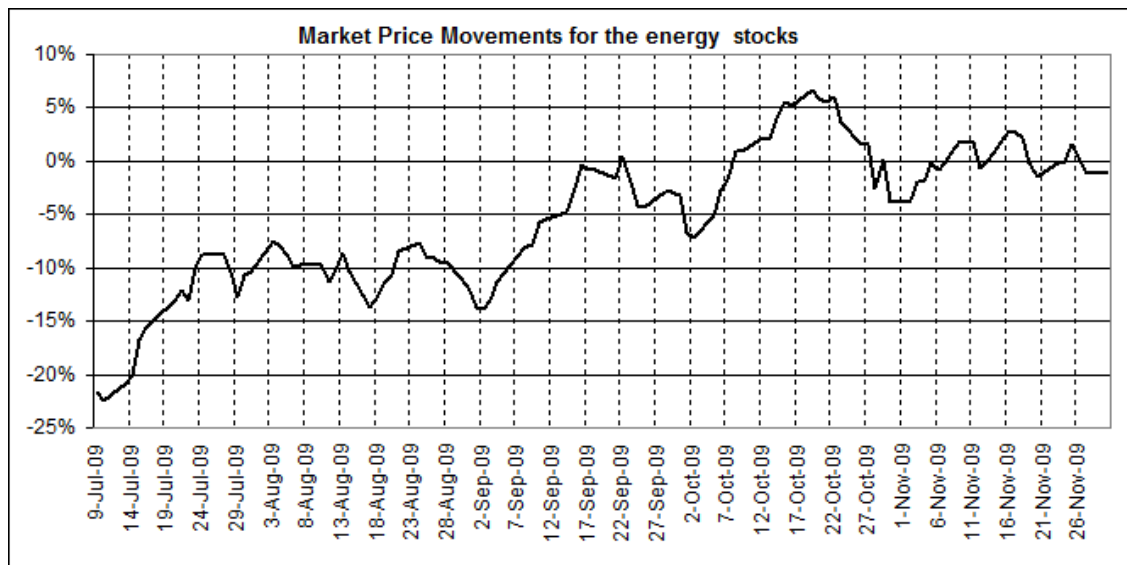
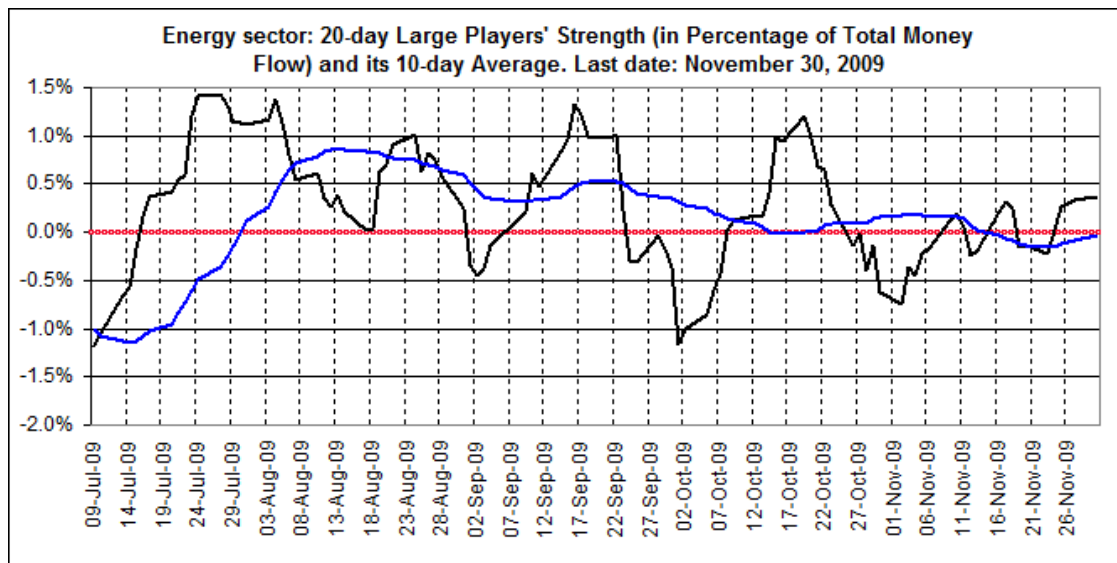


To come back to the energy sector analysis in a side-way market, we cannot be looking for more money, but preferably for money rotation.

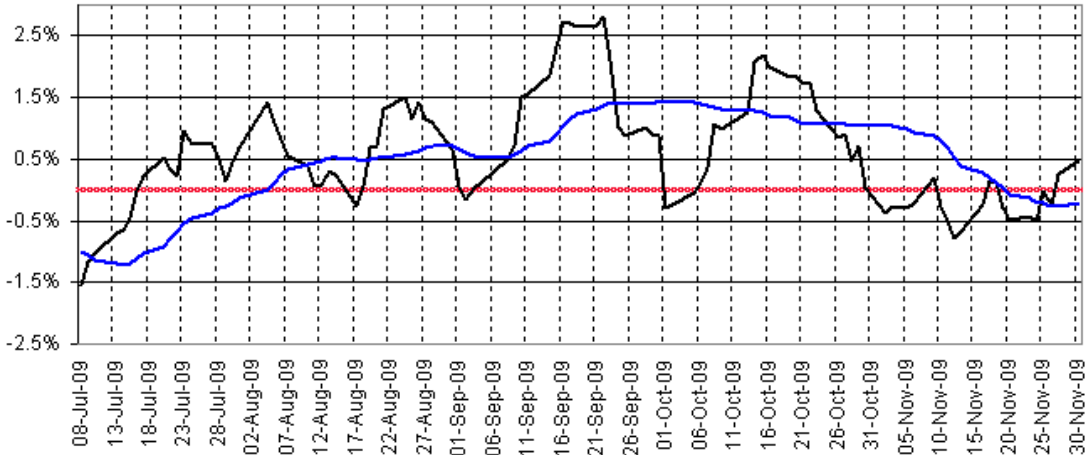
The best is therefore to look at the main sectors (the level above the sub-sectors).

We can see that the MF has been positive in the energy sectors for both the US and the Canadian market... Something probably un-related to the US\$ itself.

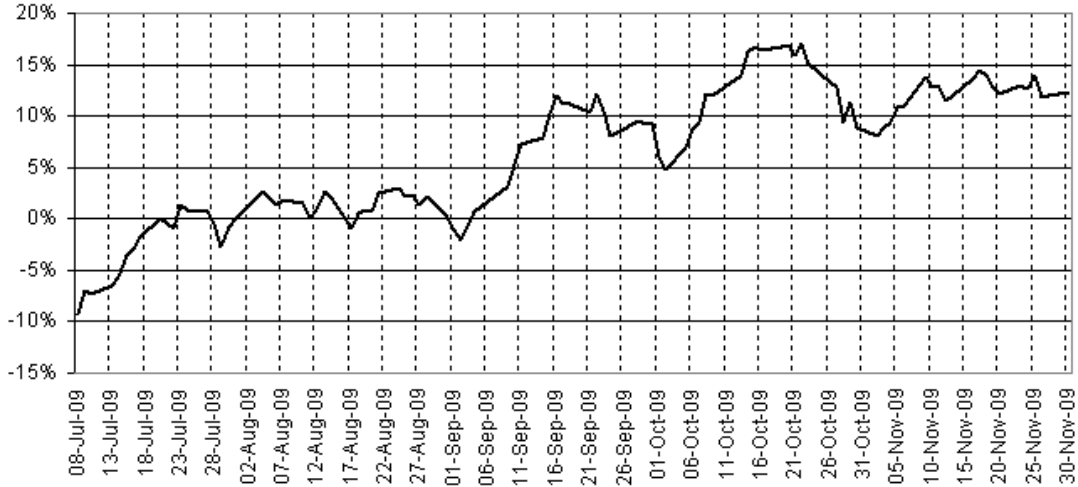
I do not show it here, but the MF related to the material sector in Canada and the metals sector in the US shows a slightly negative move.



**Canadian Energy Sector: 20-day Large Players' Strength (in Percentage of Total Money Flow) and its 20-day Average. Last date: 11/30/2009**



**Energy Sector Price**



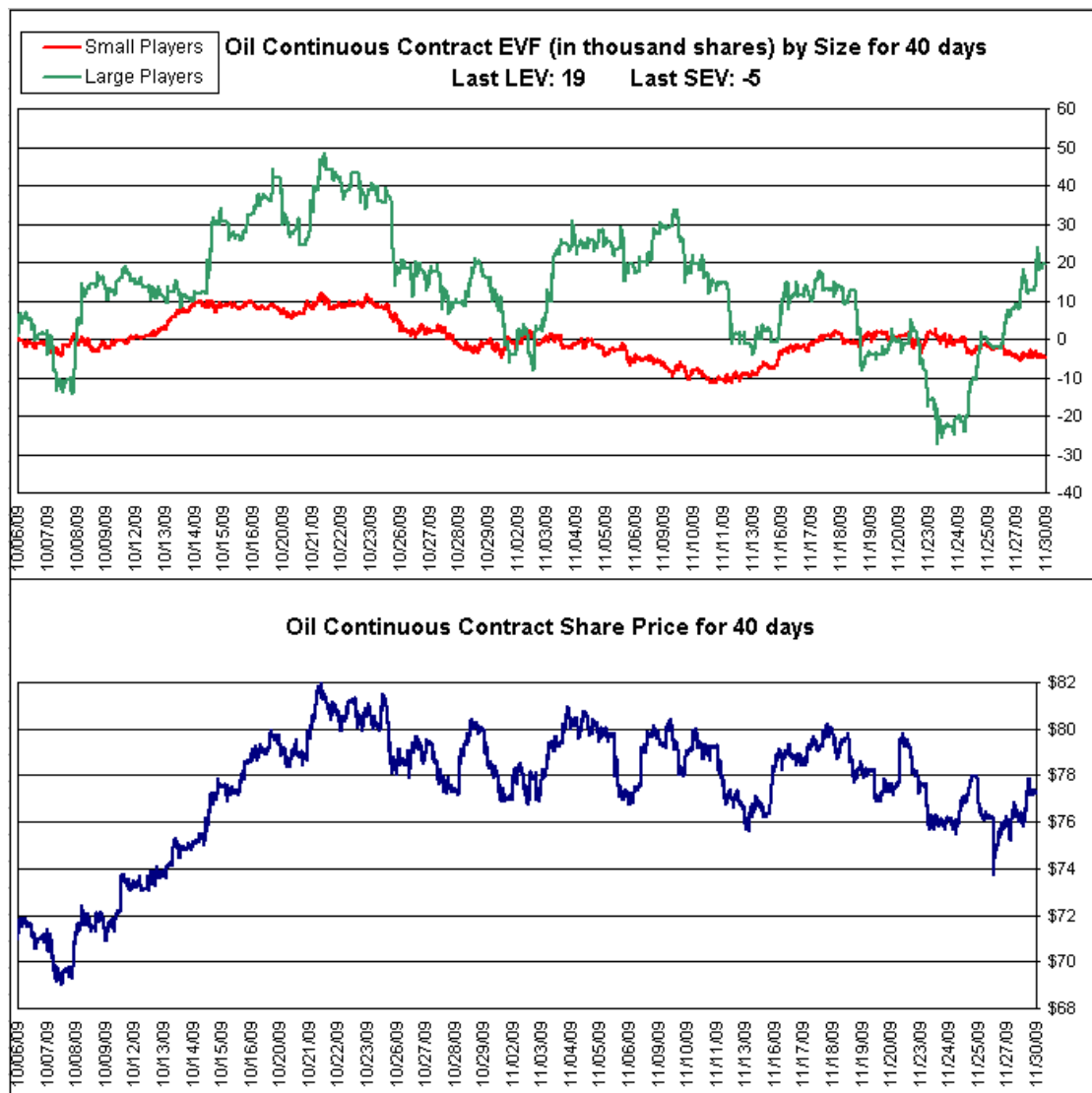
The next step is to visit [the Oil futures and the USO](#) (oil ETF).

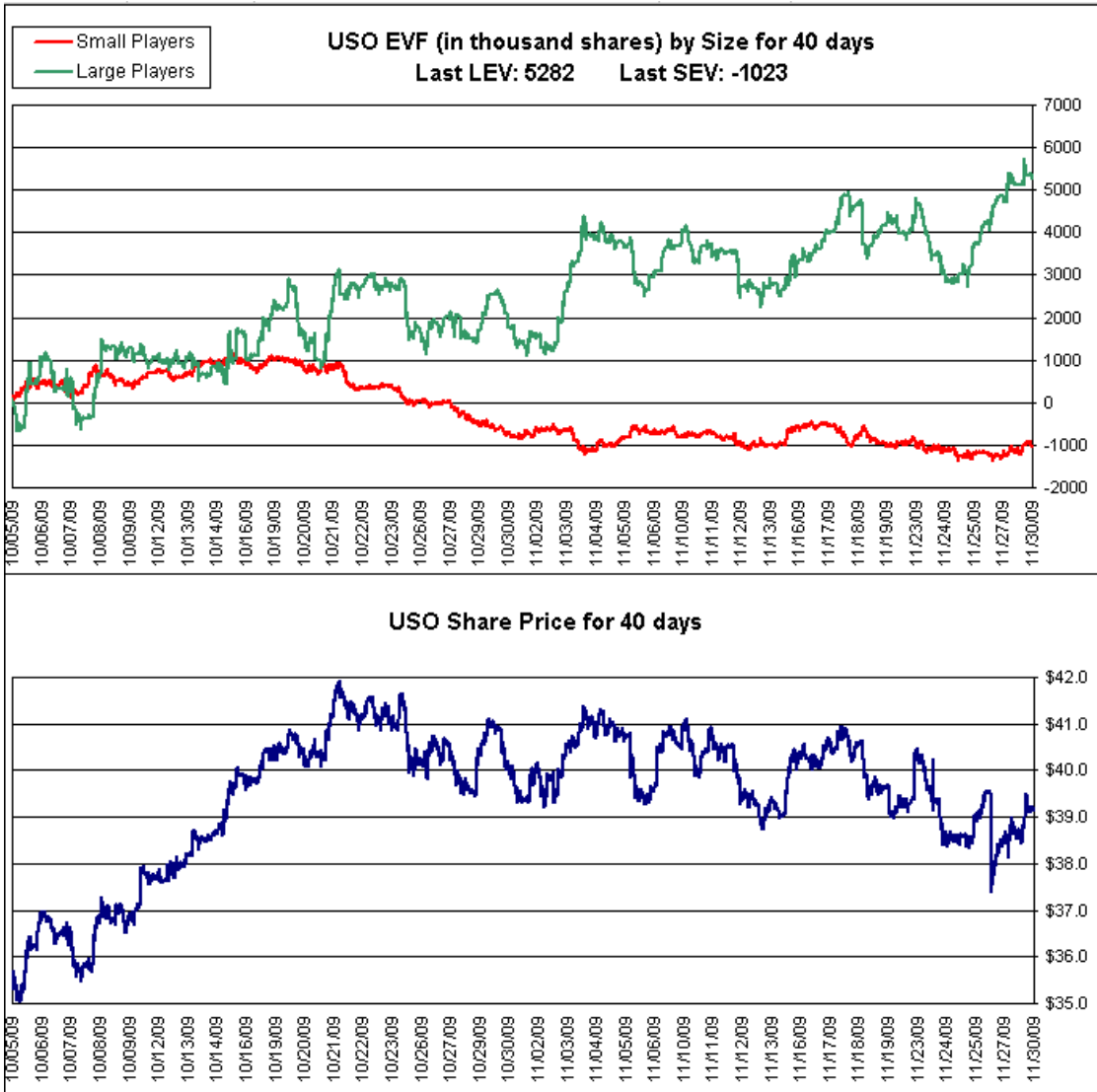
The oil Futures show a reversal for the last few days, while the ETF pattern on USO shows continuous accumulation.

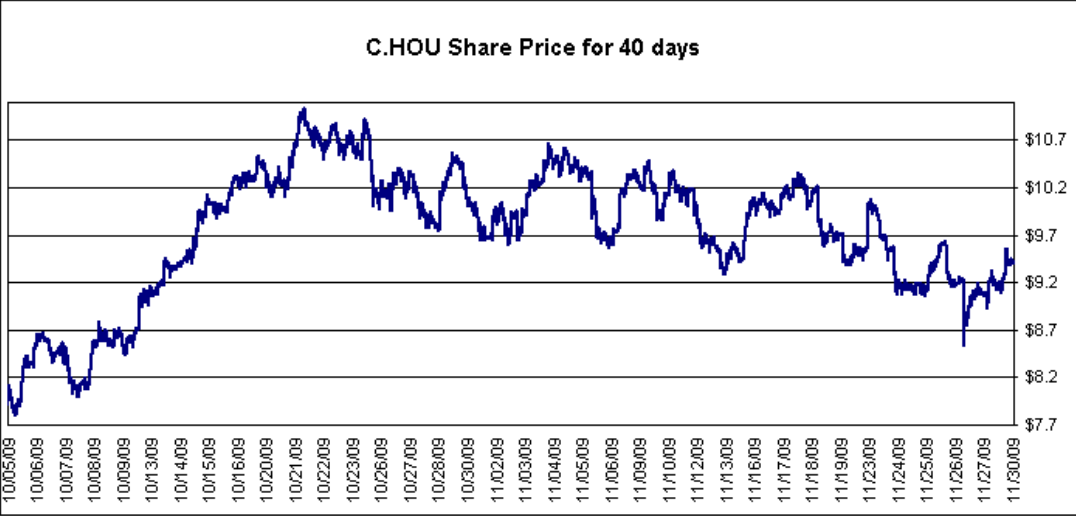
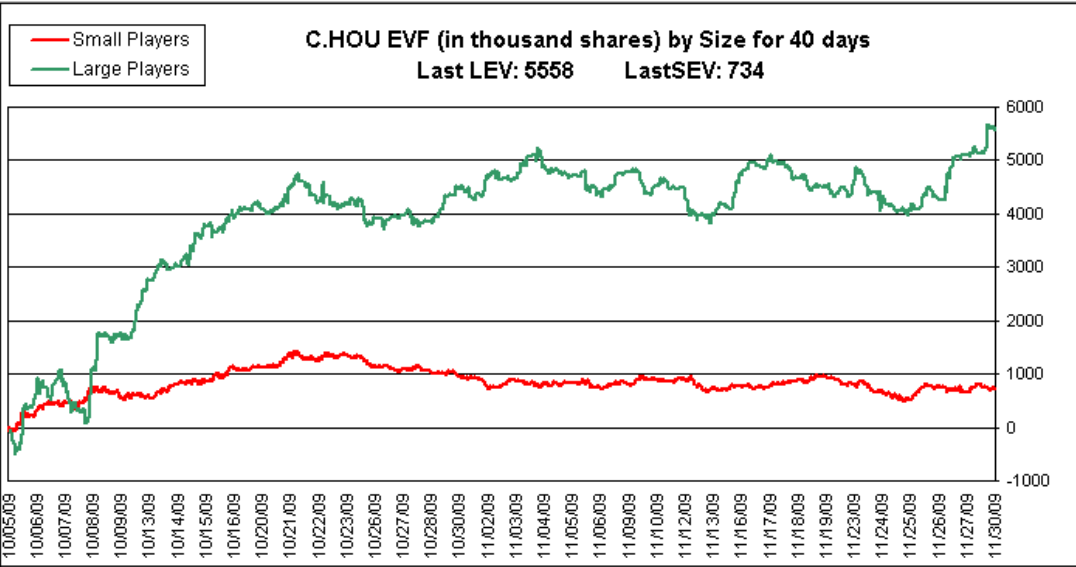
I also add the Canadian HOU that was referred to in an E-mail from Pierre.

When many ETFs that are traded separately and independently show the same pattern, this is a confirmation.

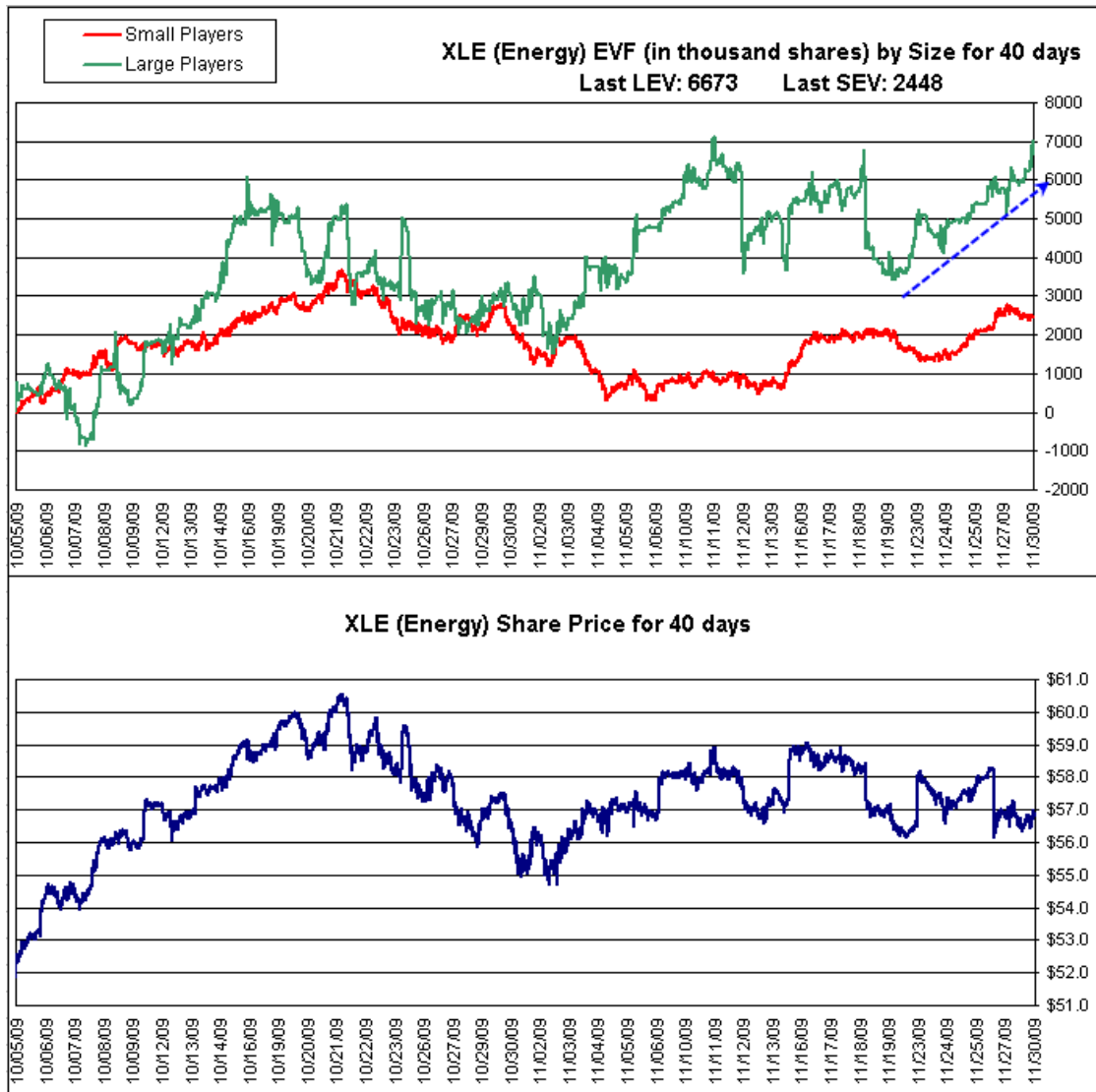
When analyzing a sector, I would look at all the ETFs in the sector to get a good view of the prevailing "opinion".

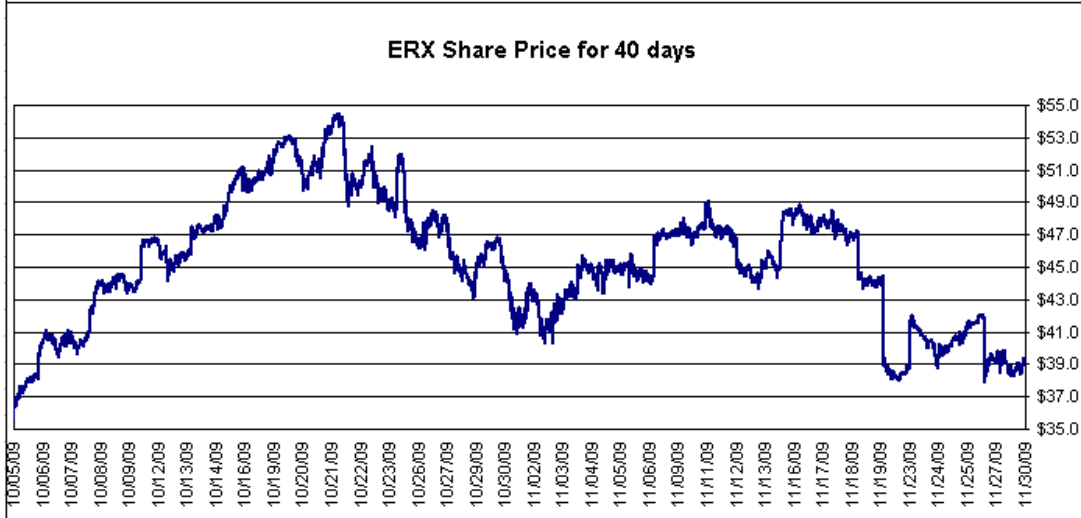
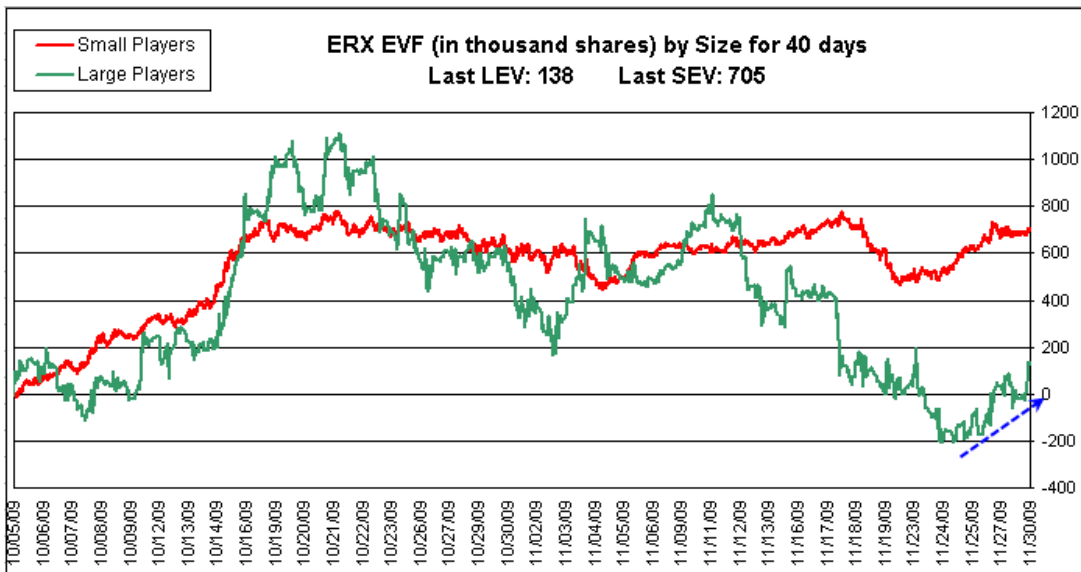


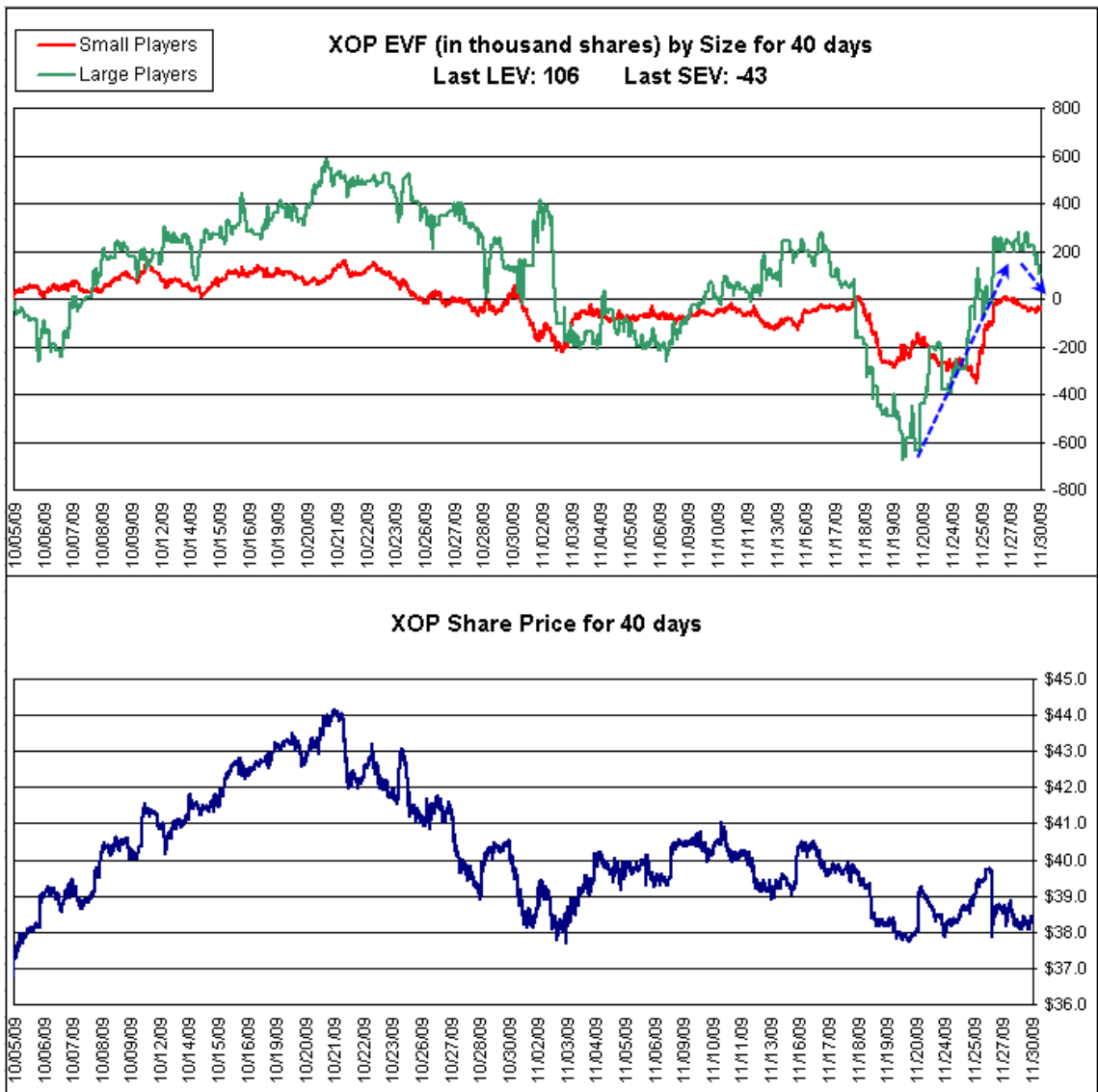




The next step is to look at the stocks ETFs. We can see the same pattern for XLE, ERX and XOP, although some selling appeared at the end of the day on XOP.







In such an environment with the possibility of having a short squeeze in the energy sector, I would look at for example the energy service sector that has been rather sold, but seems to be attracting money.

Many stocks in the sector show accumulation: SII, CLB, HLX, WFT, BHI, CAM

Some drillers such as DO or PTEN might also be interesting.

You might also note that there is heavy short covering in the Nat Gas producers sector: RRC, SWN, UPL, CHK, COG, DNR