

How to analyze the market through the EV web site

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

The author can be contacted at: pascal@willain.com
Daily and weekly market updates are available on www.effectivevolume.eu

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

Introduction

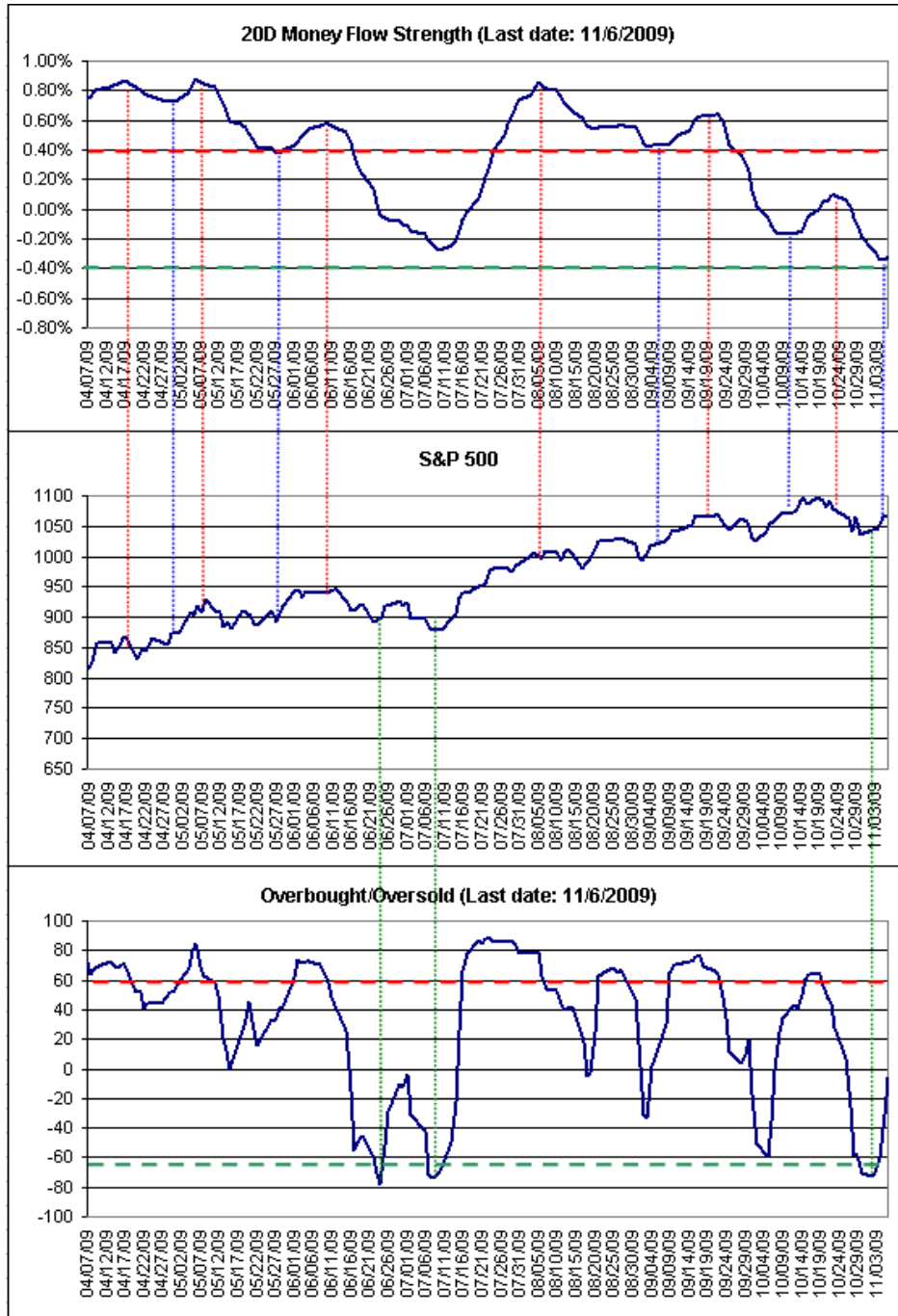
These are the different steps that I follow when analyzing the markets:

| | |
|----------------|--|
| Market | <p>20DMF → Is money moving in/out? Is market ready to reverse?</p> <p>Indices MF → Are large players in S&P500/NQ getting stronger or weaker?</p> <p>Indices Futures and ETFs → What is the trend? What are large players doing?</p> <p>Leaders section → Is the trend up or in correction Is the MF thrusting up or sliding down?</p> <p>Other Futures → How are commodities, currencies and bonds doing?</p> <p>Foreign markets → How are ETFs on foreign markets doing?</p> |
| Sectors | <p>Sectors ETFs → Energy, PM, Housing, bonds, etc.</p> <p>Sectors MF → Do all the 16 main sectors agree with the market MF direction on S&P 500 and NQ? If not, why?</p> <p>Sub-sectors MF → Visit the sub-sectors that look strange See the EV patterns for the corresponding stocks</p> <p>Canadian sectors → Is the MF pattern on these sectors similar to the US sectors?</p> |
| Stocks | <p>My portfolio → Check the EV/TEV/AB patterns for each stock in the portfolio</p> <p>New ideas → Use the filters to generate new trading ideas and prepare a day trading plan</p> |

Let's take the analysis as of the close of October 22

1. The 20DMF

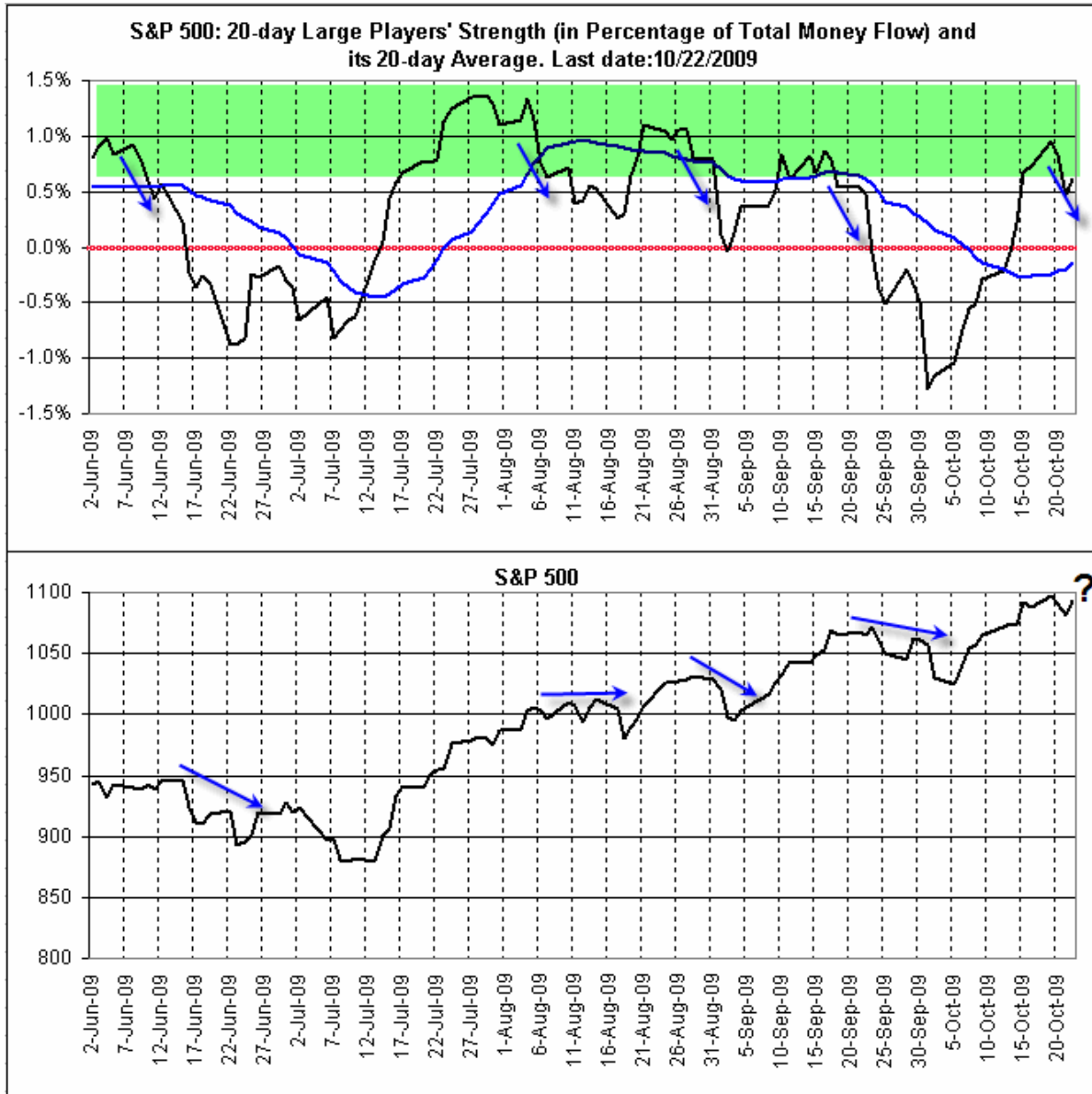
The 20DMF below shows that we are in "buy" set-up. As a matter of fact, we have been in a "cover your shorts" set-up since the last blue dotted line. A true "buy" signal would be generated by a green dotted line after a strong pull-back. In such a market, being in "cash" could be a strategy... at least if said cash does not use its value. (Figure below date is Nov 6, while the supportive text was written in October)



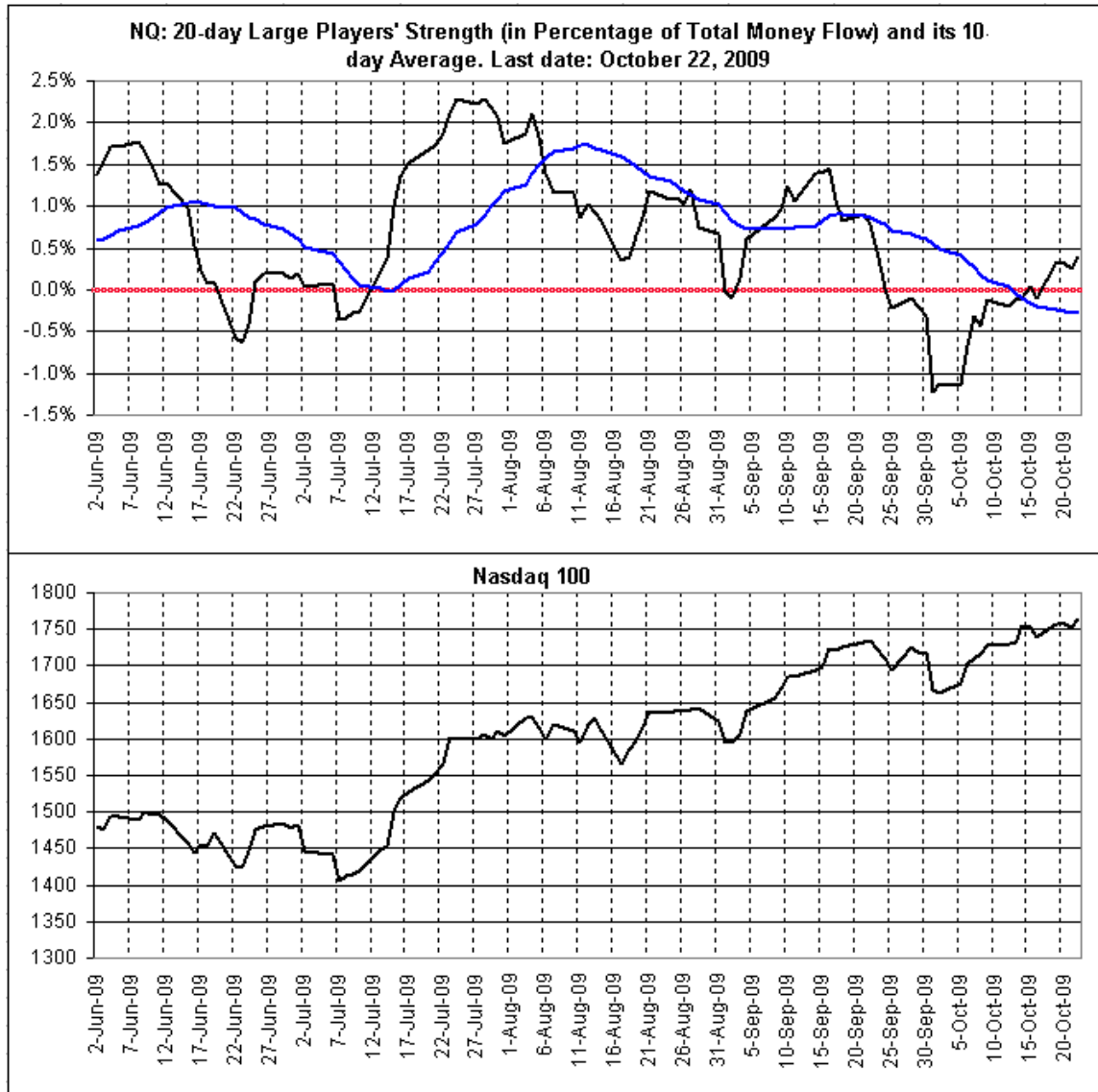
2. MF on the indices

On the S&P500 large Player's strength graph, we are starting a pull back in the green zone (extended buying occurred). These pull-backs have led either to a side way market or to a price pull-back.

Note that a negative divergence starts to form as the S&P500 reaches its previous high but the MF pattern reaches a lower high.

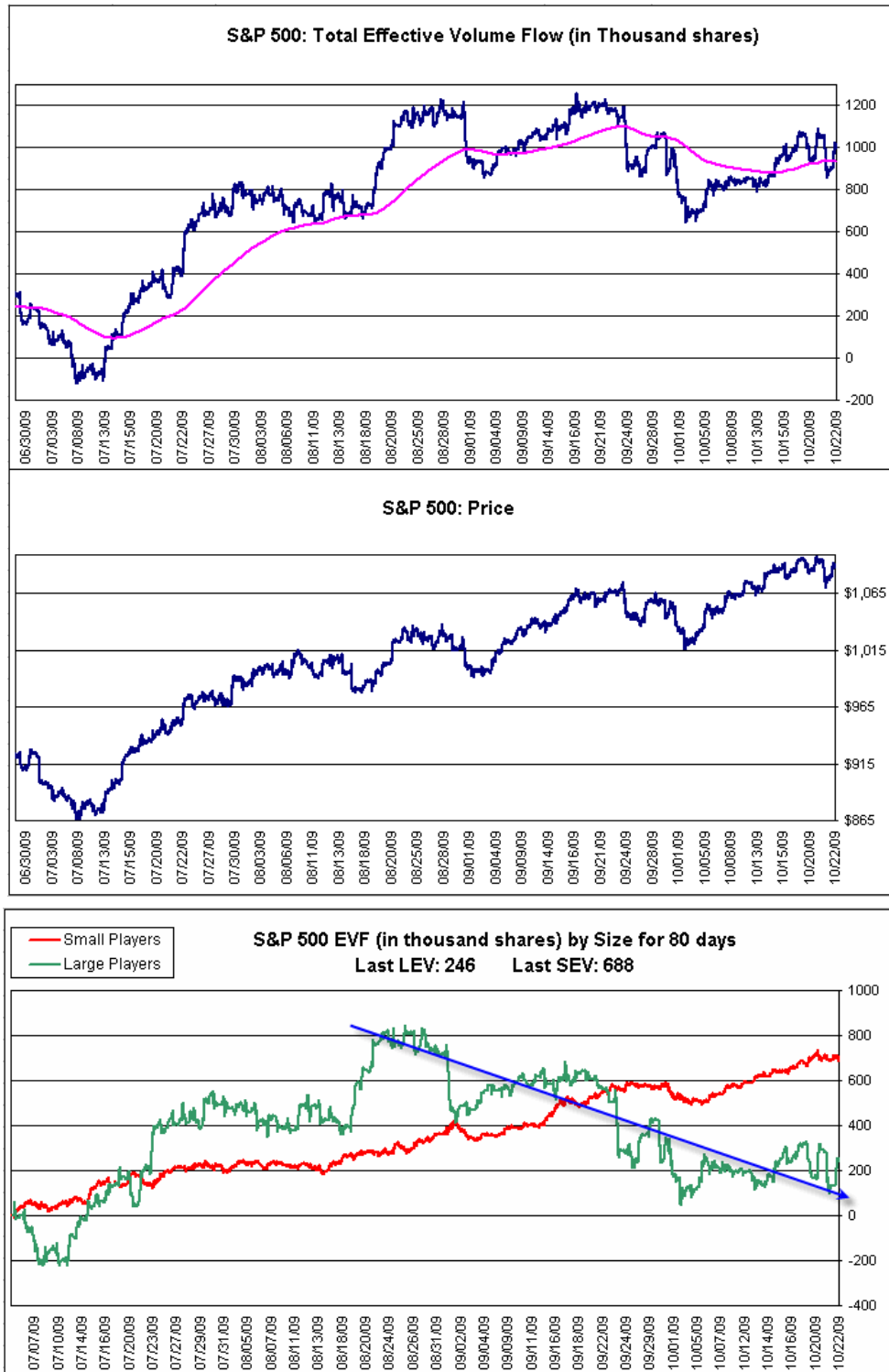


The pattern for the QQQs is quite different since we do not see a coming pull-back.... This is probably the "AAPL" effect.

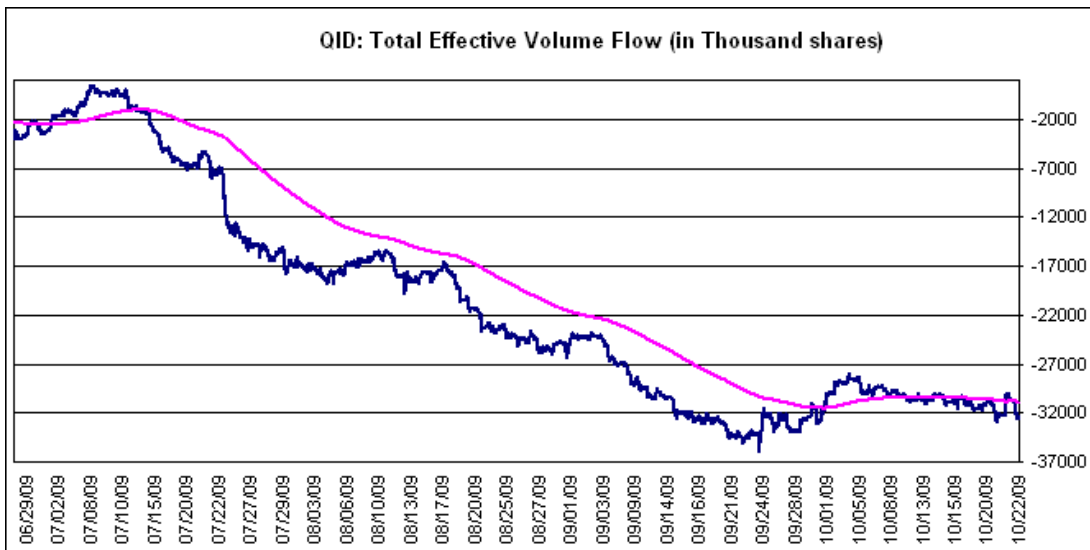
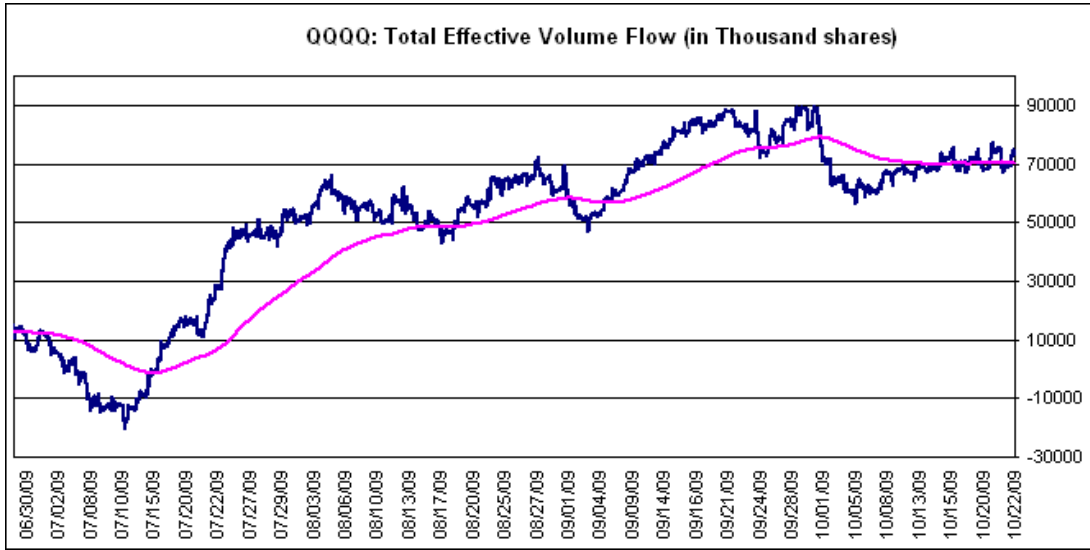


3. Futures and ETFs on the Indices

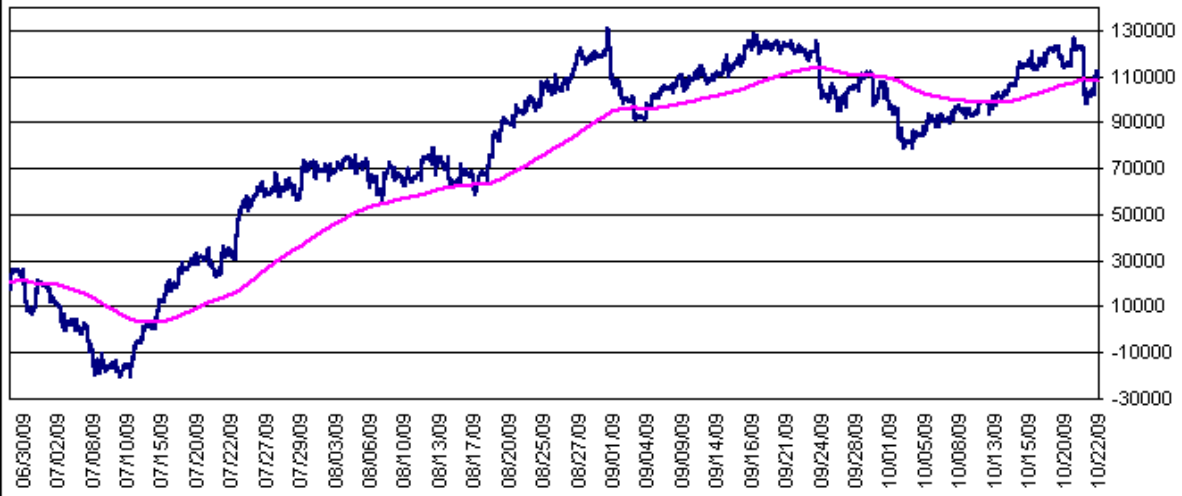
The long term accumulation for the S&P500 futures (measured in terms of TEV) is mainly non directional. However, the LEV pattern is unmistakably down. The Qs futures pattern - not shown here - is also important to study.



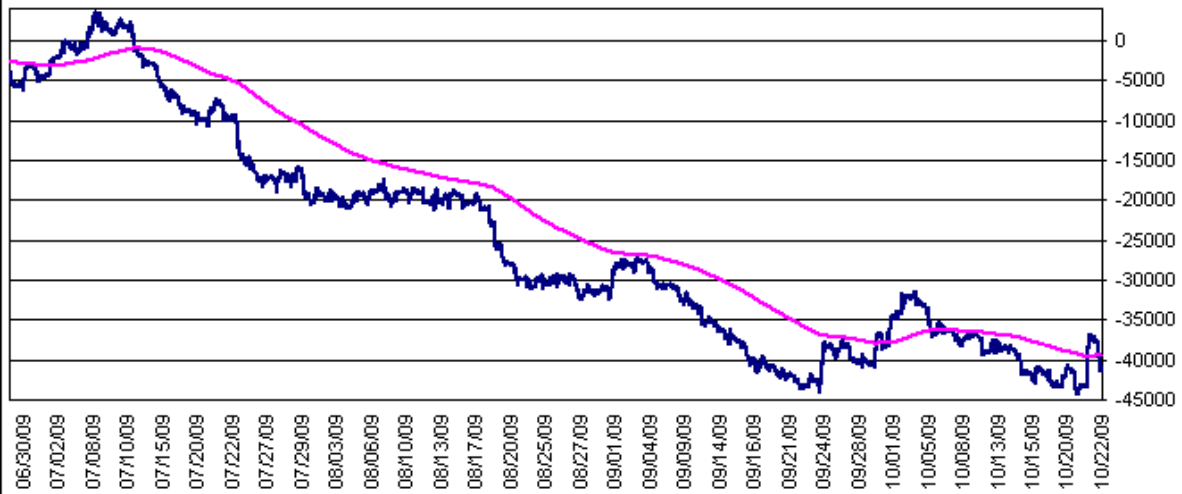
For the ETFs, I am mainly looking at possible trend changes for both the long and the short ETF (QQQQ, QID and SPY, SDS). None of the four figures below show a convinced directional change.



SPY: Total Effective Volume Flow (in Thousand shares)



SDS: Total Effective Volume Flow (in Thousand shares)



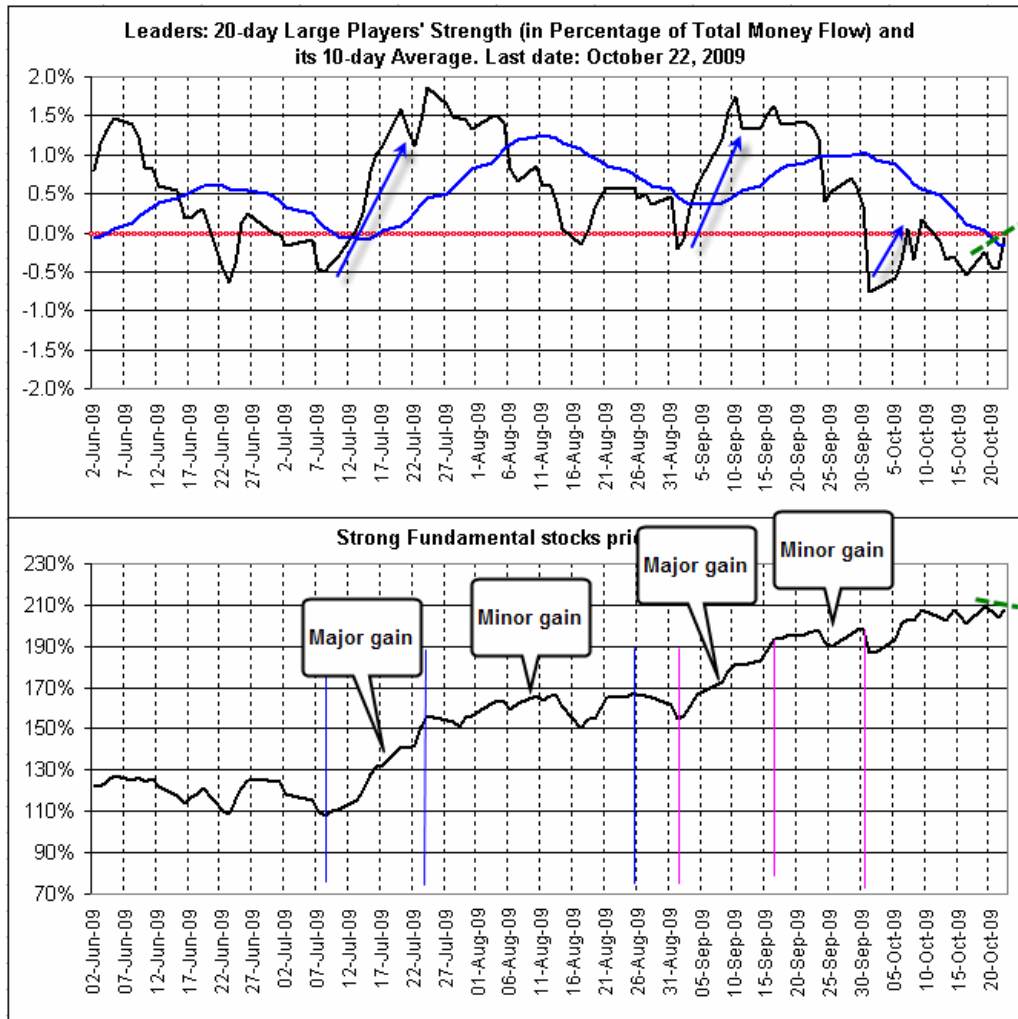
4. Leaders

In a directionless market, leading stocks should usually do fine. What I am mainly looking in the MF figure below is mainly the "thrust" action that signals big money moving in the market from a location below the 0% red line. These thrusts, when bought earlier bring the biggest profits.

I am also looking at potential positive or negative divergences especially at tops or bottoms.

The leaders' figure shown below does not look too good. It shows that the last "thrust" that occurred early this month was a "flop": the leading sector did not get the price gains of the two previous thrusts. Being below the red line indicates that money is moving out.

Just a note: If you are following the MF patterns, when the signal jumps from negative MF or when it shows a positive divergence with price while in the negative territory you are often facing the most profitable opportunities.



5. Other futures: Commodities, bonds, currencies

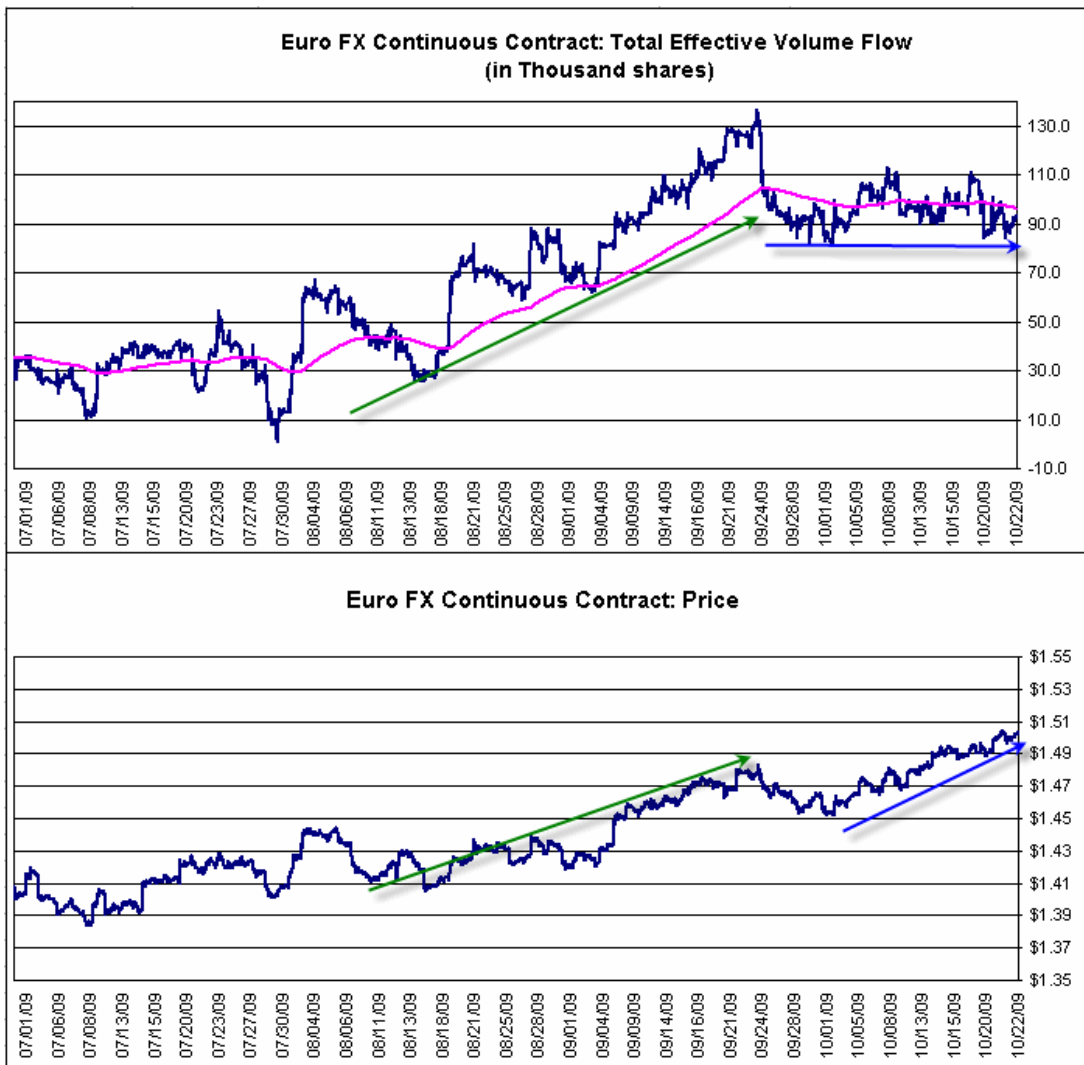
Let's start with **currencies**. The Euro/US\$ Fx futures is shown below.

The figure is strange: we have a first "green" push of the Euro (5% in about two months), followed by a steeper "blue" push (4.1% in less than one month), which is rejected by the futures traders.

This figure tells two important information:

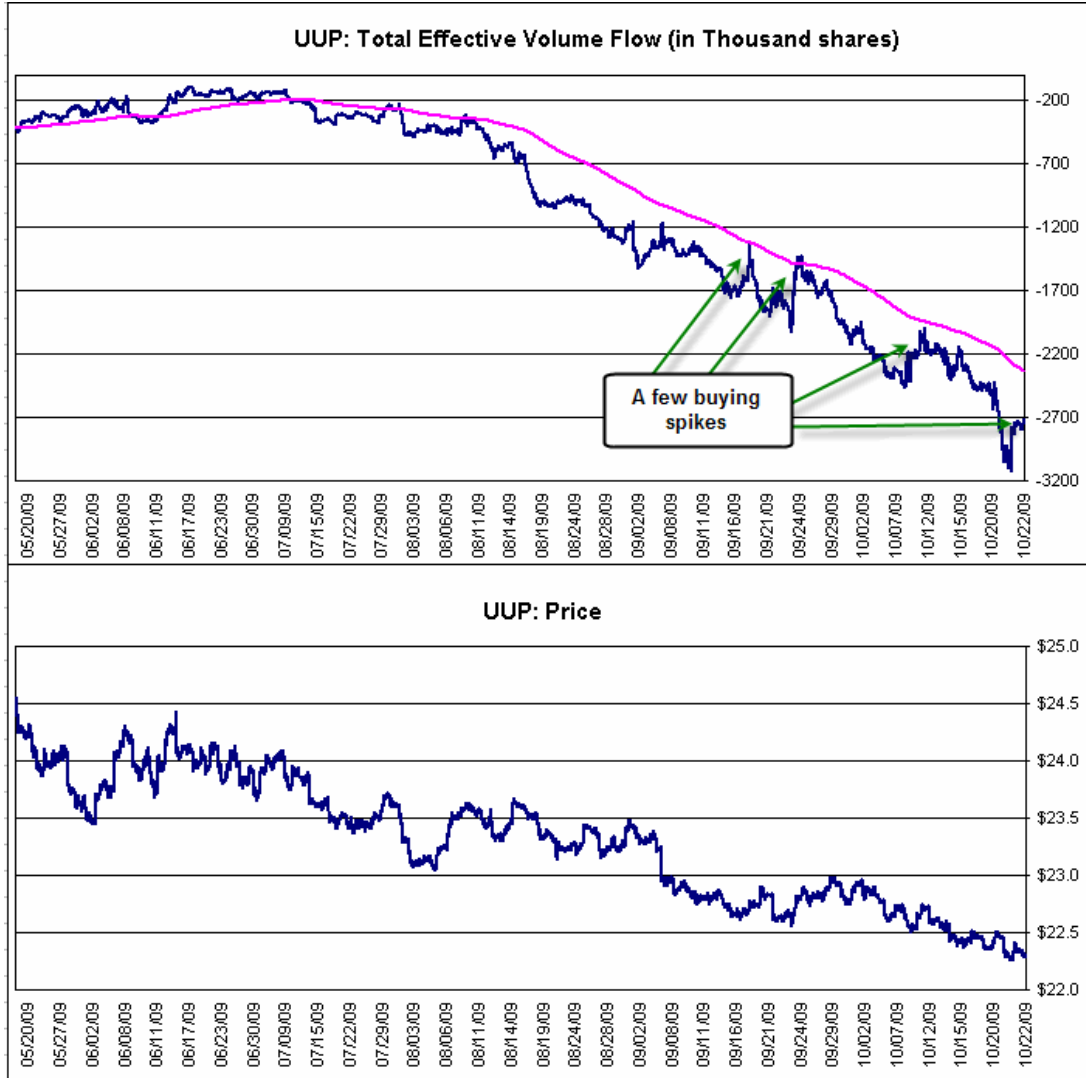
A. The Euro/\$ exchange rates are not set in the futures market. This rate is set by central banks diversifying out of the US\$, by the carry trade activities having traders borrowing in US\$ to invest in assets outside of the US and by the settlements of all the commercial activities.

B. Traders do not want to buy the Euro which is too expensive. These traders have been wrong for about one month now. They could continue being wrong.



Looking at the UUP - US\$ bullish fund - shown below, It is clear that the few buying spikes did not affect the downtrend. Will the current buying spike have a different consequence?

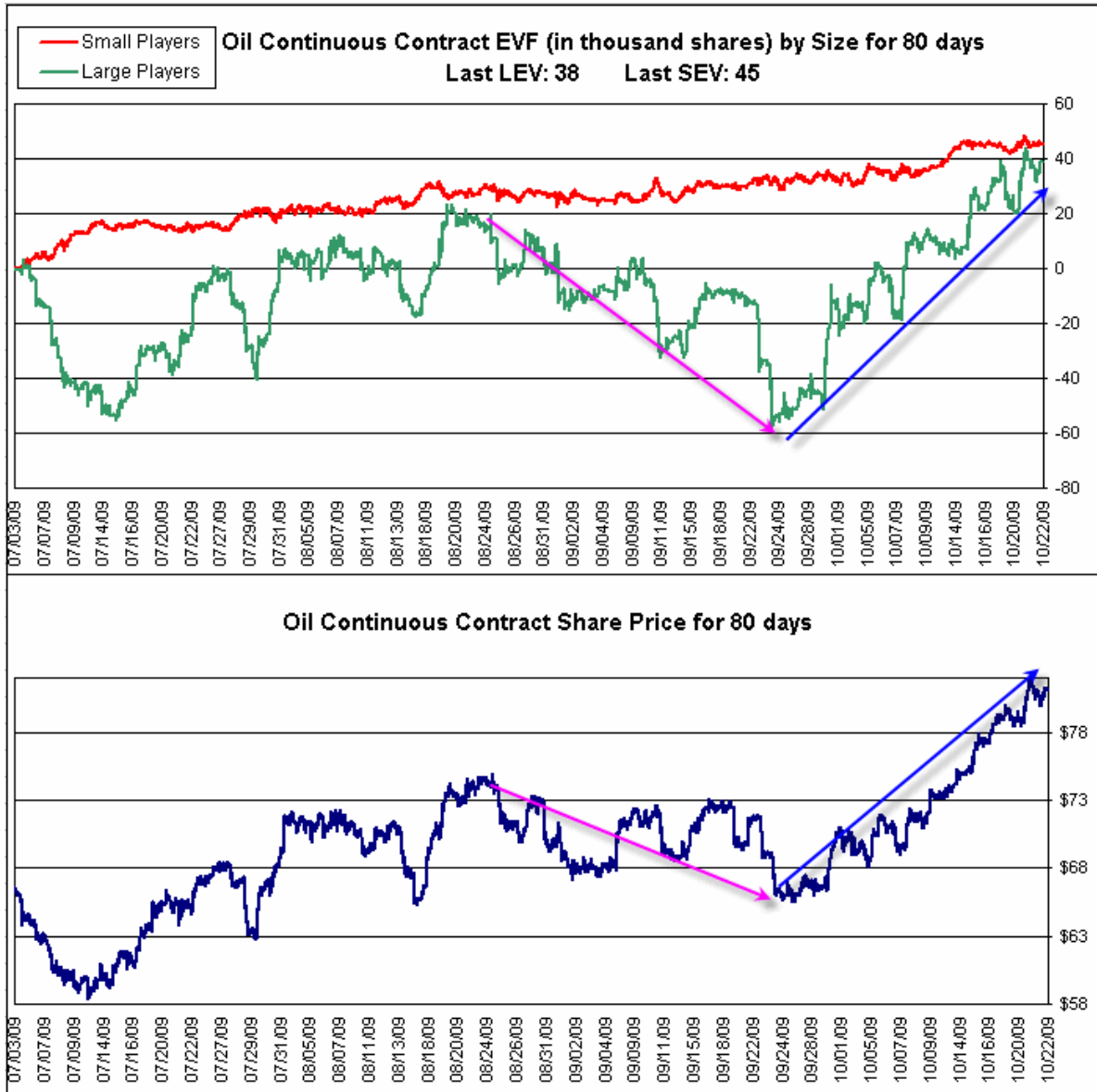
I doubt it, but the lower the US\$ falls against the other currencies, the more likely will foreign Governments start acting.



The oil futures increased 16.7% since October 1. This coincided with the 4.1% US\$ drop against the Euro.

You might take note that in August/September, oil was slightly down/sideways, while the US\$ lost 5% against the Euro.

What happened starting on October 1st that weighted on the U\$ and lifted oil?

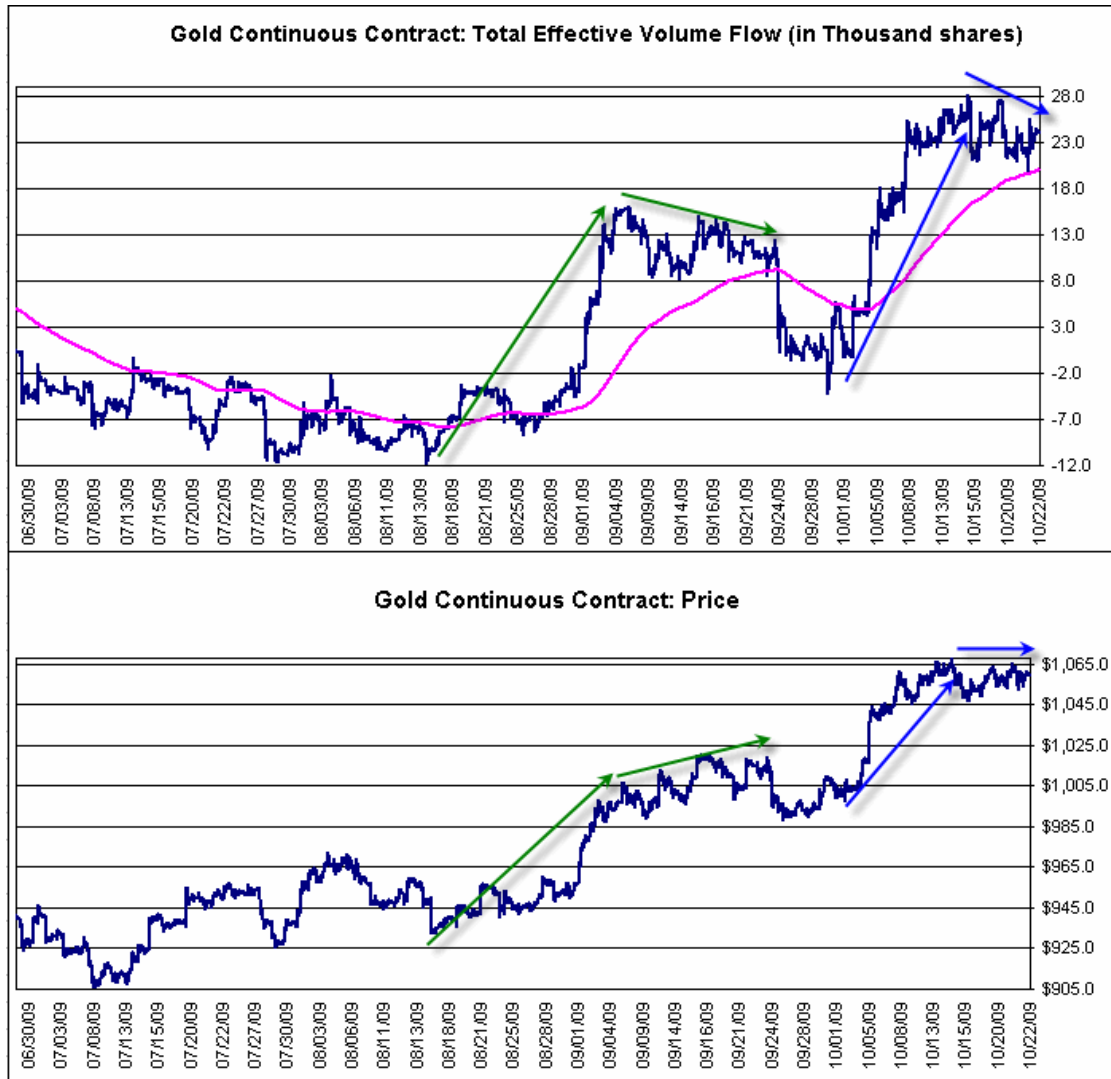


Gold and Gold Miners

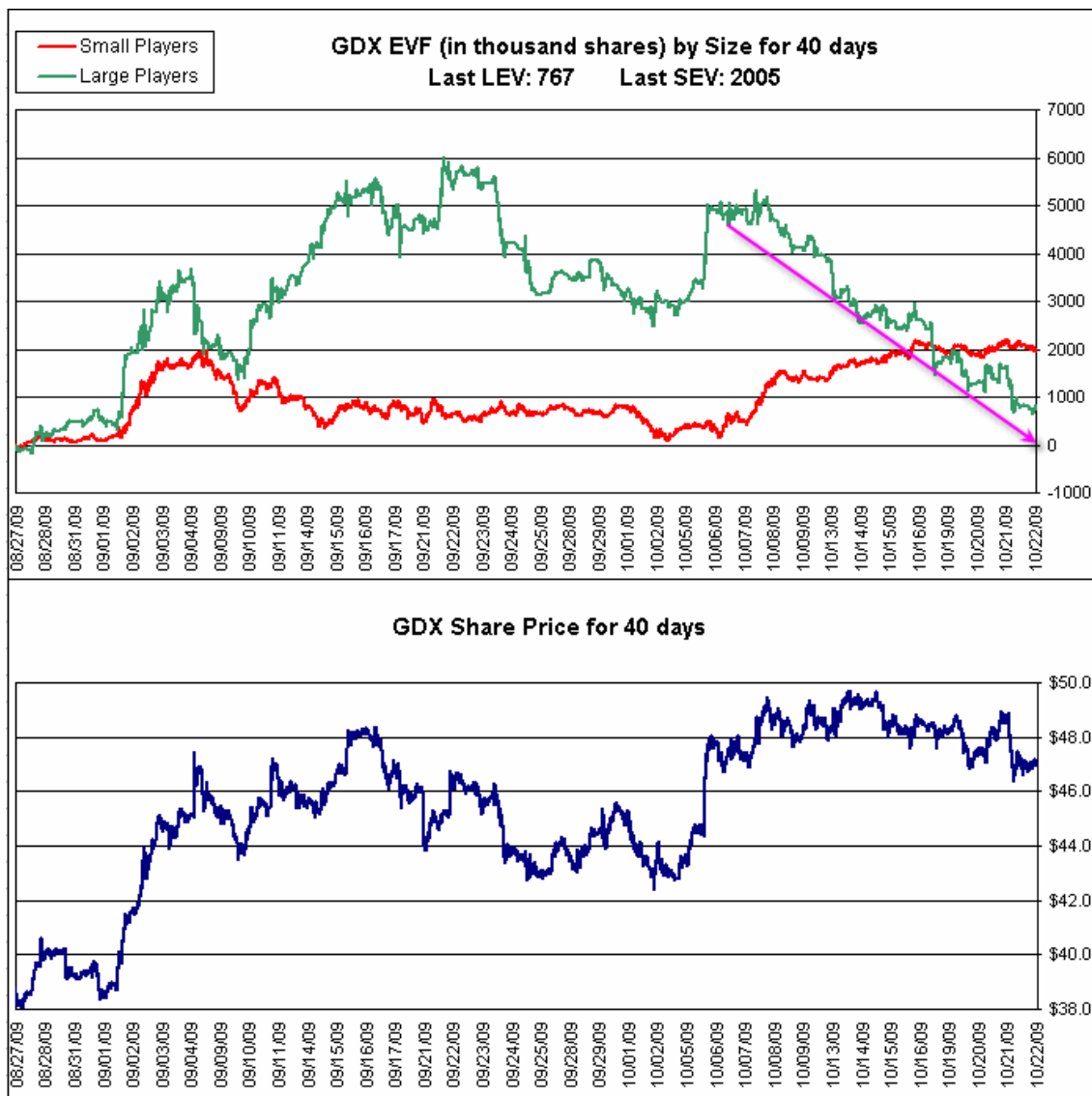
As shown below, gold moved up in two stages that broadly correspond to the US\$/Oil stages, although there are some differences.

After a sharp push, sellers start to appear and the price of gold falls back or is "contained". This is rather strange: why is gold price contained today as the US\$ continues to fall and oil continues to climb?

Maybe because Governments can sell gold while they cannot sell the oil that they do not have.



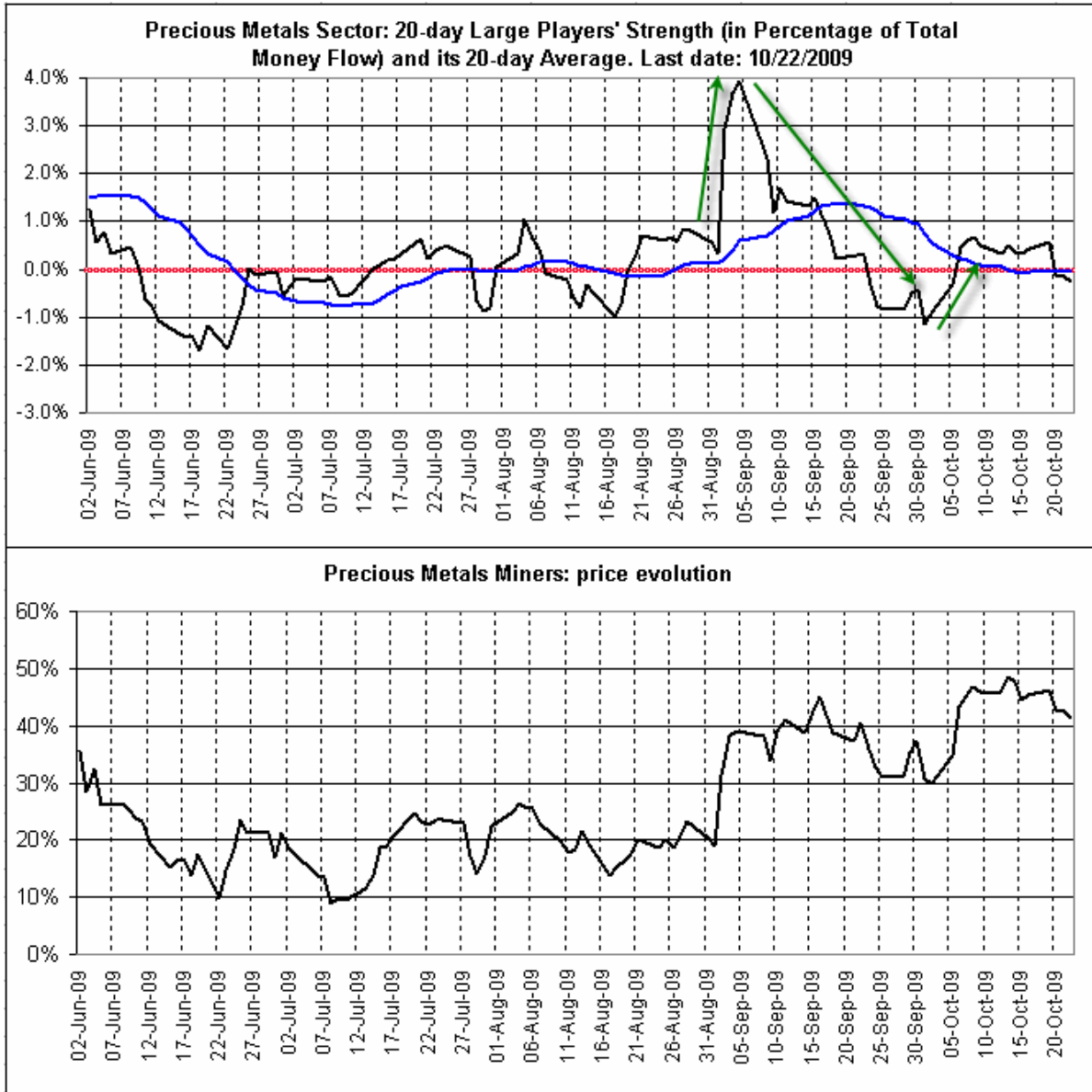
The GDV pattern shown below is rather strange. Today, GDV is lower than where it was at the start of October, and large players have been selling for about 200 Million US\$ of GDV shares. Why is that?



Let's look at the MF strength for the PM sector. We can see a strong "thrust" at the end of August, followed by a "poof" and then some reluctant buying.

The selling pattern in gold miners and GDV is not something that comes out of nowhere. It is probably coming from the valuation models of institutional players and computer trading systems. Knowing that energy is about 1/3 of the costs of gold miners, 16.7% increase in oil translates into a 5.6% cost increase, which is comparable to the

5.9% gold price increase since October 1st. Since many gold miners have hedges in gold but few hedges in energy, you might even have some negative aspect in the gold/oil difference. In any case, if the gold miners price was correct on October 1st, GDX seems to be now 10% too expensive.

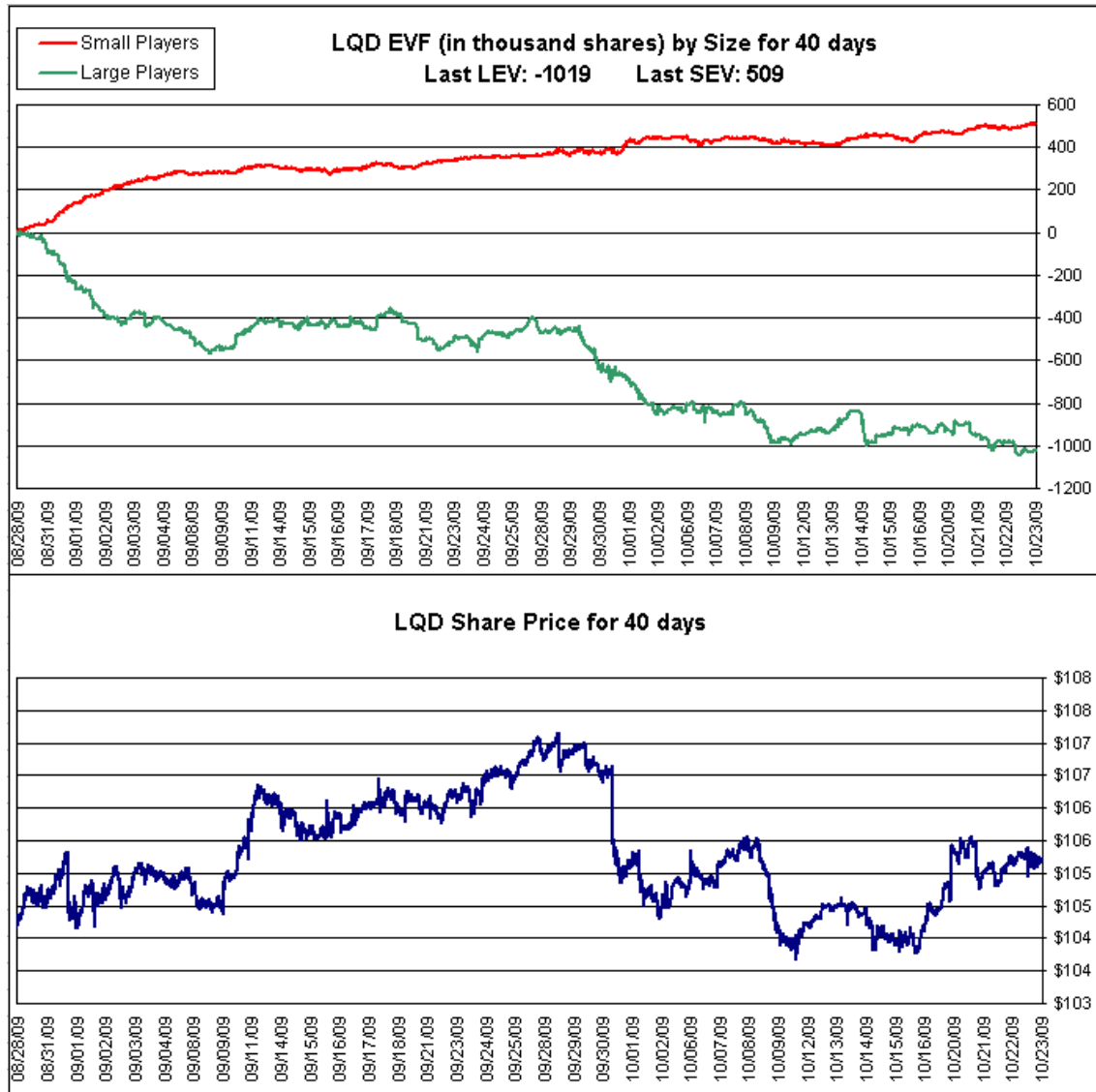


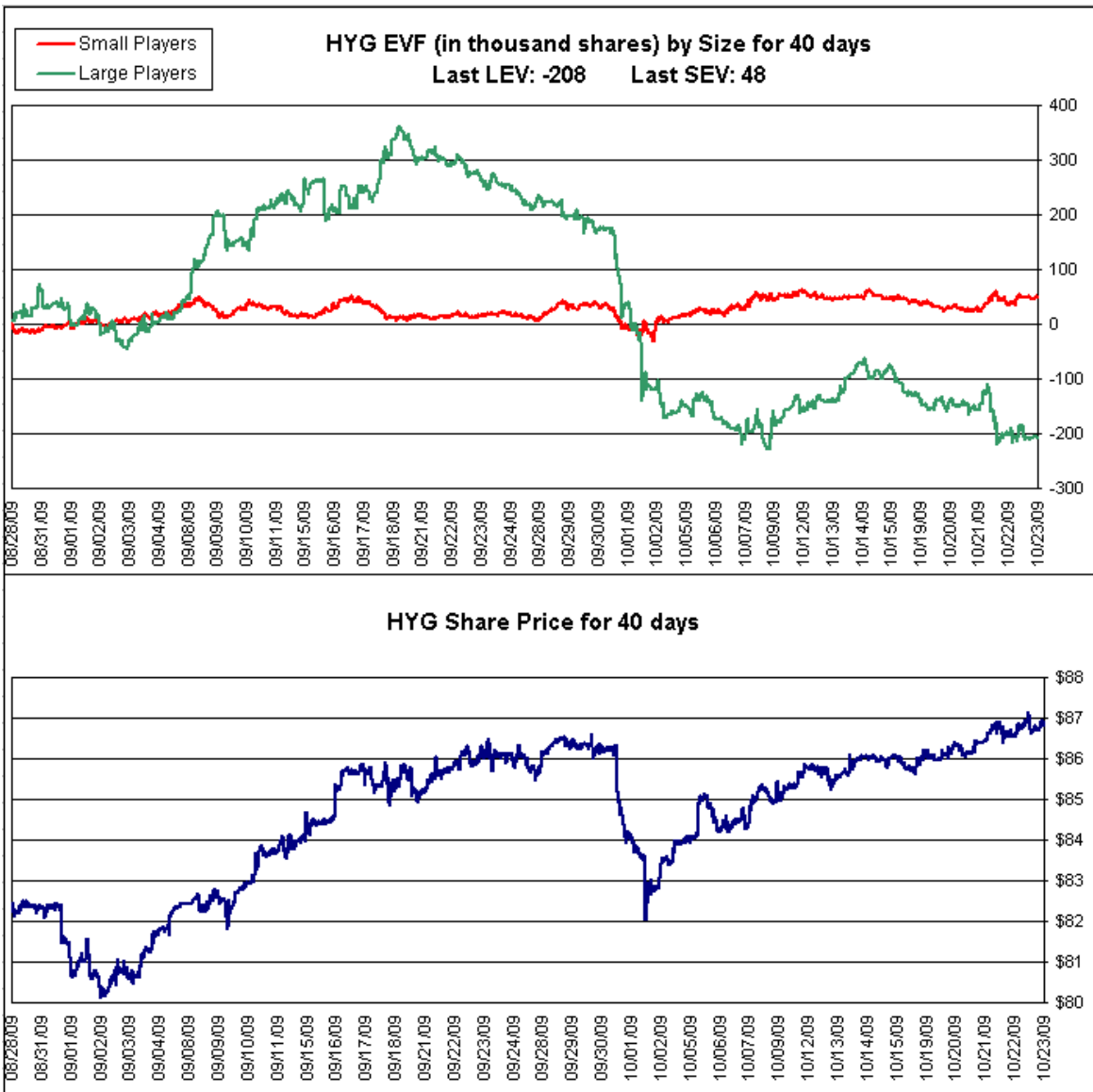
Bonds

T-Bonds move accordingly to the results of the different auctions.

There is nothing much that TBT/TLT show right now, except that official interest rates will not increase soon. The market believes that the official way is not towards tightening. In such conditions, if you have cash, why not invest it into LQD/HYG which offers better returns than T-Bonds. This is not what is happening right now. The LEV pattern shows that selling is occurring...

These players either believe that bonds will soon fall or that interest rates will soon increase.





6. Foreign markets

I have to admit that the EV pattern on the foreign markets ETF is difficult to interpret, because many of those ETFs are young and still attract money. This means that new ETF units must be sold on the market, which gives that "down" trend in the LEV pattern.

I mainly look at the behavior of the short emerging market ETFs to see if accumulation comes out.

7. The Sectors ETFs

This section is continued on November 8.

Hence, the analysis is independent from the analysis written earlier.

When I analyze the energy, materials and PM sectors, I will always have a comparative look at both the Canadian and the US markets. This comparison allows seeing whether or not money flowing in these sectors is the consequence of a depreciating currency or more of purchase made on the sector valuation itself. For example, I often see MF increase in gold stocks listed in Canada when the US\$ is up against the Canadian \$, while I would see more money flowing into the same gold miners listed in the US when the US\$ is falling.

Below are two by two the MF trends for the three different sectors, first on the Canadian market, then on the US market.

You will note that sectors MF cycles in black are almost identical since money moves by stages in different sectors, but independently of the country.

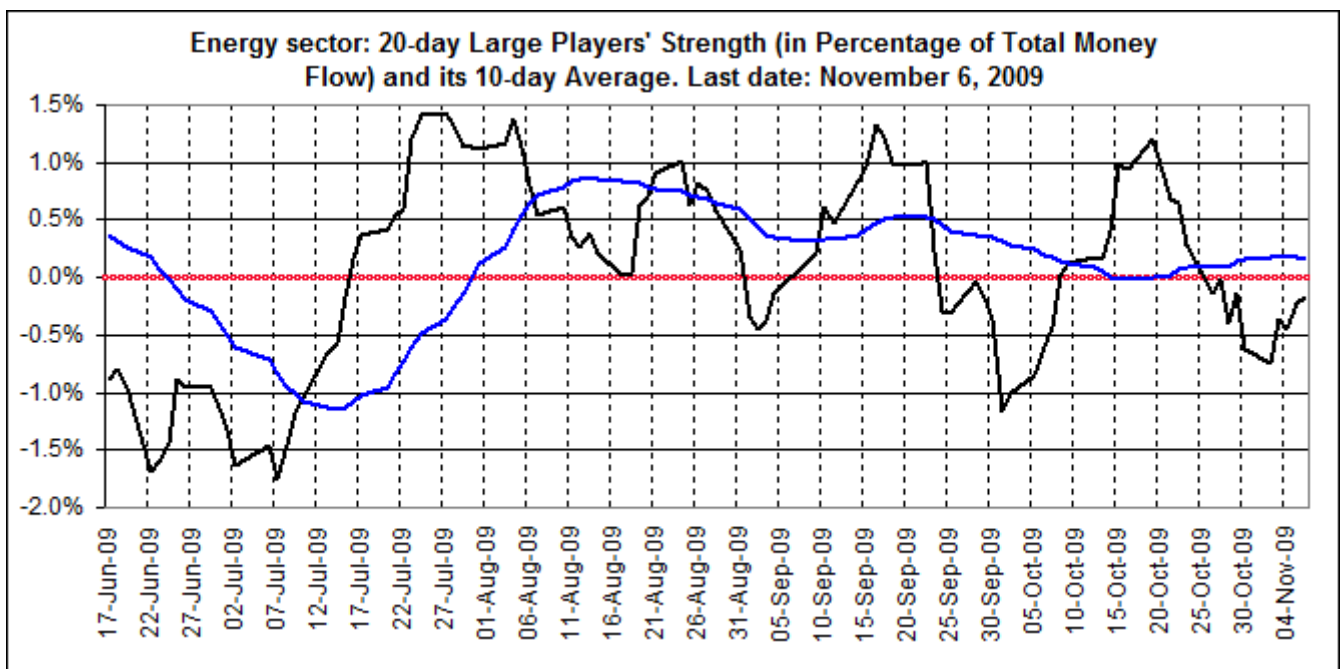
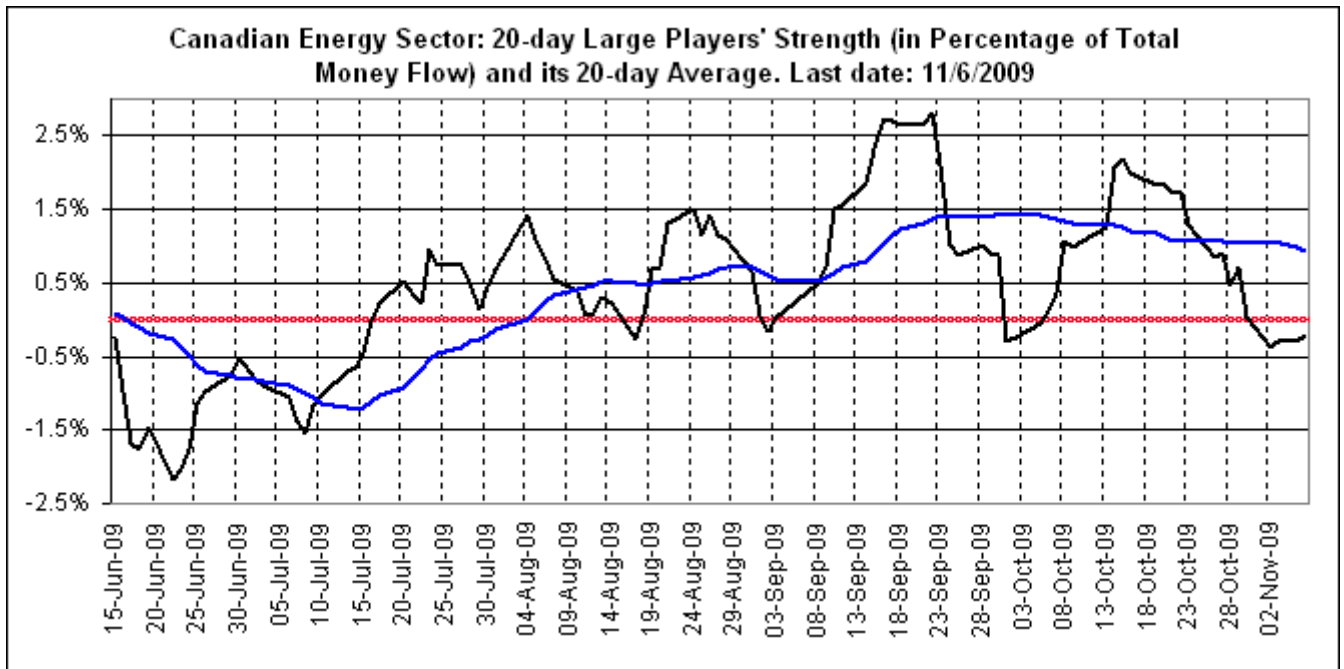
However, it is important to note for each of the three sectors the relative position of the blue line to the red line. The red line is the neutral 0% position. You will note that for the three sectors, the "Canadian" blue lines are much higher from the red line than the "US" ones.

I believe that this is a consequence of the carry-trade: money is borrowed in cheap US\$ and invested in the hot commodities in Canadian \$.

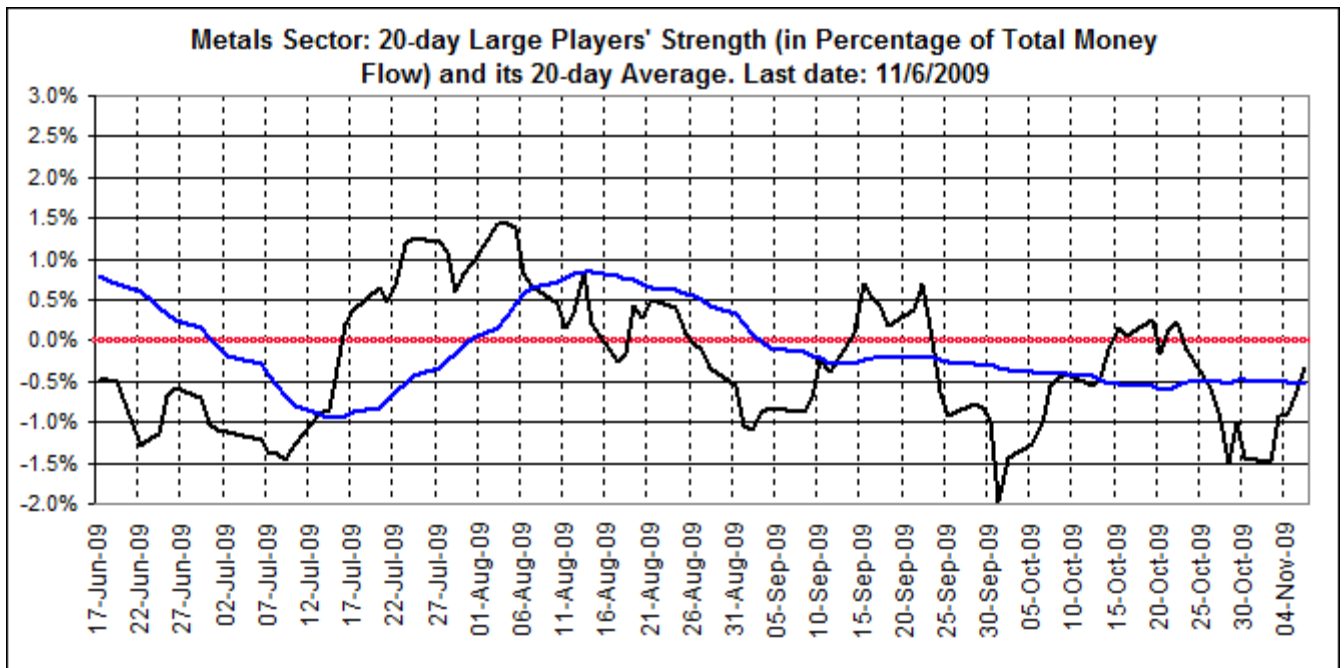
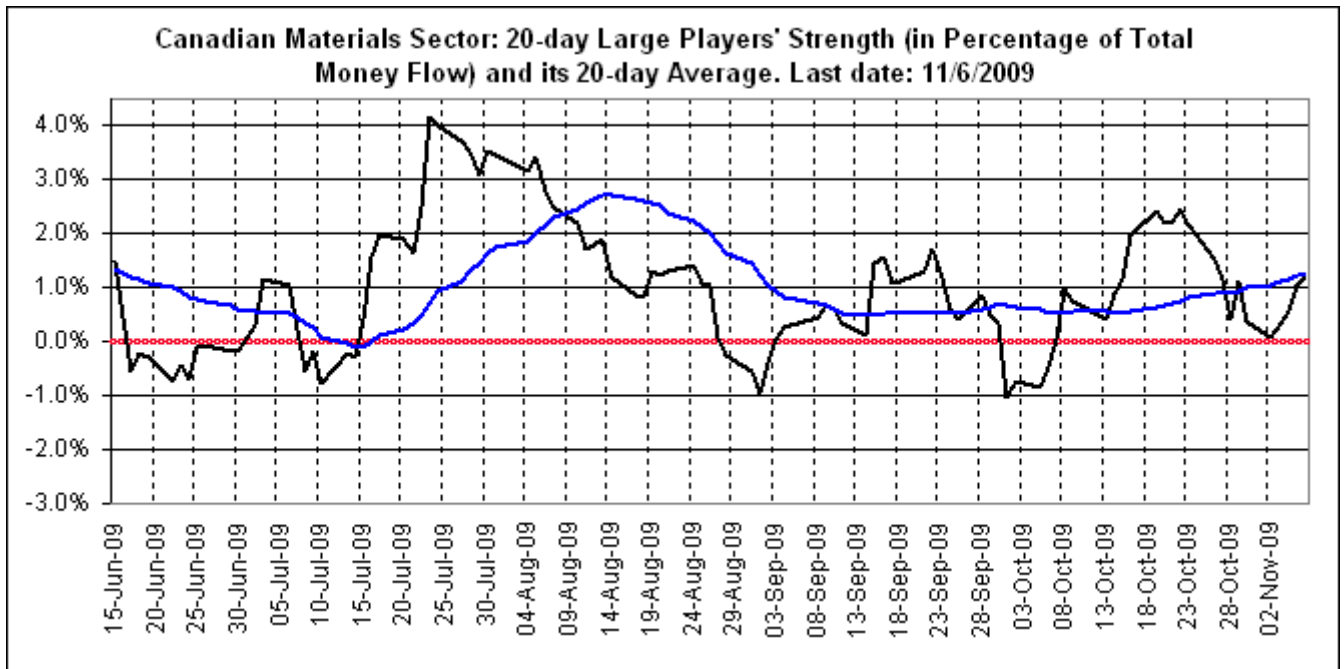
While this trend is at play, the US\$ will not get stronger. Remember that the Yen carry-trade extended for many years.

Low interest rates will continue to weight on the US\$ against other currencies and will continue fuel these three sectors higher.

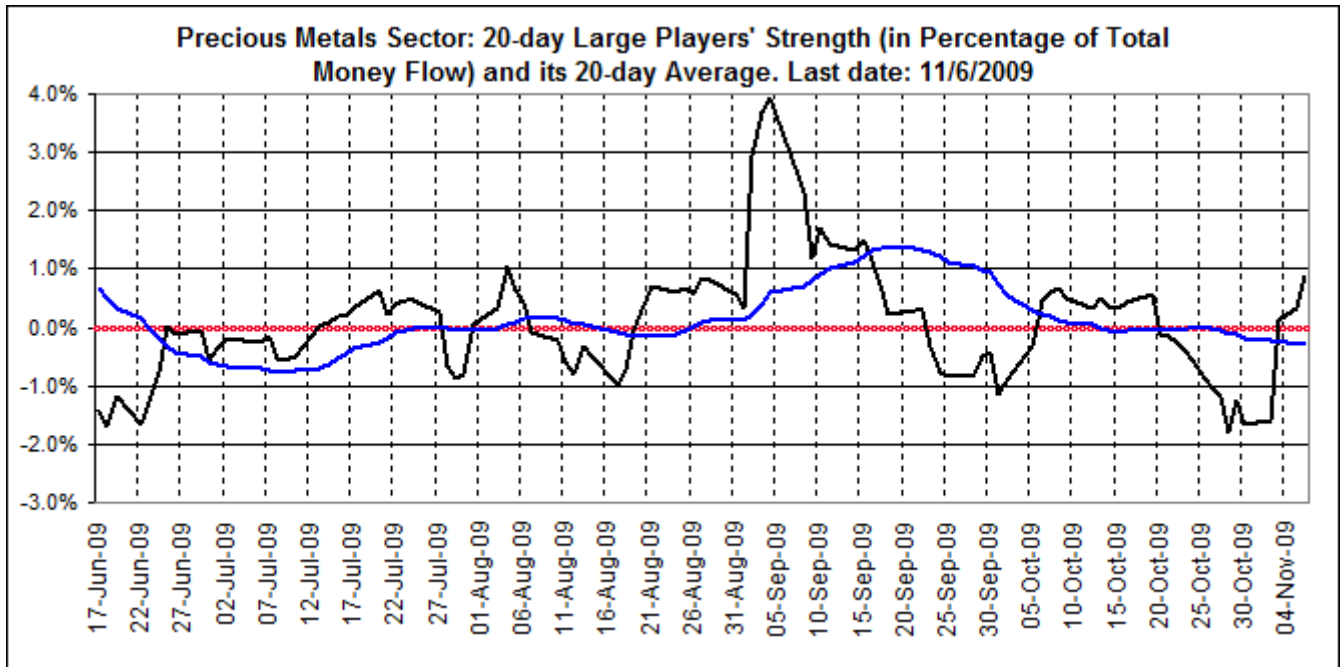
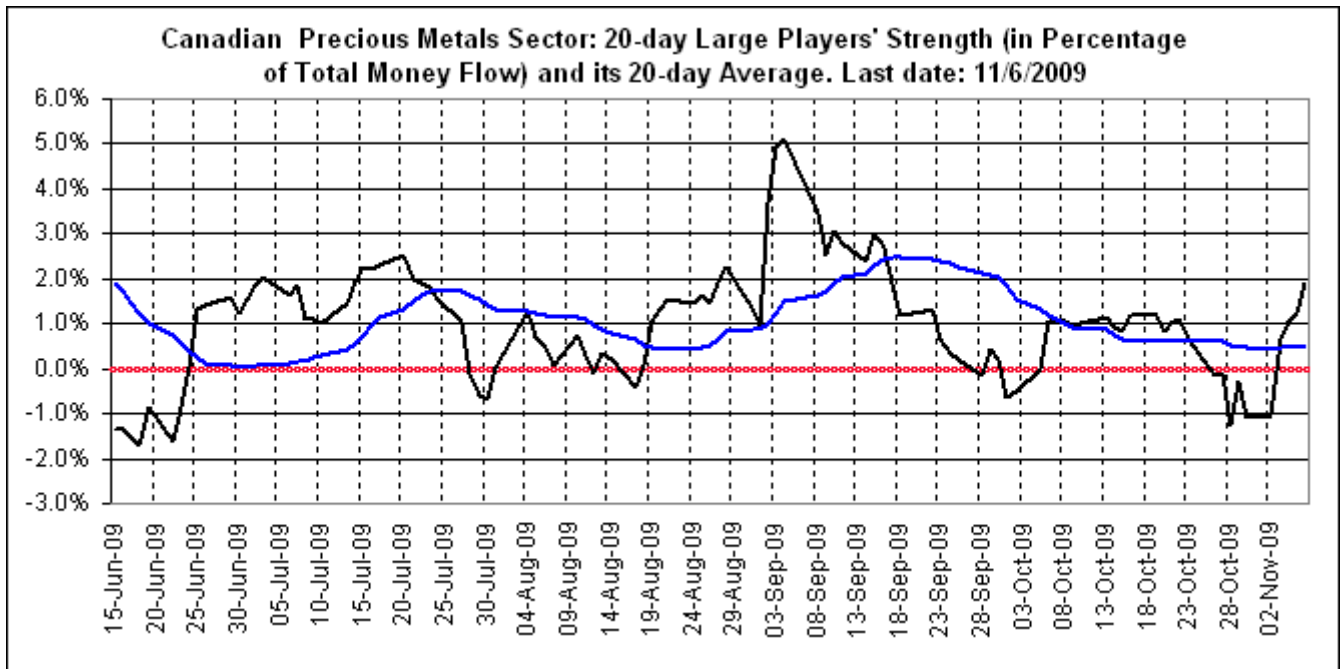
Energy



Materials/Metals



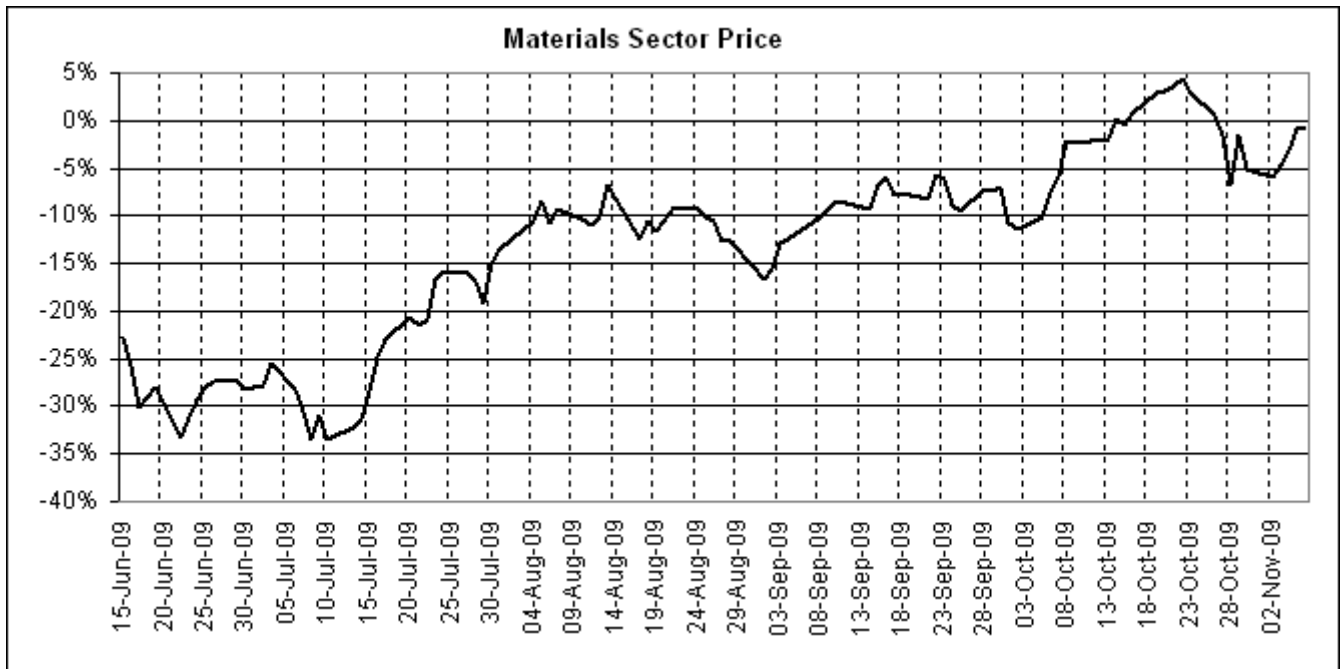
PM



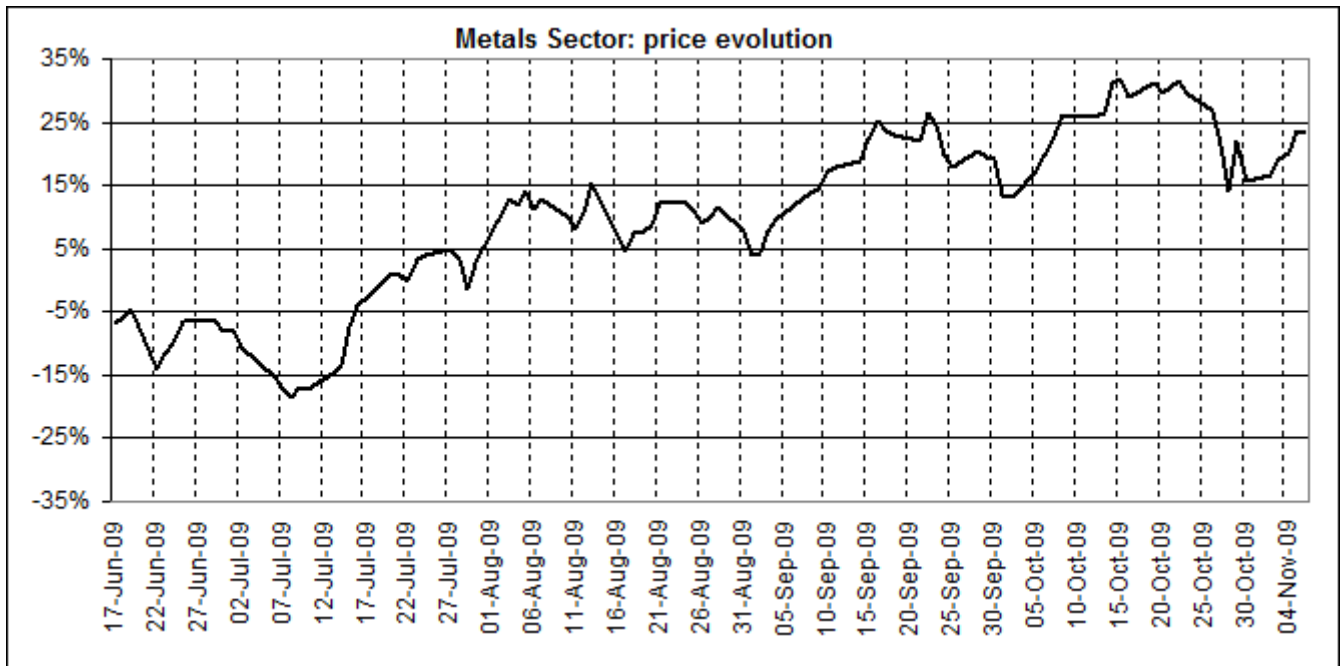
Let's now have a comparative look at the MF/Price evolution for the metals/materials sector.

We can see that last Friday, the price on this sector was flat for both US and Canadian markets, while for both markets, large players' MF was trending up. This can only mean one thing: large players are buying this sector independently of the country. They are making the same analysis of the situation.

Canada metals/materials sector



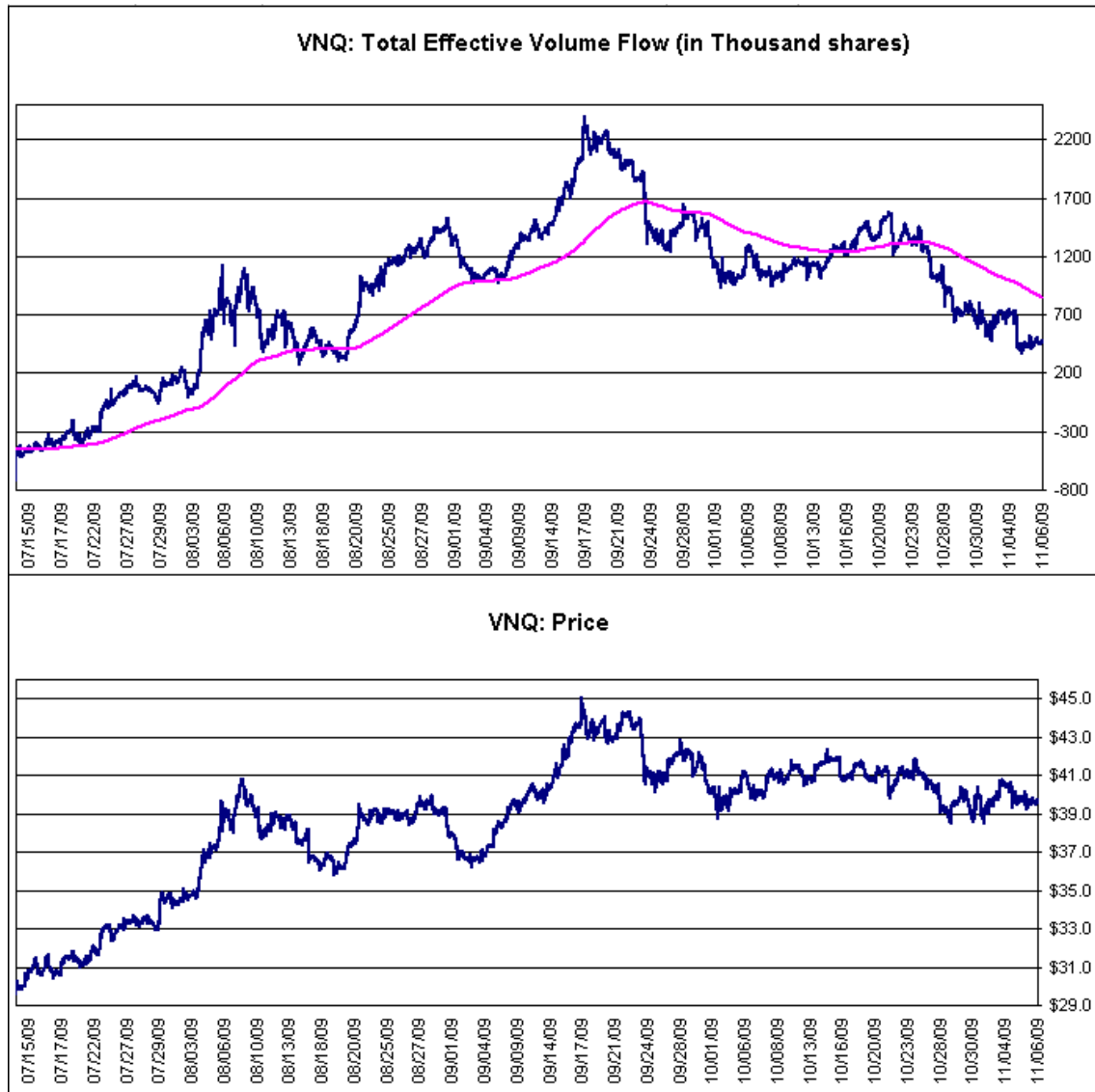
US metals/materials sector

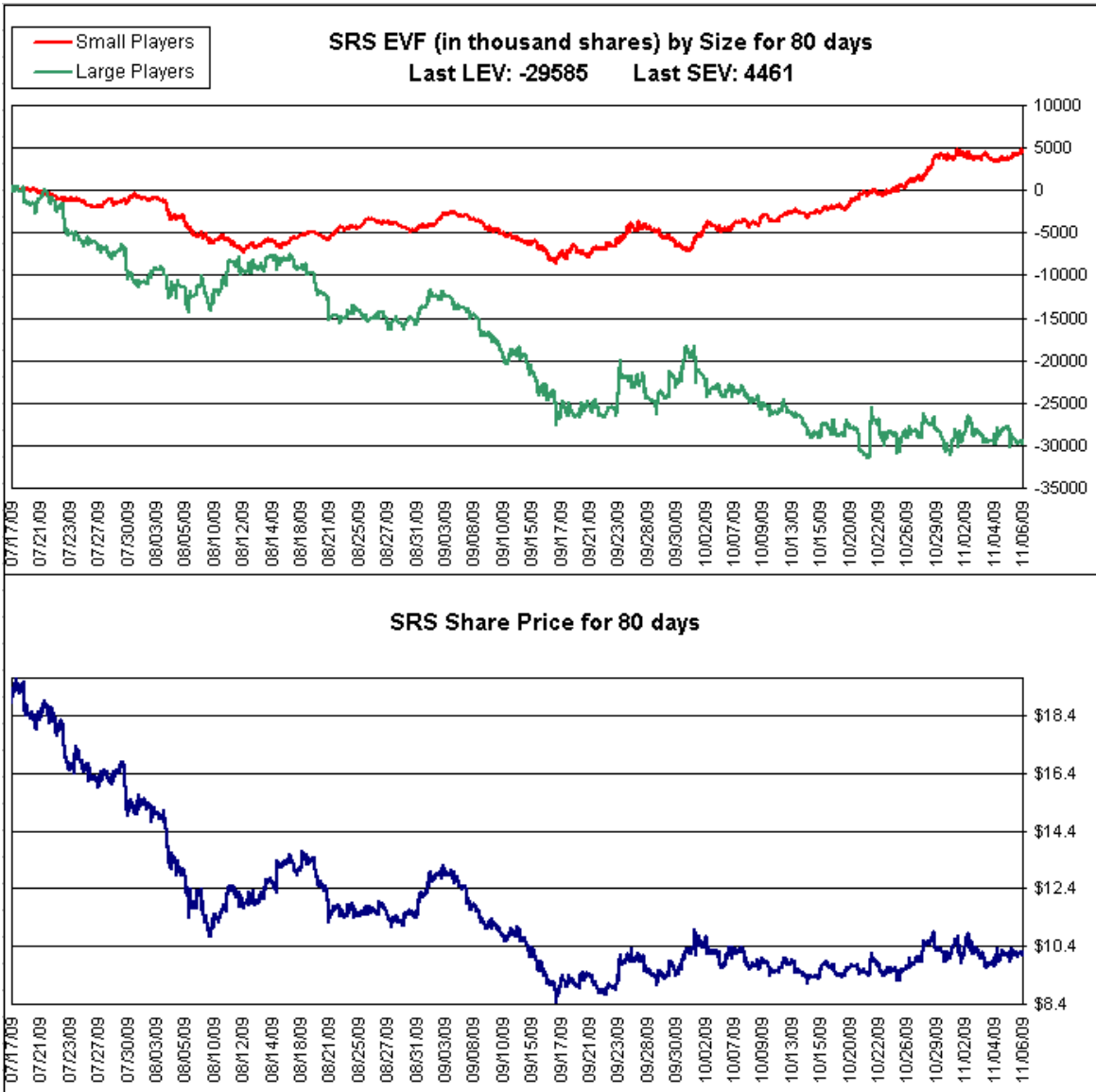


Real-Estate market

The VNQ (Vanguard REIT ETF) shows a trend change that occurred in September. The fear of a collapse of commercial real-estate by 2010 will have an increasing weight on that sector. The sector is evidently supported by low interest rates, but it will collapse if ever the bonds market experiences a hike in interest rates.

However, SRS does not show any sign of shorts starting to accumulate positions.

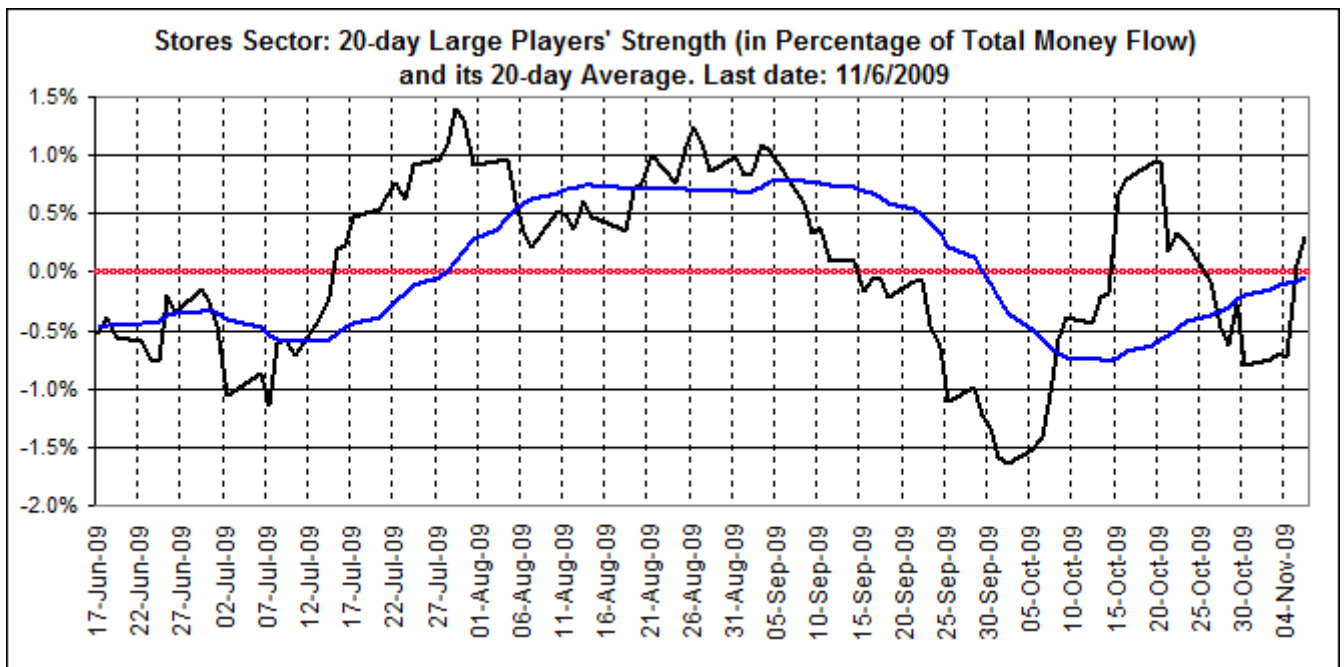
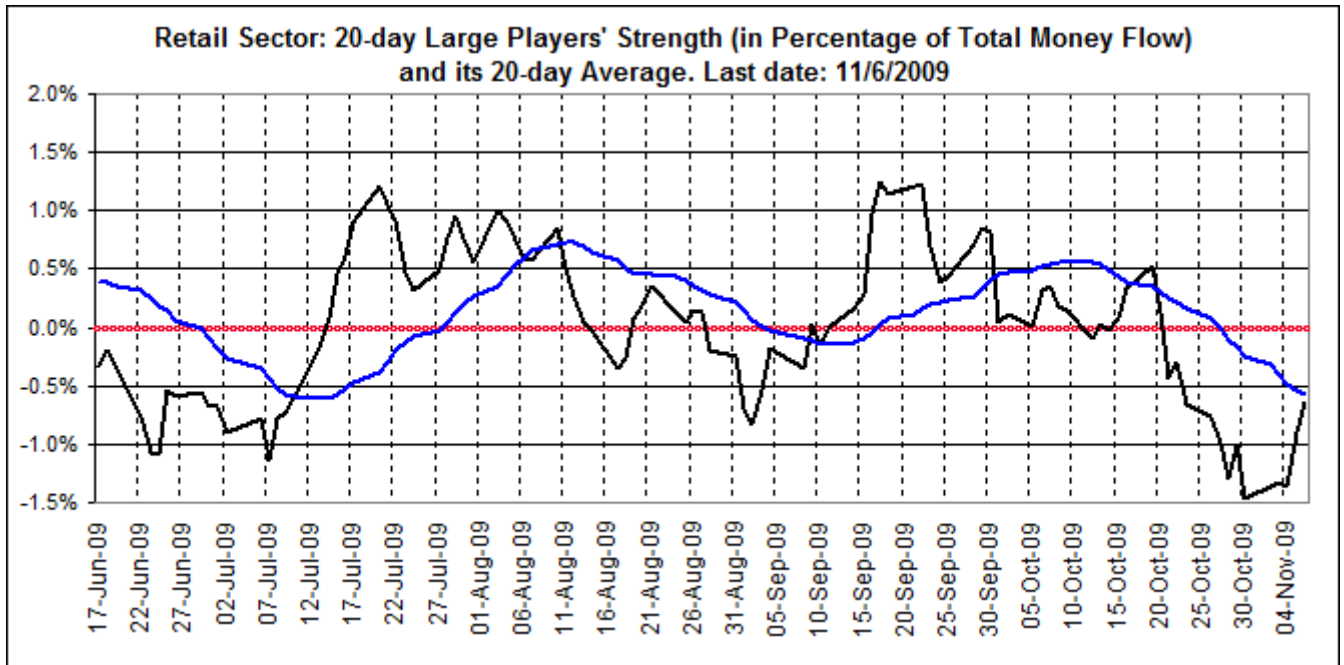




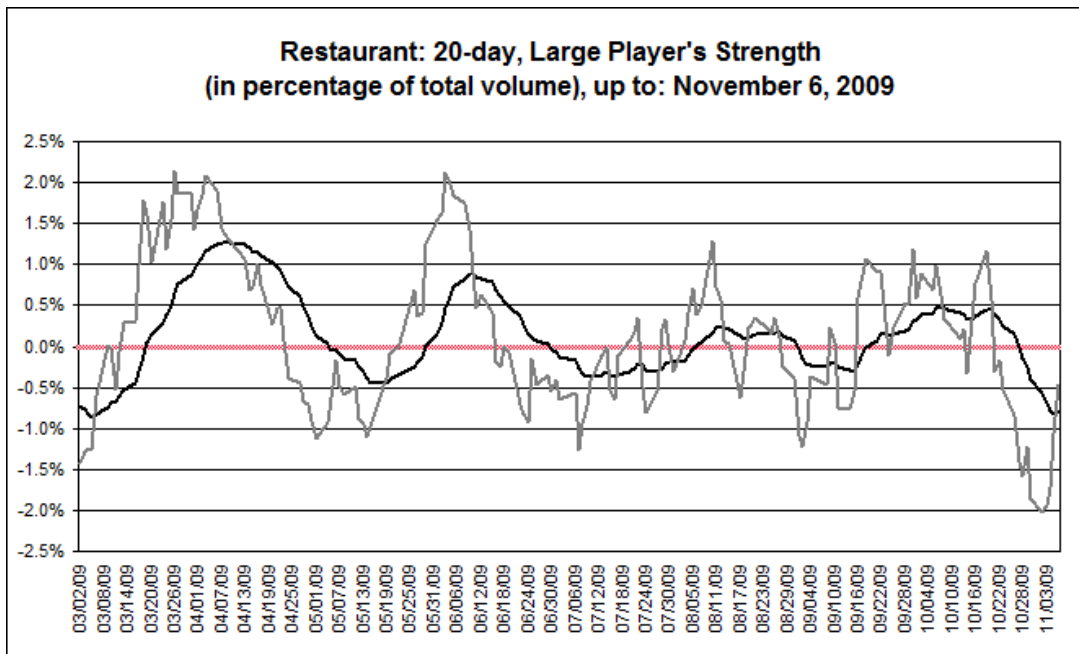
8. Sectors Money Flow

It is in my view important to look at the MF pattern of the 16 broad sectors that are displayed on the EV web site, to detect those attracting money from those that are not.

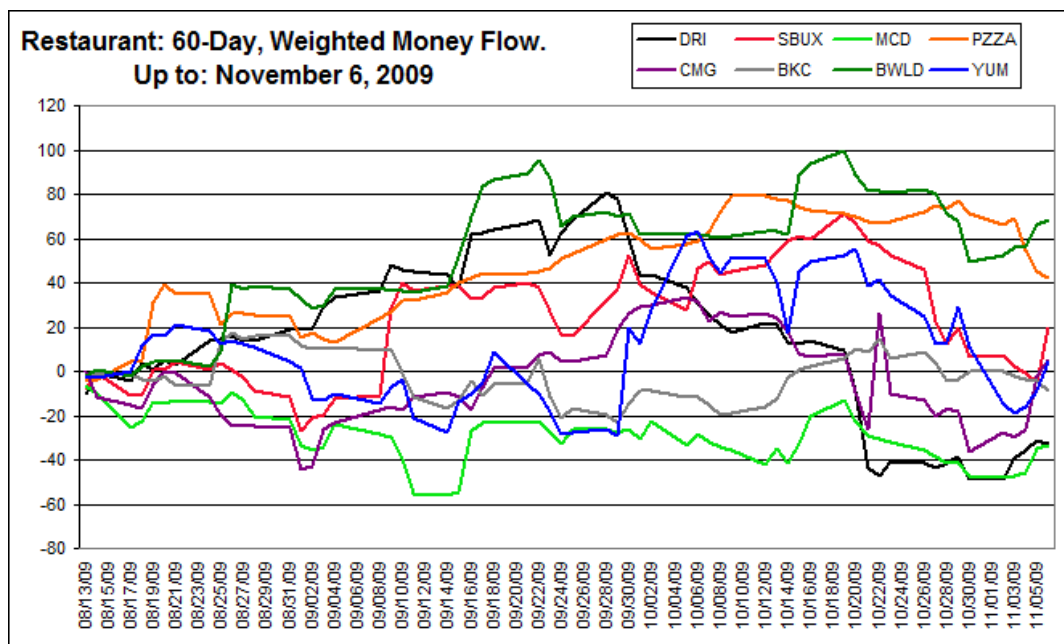
For example, the Retail and Stores sectors show below attracted much money last Friday. Why was that?



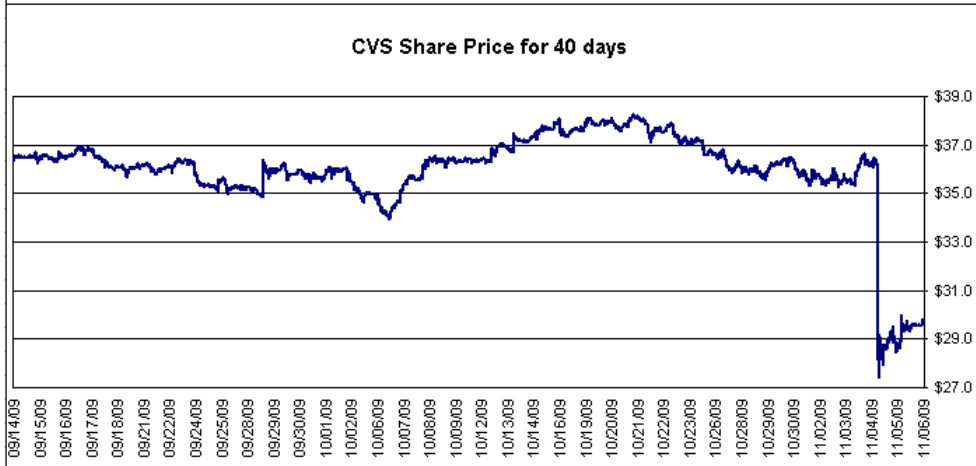
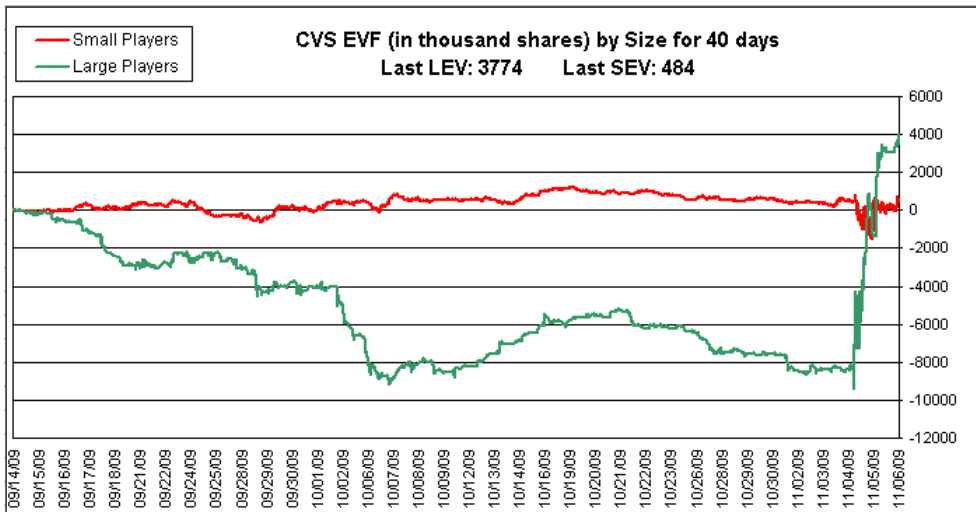
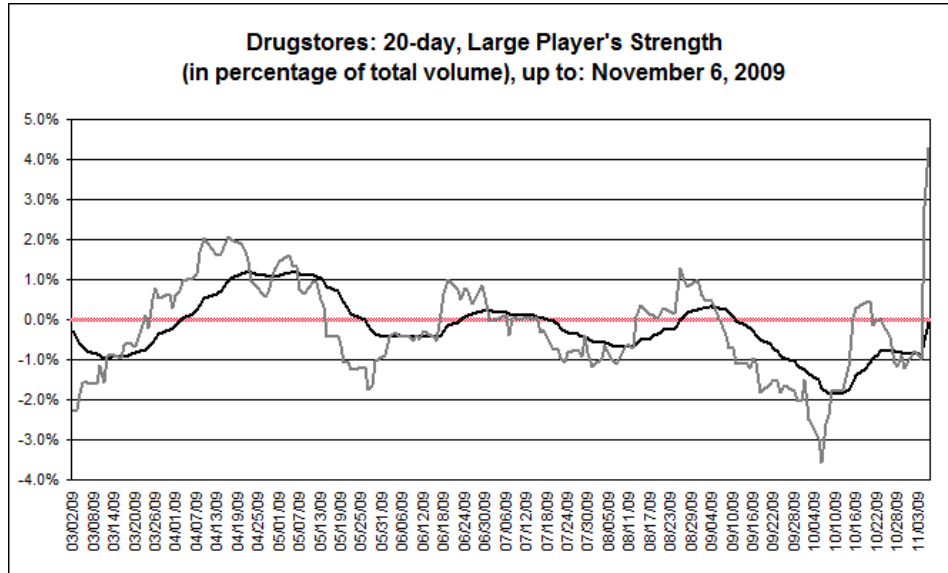
The retail sector attracted money mainly because the restaurant sector did so as shown below, while the Stores sector was pushed up by the drugstores sub-sector.



When looking at the EV patterns of the different stocks in the restaurant sector, it is evident that BWLD, SBUX, CMG and YUM all attracted good money, which indicates that more will probably come there, as money attracts money.



The story for the drugstores subsector is very different, since the surge was only due to CVS' misfortune that was met by a very disruptive EV pattern shown below.



9. Sectors Table

The sector table shown below indicates the signals variations as well as the dates of the last variation. We can see for example that the oil producers sector turned positive last Friday, although oil itself sank 3%. Many sectors are turning from "--" into "-" which also indicates an improving condition.

This indicates a market that is rebounding, not a market that is shaking on its foundation. Of course, the rebound might fail, but we will see to that at a later time. For now, as I write these lines, the probability is high for a market going up.

Of course, the market is not strong, as all the "-" and "--" signals show, but it is always less risky to buy a weak market that is getting stronger than a strong market that is weakening.

| November 6, 2009 | 20-D Price Strength | 20-D Money Flow Strength | 20-D signal as of last trading day | 20-D signal as of previous trading day | Date of last change |
|-------------------------|---------------------|--------------------------|------------------------------------|--|---------------------|
| Hand Tools | 5.7% | 3.77% | ++ | ++ | November 3, 2009 |
| Credit | 6.1% | 1.64% | ++ | ++ | October 9, 2009 |
| Leisure products | 7.1% | 1.05% | -- | -- | October 28, 2009 |
| Internet | 8.2% | 0.99% | ++ | ++ | November 2, 2009 |
| IT Services | 1.9% | 0.87% | + | + | November 5, 2009 |
| Sftw Enterpr | 1.2% | 0.53% | -- | -- | October 28, 2009 |
| Medical products | -1.0% | 0.52% | - | -- | November 6, 2009 |
| Home Builders | -7.1% | 0.51% | -- | -- | October 19, 2009 |
| Copper | 9.8% | 0.49% | + | + | November 5, 2009 |
| Media | 2.3% | 0.46% | + | -- | November 6, 2009 |
| Gold Canada | -3.0% | 0.43% | ++ | -- | November 6, 2009 |
| Military | 2.1% | 0.38% | + | -- | November 6, 2009 |
| Semic. Equipment | 0.1% | 0.37% | -- | -- | October 27, 2009 |
| Fertilizers | 2.6% | 0.36% | -- | -- | October 28, 2009 |
| Oil Pr | 3.5% | 0.33% | ++ | -- | November 6, 2009 |
| Rail | 1.9% | 0.25% | ++ | ++ | November 5, 2009 |
| Medical equipments | 0.1% | 0.19% | -- | -- | October 28, 2009 |
| Grocery Stores | 8.5% | 0.18% | -- | -- | November 5, 2009 |
| Ship Others | -0.3% | 0.18% | -- | -- | October 26, 2009 |
| Invest. Brokers | -1.9% | 0.14% | -- | -- | October 22, 2009 |
| Food | 0.3% | 0.10% | ++ | ++ | November 5, 2009 |
| Oil Integrated | 5.5% | 0.09% | + | + | November 5, 2009 |
| Health Care | 1.9% | 0.07% | ++ | ++ | October 27, 2009 |
| Oil Sands | 1.4% | 0.07% | -- | -- | October 26, 2009 |
| Waste Management | 4.2% | 0.02% | ++ | ++ | November 5, 2009 |
| Insurance | -1.5% | -0.02% | -- | -- | October 27, 2009 |
| Shoes | 6.6% | -0.04% | - | - | November 5, 2009 |
| Drugstores | 0.9% | -0.07% | -- | -- | October 27, 2009 |
| Discount Chains | 1.7% | -0.11% | ++ | ++ | November 5, 2009 |
| Drillers | 4.5% | -0.13% | -- | -- | October 28, 2009 |
| Computer Manuf. | 4.5% | -0.16% | - | -- | November 6, 2009 |
| Biotech | -4.0% | -0.19% | -- | -- | October 21, 2009 |
| Oil Sands Can | 1.0% | -0.20% | -- | -- | October 27, 2009 |
| Oil Services | 4.8% | -0.21% | -- | -- | October 27, 2009 |
| Beverages Soft | 1.1% | -0.22% | - | -- | November 6, 2009 |
| REIT Retail | -2.0% | -0.22% | ++ | - | November 6, 2009 |
| Ship Dry | -2.2% | -0.25% | -- | -- | October 27, 2009 |
| Car Parts | -3.0% | -0.26% | ++ | - | November 6, 2009 |
| Ngaz Pr | 3.8% | -0.26% | -- | -- | October 27, 2009 |
| Gold | -0.9% | -0.27% | ++ | ++ | November 5, 2009 |
| Diversified Industrials | 0.0% | -0.29% | - | -- | November 6, 2009 |

| | | | | | |
|-------------------------|--------------|---------------|----|----|--------------------|
| Transportation Services | -0.9% | -0.30% | -- | -- | October 23, 2009 |
| Airline | -13.8% | -0.32% | -- | -- | October 19, 2009 |
| Chemicals | 2.1% | -0.33% | - | - | November 5, 2009 |
| Drugs | 1.1% | -0.34% | - | -- | November 6, 2009 |
| Medical SW | 4.2% | -0.36% | -- | -- | October 28, 2009 |
| Data Storage | -10.8% | -0.39% | -- | -- | September 30, 2009 |
| Refiners | 0.2% | -0.40% | -- | -- | October 28, 2009 |
| CATV | -2.3% | -0.40% | - | -- | November 6, 2009 |
| Coal | 4.9% | -0.42% | ++ | - | November 6, 2009 |
| Paper products | 1.2% | -0.43% | - | -- | November 6, 2009 |
| Sftw Desktop | 6.4% | -0.45% | - | - | October 28, 2009 |
| Cosmetics | 3.5% | -0.46% | - | - | October 19, 2009 |
| Agriculture | -3.1% | -0.50% | -- | -- | October 26, 2009 |
| Outsourcing | 1.0% | -0.51% | ++ | ++ | November 5, 2009 |
| General Machinery | 1.9% | -0.52% | -- | -- | October 28, 2009 |
| Telecom Foreign | 2.0% | -0.54% | -- | -- | October 27, 2009 |
| Ind Metals | -4.7% | -0.54% | -- | -- | October 22, 2009 |
| Education | -6.8% | -0.55% | -- | -- | October 26, 2009 |
| Home Furnishing | -2.0% | -0.56% | -- | -- | October 20, 2009 |
| Cars | 1.5% | -0.63% | ++ | ++ | November 4, 2009 |
| Solar | -8.3% | -0.63% | -- | -- | October 27, 2009 |
| Communication Equip. | -3.3% | -0.63% | - | - | November 5, 2009 |
| Dept. Stores | 1.5% | -0.63% | -- | -- | October 27, 2009 |
| Retail | 2.5% | -0.64% | - | - | November 5, 2009 |
| Beverages Alc. | 3.4% | -0.65% | -- | - | November 6, 2009 |
| Steel | -7.9% | -0.65% | -- | -- | October 20, 2009 |
| Pipe Lines | 2.9% | -0.78% | - | -- | November 6, 2009 |
| Restaurant | 2.2% | -0.79% | - | - | November 4, 2009 |
| Electrical Equip. | -4.2% | -0.93% | -- | -- | October 26, 2009 |
| Aerospace & Defense | -1.2% | -1.07% | - | -- | November 6, 2009 |
| Clothing | -0.2% | -1.21% | -- | -- | October 28, 2009 |
| Banks Foreign | 1.6% | -1.23% | - | -- | November 6, 2009 |
| Info services | 4.6% | -1.25% | - | - | November 5, 2009 |
| Telecom Others | -7.0% | -1.27% | -- | -- | September 25, 2009 |
| Heavy Constructions | -4.8% | -1.28% | -- | -- | October 26, 2009 |
| Utilities | -2.8% | -1.30% | -- | -- | October 26, 2009 |
| Base Metals | 7.2% | -1.34% | - | - | November 5, 2009 |
| Telecom Wireless | -0.2% | -1.37% | -- | -- | October 26, 2009 |
| Banks | -2.0% | -1.45% | -- | -- | October 23, 2009 |
| Construction Machinery | 11.9% | -1.63% | - | - | October 20, 2009 |
| Semiconductors | -1.8% | -1.80% | -- | -- | October 23, 2009 |
| Leisure Serv. | 0.9% | -2.20% | -- | -- | October 28, 2009 |
| Silver | 3.7% | -3.98% | - | - | November 4, 2009 |
| Average | 0.72% | -0.32% | | | |