

Working during a sideways market

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.

You might not believe what I write here, but I think that the best is to stay out of sideways market.

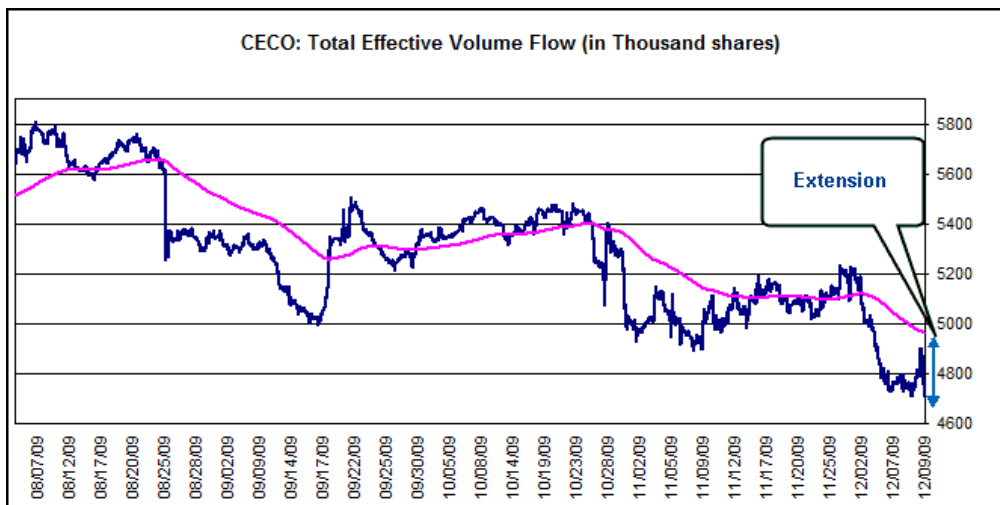
If you remember, the 20DMF issued its short signal on the panic selling of last Thursday and Friday. Since then, selling has been much more controlled and the market has stayed in a flat range.

The first thing to do is to try to understand what market players are up to.

If you look at the "sector" section of the "Pascal_List.xls" file (http://www.effectivevolume.eu/content/Reports/Pascal_List.xls), you will see that most of the sectors with a "Thrust" superior to "1" also have a negative Extension tot EV.

What does this mean?

Below is the **extension** tot EV for CECO. It is negative. When the average Extension is negative for a whole sector, it means that there has been fewer money moving than the average of the past 20 days.



The "thrust" is defined as the level of TEV for the last trading day compared to the average of the absolute value of the TEV of the past 10 days.

For example, "Oil Integrated" shows an average thrust of 1.9. This means that the average TEV was positive yesterday and the force was 1.9 times higher than the average force of the past 10 days.

The simple fact that we have a negative Extension combined to a positive thrust indicates a reversal.

SECTORS	Strength Aver Tot EV	Extension Tot EV	Thrust
Oil Integrated	50%	-13%	1.9
Computer Manuf.	54%	-13%	1.8
Aerospace & Defense	47%	-4%	1.7
Ship Others	38%	0%	1.6
Gold Canada	90%	2%	1.6
Banks Foreign	55%	-6%	1.5
Cosmetics	65%	-15%	1.5
Oil Services	48%	-10%	1.3
Sftw Enterpr	57%	-4%	1.2
Home Builders	13%	-21%	1.2
IT Services	40%	-10%	1.2
Invest. Brokers	47%	-2%	1.2
Hand Tools	61%	14%	1.1
Oil Sands Can	37%	-33%	1.1
Medical equipments	40%	-11%	1.1
General Machinery	59%	-4%	1.1
Paper products	56%	-4%	1.0

This means that there might be some interesting stocks to play on the long side on the hypothesis that the reversal will intensify in some stocks in these sectors.

The idea is to look for stocks that fell back down to a support area (50MA, LB, etc..) but that attract good money.

For example, oil integrated companies such as PTR, XOM, COP, MRO, etc. attracted money yesterday and might want to stage a reversal.

A second way to find good long plays in a sideways market is to go through the leaders at value section:

http://www.effectivevolume.eu/content/Filters/Leaders_at_value.php

You can see that AMED, AAPL, BIDU, PEGA, VRX for example are close to a value zone or back to a support zone.

For example: VRX fell back to the 50MA support, while attracting money.

