How to trade ETFs with EV

This document was written in January 2010, 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.

ETFs are different from stocks for two reasons:

1. ETF managers have sometimes to sell "units" to the public. This selling, as it occurs on relatively large amount of shares, may affect the EV pattern itself. This could be the case for new ETFs.

2. The buying/selling activity on the ETF does not have the same influence on the prices as a similar activity on stocks because the price of an ETF depends on the price of its underlying instrument, which might be rather independent from the demand/supply on the ETF itself.

ETFs value decay, especially leveraged ETFs. There have indeed been a few studies that proved this. This means that if you want to be long using an ETF, the best is to short the related inverse ETF. For example, you want to be long the financials, then you short SKF. In this way, you take advantage of the natural decay of SKF. There is however one limitation to this strategy: it is often quite difficult to find shares to borrow and some (most?) brokers refuse to allow the shorting of ETFs. These limitations might be turned into a great advantage for EV users. Indeed, since short sellers are turned away from the "long" ETFs it means that the EV pattern on long ETFs most probably really represent what large "longs" are doing while the EV pattern on short ETFs most probably represent what large "shorts" are doing.

This is rather different from what we have in the EV pattern of a stock: when the stock has dropped " a lot", the EV pattern could show that large players are moving back in, but we have no way to now whether these are large shorts covering or large bargain seekers.

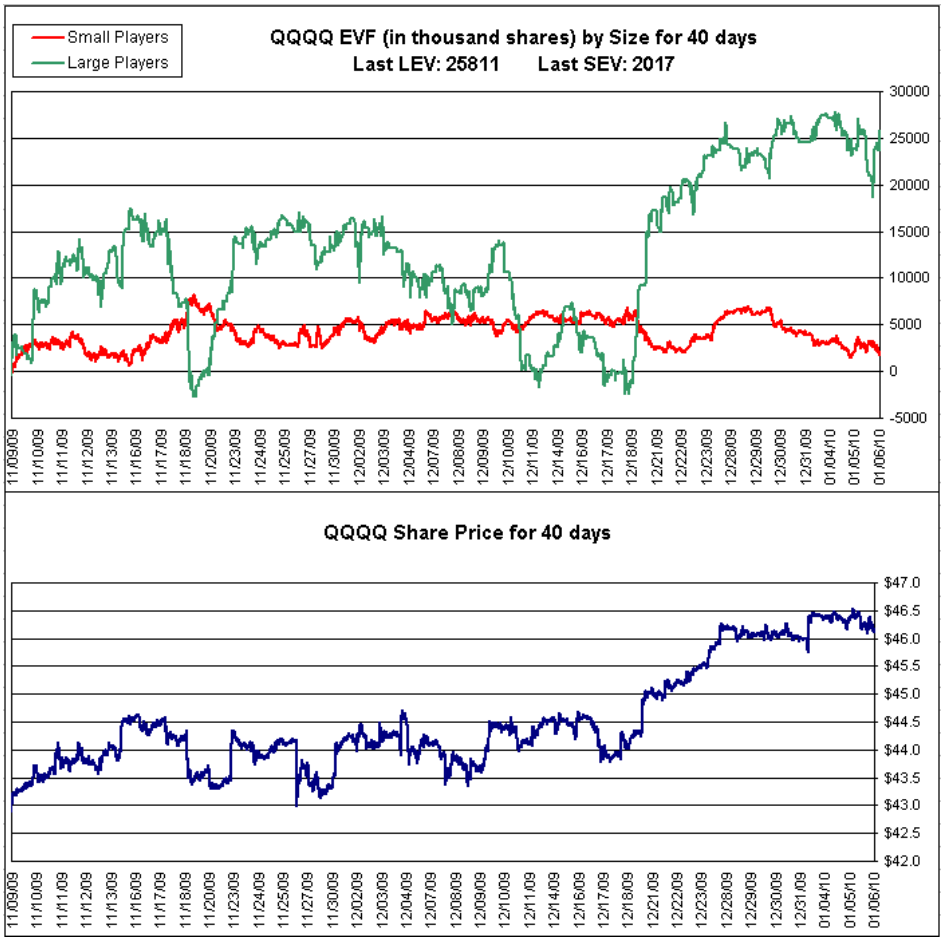
Lets start with some large ETFs: **QQQQ and QID**.

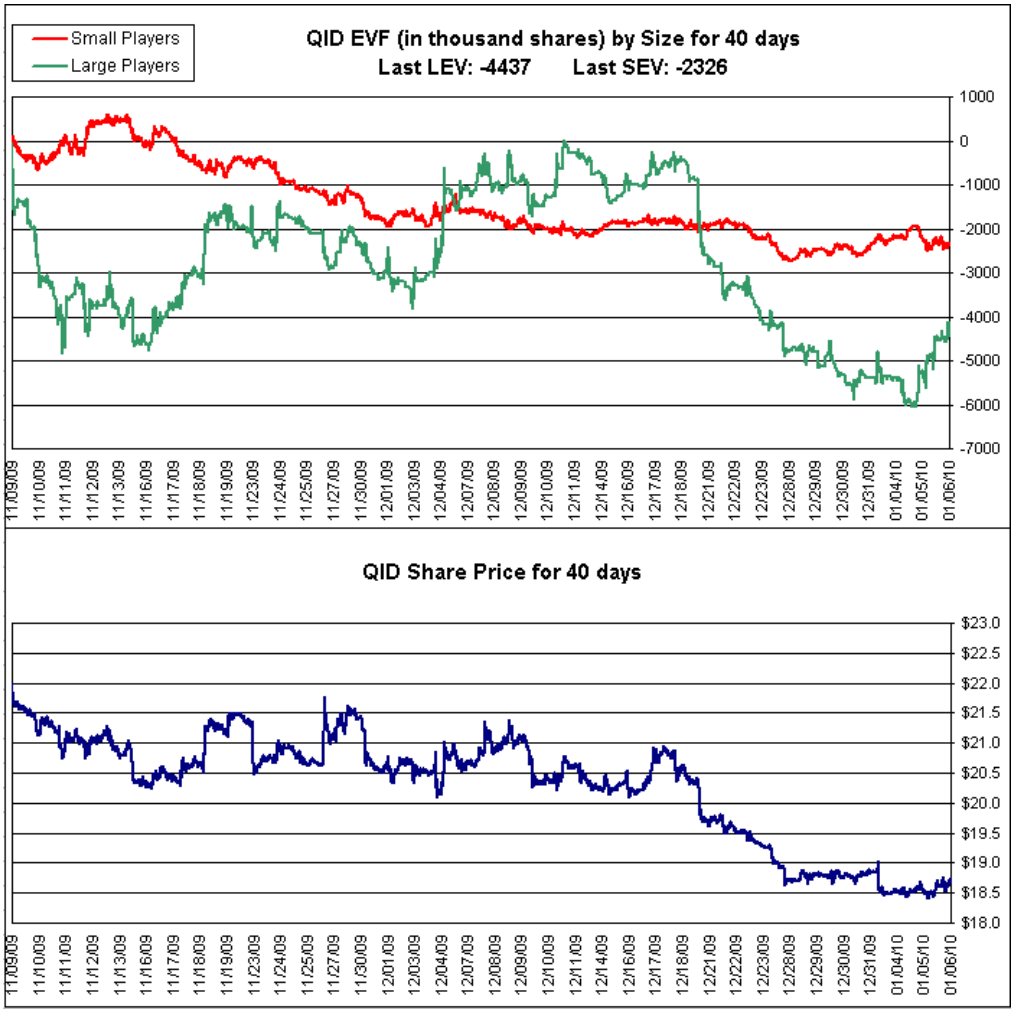
We can see that large buyers on the Qs have been rather nervous yesterday. They are not selling outright, but accumulation is over as of now.

On the opposite, we can see on QID that short players are moving in. This might be a noticeable change.

The question is why? One of the reasons might be Google, whose new phone might not be attracting much enthusiasm with shareholders.

Another culprit is AAPL, and to a lesser extent: AMZN, RIMM and BIDU.




Small Players
Large Players
QID EVF (in thousand shares) by Size for 40 days
Last LEV: -4437 Last SEV: -2326
1000
0
-1000
-2000
-3000
-4000
-5000
-6000
-7000
11/09/09
11/10/09
11/11/09
11/12/09
11/13/09
11/16/09
11/17/09
11/18/09
11/19/09
11/23/09
11/24/09
11/25/09
11/27/09
11/30/09
12/01/09
12/03/09
12/04/09
12/07/09
12/08/09
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12/11/09
12/14/09
12/16/09
12/17/09
12/18/09
12/21/09
12/22/09
12/23/09
12/28/09
12/29/09
12/30/09
12/31/09
01/04/10
01/05/10
01/06/10
QID Share Price for 40 days
$23.0
$22.5
$22.0
$21.5
$21.0
$20.5
$20.0
$19.5
$19.0
$18.5
$18.0
11/09/09
11/10/09
11/11/09
11/12/09
11/13/09
11/16/09
11/17/09
11/18/09
11/19/09
11/23/09
11/24/09
11/25/09
11/27/09
11/30/09
12/01/09
12/03/09
12/04/09
12/07/09
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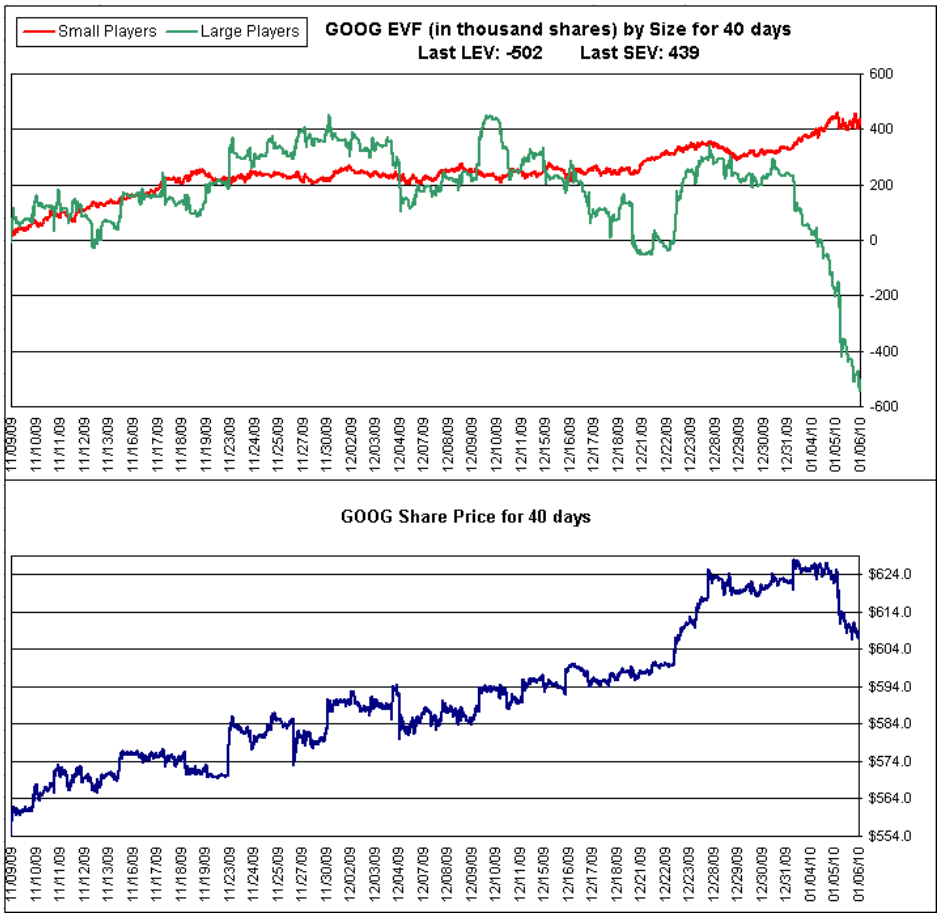
01/06/10

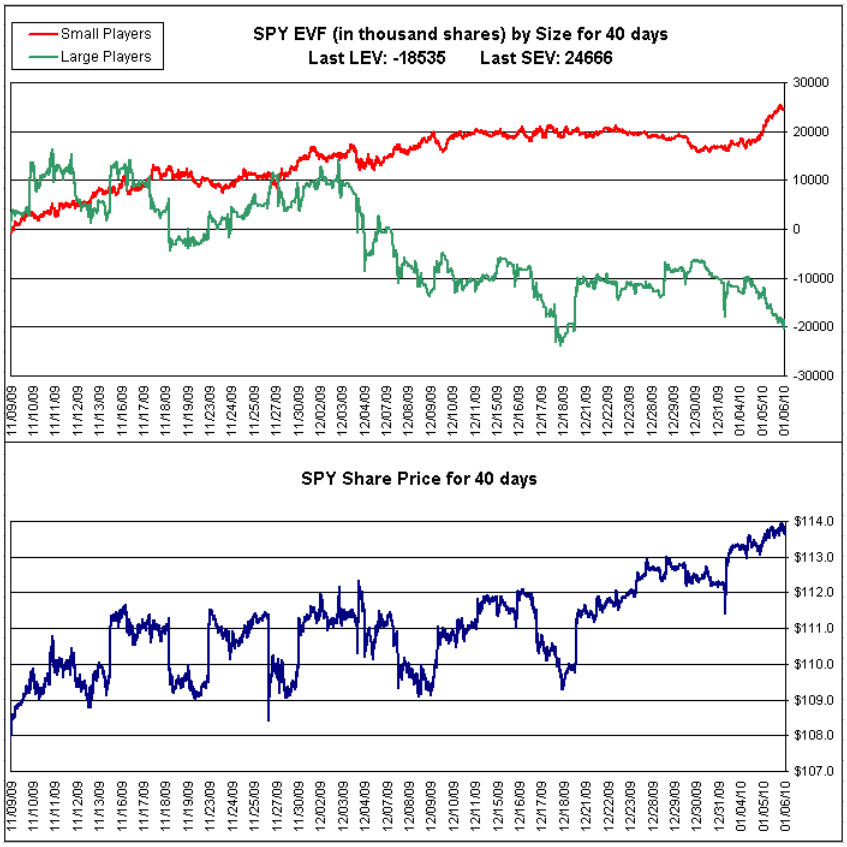

Small Players
Large Players
GOOG EVF (in thousand shares) by Size for 40 days
Last LEV: -502
Last SEV: 439
600
400
200
0
-200
-400
-600
11/09/09
11/10/09
11/11/09
11/12/09
11/13/09
11/16/09
11/17/09
11/18/09
11/19/09
11/23/09
11/24/09
11/25/09
11/27/09
11/30/09
12/02/09
12/03/09
12/04/09
12/07/09
12/08/09
12/09/09
12/10/09
12/11/09
12/15/09
12/16/09
12/17/09
12/18/09
12/21/09
12/22/09
12/23/09
12/28/09
12/29/09
12/30/09
12/31/09
01/04/10
01/05/10
01/06/10
GOOG Share Price for 40 days
$624.0
$614.0
$604.0
$594.0
$584.0
$574.0
$564.0
$554.0

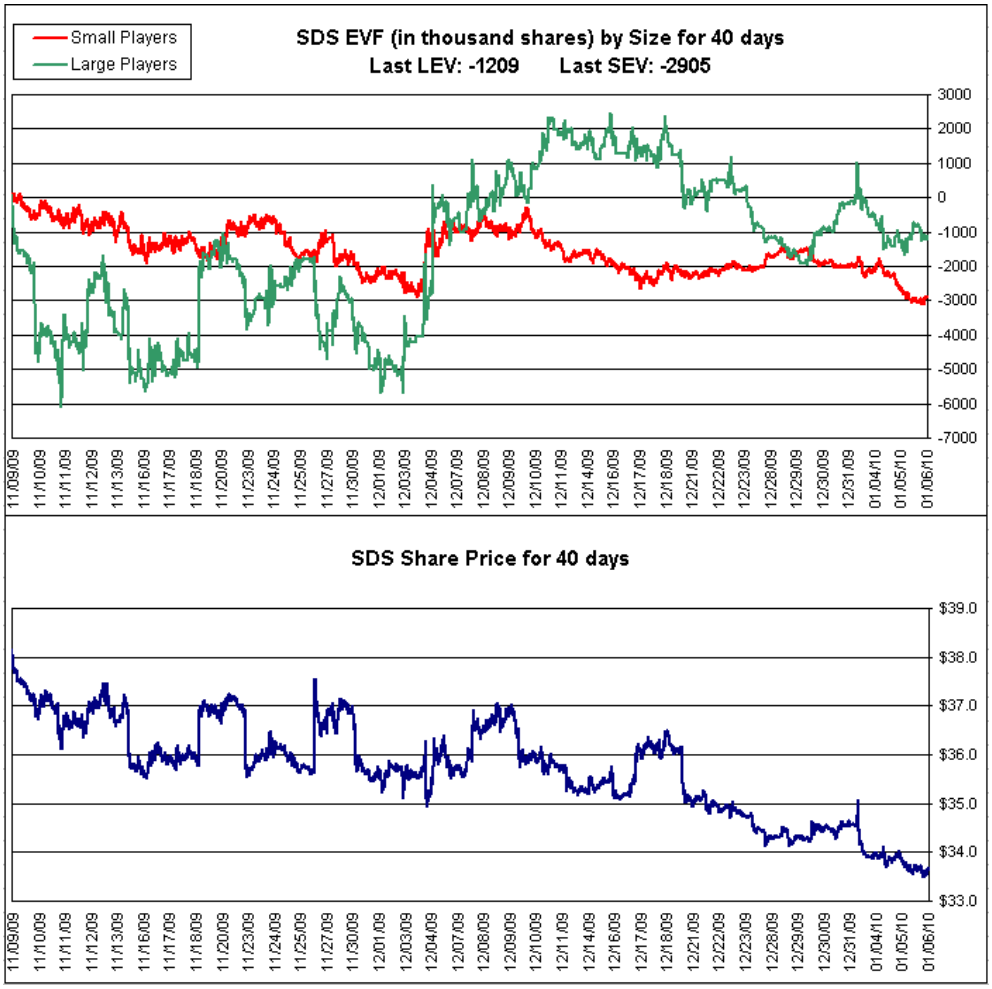
SPY and SDS

The SPY figure shows that there is real profit taking now on the ETF.

However, SDS does not show that large short sellers are moving in force.

In other words, as far as short sellers do not come in, there is no reason to believe that the market will go down from here, although large tech stocks might all become the victims of a pricing war on competing products (High-end phones, E-books, on-line Publicity).




Small Players
Large Players
SDS EVF (in thousand shares) by Size for 40 days
Last LEV: -1209 Last SEV: -2905
3000
2000
1000
0
-1000
-2000
-3000
-4000
-5000
-6000
-7000
11/09/09
11/10/09
11/11/09
11/12/09
11/13/09
11/16/09
11/17/09
11/18/09
11/20/09
11/23/09
11/24/09
11/25/09
11/27/09
11/30/09
12/01/09
12/03/09
12/04/09
12/07/09
12/08/09
12/09/09
12/10/09
12/11/09
12/14/09
12/16/09
12/17/09
12/18/09
12/21/09
12/22/09
12/23/09
12/28/09
12/29/09
12/30/09
12/31/09
01/04/10
01/05/10
01/06/10
SDS Share Price for 40 days
$39.0
$38.0
$37.0
$36.0
$35.0
$34.0
$33.0
11/09/09
11/10/09
11/11/09
11/12/09
11/13/09
11/16/09
11/17/09
11/18/09
11/20/09
11/23/09
11/24/09
11/25/09
11/27/09
11/30/09
12/01/09
12/03/09
12/04/09
12/07/09
12/08/09
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12/10/09
12/11/09
12/14/09
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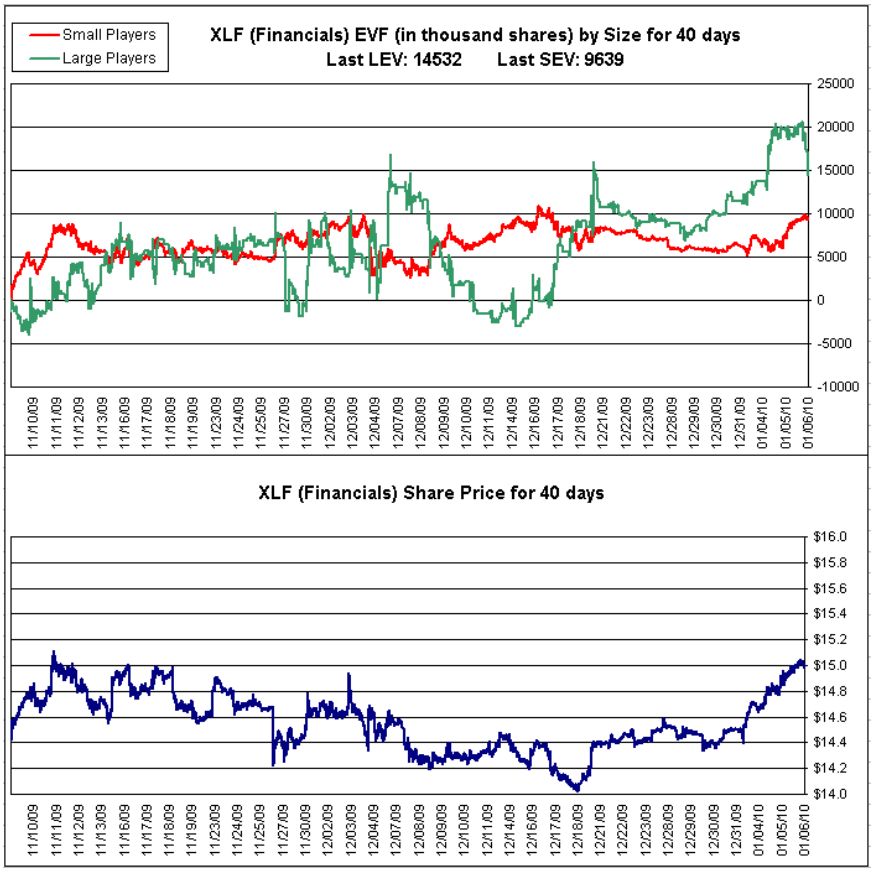
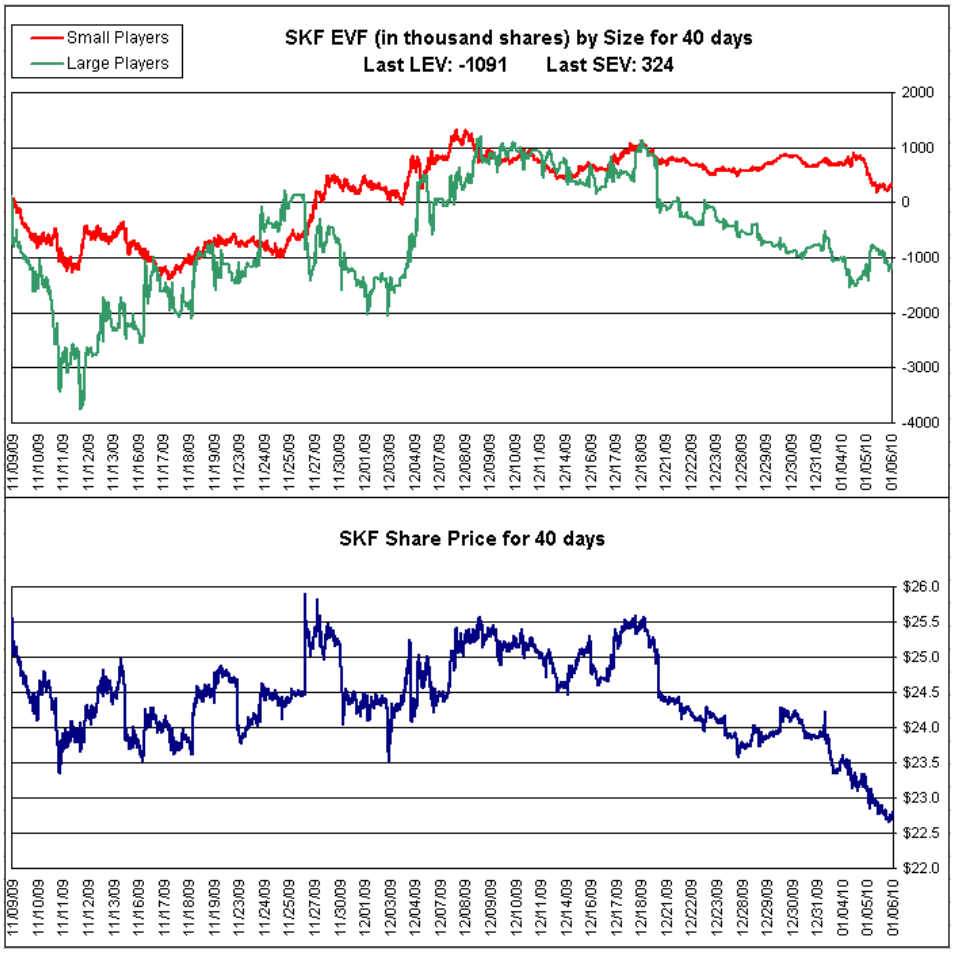
12/17/09
12/18/09
12/21/09
12/22/09
12/23/09
12/28/09
12/29/09
12/30/09
12/31/09
01/04/10
01/05/10
01/06/10

XLF and SKF

We can see that both XLF and SKF still show rather bullish signs on the financial sector (although we had some late selling in XLF).

This is confirmed by the MF pattern on the financials, which moved up in strength and style.




Small Players
Large Players
SKF EVF (in thousand shares) by Size for 40 days
Last LEV: -1091 Last SEV: 324
2000
1000
0
-1000
-2000
-3000
-4000
11/09/09
11/10/09
11/11/09
11/12/09
11/13/09
11/16/09
11/17/09
11/18/09
11/19/09
11/23/09
11/24/09
11/25/09
11/27/09
11/30/09
12/01/09
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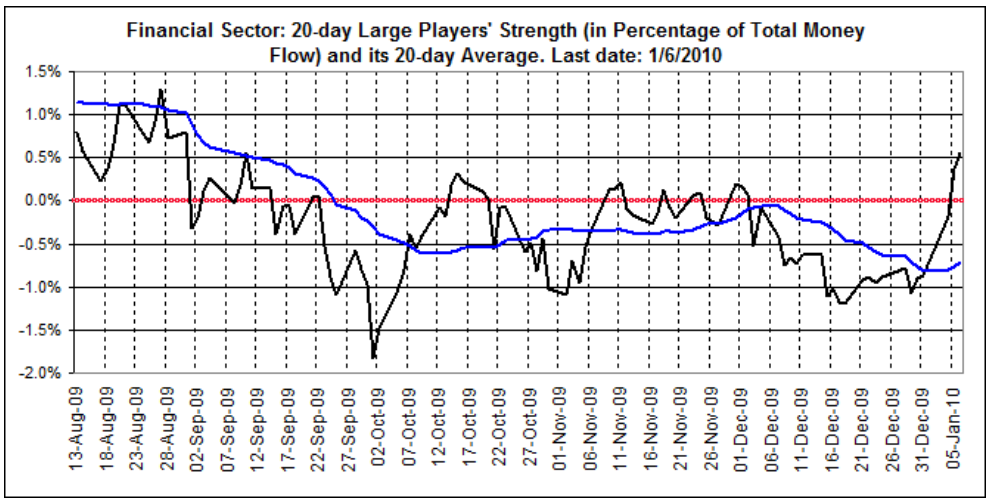
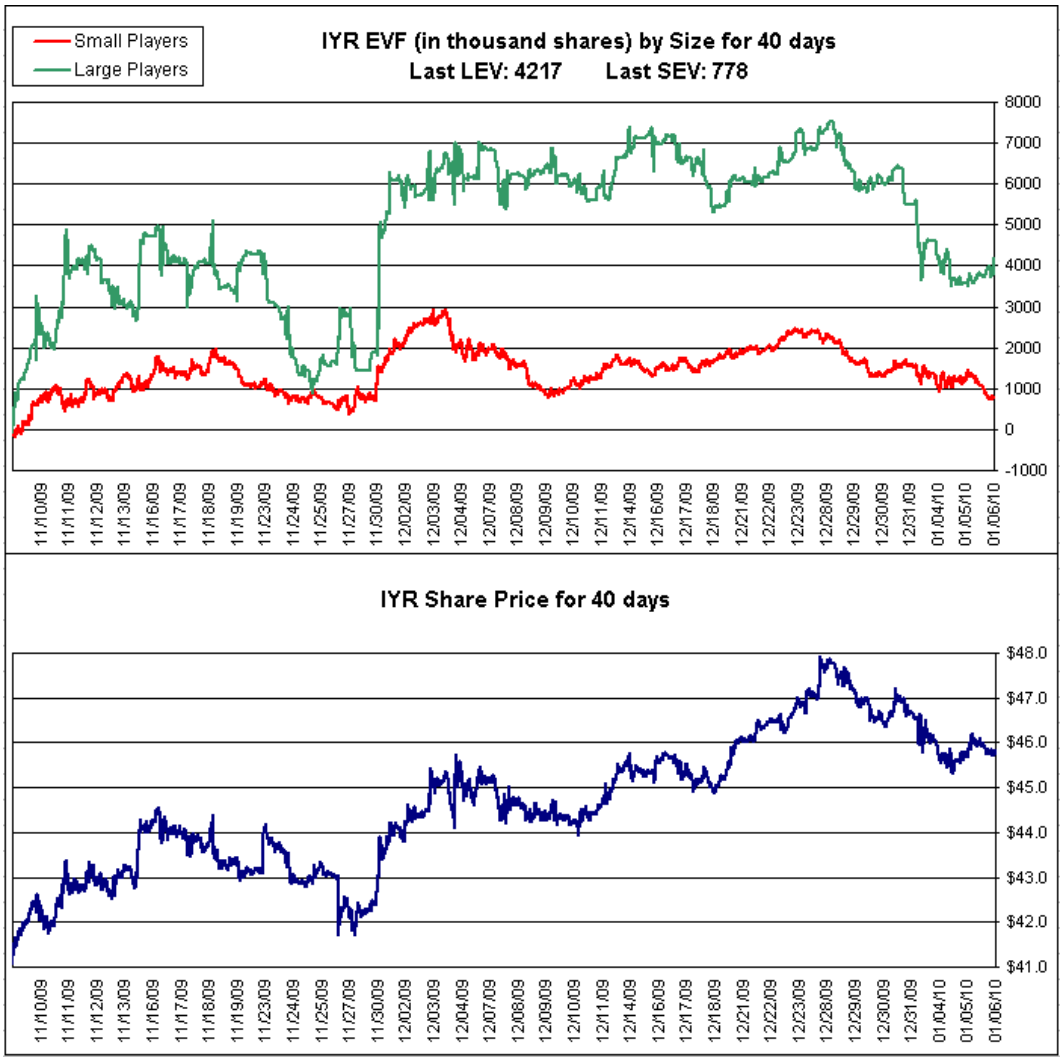
12/11/09
12/14/09
12/16/09
12/17/09
12/18/09
12/21/09
12/22/09
12/23/09
12/28/09
12/29/09
12/30/09
12/31/09
01/04/10
01/05/10
01/06/10
SKF Share Price for 40 days
$26.0
$25.5
$25.0
$24.5
$24.0
$23.5
$23.0
$22.5
$22.0

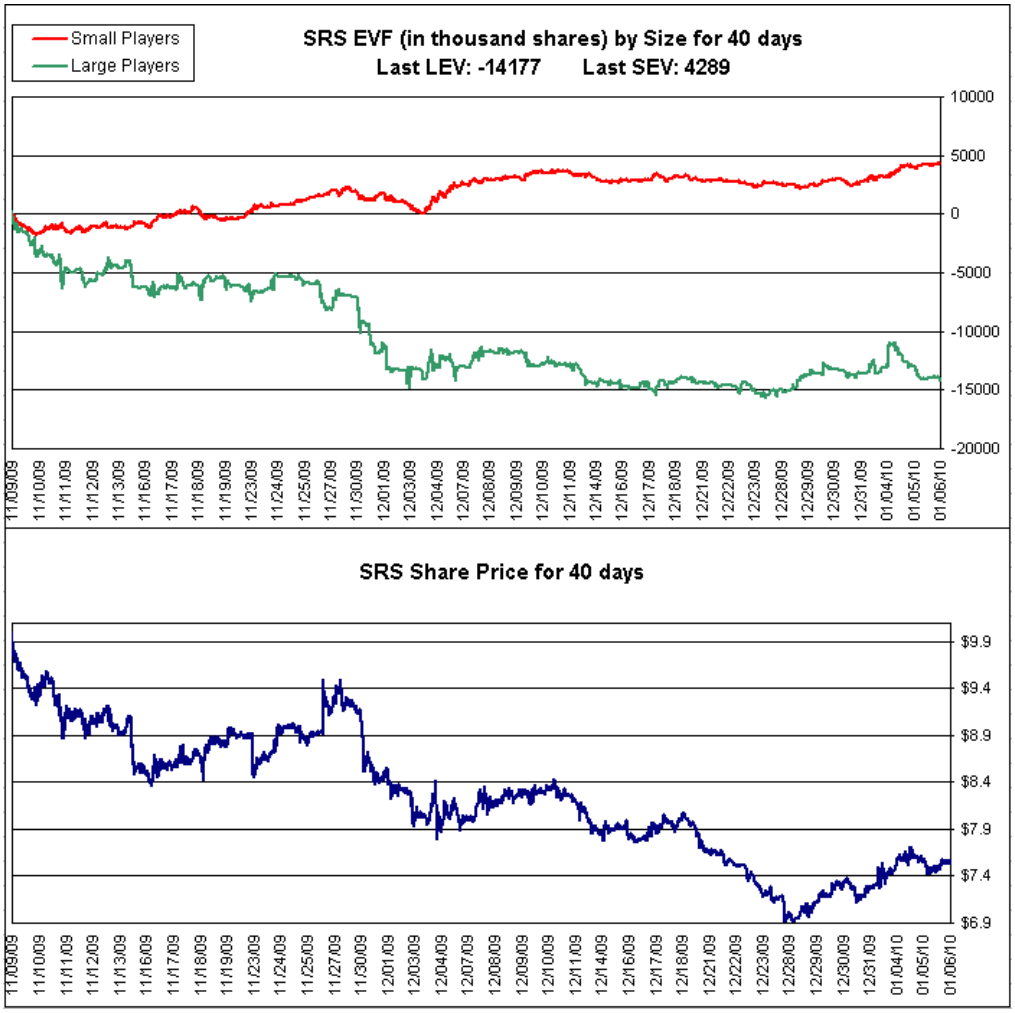

Financial Sector: 20-day Large Players' Strength (in Percentage of Total Money Flow) and its 20-day Average. Last date: 1/6/2010
1.5%
1.0%
0.5%
0.0%
-0.5%
-1.0%
-1.5%
-2.0%
13-Aug-09
18-Aug-09
23-Aug-09
28-Aug-09
02-Sep-09
07-Sep-09
12-Sep-09
17-Sep-09
22-Sep-09
27-Sep-09
02-Oct-09
07-Oct-09
12-Oct-09
17-Oct-09
22-Oct-09
27-Oct-09
01-Nov-09
06-Nov-09
11-Nov-09
16-Nov-09
21-Nov-09
26-Nov-09
01-Dec-09
06-Dec-09
11-Dec-09
16-Dec-09
21-Dec-09
26-Dec-09
31-Dec-09
05-Jan-10

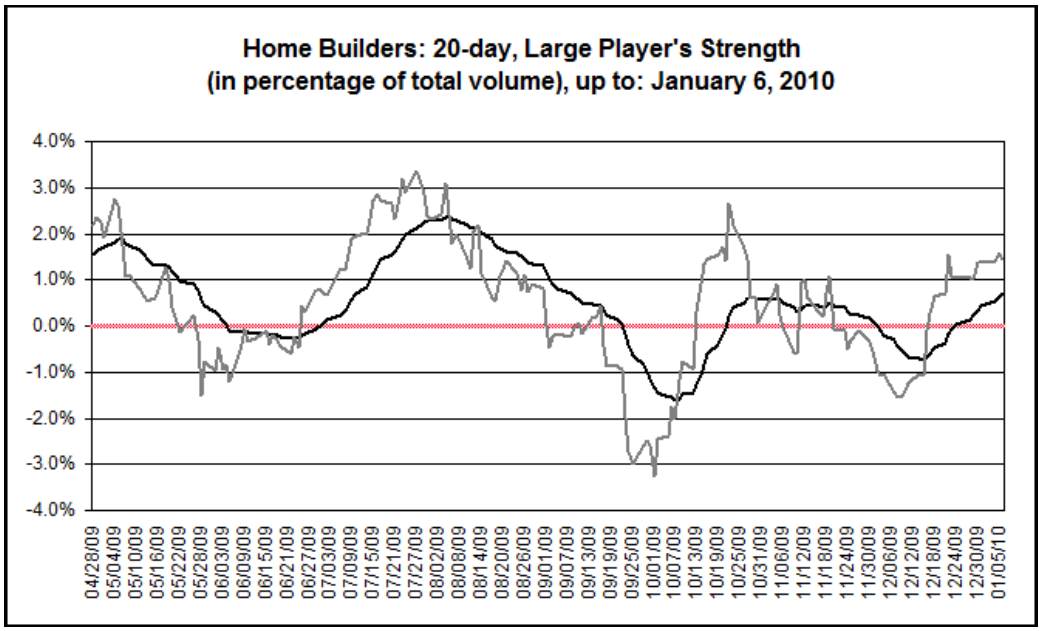
IYR and SRS

IYR/SRS are interesting: IYR shows that large players are moving back in while large short players are selling their position.

We can see that the MF pattern for the home builders sector is still rather positive... Low interest rates and available liquidity!

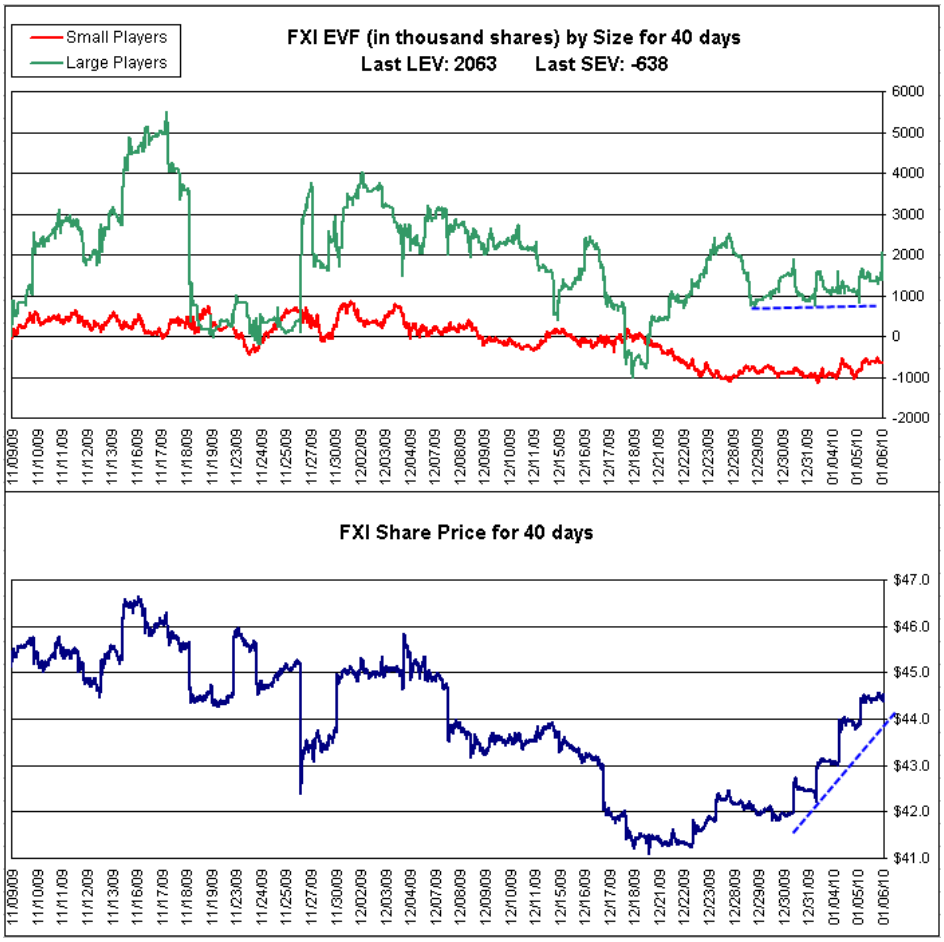


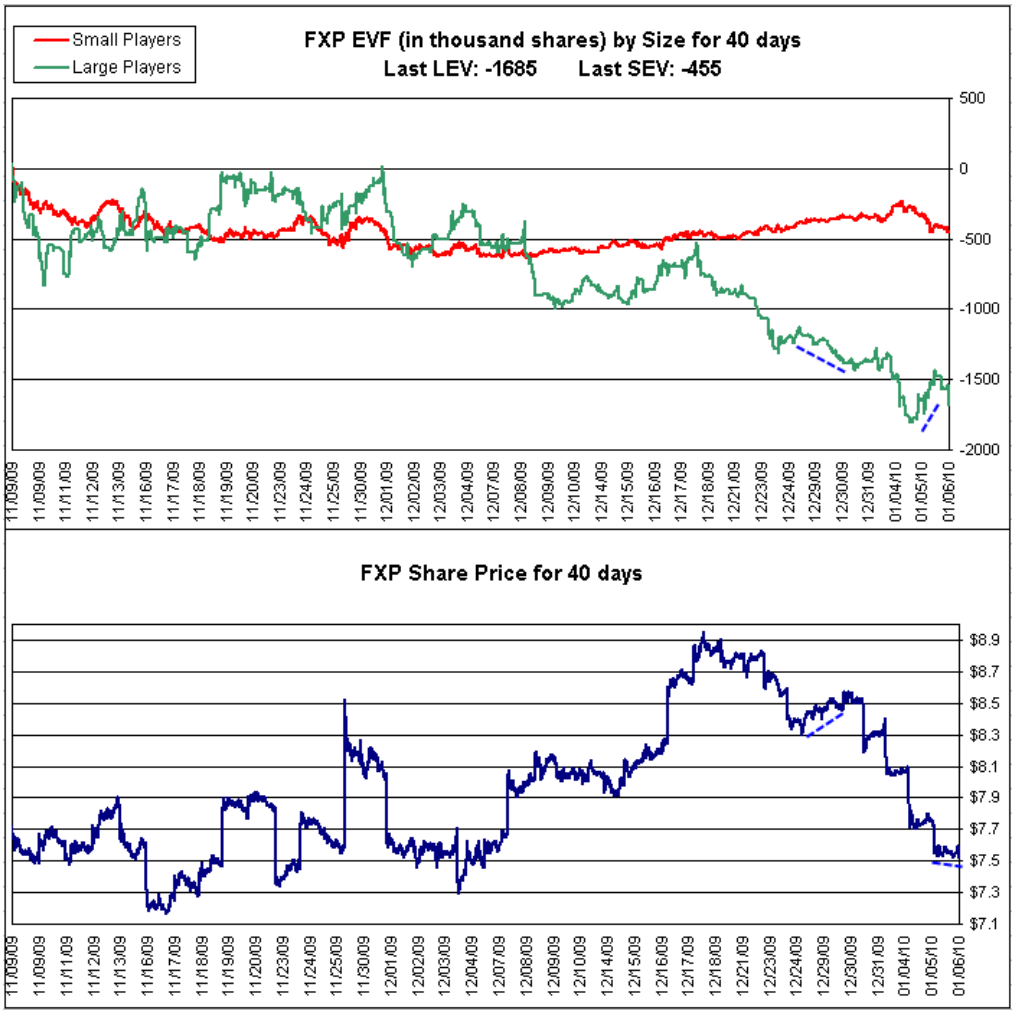

Small Players
Large Players
SRS EVF (in thousand shares) by Size for 40 days
Last LEV: -14177 Last SEV: 4289
10000
5000
0
-5000
-10000
-15000
-20000
11/09/09
11/10/09
11/11/09
11/12/09
11/13/09
11/16/09
11/17/09
11/18/09
11/19/09
11/23/09
11/24/09
11/25/09
11/27/09
11/30/09
12/01/09
12/03/09
12/04/09
12/07/09
12/08/09
12/09/09
12/10/09
12/11/09
12/14/09
12/16/09
12/17/09
12/18/09
12/21/09
12/22/09
12/23/09
12/28/09
12/29/09
12/30/09
12/31/09
01/04/10
01/05/10
01/06/10
SRS Share Price for 40 days
$9.9
$9.4
$8.9
$8.4
$7.9
$7.4
$6.9


Home Builders: 20-day, Large Player's Strength
(in percentage of total volume), up to: January 6, 2010
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%
-4.0%
04/28/09
05/04/09
05/10/09
05/16/09
05/22/09
05/28/09
06/03/09
06/09/09
06/15/09
06/21/09
06/27/09
07/03/09
07/09/09
07/15/09
07/21/09
07/27/09
08/02/09
08/08/09
08/14/09
08/20/09
08/26/09
09/01/09
09/07/09
09/13/09
09/19/09
09/25/09
10/01/09
10/07/09
10/13/09
10/19/09
10/25/09
10/31/09
11/06/09
11/12/09
11/18/09
11/24/09
11/30/09
12/06/09
12/12/09
12/18/09
12/24/09
12/30/09
01/05/10

China: FXI and FXP

We can see by comparing FXI to FXP that large buyers are not really chasing FXI, while large shorts might be willing to step in. If you compare that to the pattern on the Chinese stocks sector (see below), then it seems probable that this sector might move down.




Small Players
Large Players
FXP EVF (in thousand shares) by Size for 40 days
Last LEV: -1685 Last SEV: -455
500
0
-500
-1000
-1500
-2000
11/09/09
11/09/09
11/11/09
11/12/09
11/13/09
11/16/09
11/17/09
11/18/09
11/19/09
11/20/09
11/23/09
11/24/09
11/25/09
11/30/09
12/01/09
12/02/09
12/03/09
12/04/09
12/07/09
12/08/09
12/09/09
12/10/09
12/14/09
12/15/09
12/16/09
12/17/09
12/18/09
12/21/09
12/23/09
12/24/09
12/29/09
12/30/09
12/31/09
01/04/10
01/05/10
01/06/10
FXP Share Price for 40 days
$8.9
$8.7
$8.5
$8.3
$8.1
$7.9
$7.7
$7.5
$7.3
$7.1
11/09/09
11/09/09
11/11/09
11/12/09
11/13/09
11/16/09
11/17/09
11/18/09
11/19/09
11/20/09
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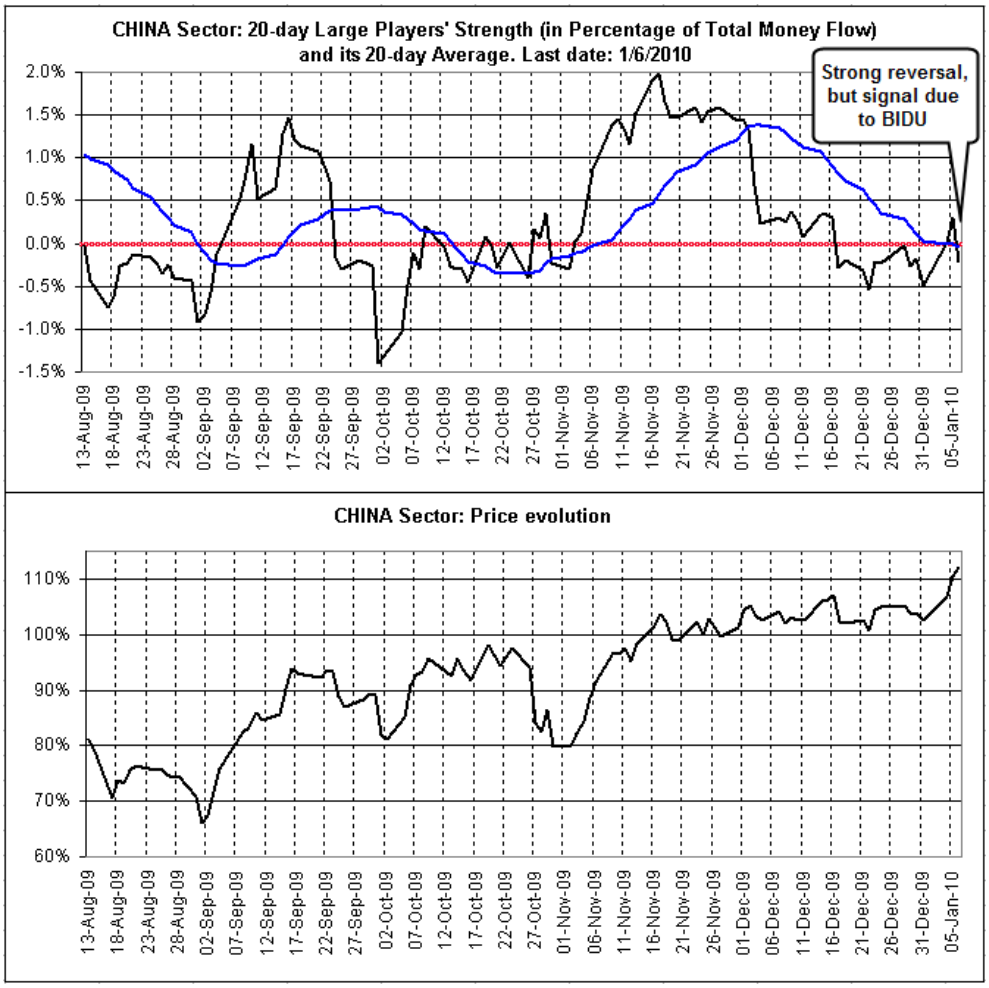

This analysis on the different sectors should be completed using the PIVOTs results to target proper entries/exists.