

# How to use EV with traditional technical analysis

This document was written on November 25, 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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The market for relatively liquid stocks is usually in a state of equilibrium. Any change in equilibrium in one direction automatically attracts a counter reaction: computers are constantly measuring the available liquidity and will issue their hidden orders as soon as they see that counterparty is present.

What EV does is to measure the volume that has been responsible of a change from one minute to the next, as this change has been the result of a micro-change of equilibrium. By separating this volume into large and small volume, it is possible to find out over a period of time what large players are doing.

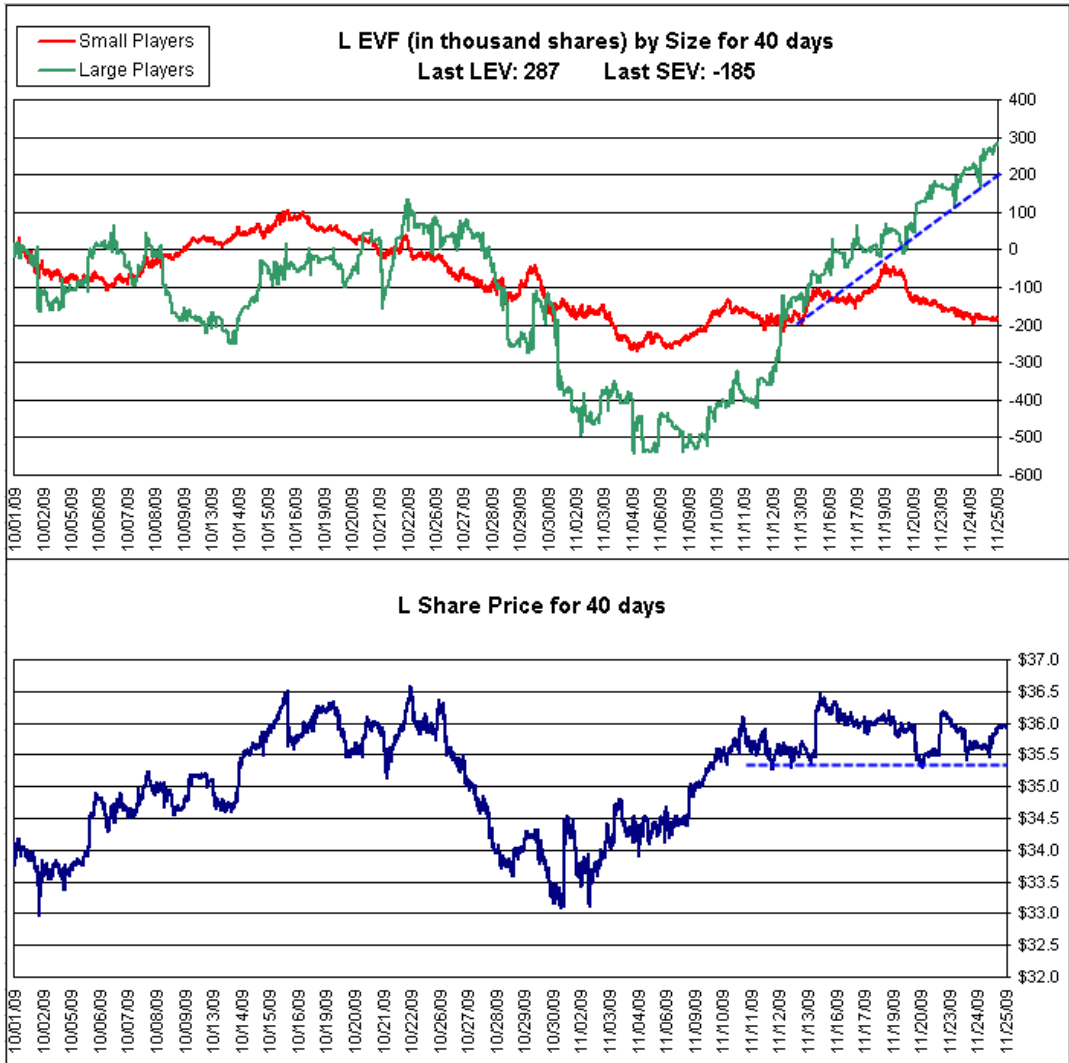
## When can we use EV?

Since EV is a measure of equilibrium, it should be used when the market/the stock itself is at a point of equilibrium. EV is not reliable when the market /the stock is in a strong uptrend. Below are a few cases that show when to use EV... or when to not use EV.

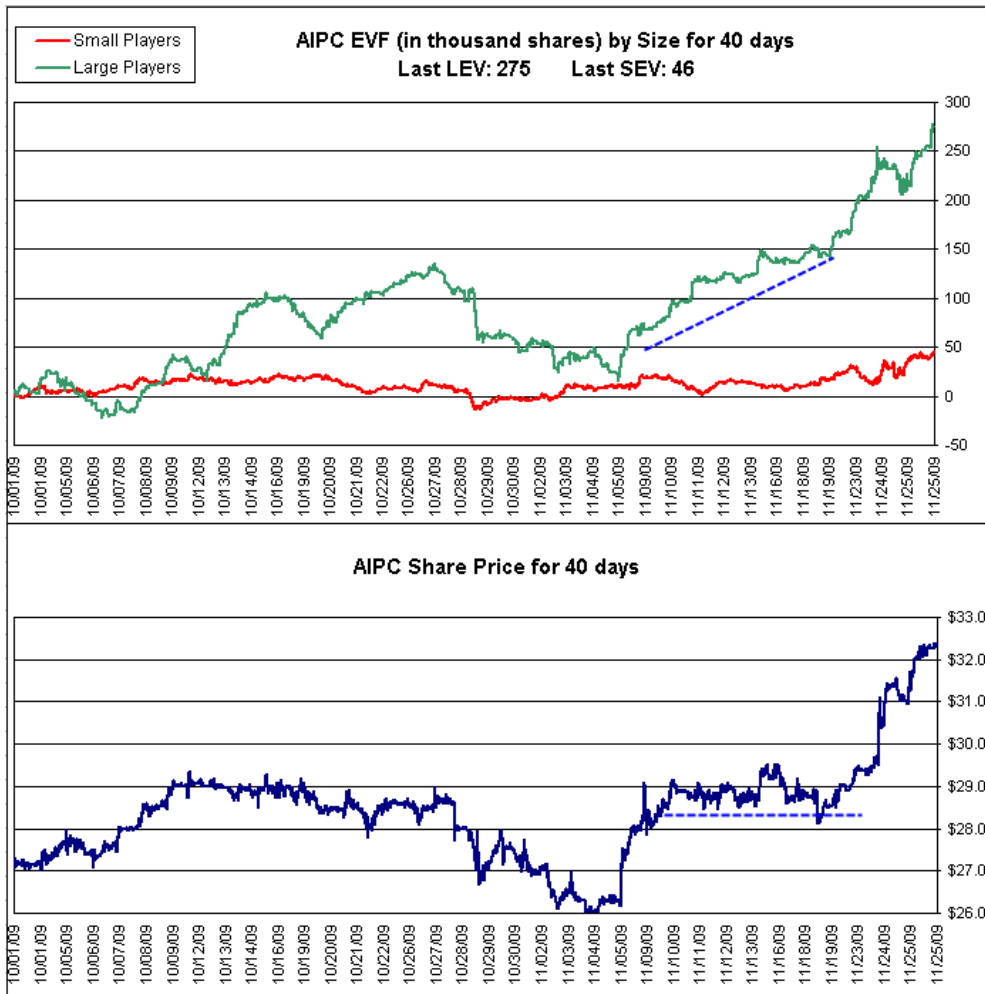
### **A. When the price is in a trading range, EV indicates the possible direction of the break.**

This is the case for Loews shown below, that might break out to a new high in a continued market uptrend (note that if the market breaks, this stock will probably not go to a new high).



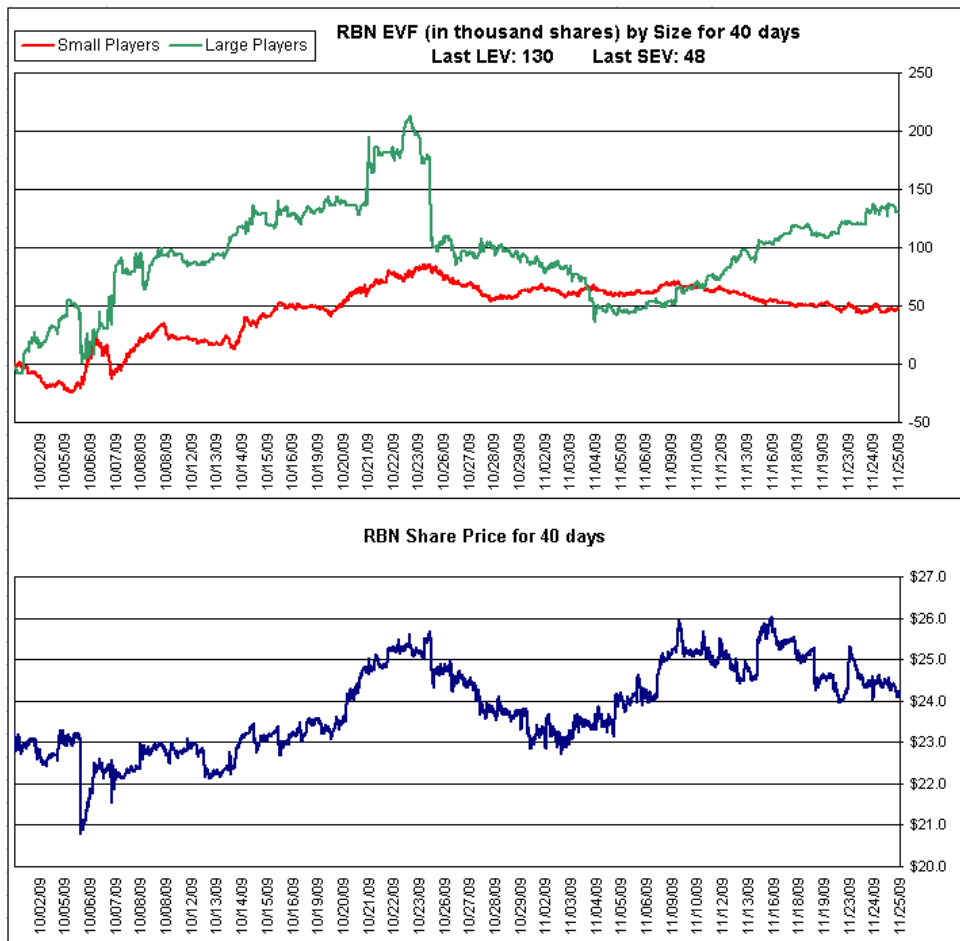


AIPC, which showed a similar EV pattern, did break through its 200MA.



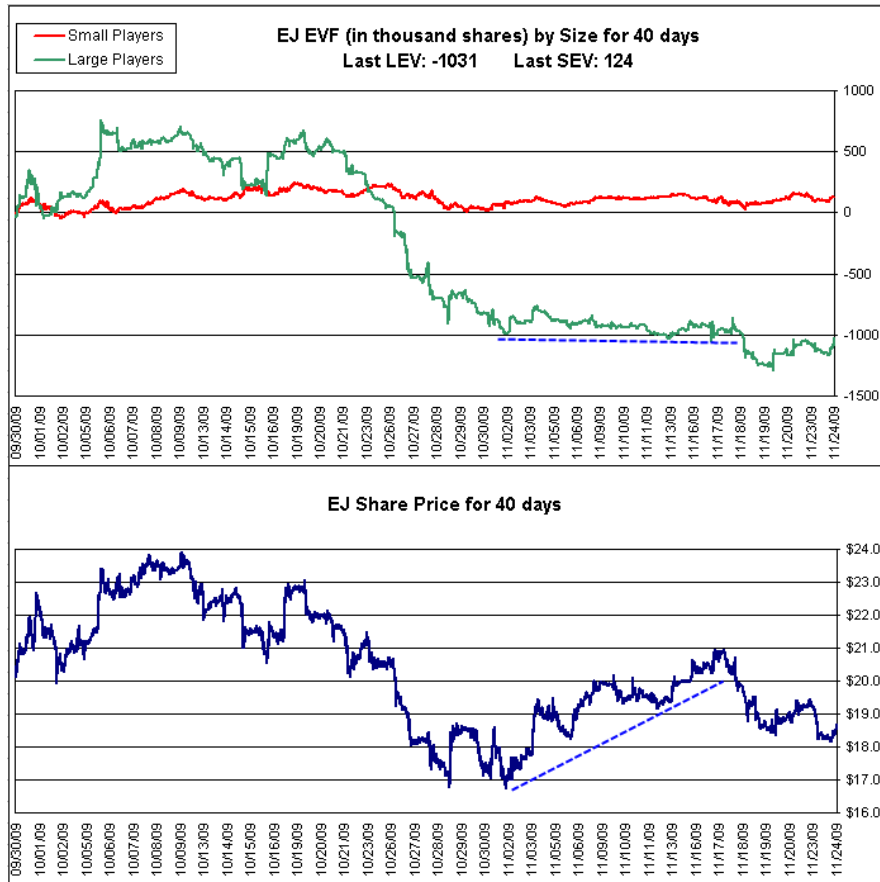
**B. On a reversal to a support zone, EV might indicate when the support attracts buyers**

You can see that RBN attracted money as it fell back into a support zone, which might indicate that the support will hold - if the market holds.



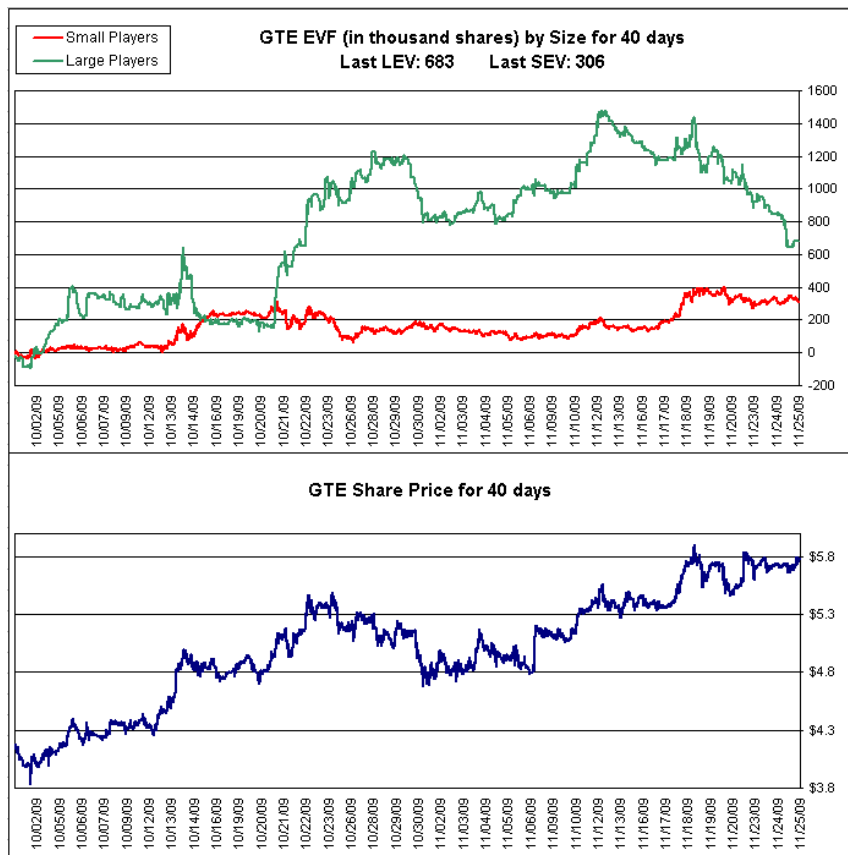
**C. On a reversal to a resistance zone, EV might indicates whether buyers are supporting the move**

In the case of EV, a reversal to the resistance zone on weak EV was a good shorting opportunity.



**D. When a stock forms a new base while in a strong up-trend, a negative LEV pattern during the base formation is normal and does not indicate that a pull-back is going to occur soon.**

This is the case for GTE, which is in a strong up-trend that has been supported by increased buying shown in the green arrows. Shorting such pattern is not advisable, whatever the EV signal might be.



**E. In a strong down-trend, an increasing EV pattern does not guarantee that the stock is going to reverse soon.**

