

Monitoring a "Buy" signal using the 20DMF

This document was written in October, 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.

Since we are now in a confirmed correction, what we need to do is to plan for the end of the correction.

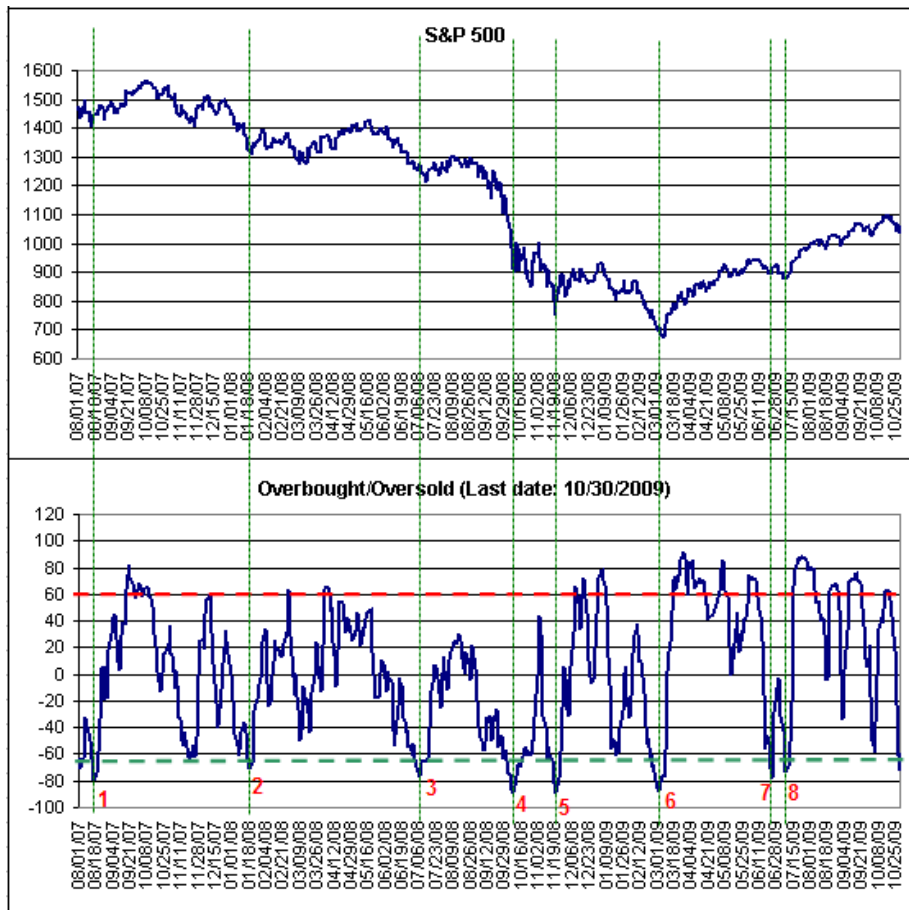
We can see in the figure below that the 20DMF issued buy signals at the reversal below the oversold -65 level.

Let me share with you a few statistics: the past 8 market reversals occurred on average 2 to 3 days after the signal went below the -65 level.

At these occasions, the market experienced three occurrences of panic selling, which occurred at points 4, 5 and 6. At these three occasions, the market fell another 22%, 7% and 7% in a matter of a few days after the -65 point was reached.

Although conditions might be different now with earnings beating expectations, since the rally was fueled by funny money and since the FED is now saying to the banks "you are big boys now. We won't buy your commercial estate crap and if you fail, we size you. By the way, what did you say again about those bonuses"... I believe that institutional players want to sell -book profits- and then think of what to do next.

The previous 8 occurrences where we touched this sweet "-65" oversold line were not the signal to "buy all you can," but to "stay short all you can", because from those points you would have had another nasty 2 to 3 days of selling in front of you. In other words, a reversal signal would come about next Tuesday or most probably Wednesday, and then the best timing would be to buy a low on Thursday or Friday of next week. Of course, this should be planned together with an important news release or a FOMC announcement and do not forget Billy's pivot points levels.



After a "buy" signal, you might expect on average the following returns on the S&P500:

