

Sectors Selection

This document was written in October, 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.

Because many institutional investors rotate money from one sector to another, the monitoring of the relative strength of each sector is a "must be" duty. The best free resource for that is probably Billy's SIGR files that are daily posted on the VIT group.

I however noticed that the strategy in selecting a "good" sector is not the same for a trending market than from a reversing market. In a trending market such as the market we are in today, the SIGR file will give you the long term direction of the sector's R/S.

Below is an extract of the sectors sheet taken from the "willain_list" that is daily published on the EV web site.

This list represents my 84 sectors ranked by TEV (total Effective volume).

The first column shows the cycle in TEV. Close to 100%, it means that we are at the maximum of the LEV cycle. However, if the "Extension is positive", it means that money is still moving in and that we could make a new high. However, the "story" is already known in the market and it might be just a matter of time before this falls back.

In a market that is continuing up, these sectors might add and attract new money. However, at some point, money will start rotating out of them. This is the case for "paper products". This can turn into outright selling such as for the "Home Builders" which would be a sector to target for short selling if the market method was signaling a weaker market.

SECTORS	Strength Aver Tot EV	Extension Tot EV	Rating
Coal	99%	5%	18.7
Construction Machinery	99%	4%	18.2
CATV	97%	8%	31.7
Paper products	96%	-1%	32.9
General Machinery	95%	7%	40.2
Sftw Desktop	93%	5%	21.3
Aerospace & Defense	92%	3%	19.5
Cosmetics	92%	2%	18.8
Gold Canada	92%	2%	37.8
Ngaz Pr	91%	4%	39.9
Leisure products	91%	-1%	35.6
Transportation Services	90%	-2%	16.1
Media	88%	4%	23.0
Chemicals	87%	6%	25.2
Airline	87%	-1%	19.0
Discount Chains	86%	-2%	35.8
Medical products	86%	8%	45.4
Oil Services	86%	2%	39.8
Grocery Stores	86%	12%	48.7
Drillers	86%	2%	22.3
Telecom Foreign	85%	-7%	32.0
Home Builders	85%	-16%	24.4
Semic. Equipment	85%	3%	41.7
Medical SW	83%	11%	31.3
Data Storage	83%	9%	29.4
Computer Manuf.	82%	14%	34.2
Diversified Industrials	82%	-2%	38.6

It might be interesting to rank the list by "extension Tot EV". That would give you right away the sectors that attract the most money. In such a list, I would visit the sectors that show a strong extension above an average Tot EV that it not at its top yet. These are the sectors that will profit the most of an extending up-trend.

SECTORS	Strength Aver Tot EV	Extension Tot EV	Rating
Beverages Soft	74%	19%	61.3
Computer Manuf.	82%	14%	34.2
Grocery Stores	86%	12%	48.7
Medical SW	83%	11%	31.3
Data Storage	83%	9%	29.4
Home Furnishing	47%	8%	45.2
CATV	97%	8%	31.7
Medical equipments	79%	8%	30.6
Medical products	86%	8%	45.4
General Machinery	95%	7%	40.2
Internet	79%	6%	47.1
Chemicals	87%	6%	25.2
Military	68%	6%	52.0
Ship Others	68%	6%	51.6
Invest. Brokers	81%	6%	27.4
Education	66%	5%	52.4
Coal	99%	5%	18.7
Restaurant	79%	5%	27.8
Sftw Desktop	93%	5%	21.3
Media	88%	4%	23.0
Ngaz Pr	91%	4%	39.9
Construction Machinery	99%	4%	18.2
Biotech	70%	4%	49.0
Telecom Wireless	68%	4%	49.7
Dept. Stores	80%	4%	44.6
IT Services	54%	3%	37.6
Semic. Equipment	85%	3%	41.7

You will note that gold miners and oil related stocks are not in the sectors that attract the most money and still have potential. Indeed, if you rank starting with the strongest sellers, then you get the table below, where you can start looking for short plays.

SECTORS	Strength Aver Tot EV	Extension Tot EV	Rating
Info services	55%	-32%	29.5
Waste Management	37%	-20%	41.7
Drugstores	61%	-17%	15.7
Home Builders	85%	-16%	24.4
Agriculture	63%	-16%	34.6
Car Parts	43%	-15%	25.5
Fertilizers	58%	-14%	20.2
Rail	66%	-13%	35.2
Pipe Lines	25%	-11%	37.4
Oil Integrated	68%	-11%	36.0
Silver	74%	-11%	33.5
Cars	59%	-11%	22.6
Refiners	56%	-10%	24.3
Steel	65%	-10%	20.2
Gold	63%	-9%	40.1
Heavy Constructions	59%	-9%	42.3
Food	60%	-9%	23.4
Health Care	71%	-9%	37.3
Telecom Foreign	85%	-7%	32.0
Utilities	61%	-7%	43.5
Drugs	70%	-6%	21.6
Banks	70%	-6%	21.6
Communication Equipt.	66%	-5%	24.0
Leisure Serv.	73%	-5%	38.9
Oil Pr	50%	-5%	49.9
Shoes	81%	-5%	36.1
Hand Tools	60%	-5%	45.7
Base Metals	62%	-4%	45.2
Ind Metals	58%	-4%	29.2

However, my back-test has shown that when the market rolls, it is better to short the sectors that had been the worst in terms of price relative strength for the past 20 days.

In such sectors, I would select the stocks that show the strongest selling in terms of EV. As of yesterday, the five sectors with the worst 20D RS are the following:

September 29, 2009	20-D Price Strength
Agriculture	-3.7%
Car Parts	-3.3%
Cars	-2.8%
Home Builders	-0.1%
Info services	0.2%

let's take an example and suppose that the market was rolling over today.

What I would do first would be to visit all five sectors and look at each stock pattern, one by one. I go first on the agriculture sector, click on the link above the page and start looking at the figures.

I would not select stocks that show a growing TEV pattern and then would pick-up stocks that look weak in terms of EV. I would then go see the standard TA pattern for each stock, its AB graph and would decide the entry point.

