

## Short Strength into Weakness

This document was written in December 28, 2009 by Pascal Willain as part of a training program on the use of the Effective Volume tools.

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Daily and weekly market updates are available on [www.effectivevolume.eu](http://www.effectivevolume.eu)

The author is French speaking.  
This report has not been proof-read for the proper use of English language.

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We all know that in a bull market, it is better to be long and furthermore, it is advisable to buy strong stocks that experience a pull-back.

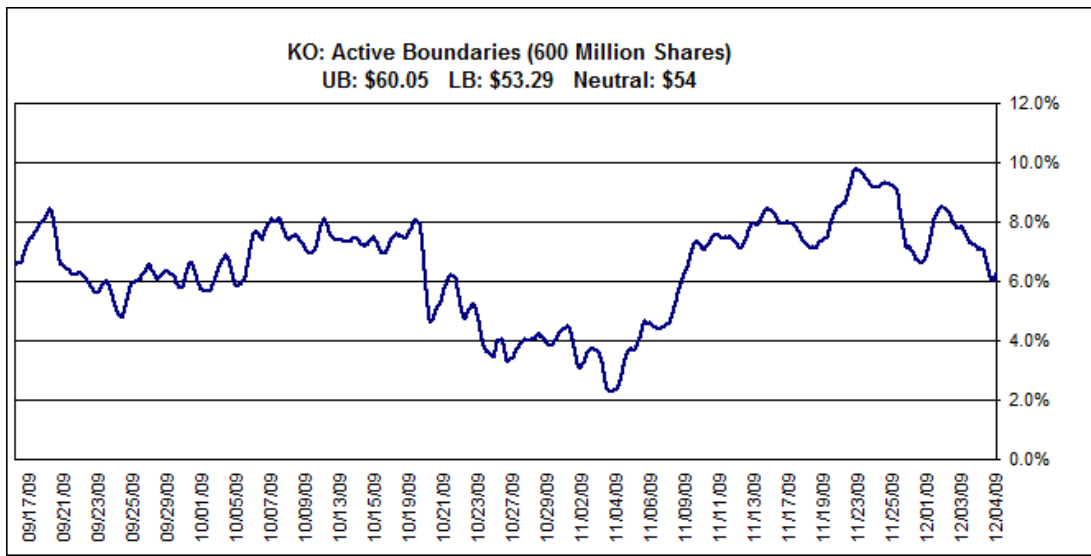
What about shorting? Is it better to short a stock that has difficulties to break to a new high or a stock that already broke down once and is experiencing renewed strength?

Let's view two examples: KO (Coca Cola) and GT (Goodyear tires).

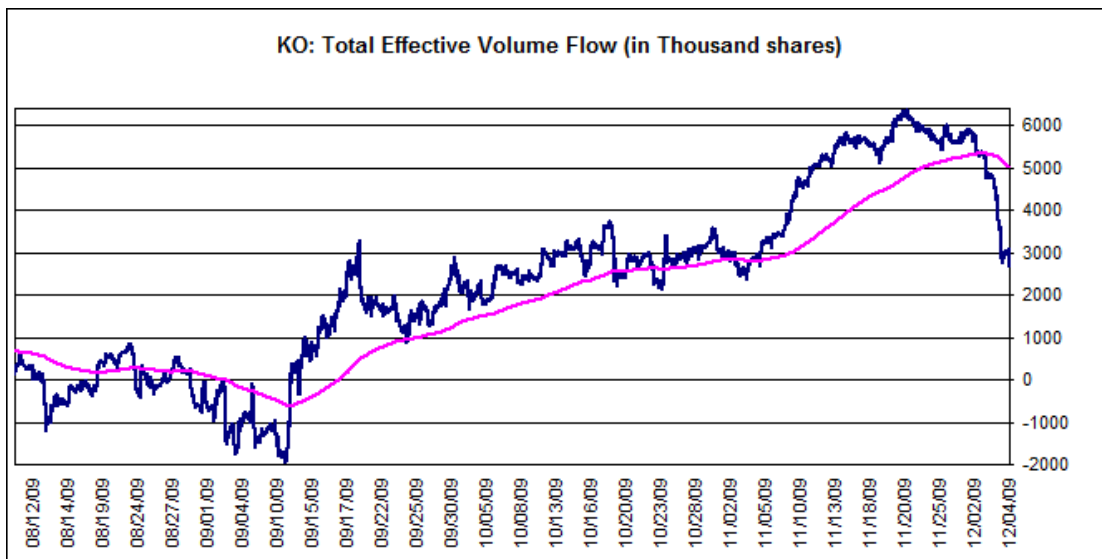
As you can see below, KO is in a strong up-trend, forming what looks to be a new base, ready to "launch higher", probably when the market starts a new leg up.

The AB pattern shows that this trading range has allowed the stock to come down towards its neutral zone, which could be reached if the stocks continue in its trading range for another two weeks. At that point, we will be close to the 50MA and the stock might easily go higher.



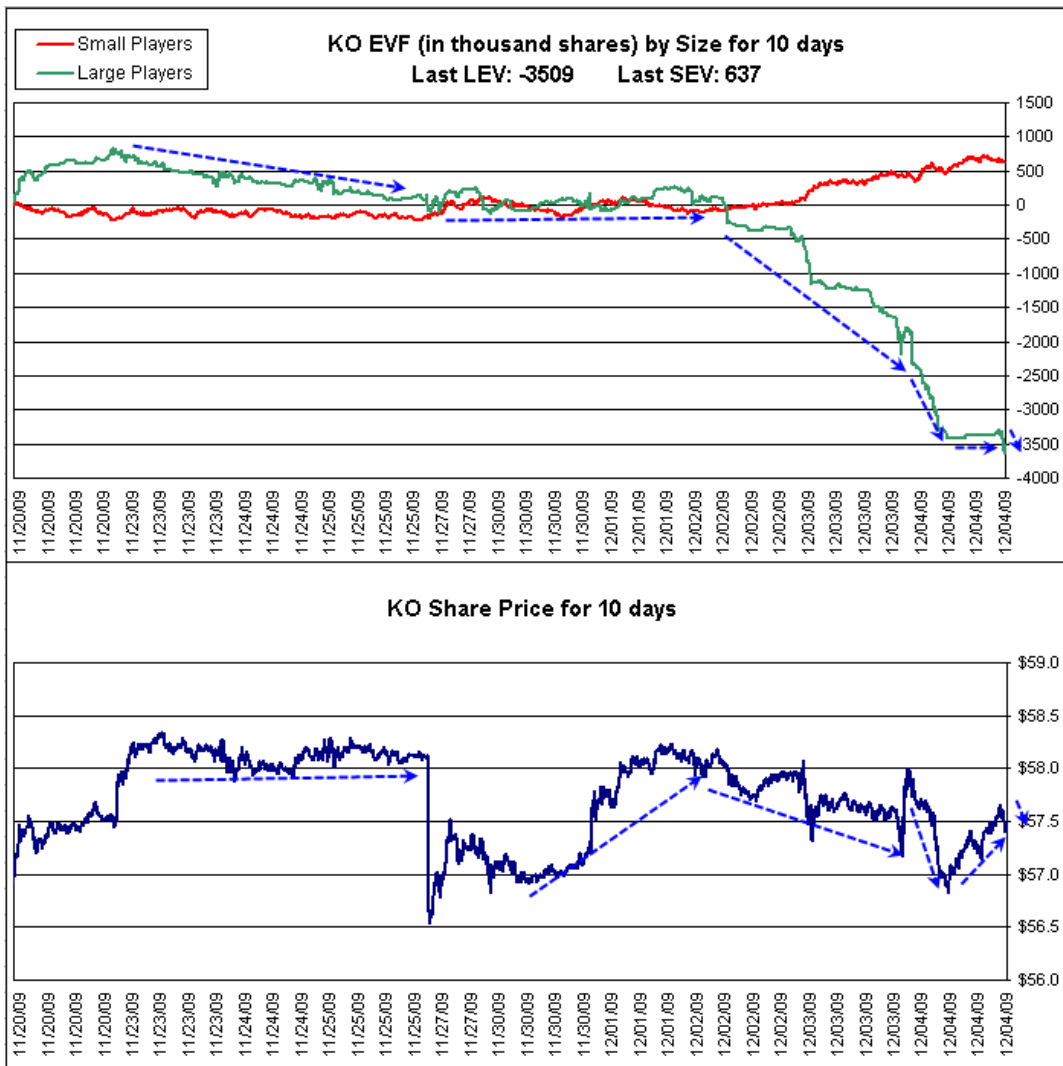


As you can see in the TEV pattern shown below, TEV has decisively broken down its 20MA. This happened back in September and the stock easily reversed the pattern to again attract new money. Last weeks' selling pattern was not as "measured" as before: it was very nervous, close to panic.



The LEV pattern of the past 10 days is very weak as can be seen below. However, KO is not "broken" and as far as this selling does not spread, it might continue up.

It is usually easier to short stocks that have shown the obvious first signs of weakness in the price/volume pattern, because this is what is watched.



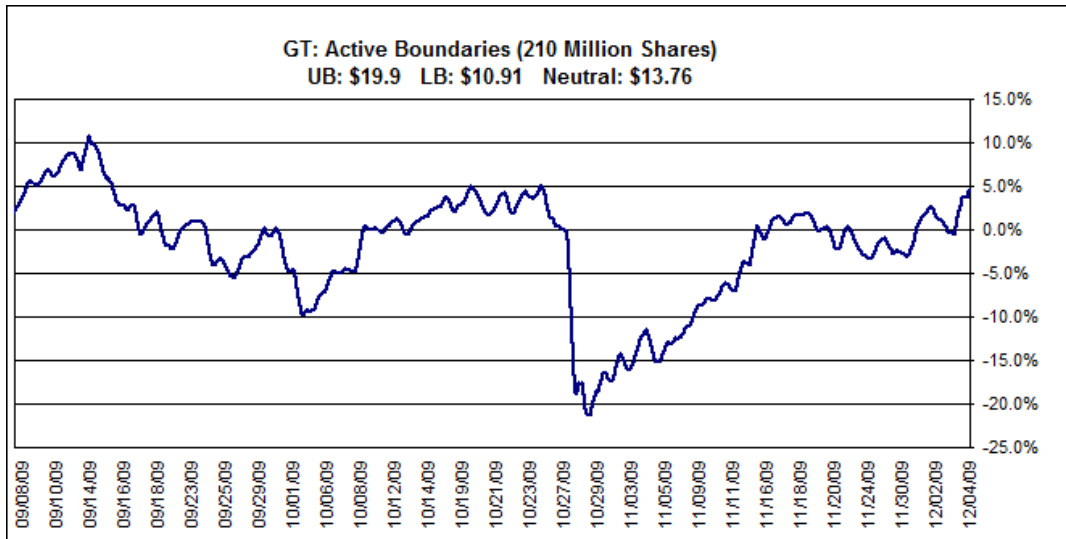
Goodyear tells a different story: It broke down on heavy volume at the end of October and it is now trying to come back to its 50MA on a fairly strong uptrend.

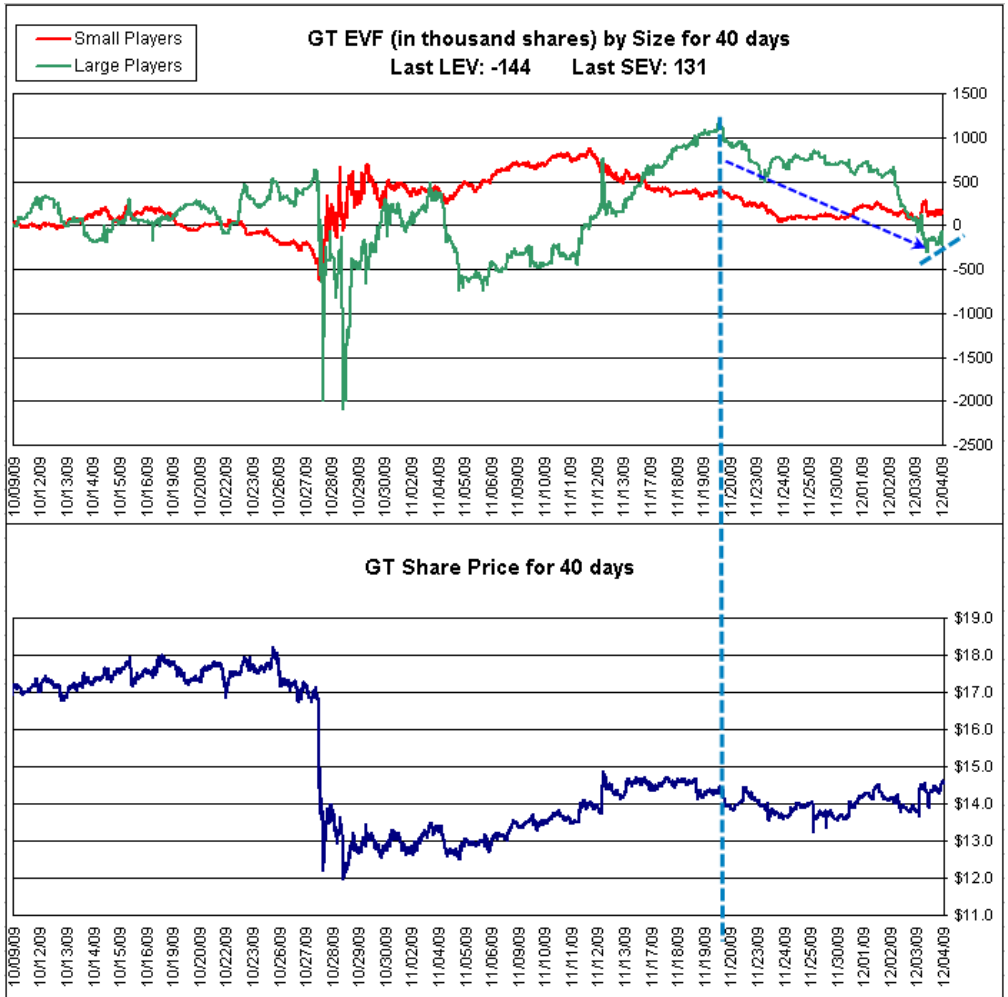
Last Friday showed that the stock is not dead, as it managed to come back-up in good volume.

EV however shows general weakness even though Friday was a relief.

It is interesting to note that on the Active Boundaries, we are close to the "value level" of 5% where we had the big sell-off at the end of October.

The best strategy would be to short the stock on its way back to its natural resistance, but only if the EV pattern shows that the stock does not attract large money anymore.





- Sector Relative Strength (based on Billy's SGR figures)
- Active Boundaries
- Effective Ratio (The measure of the Effective Volume accumulation compared to past historical accumulations)

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