

## The 20DMF and sector signals

This document was written in January, 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.

### Returns on January 5 for the sectors that generated buy signals on January 4 and December 31

1/5/2010	1/4/2010	12/31/2009
Coal	Telecom Foreign	Banks
Rail	Utilities	
Gold Canada	Oil Integrated	
Chemicals	Telecom Others	
Pipe Lines	Diversified Industrials	
Paper products	Aerospace & Defense	
Gold	Banks Foreign	
Food	Discount Chains	
	Silver	

The list below shows the stocks that belong to the sectors of the 1/4/2010 and 12/31/2009 columns, but which had a thrust > 1 (the "Thrust" is a measure of the last day TEV compared to the previous 10 days) as of the close of January 4.

Ticker	Jan 5 Open	Jan 5 Close	Jan 4 close	Jan 5 Open to Jan 5 Close	Jan 4 Close to Jan 5 Close
AES	13.67	13.52	13.66	-1.0%	-1.1%
APC	65.16	66.6	64.75	2.9%	2.2%
AVA	21.61	21.18	21.59	-1.9%	-2.0%
BA	56.25	58.01	56.18	3.3%	3.1%
BAC	15.73	16.19	15.7	3.1%	2.9%
BIG	28.95	28.95	28.95	0.0%	0.0%
BK	28.14	28.6	28.3	1.1%	1.6%
BT	22.53	22.59	22.22	1.7%	0.3%
CHA	42.9	43.14	42.23	2.2%	0.6%
COST	59.26	59.24	59.4	-0.3%	0.0%
CS	52.48	52.43	52.04	0.7%	-0.1%
CVX	79.22	79.5878	79.07	0.7%	0.5%
EGN	47.39	48.14	47.53	1.3%	1.6%
ETN	64.45	63.94	64.31	-0.6%	-0.8%
FDO	27.4	27.48	27.37	0.4%	0.3%
HDB	132.77	133.94	133.38	0.4%	0.9%
HON	40.16	40.39	40.33	0.1%	0.6%

IBN	38.48	39.25	38.71	1.4%	2.0%
JPM	42.79	43.69	42.86	1.9%	2.1%
KB	51.32	51.35	52.52	-2.2%	0.1%
LMT	76.62	77.68	76.89	1.0%	1.4%
MIR	15.44	15.49	15.42	0.5%	0.3%
MUR	56.12	56.82	55.93	1.6%	1.2%
NOC	56.7	56.93	56.85	0.1%	0.4%
NRG	23.96	24.22	23.91	1.3%	1.1%
OFG	10.39	10.5	10.41	0.9%	1.1%
PCP	112.11	114.33	112.56	1.6%	2.0%
Q	4.29	4.46	4.27	4.4%	4.0%
SHLD	83.15	87.07	83.42	4.4%	4.7%
SNP	87.72	87.03	87.95	-1.0%	-0.8%
SSRI	22.81	23.35	22.76	2.6%	2.4%
TEF	85.48	85.6	85.68	-0.1%	0.1%
TXT	18.97	18.69	19.05	-1.9%	-1.5%
WFC	27.27	28.07	27.31	2.8%	2.9%
XOM	69.2	69.42	69.13	0.4%	0.3%
Average				0.96%	0.98%

SPY	113.26	113.63	113.32	0.27%	0.33%
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***Below is the original study published on January 5***

## **20DMF and sectors buy signals**

### Introduction

This study's objective was to solve the weak point of the 20DMF indicator. Indeed, after a "cover your shorts" signal, the 20DMF either waits for a "short" signal or a "buy" signal". However, if the market picks up into a new up-trend from the "cover your shorts" signal, the 20DMF is unable to issue a buy signal until the first significant pull-back in the up-trend.

The question therefore is whether or not it is good to buy sectors that issue a "buy" signal even when the 20DMF indicator shows a "cover your short signal".

### A sector "Buy" signal

As shown in the figure below, a "buy" signal is issued when the true signal of the large player's strength (Gray line of the upper panel) crosses over its 20D average (black line) when this is below the "0" red line. This signal indicates that on average, for the past 20 days, large players have been selling the sector, but that this trend is about to change.

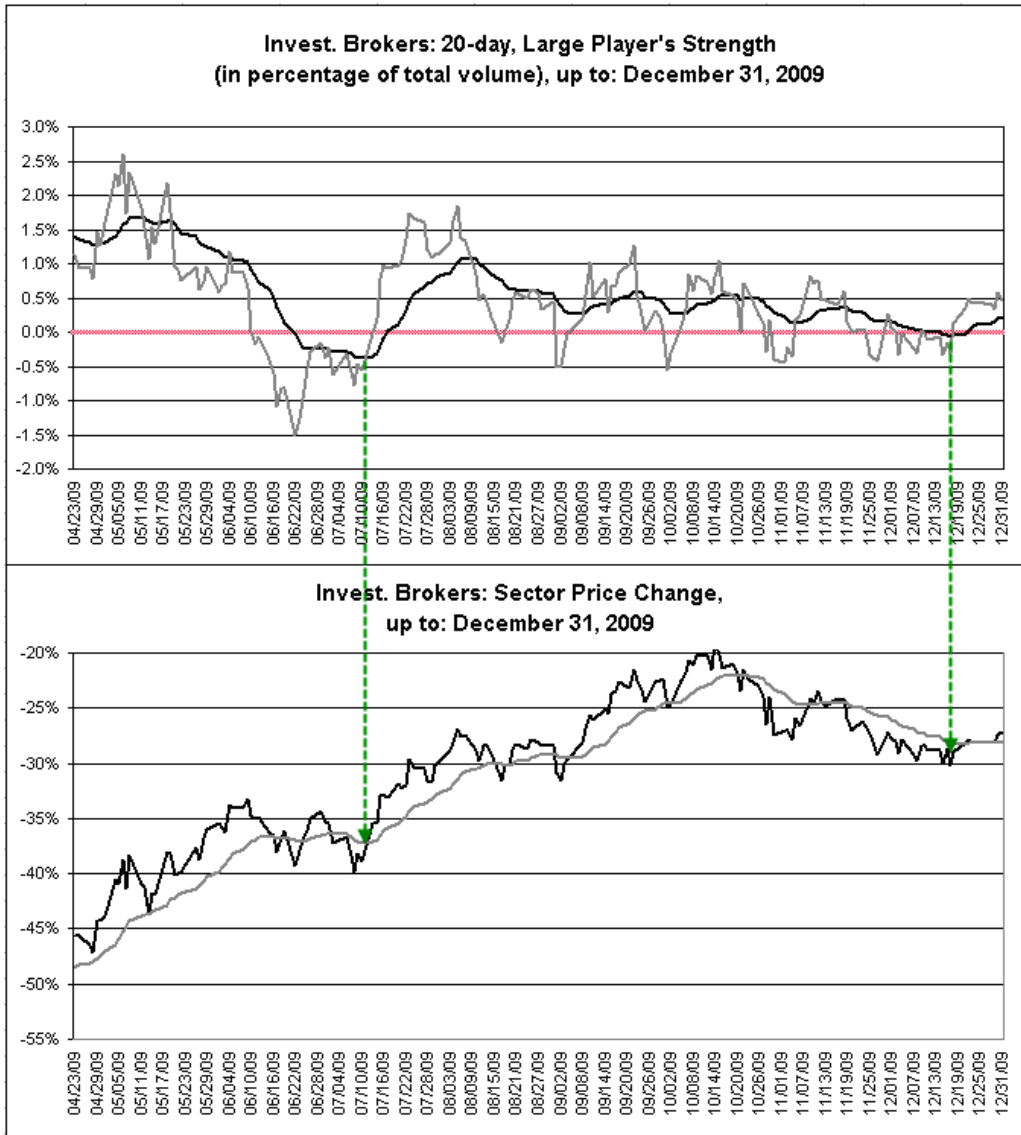


Figure 1: Sector signal

## Results

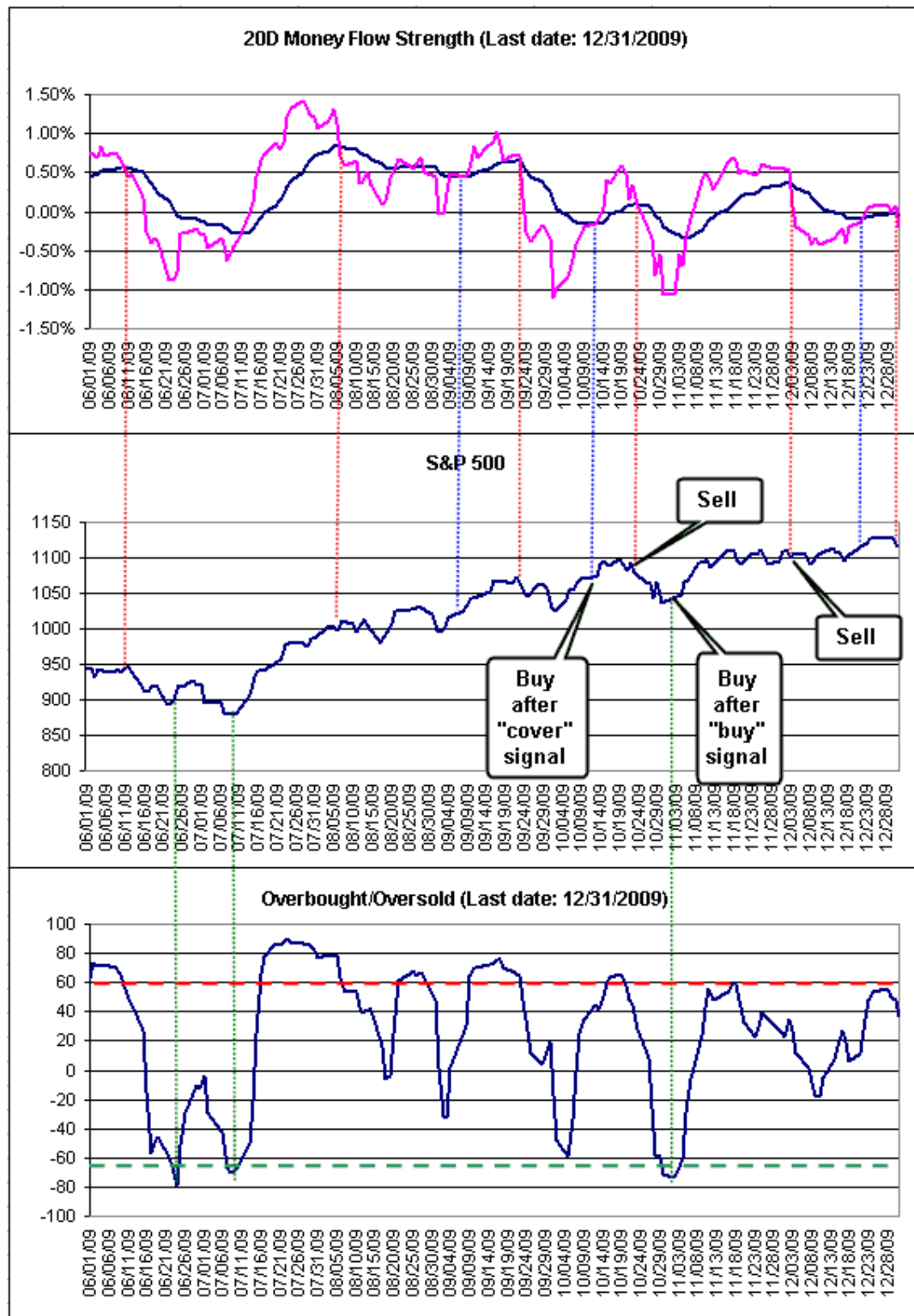


Figure 2: 20DMF signal

For the purpose of this research, sectors were bought - at the produced buy point - either  
- when the 20DMF issued a buy signal (green dotted line on the above figure)  
Or  
- when the 20DMF issued a cover your shorts signal (blue dotted line)

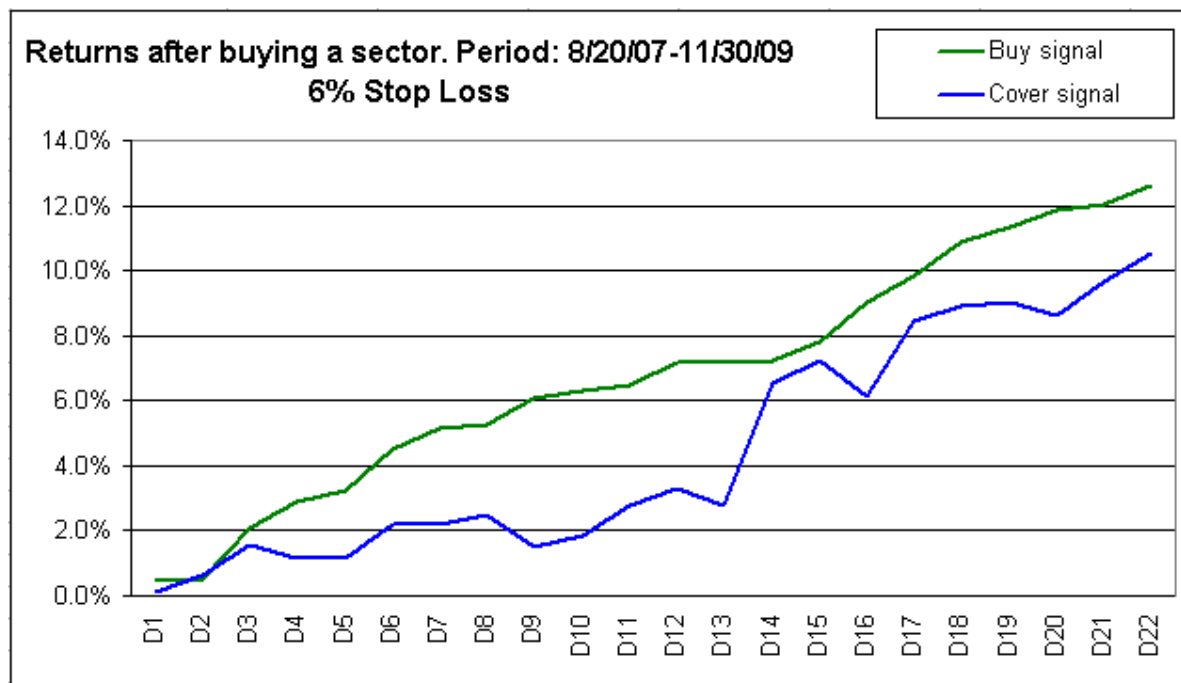
The sectors were sold at the next occurrence of the "short signal (red dotted line).  
Figure 3 shows that in a combination of bear/bull markets, it pays to buy also when the  
20DMF issues a "cover your shorts" signal.

D1 to D22 indicate the number of days after the sector "buy" signal was issued. 22 trading  
days constitute on average one month.

**Conclusion:** this method shows that by buying stocks in the sectors that issue a buy signal  
when the 20DMF is not in a "short" mode will produce on average a monthly return between  
10% and 12%.

The link below will take you to the stocks that belong to sectors which issued these buy  
signals in the past three days.

[http://www.effectivevolume.eu/content/Filters/covershorts\\_buy.php](http://www.effectivevolume.eu/content/Filters/covershorts_buy.php)



**Figure 3: Results for both bull/bear markets**