

## **The Money Flow and Price cycles**

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](mailto:pascal@willain.com)  
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.

---

The general understanding of the MF/price cycles is that money starts first to move and then price does.

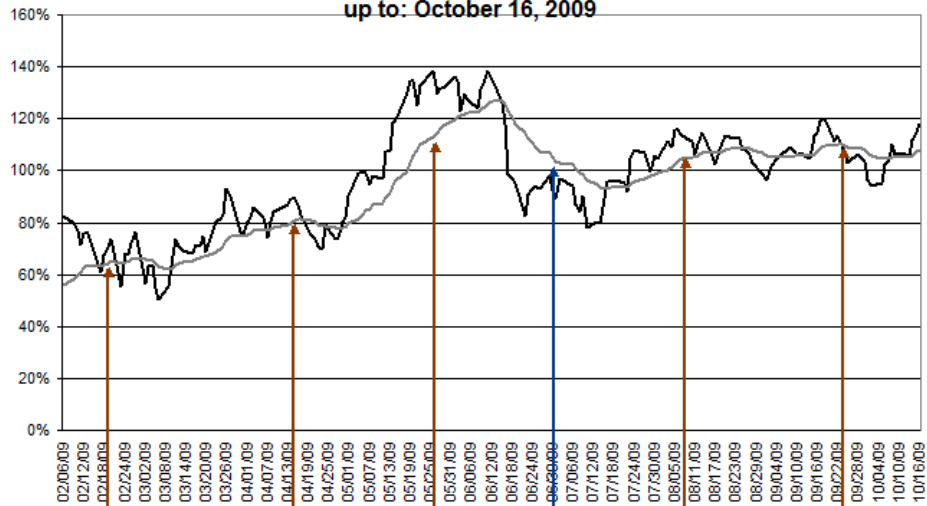
This is however not always the case, especially in a strong uptrend.

Let's look at this using the fertilizers sector shown below.

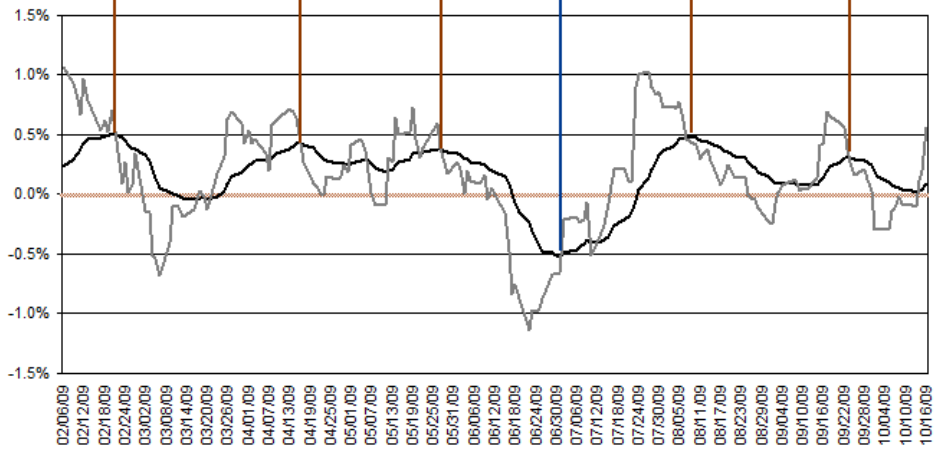
The figure shows five brown arrows - from positive MF - that point to negative trend changes in MF and one blue arrow - from deep negative - that points to a positive trend change. You can see that a negative reversal that indicated weaker players did not accurately point at weaker prices ahead, while in general, stronger MF after a deep sell-off is more indicative of a coming price uptrend.

The reason for this in my opinion is that short sellers are very fast to cover when they see that the sell-off in price is going to reverse. This activity is easily detected by EV. However, in a strong uptrend, EV might indicate that some large players are taking profit out, but this does not mean that the price will move down. In a strong uptrend, there are usually late comers who will continue buying and replacing profit takers until the whole market becomes weaker.

**Fertilizers: Sector Price Change,  
up to: October 16, 2009**



**Fertilizers: 20-day, Large Player's Strength  
(in percentage of total volume), up to: October 16, 2009**



The lower panel of the 20DMF that is shown below, represents the trend changes in each of the 84 sectors that I follow.

What I call "overbought" is in fact when most sectors are trending up: the uptrend is well established but could last for weeks before reversing down.

When the signal reverses down from the dotted red line, it means that some sectors are experiencing a change either in MF or in price or both. This could signal a transition from bull/bear or simply sector rotation. In my back-tests, I found that this transitional signal below the red dotted line is not reliable to predicting pull-backs.

This is why I use the upper panel signal - in combination to SDS - to find weaker markets. However, the reversal back up from an "oversold" situation has been corresponding to sustainable reversals.

