

Proving The Point!

The Newsletter For The Shorter Term Ord Volume Trader

Today: 27 free days left

We look at the cautionary tale of low volume and being long stocks with very weak volume. Some might remember our short on HURN of few weeks ago. We covered it before much downside because the market was headed up. Over time this was the right move as we trade with the direction of the broad markets on non commodity stocks. Our tests show that doing this will return 25% more in earnings over time than playing the stock volume by itself. The idea is not to beat yourself up over the big fish that got away, but reward yourself for doing the right thing.

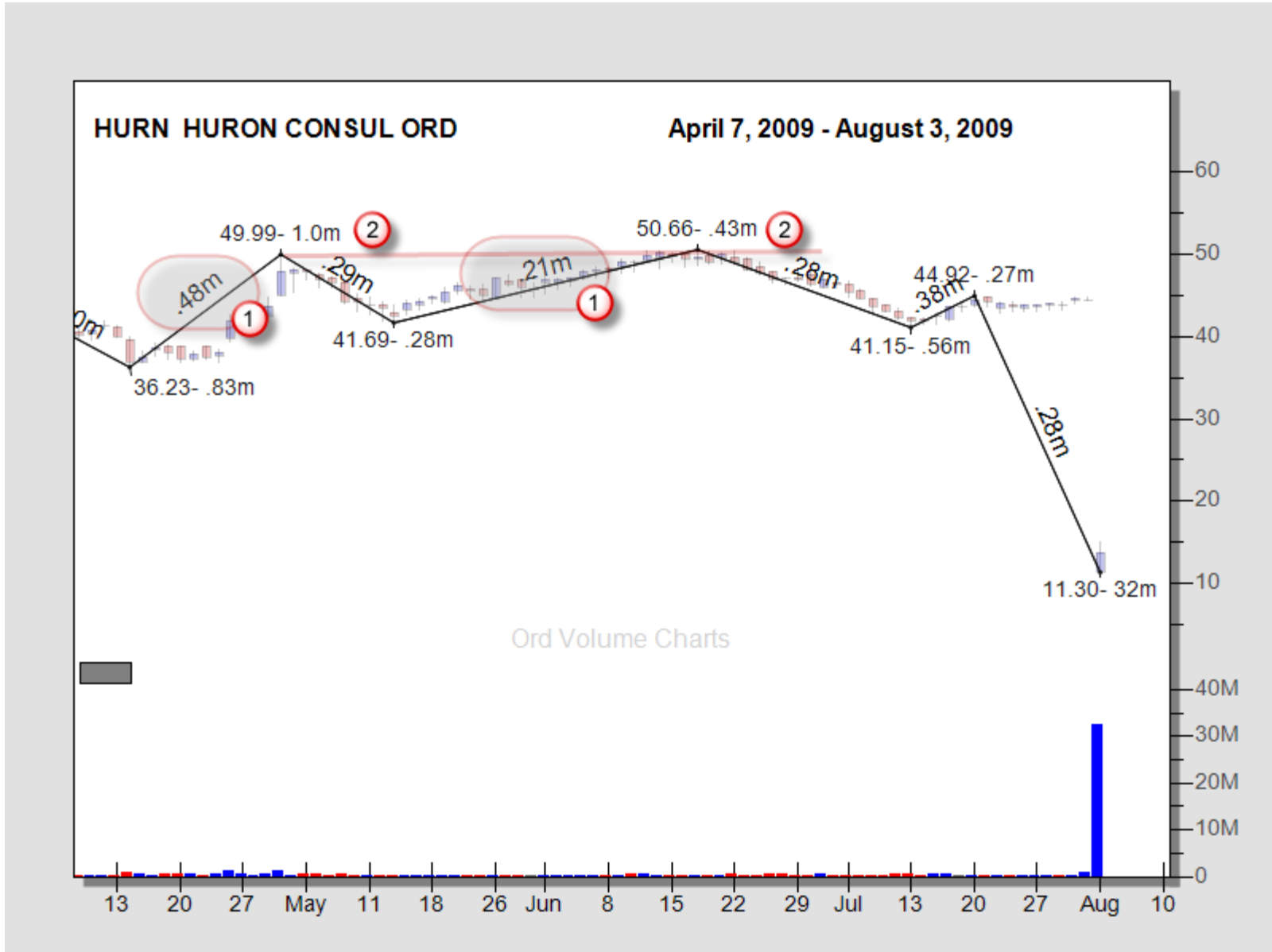
HURN had the same kind of warning signs as other stocks we have highlighted from Fannie Mae and Leman. Now did we know it was going to have a 70% down day? Well no, but rarely does a stock have the kind of destruction without a warning. Those that practice volume trading would have easily seen the double top on less than half the volume. They would have seen the leg volume drop over 50%. Test after test shows when leg and swing point signal to be an order of magnitude better than any testable signal in the market place. When testable signals fight for a 5% better than a flip of a coin, this pattern over time is close to 30% better than a flip of a coin when the trade is in the direction of the summation index.

The point to this rant is to point out how to look at risk in the market. With a lot of index's showing the same pattern yesterday you shouldn't be fooled by one day where the S&P goes up to a magic number like 1000. The risk is to the down side and where the surprises like HURN had yesterday occur.

Currently we are looking for a downside surprise in the market because we are pushing highs without volume. This is the best signal we know to say that avalanche is very possible. You put your trades in the most likely moves in the market then like a good fisherman, take what the sea gives you.

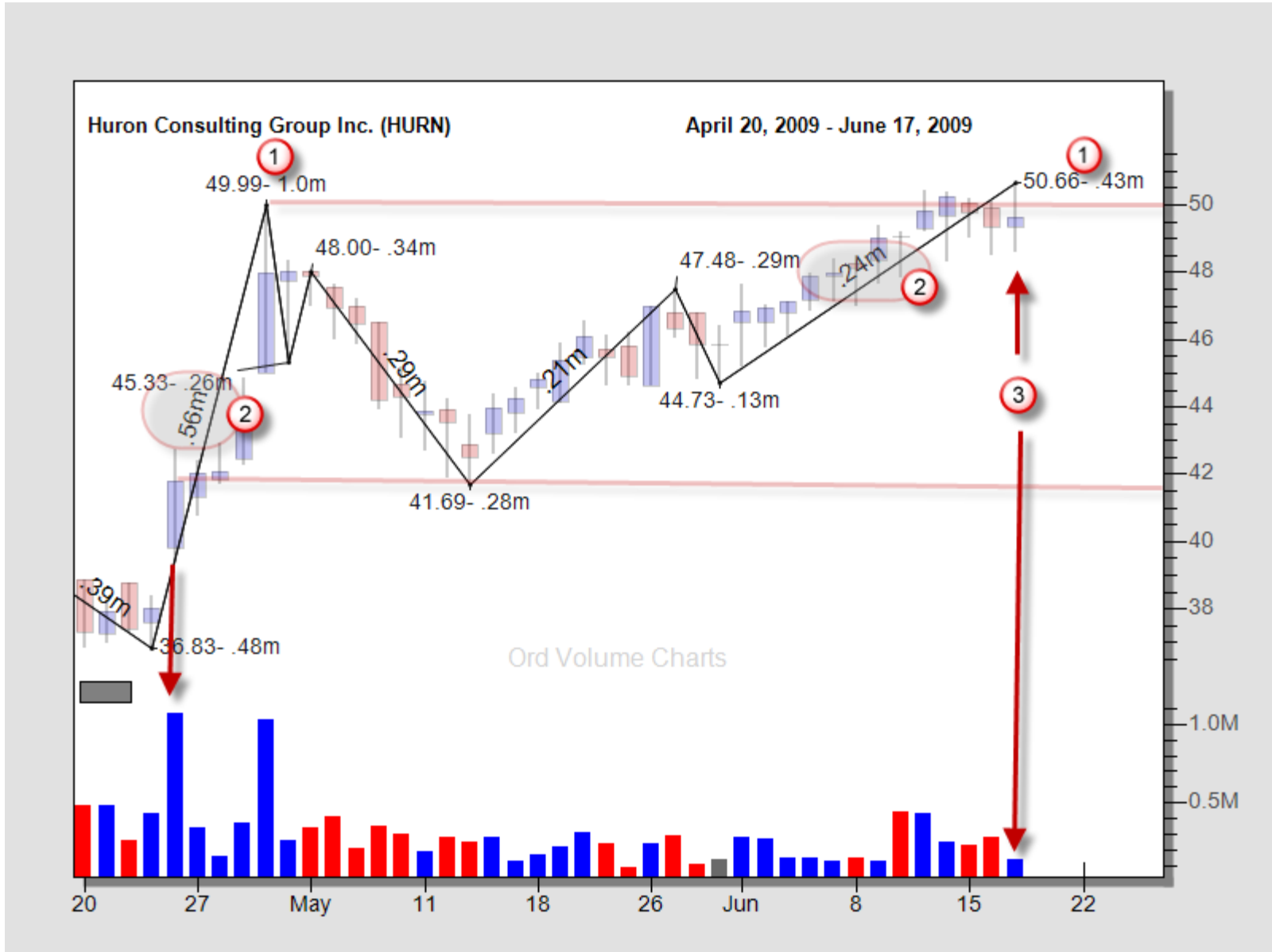
We are short JOSB and volume picked up a bit yesterday. We like our trade so far and are looking for the markets to turn down to help push this one to our target. If CRR closed below the last swing we liked it short but it doesn't look like we will get that one. FDS still looks like an excellent candidate and if it gives a signal it should be today. We will be short with a close under \$56.52 with continued light volume.

Examples:

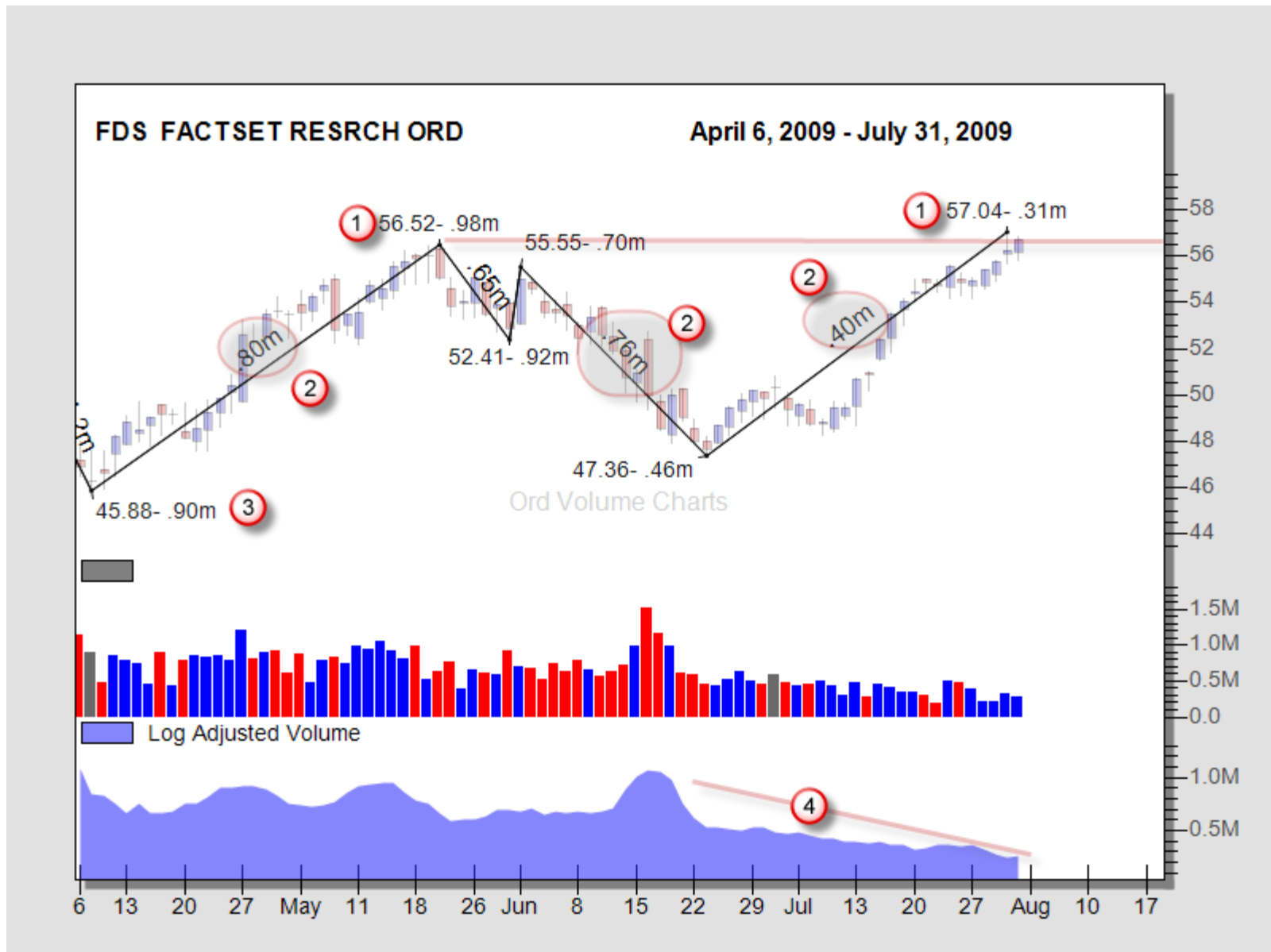


- 1 We were short this one at the test of the 49.99 high. We covered when the market started moving up but this is an example of the how the surprises are on the side of the light volume. All the volume came out at the high and was on our list of the top 5 weakest stocks at that time.
- 2 It is rare to see a stock test a top on less than 50% volume and it not turn directions in less than a few days.

This is the original chart from our June 18th edition



- ① While we are not a huge fan of going short during options expiration week this stock is giving all the classic signs of weakness at the high with less that 50% volume and yesterday it couldn't hold the high with vapor for volume.
- ② Volume strinks more than 50% on the leg up.
- ③ Volume if just vapor again yesterday in a try at breaking the high. We suspect that why this one hasn't rolled over is a expiration week related issue. Support probably is around the 41.69 area where the huge volume up in April was.



- ① Testing the swing high with 30% volume. Like Walmart says "Look out for falling prices."
- ② First leg up shows real strength but the first leg back down volume is about the same. This last leg up the path of least resistance reveals it's self with very little interest. The test of the top at 56.52 confirms.
- ③ What we always like in shorts, a untested high volume low.
- ④ Each day the movie theater has less and less people in it as the price rises for the movie. Doesn't sound like that is something that can last.

Current Trades:

Short JOSB on July 30, 2009 at \$38.00 with a target of \$31.40 Stop would be a close back over \$38.00 with more than 340,000 shares.

Understanding Examples:

Examples shown are starting points for looking for a trade. The market, sector and stock should all be telling the same story to enter a trade. An example of a stock is just 25% of the story, you still need to get the broad market (50%) and sector (25%) to line up.

The term "Proving the Point" comes from a term coined by the original evangelist of price and volume trading, Richard Wyckoff. The term refers to when a stock goes through a previous swing point with significantly less volume and pops back into the trading range defined by the previous swings. It has proved the point that there was no demand for higher prices or supply for lower prices, at that time. Usually there is an automatic rally or decline where rapid and predictable price changes occur. This is the majority of the examples and pick we show in the newsletter.

SOS stands for "sign of strength", a big candle (big price change) where volume is significantly higher and instantly stands out on the chart.

Path of least resistance is a term to describe what will be almost an inevitable advance or decline when supply and demand are stretched to either direction. This happens when both the leg volume of a price move and the swing point of a price move distinctly have a volume change that is dramatic. We like 50% in stocks and 25% changes in ETF's and indexes. The ETF and Index number is a rule of thumb and it varies by the outstanding interest in this instruments.

Mission:

8/4/2009 at 8:07 AM CST

Our mission to list and diagram the most likely changes in price direction of stocks based on price and volume movements. We will from time to time publish trades for tracking purposes.

Newsletter Information:

Proving the Point is published each trading day exclusive of the last two weeks of August and December. Questions can be addressed to help@ord-oracle.com.

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