

Tradersworld

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Interview with Dan Zanger

Heading Off Trouble

Fractal City and the Recovery Top

Chicago Wheat Futures
and W.D. Gann's Natural Squares

The Jehovah Cycle in
W.D. Gann's "The Tunner thru the Air"

The Overlap Rule and More

It's a Trader's Market

The Market Oracle Report

MTPredictor Software Review

Tsunami-Trading

software review

OmniTrader
Software Review

An Objective Entry
and Stoploss
Placement Strategy



Interview with Dan Zanger



TW How do you find your stocks to buy and has anything changed over the past few years on how you do that?

Dan Nothing has really changed on how I find my stocks. For example if anything is up a dollar or two for the day I want to know about it. I look at anything going across a ticker tape on CNBC or Bloomberg or any programs where a stock is up a buck or more. On interesting stocks I'll see what the pattern looks like then I'll go into my Daily Graphs. I get the Daily Graph chart books every weekend. I can also go online. I look at the fundamentals to see how much the earnings are up. If

the earnings are up 40 to 50% for the quarter I want to know about that. I will download the stock into my AIQ charting program and start to track it. I will also put it on my eSignal quote screen and start to monitor the stock and see how it behaves. Some stocks may be up 5 bucks in one day, however that may just be a one day wonder and that is the end of the move. I want to make sure the stock is a consistent mover before I buy it. Once you find them you need to keep tracking them. You basically have to be a stalker, keeping after them for long periods of time. Sometimes stocks start their moves up at the start of a market correction and will come down. It takes a long time to track stocks and wait for them to setup for the proper time. So that's how I find my stocks by letting the market tell me which stocks it wants to move up.

TW You used to track around 1400 stocks and went through them every night. Do you still do that?

Dan I probably now look at around six or seven hundred charts during the week. On weekends I will go through all 1400. A lot of stocks have stopped trading altogether and I have deleted those from my database. There are fewer IPOs coming out, but during the weekends I'll go through the full list of IPO's probably twice and add those that look good to my database in AIQ. By going through my full list of 1400 stocks it gives me an idea

of what is going out of favor and which groups are starting to turn up. It gives me a pretty good indication by going through my entire database as to which groups are coming up and which ones are lagging. I try to focus on the strongest stocks in the strongest groups.

TW Do you follow group indices?

Dan I follow groups not indices per se. I have never really made any money by following the indices. I am more of an individual stock picker. The stock may be in a group that is turning up. I want to be in two to four stocks in the strongest groups. Right now as this market is turning up Apple is my favorite. Other technology stocks are turning up, but I am keying on one individual stock maybe two at this time. For example 25% of my cash would be in Apple. It is really the dominant stock with tremendous earnings, modest PE number, best technology, with sensational products coming out that really no other company has. Everyone is looking to buy or own Apple products at this time. The technology sector moves the best right now, it has the best earnings with exceptional new products. Out of the whole list of technology stocks, Apple is the one. Google was very hot in 2004-2005. It was at the time a tremendous mover. Apple has big moves and continues to have the best products in the current market. In the financials, Goldman Sachs has made great moves and has been the leader in that sector but is lagging here in May badly. As a rule, I just want the best moving stocks in the strongest groups at the start of a new big move.

TW With Apple how many shares do you have and do you increase and decrease that during the day?

Dan On a spectacular move during the day if it moves up 10 to 15 dollars I might sell some but certainly not all by the end of the day. It could still have two to three big up days back to back and you would not want to sell everything otherwise you will miss a huge move. That would be a big mistake. For example, after a 4-day move I might reduce 50% of my positions then let the stock rest and make a flag pattern or some sort of consolidation pattern. When it accelerates again a week later I might add back the shares I sold.

TW Do you use cycle analysis? Do you use Gann, Hurst Cycles, or anything like that?

Dan No, I don't use Gann. I do use some time cycles periodically. They work fairly well at times and they seem more effective on the overall market. They don't really have anybody's name attached to them. These are just cycle periods such as a 10, 20, 30, or 40 day or one of those types of cycles. It is something that you can pop on your indices in TradeStation. I keep it in the background. At my seminars I teach other types of cycles such as day count cycles based on Fibonacci counts. Those work very well especially on the high beta stocks. In fact I think you can't live without them. I discovered them on my own in 2001 after 911. I noticed how the market moved with these specific counts. I started counting every move up. Next thing I noticed that everything happened with these counts. Everything roots off the number 3 pretty much. Once you get it and understand it you can move forward.

TW How do you know when a count stops at a particular number?

Dan If you get to a number and you are looking for something to happen in

the stock, if it doesn't happen it usually will continue to march on. Then you get to another number where something might happen and if the stock starts to sell down with heavy volume you are probably in for a minor correction, sell off or even worse. You could get crushed in the stock. Many times I thought the stock might be OK and continue higher even though it hit a number because the momentum was so strong and then the next minute the stock would get crushed right when it should. You don't really know until it happens. I want a win win situation where I sell some at or near the top and you are protected. You can buy it back when the stock turns up from a dip. You are rarely going to sell out your entire lot at or near the top. I rarely sell entire lots of high beta movers at once. Sell a little here and little there. If it comes down for a week and creates a descending channel and breaks out I'll add those shares back and even more shares if it's a real powerful mover.

TW So at those key points you use patterns for your buying and selling?

Dan Yes, I use patterns for buying and selling. I like rising channels for selling. I like to sell if a stock breaks a rising channel with a key reversal bar on heavy volume to the downside. I would certainly be selling into that key reversal and conversely with a descending channel I would be a buyer on a breakout. I am not a big fan of moving averages. I am more into reversal bars and buying within rising trends. Trend lines are powerful tools. They tend to accelerate. A 30 degree rising trend line may go to a 45 or a 50 degree line. The market will eventually break the line and I will be out of the stock. If a stock has moved for 2 - 3 months it is subject to a fast break.

TW How do you draw your trend lines? Isn't it sometimes an art?

Dan Drawing trend lines to me is like connecting the dots. Take the lowest points on all the bars and just connect the dots and that will give you an automatic trend line. Some institutions use end of day closings as their points for their trend lines. In the AIQ program it will allow you to draw trend lines on end of day prices. That gives an interesting point of view on stocks. You will find using line closings is a very powerful tool. You can use patterns based on closings such as symmetrical triangles, descending triangles, ascending triangles, and channels.

TW Do you have favorite patterns that you really like that are reliable?

Dan I think the descending channel for buying is one of my favorite patterns as the market has become more choppy and volatile. You are seeing more descending channels and island reversals for buying. There was an island reversal in January which started stocks on their way down. The market consolidated for a while for 3 to 5 weeks and then got up on the right side. The market then gapped back up. That created the island. Some of these islands have been very powerful. We caught RIMM about a year ago on a big island reversal and picked up about 30 points on that one. You have to be selective. Just because a stock has a pattern it still may not be worth owning. Just because it has a pattern and breaks out doesn't mean you want in on the stock. Visa broke out and had a one-day move. The next day it was down a few points and stopped moving from there. It's just a sloppy stock overall. If you buy a stock that exits a pattern and it goes nowhere just check out and find something

else. This is really just a numbers game and you need to be in the right stock(s) that move. For example pick out five or six stocks when they break out. The ones that don't move up strongly sell and double up on the powerful movers.

TW What about money management?

Dan Yes, you have to use money management. You have to be quick to exit and understand that the market does not move forever. After stocks have made their big moves and then the little ones start moving you are probably at the end of the market run. Watch your rational behavior at this time. If the market is really hot and things are starting to pop all over the place and you are all in, you're going to be all out before you know it because the market is going to break. You really need to learn to love market corrections as painful as they are. If the market has a nice break of five or six weeks and your portfolio is beat down 15 or 20%, that's the ideal situation for you. That's when you look for stocks that are setting up with descending channels, horizontal channels, cup and handles, key reversals off bottoms, island reversals and more. These are the stocks that you really make the money on. When a stock has already moved up 20 or 30% and you buy it, this is not where you make your money. That's where you lose money. You really want to be buying those tight patterns that have consolidated after the market has moved down 6 to 10 percent, or something like that. Eventually the market will start to come around. Stocks will start to exit these bottoming patterns and that's where you start to step in and buy these stocks. That's where the money is made.

TW When you get these corrections

will you ever ride these markets down?

Dan I never ride them down. You never know how far the correction will go. At a 7% correction the market might rally or it may go down to 10 percent. High beta stocks can correct 20 - 30 percent. Some of these little Chinese stocks recently corrected 50% or more. You just don't know how far they're going to go down.

TW What about shorting? Do you short the market from time to time?

Dan I have shorted periodically but I have rarely made any big money. Stocks may come down 20 - 30%. Some only correct 10 - 12% and then the market comes ripping back up. You never know which ones are going to go down 50%. I will say that in 2004 I had 160,000 shares of eBay short. When it missed earnings in January of 2004 I was short at \$106 pre 2 for 1 stock split and the stock closed the day at \$103. The next morning it gapped down another 20 points. I don't normally make money shorting stocks even though I've had some big hits.

TW What about the different time frames on charts? Which time frames do you use?

Dan I mostly use daily charts. It is 90% of everything I do. I'm looking at daily charts on my AIQ program during the day or my QuoteTracker for my real time daily charts. Twice a week or so I look at weekly charts. If a stock is very thin or very fast and is on the move I'll look at a 5 minute chart. But I rarely trade off of 5 minute charts. You just can't buy 30,000, 40,000 or 70,000 shares off a 5 minute chart. Most institutions don't use 5 minute charts. They are using 30 or 60 minute charts and certainly daily charts. I think that most of the smaller day traders trading with 200-

3000 shares use 5 minute charts. They are in and out for a 1/2 to a point move.

TW What about the IQXP program?

Dan Well I love the IQXP program. That's the Windows program from Live Wire which is a fantastic trading tool. Originally it was a DOS program. In the late 90s I was using it exclusively during the day. David Edson owns and writes the program. I contacted David and had him write in sound alerts. If stocks are trading on the ask it makes a hammer sound, and if trading on the bid it makes coconut sounds. When you have 60 stocks in your IQXP program and the market is moving up you'll hear hammers being hit across the entire basket of stocks. If the market drifts sideways and stocks start to sell off you will start to hear coconuts. If stocks are up but you can hear a lot of coconuts you know there is selling into strength. After the market falls for two to three weeks you'll start to hear hammer sounds as they buy the dips. This is a program that I paid David to write for me and he has now incorporated it into the IQXP program.

TW So do you still use that program?

Dan Daily

TW When you are sitting and trading daily how many screens are you watching? What are you watching? What programs?

Dan I have eight 24" monitors which I think is a little excessive. I don't think anybody needs to get 8 monitors. With all of these monitors you become very sensitive to light. This many monitors is a recent addition for me. I would say that if you have 4 monitors on one box you are going to do fine. I really need 4 monitors for my stocks and the others I use for cycle work and to gather information. The other 4 are not really necessary for stock trading.

TW What do you watch to give you an idea on what is going on in stocks?

Dan I watch the emini to see what patterns are setting up for some of the high beta stocks getting ready to run. If the emini is setting up for a move you might want to jump into some of your high beta stocks. You know they are going to break out when the emini does. It is amazing how basket trading has moved into the market so much. The eminis will move up and all the beta stocks move up at the same time. When the emini moves down most stocks will also move down. Stocks are hopping all around violently during the day because of this basket trading.

TW I know you have a chat room and you come in there a couple times a day to talk to the participants. How does that work with you? Does it help or hinder you?

Dan As you know I run the website ChartPattern.com. I put my newsletter out 4 times a week. We have a lot of very active traders and investors. My chat room alone has over 425 traders every day. We have a lot of institutions, banks, and hedge funds in there. I like to tell everyone which intraday stocks are on the move, which stocks are setting up to be keying in on. Some people are rather new, they don't have intraday charts or understand the mechanics of patterns and it gives them the opportunity to look at charts in real-time to see what I am seeing. A newbie might say "I don't see what he is seeing so let me look at this chart that is setting up and why it looks interesting to him". They also ask me questions. I started ChartPattern.com years ago because I like to teach and there wasn't really a good website in 1997 when I started. It's a combination of me helping out other people and I get to keep them

as subscribers and build my subscriber base. The more you fill your subscribers with knowledge the more profitable they can become and the more they are going to stick around. That's the purpose of me helping out people in the chat room. For the most part it is a distraction to me. If the market is not doing much and not moving I'll spend a lot of time in the chat room. When the market is very active I don't have that much time. I might come in 4 times a day for 15 minute sessions.

TW What about CNBC? Do you ever watch that?

Dan In the morning I like to watch the CNBC ticker tape to see if there are any high beta stocks going by. If there are just a lot of no name stocks you might just have a market in drifting mode all day. A lot of the high beta stocks like Apple and Google moving early will foretell what's going to happen to the market during the day. I don't listen much to the people on CNBC. They just give you noise. You used to have people come in with interesting stock ideas in the late 90s. When the market collapsed they stopped doing that.

TW I noticed in your chat room that you also do options. What do you think about using options?

Dan You have to be very selective in your options. Not only which options you buy but also when you buy them. I think that only one or two times a year options will really pay off for you. That's after the market has come down for a hefty correction and the market is down 8 - 10 percent and things are starting to bottom. You will see horizontal action in the market for one or two weeks and then your leading stocks will start to break out. At that point you might utilize options. I

would not use more than 10-15% of your portfolio. If the market turns down and you are wrong in your assessment you are going to get wiped out.

TW I know you used to use a lot of margin. Do you still do that?

Dan I love margin. I'll take margin over options. Again you have to be very selective on margin. I would not go on margin until you become a successful trader at buying and owning stocks without margin. You need to go two years making money on the market and understanding what corrections are about before you attempt to go on margin. Margin will just absolutely wipe you out as will stock options. The people with the least amount of money love options. They are the people that can least afford them. They have bigger dreams of being wealthy so they want to reach for the moon and these are the people that get killed continuously in the markets.

TW They say that 90% of traders lose in the markets. Is that true?

Dan I am not sure if that is true, but at my seminars I tell them that the markets are not here to give them money, it's here to take their money. They are here to shake the tree and get all of the money to fall off the tree. They do that in various ways. Suckering you into different situations and getting you worked up with greed and emotions designed to part you from your money. On CNBC for example, it is very common for knowledgeable players from respected institutions to come on and tell you they are shorting a stock when in fact they are long the stock. They want you to go short the stock so you will get trapped and start buying it at a higher price and make them money. The stuff they tell the

public on TV is all BS. It's all to get you to go the other way. It is all lies.

TW Would you say the reason most people lose is from psychology?

Dan I think it is lack of understanding, lack of homework, psychology, unchecked emotions like fear and greed. Fear and greed are the two main drivers in the markets.

TW What do you talk about in your seminars?

Dan I go through an enormous amount of material. A lot of it is psychological. I go through how to interpret earnings, fundamental work, and earnings growth. I focus on the duration of time that the markets move before they will break. I get into charts and chart patterns. I start off with a list of positive chart patterns then I go through a list of negative chart patterns. I go over the patterns and describe them in detail. I go over the Fibonacci day counts. Many of the charts I discuss are where I have made or lost money. I go through all of the scenarios where I made money. How I waited on stocks. How I stalked them for long periods of time waiting for the ideal setup and then getting in at the right time. I talk about getting clobbered on some stocks and what I specifically did that allowed me to get clocked. I teach them the psychology of how I got suckered and how I did not handle the situation correctly when I started out. I explain how I could have managed getting out of bad positions far better and reduced my losses. I also cover strategies that help traders get into positions better. How the market tries to sucker you in. Since 2006 the market has changed a lot in my opinion. They will drop a stock down 4 or 5 points and get you to think it can only continue to go down. Then

the market will rip back up over the next few days. They have new ways of shaking up the market. I go over how this has been a common practice in the market. For example, with parabolic curves I explain how they run up, how to protect yourself from a parabolic run and how to sell into it by understanding the daily bars. I cover what these moves mean, which ones are positive, which ones are the beginning of a big move up, or conversely, a big move down. It's all about the daily bars, the volume and combination of bars like two day patterns, three day patterns, one week patterns, two week patterns, and the list just goes on and on forever. I have been doing this for thirty years and the list of new things to learn is endless.

TW Would you say that your mind has developed a sixth sense by going through so many things that your mind knows what is going to happen before it happens.

Dan Yes, and it started for me around 1997. It actually came to me the hard way after I got cleaned out. My focus and determination grew by leaps and bounds in the market break of 97. From that point forward I became focused like a laser beam on the markets, the patterns, and the way stocks behaved. It is so important not to be trapped or crushed by a falling stock. It's important not to believe in a stock or a company. It's all based on the price action of a stock, the behavior, and the volume.

TW It seems to me one of your most favorable attributes is your ability to determine that you are not going to lose in the markets and nothing is going to stop you from making money in the markets. Your determination seems to show through. That you are going to succeed one way or another.

Dan I thank you. I agree I have tremendous tenacity to succeed and that they are not going to get me again. It took me years. They pretty much beat me up for several years and I just got to the point that I decided I am not going to take it anymore. You have to put a package together mentally and emotionally with chart reading, and volume. What are the signs a market exhibits before it breaks, what starts to happen before a market turns up. It took me over 6 years trading full time and getting hammered many times during those 6 years before I could put the whole package together. It really is focus, determination, homework, concentration and a lot of hours that you have to put in. I tell people at my seminars that if you are not willing to do the homework that comes with what I am teaching you here today, then don't quit your day job. You have to really want it.

TW It seems like the people in your room are a pretty good group and are trying to help each other and learn from you.

Dan We have thrown out the troublemakers and people dominating the room. We had some people who could not stay focused on stocks. We have bounced a good 30 - 40 people out of the room in the past 3 - 4 years. We have the chat police in there as you know. We don't allow politics to enter the room or four letter words. We don't want anybody dominating the room. We are here to talk stocks. What's breaking out and what is on the move. Do you see a stock that is breaking out? Are you looking at a 5 minute chart, an hourly chart, or a daily chart? Some guys like to talk doji bars, and other candlestick terms. Other guys talk regular daily bars. We try to make

it a place where really good information is being shared and people are learning. Certain people are good at different things. Like Bearman in our chatroom is very good at shorting stocks, he makes his living at just shorting. Rarely will he ever go long. There are other people in there that are the high beta traders just like I am. There are other people in there no matter how you lead them to the big winners, they just refuse to buy them and then they complain or quit and they give up trading. They just don't get it. You can lead a horse to water as they say but you can't make them drink. There are people in my chat room that can't make a dime. They refuse to buy an Apple or Google or something that is making a big move. They just have a mental block. They will buy an Eastman Kodak that is up 50 cents for the day, and avoid the big moving beta stocks that are up much more.

TW There is that psychological problem that many have. Apple started at a very low price and it is now in the two hundreds. Some people just can't buy it. It's a psychological block.

Dan For many people they don't like themselves enough to become wealthy. They have a mental block that if it's a \$150 or \$200 stock it's too expensive. Even though a stock that makes a 50% move is 50% on your money whether it is a \$5, \$10 or \$200 stock. A 50% move is a 50% move. When a stock breaks a trend line for example a \$100 stock that comes down back under the trend line \$2 and stops you out is a 2% loss. Where a \$10 stock that breaks out and comes down \$1 and stops you out is a 10% loss on your money. You lose less on your stops with higher priced stocks and it can easily move 50%, 60%

70%.

TW Dan you are extremely focused most of the time. How many hours a day do you work?

Dan Monday, Tuesday, and Wednesday I must do 14-15 hours a day because I trade full time and then research the markets and mark my charts for the newsletter. On Thursday and Friday there is no newsletter so my workday shrinks down to 8 or 9 hours. I still have to go through the charts to see what is setting up for the next day. Then on Saturday and Sunday I probably work 2-3 hours on charts and other items related to the stock market trying to find new things. On Saturday and Sunday I type the newsletter that goes out Sunday night and that usually adds up to 4 hours. This is reduced from what I used to do.

TW Do you ever take a break?

Dan I have not had a break since May of 2002. That's eight years since I have had a 1 week vacation. I do live in Miami Beach and have a condo on the water so that is somewhat like a vacation. I used to have a large yacht and we went up to the Hamptons, New York, Nantucket, and Newport Rhode Island. I would trade right on my yacht using a high speed internet connection to the computers on my yacht. I took my breaks. We would go up for 8 - 10 weeks at a time. I sold the yacht before the gas spiked up to \$5 per gallon. I love trading so much and I take a vacation and do what, more trading.

TW I am sure that on the days that you make over a million dollars it gives you a pretty good high.

Dan My market low days have a much more powerful impact on me than my high days. I became aware of this tendency in the early 90s. As soon as I would get

a big win day, the following day or week could wipe it all out because I bought on a large spike or blow off top that wasn't evident at the time. I would make 800k to 2 million dollars on that blow off top and be exuberant. Emotional exuberance can cloud your judgment and make you miss the forest for the trees. I held into the following days from that blow off top and lost every nickel I gained. You better sell into the strength and understand that this is no time for emotions. This is the time to sell and be thankful that you are going to survive another day. People ask why I am not excited and jumping up and down when I win a large amount of money. The minute you become attached to your money or let the money dominate you emotionally is when you lose sight of what is going on in the market.

TW So you have detached yourself from the excitement of the money?

Dan You better be detached and stay focused or you are going to get cleaned out. It's an old cliché but you have to be as cold as ice in this business.

TW I have always been impressed with what you were able to do. It shows with the work you put in it. You are to be congratulated.

Dan Thank you so much. It is very nice of you.

For more information on Dan Zanger go to www.ChartPattern.com

Phone 818-716-5575

Dan Zanger's

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