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LATE SUMMER 2004

DISPLAY UNTIL OCT 31, 2004

ISSUE #38

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## INTERVIEW WITH DAN ZANGER

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# Interview with Dan Zanger

By Larry Jacobs

**LJ:** You turned \$10,775 into \$42,000,000 from June of 1998 to May of 2000 in the stock market, which is amazing! First tell us what your background is?

**DZ:** I grew up in a suburb of Los Angeles. My father was a physician and my mom was a psychologist/housewife. My mom loved the stock market. She watched the business channel in LA on channel 22, a UFH channel in the 70s. I used to sit down with her and watch the ticker tape. I thought it was quite fascinating. A gentleman named Gene Morgan used to come on ½ hour after the market closed with a show called "Charting the Market". He marked up charts showing the various patterns stocks made before they made big moves such as bull flags, wedges, pennants, cup and handles and parabolic curves. I was amazed at how patterns could foretell the future movement of stocks.

I didn't have any money at the time so I went into the contracting business and became a swimming pool contractor in the Beverly Hills area near Los Angeles. But I was always fascinated with the markets and spent all my spare time working on picking stocks. In 1989 I decided to become very serious with the markets. That's when I plunged head first into understanding chart patterns. I got my first computer, and the AIQ charting program. I spent 25 to 30 hours per week, while I was working with my contractor business, learning charts and chart patterns and how to select stocks that would make big moves, before they moved. I like sports and I am very competitive. I just don't take no for an answer from anybody, especially the stock market and believe me I've had many setbacks in stocks.

**LJ:** When did this all start with the \$10,000 that you ultimately turned into 42 million dollars.

**DZ:** The big run for me started on June 1<sup>st</sup>, 1998.

**LJ:** What was your first trade and how did it turn out?

**DZ:** My first trade on that particular series was Amazon.com the first of June. But before that starting in late February 1998, President Clinton signed the tax bill regarding no taxation on Internet products and the Internet stocks just exploded overnight. I was actually looking at three stocks at this time AMZN, CMGI and YHOO, but it was YHOO's very high tight horizontal pattern at \$60 that caught my eye when Clinton signed the tax bill in February. The minute the bill was signed, Yahoo went straight to a 100 and I missed it! I don't remember what Amazon did. I believe it went to a \$100 as well. CMGI went from \$25 to a \$100 in few months. I had never seen stocks move like this in my entire life. I did not know what CMGI was? It had no earnings and almost no revenues at the time.

Then, the market started a correction on April 15th and the NADAQ had a 20 percent correction from April 15th to June 1st. So Amazon, Yahoo, CMGI had come down quite a bit and they started to come around with decent bases and were set to take off again for a second leg up at the end of May. Around the first week in June, AMZN which had just finished a 2 for 1 stock split rocketed from a solid base at \$50 to around \$130 by the end of July and that was really my first trade in the Internets. I only made about 20 points with AMZN and I missed Yahoo and CMGI. After that I went into a stock called Excite. The Internet portals were as hot as could be. Lycos, Excite and Inktomi were some of my other trades. I had made 400 percent on my money in June alone.

**LJ:** Since you were all of sudden making this kind of return, did you think you had what no one else had?

**DZ:** You mean in my ability to trade?

**LJ:** Yes.

**DZ:** From 1989 to 1997, I learned a lot and certainly took some hard knocks while driving around in my truck while on the job building pools and trading in real-time with my eSignal Quotrek and my cell phone in hand. I was no longer in the mood to hold a stock that wasn't going straight up. No more ownership of a stock that's going down. I was just doing what I was trained to do, buying specific chart patterns with specific volatile behavior. It's hard not to make a lot of money when you are watching these things in real-time buying the breakouts and selling quickly if the stock can't accelerate quickly out of the base.

**LJ:** Tell us about some of the other trades when it all started?

**DZ:** I remember buying Inktomi (INKT). One day INKT left its Bull Flag pattern and I bought it at \$48, which by the way, was the third time I was in this stock during the day as it was acting sloppy. The next day the stock opened up at \$57 to \$58, about a 12-point opening move, quickly shooting to \$90 in two days. I said what more do you want. I sold as the stock started to come down and was filled at around \$83. Stocks were just doing this right and left. I basically started off buying around 400 shares. Next thing I knew, I was buying 600 and 800 shares. I had some occasional losers, but I sold them fast if they weren't going straight up. I just kept moving into stocks that were going up. It's the old saying that you just can't make money in a stock that's not going anywhere. Why be in a stock that's not going anywhere, when one right next door is making a \$10 move? So, I would always just check out of a stock that was not going anywhere immediately and go right into another one that's moving up and I still do this pretty much today.

**LJ:** I understand that you look at 1400 stock charts each night. Is that true?

**DZ:** You know I thought that it was 400 charts, I counted them up one night on my AIQ in its listings. It is actually 1400 charts. I was shocked! No wonder my glasses are so big and thick these days.

**LJ:** Do you just look at daily charts?

**DZ:** Yes, daily charts, end of day.

**LJ:** How many chart patterns do you look for?

**DZ:** I probably look at a good dozen patterns overall. In some markets I'm looking for falling wedges, descending trendlines, descending channels to name a few. In other markets, I might be looking for horizontal channels and cup and handles. These last two are probably the most powerful patterns as the correction is winding down. Stocks that have the cup and handle pattern will often explode and move first out of a correction.

**LJ:** Is there any pattern that is your favorite?

**DZ:** It all depends on the market. After the market has moved up the bull flag is one of my favorites. Certainly the cup and handle is very powerful. We just saw Taser Inc. (TASR) lift off after the correction from March of this year. TASR had a little cup and handle inside an ascending triangle. I highlighted it on my website Chartpattern.com at \$61. Sure enough the stock exploded to \$87 in five trading days and to \$128 in 16 trading days. That was the leading stock of this move. That was the only stock that had a very tight discernable pattern at the bottom of the correction. That stock was the number one stock to be in. The majority of my money was in that stock.

**LJ:** Do you use Candlesticks?

**DZ:** I don't use any Candlesticks at all. Just regular daily bars.

**LJ:** Is there any particular groups of stocks you prefer to trade in?

**DZ:** I like to trade the leading groups of the market at the time. Groups vary and every market move sees a different set of groups on the move, so I like to just stay tuned to what's in the top two or three groups. In a bear market when the Fed is pumping lots of money into the market, the gold stocks were the ones that went on the move. Because of the Fed action in the economy, gold stocks traditionally move with inflation fears. Also, the healthcare and housing stocks periodically move due to changes in valuations and interest rates. But technology stocks are generally the leaders and tech includes the biotech sector as well. Now that those stocks are winding down the market is pushing up security stocks due to terrorism fears. I'm playing these here in March. Some of the biotech's are red hot right now. It really depends on the trends and themes of the time and those are the ones that I focus on.

**LJ:** Do you watch volume in the stocks?

**DZ:** Dan. Volume is really the only thing that I watch. I look at the chart patterns. Sometimes a stock has the right pattern but then can't get going or when it does it's a slow mover. And the problem generally lies in volume and or heavy overhead supply. The stock that decides to go somewhere is the stock that has the highest percent change in volume. I key in on volume and the percent change in volume. Really, volume is my main focus during the day.

**LJ:** How long do you hold your positions?

**DZ:** Holding positions depends on the market and how far a stock moves up and how the stock behaves. Certainly if the stock has a powerful run up in price, I'll sell it the minute the high volume kicks in and the stock makes no progress. That's institutions selling into the strength and that's basically when I will sell my position as well. Now with TASR running from \$61 to \$87, the volume dries up and the stock does not come down, so I have not sold my TASR. I have lightened up on some of my positions. The current market environment may dictate that you will have to hold certain stocks for three to four weeks. As the stock moves up in price I'll sell out some of my positions as the stock rests for two or three weeks and then as it turns up and moves again I'll add my position back and maybe even double up my position.

**LJ:** So would you say that money management is an important part of trading?

**DZ:** For survival in this market and for larger returns, you have to manage your money. If a stock is not moving up or if it is going to move horizontal for a while I will just check out or reduce my position 50 to 70 percent and then find another stock that is going up. I will then take that new money I just raised and put it to work in a new stock that is just breaking. Then when that other stock starts to move again I will sell whatever is slowest moving and go back into my first choice.

**LJ:** Do you use stops?

**DZ:** Oh yes. Sometimes I won't even let a stock hit a stop. If the stock is moving up out of a base and acts sluggish even though it's out of the base, I will check out. I only want to own a stock that acts like a Ferrari not a Volkswagen.

**LJ:** How close are your stops that you initially put your positions on?

**DZ:** 5 percent is the maximum from my entry point. Sometimes I'll sell out due to the sluggishness. I may make a 1 or 2 percent profit and check out early if I don't like the action in a stock. If the stock is not performing properly, I'll just move on to the next one.

**LJ:** Larry. Do you ever move your stops up as the price moves up?

**DZ:** Oh sure, I always move my stops up and my trend lines. If it breaks a trendline or a high pivot point I'll sell it. Say a stock moves up strongly and then creates a bull flag and then the stock breaks below the lower trend line of the Bull Flag; I get out and sell the stock immediately. So, I am always raising stops

**LJ:** Do you use margin to buy stocks?

**DZ:** I'm on margin most of the time I own stocks. If the market gets shaky then I'll go off margin and be ready to go to 100% cash fast if my leading stocks start to crack.

**LJ:** What about fundamentals?

**DZ:** I watch fundamentals very closely. I want to know that a stock has powerful earnings growth and expansion in margins behind it. I typically look for a stock with a minimum of 40 percent year over year growth. That's kind of my base minimum. First I find stocks that are moving up fast and then I'll start to track them on my quote screen. I'll do some fundamental work on them. If I like the group and what they have, I'll track them even closer on my monitors. I have a top down approach on my monitors. Volatile stocks make the top of the monitor. Stocks that don't act very strong keep moving down. I am shifting stocks continuously on my quote screen accordingly to how they act. As the stock becomes very volatile I'll move it to the top. I'll do some fundamental work on it and make sure that it is a very fast grower. If it can grow like an Amazon or Yahoo used to do then I've probably found a stock that's going higher.

**LJ:** What services do you use to watch the fundamentals?

**DZ:** I use dailygraphs a William O'Neal publication. I think that everyone uses that.

**LJ:** What do you use for your quote services?

**DZ:** I use eSignal exclusively for my quotes and charts. I have found that their data and quotes are the most accurate of any of the service providers. I love their quote screens and their setup. It's just absolutely fantastic.

**LJ:** What about your computer setup. Do you use multiple monitors?

**DZ:** I run anywhere from three to four monitors on two computer boxes. I used to run more than this, but with bigger screens these days I have cut down on the number of them. You can get more charts on them. I am using three 19" and one 20". I have a PCI card and I can open programs on one screen and move them to the other screens.

**LJ:** What books have you looked at in the past to learn your chart patterns?

**DZ:** I have to tell you for me it's been the school of hard knocks. There was that Edwards and McGee one. I just flipped through the book and didn't really read it. I looked at the pretty charts. That was my only reading. I quickly scanned through Nison's book on Candlesticks. That gave me a sense that I should be following closely the daily bars and where they close and putting groups of bars together to get a sense of timing. I understand now through the Candlestick process what the daily bar represents and that I should make interpretations of the bars. Combinations of a series of certain types of closes and certain types of lengths of bars will foretell what the stock is going to do in the next few days.

**LJ:** A lot of the experts say that psychology is an important part of trading. Have you read any books in the past regarding this?

**DZ:** None

**LJ:** How do you control your emotions with your

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- 1 - Garrett Torque Analysis Example;
- 2 - How To Create A Composite Cycle;
- 3 - Vectors & Phase: What is a Vector?;
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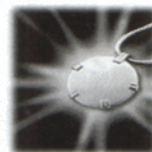
large positions? What's your strategy with your psychology?  
**DZ:** My strategy is to be completely focused on what I am doing. Stay completely on the technicals and behavior of the stock. Like NVEC broke down under a little minor rising trend line the other day. A couple thousand shares traded on the break of the line then no one wanted to sell. When it broke a little trend line those who were watching that trend line sold out. No one else wanted to sell otherwise volume would've expanded in a big way. I thought it was a buy time since no one was selling, so I went in and picked up a few shares. A couple days later it was up \$5. So, I watch price action combined with the technicals and try to eliminate the emotions. It says clearly what the institutions are doing with that stock. Do not let any of your emotions in. People think that I'm some what of a cold turkey on this, but I see it clearly for what it's doing.

**LJ:** A lot of people day-trade the markets. Do you day-trade?

**DZ:** I don't do day-trading. I will however be out of a stock in a single day if it is not doing what I want it to do. I don't go into the market to day trade. Occasionally I'll flip a stock like I did the other day for a point and a half, because, I might've held this one for a few days but I had to sell it that day because I was way over my margin limit for the day. You can say that periodically I will do this, but I like to hold for 3 to 5 days, up to two weeks to three weeks at times.

**LJ:** Do you have final thoughts for our readers how they can be successful in the markets?

**DZ:** Really it's watching the technicals, watching the behavior action of the stock, doing some market timing and cycle work and really be tuned into your stock's behavior and its price action. Many people chose a stock and say they are going to wait for this stock to move up. Meanwhile they missed a 30 point move on a stock sitting right next door to it. Really focus on the stocks that are going to move now.



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