Interview with Dan Zanger

By Larry Jacobs

Larry: How have you been?

Dan: I have been very good and busy. Last year was probably my most profitable year and my biggest dollars gain ever since I started trading. I had some big winners such as Google, Apple and housing and oil stocks. The majority of my money was made on Google first then Apple second. I made some on Sandisk and then the housing stocks. I really can't complain, it's been going exceptionally well.

Larry: What was your actual performance last year?

Dan: My personal gain was up 180.6%. The dollar amount was $22 million.

Larry: Has your trading method changed since we last talked?

Dan: No, my method has stayed the same. It's finding fast growing companies and leading groups and companies that dominate their space in the global environment. You will find some incredible winners in the marketplace by following that method. Certainly, Apple dominates its place in the IPOD market. They not only dominate it, they created it. Google created the pay-per-click advertising and they dominate it. These are global companies with leading niches. They dominate and control their space. These are they types of companies that I look for.

Larry: What software do you use to find these companies and actually how do you do it?

Dan: I use AIQ software. It leads me into finding the charts. Certainly when we have real positive charts you have very positive fundamentals as a general rule. This is what I use to find the big moving stocks. I download all day long and look every hour for stocks on the move. I also download at the end of the day to find them. The AIQ software is my priority. That's all I use really.

Larry: Using AIQ you say you are downloading during the day at certain times of the day. How do you scan all the charts that you download determining what to buy?

Dan: In the evening, of course, I do my newsletter at my website, chartpattern.com. I will scan some 1,300 to 1,400 charts. I have a defined list in the AIQ software. It's called the TAG list. With this you can tag your favorite charts. I manually flip through those every night finding the big movers in the market. I highlight them on my website. Then I put them on my eSignal quote screen in the daytime. I may have 50 or 60 of the leading moving stocks. I'll also have the strongest groups in the market. In my sixty stocks I may have 10 of the biggest movers in the market. I may have two or three groups and then I may have six to 10 stocks in each group in my little group sectors. I am constantly watching for stocks on the move. Then, during the day when I see things moving, I'll download my charts with AIQ and I'll make reference to the charts and see how they look. I want to see how the charts are setting up, whether it is a bearish formation, bullish formation, how big is the daily bar in reference to other bars, how small is the bar. Whatever is taking place, I want to see what it looks like during the day. Then, I may add or subtract my positions. I may sell my entire position. I am constantly referring to the AIQ charts during the day and in the evening time. I am certainly making a list all day long and into the night when I do my Chartpattern.com newsletter in regard to what is looking good and what needs to be sold or bought.

Larry: How do you actually determine during the night and during the day what to buy and what to sell? Is this based on patterns?

Dan: I certainly use patterns and the look of a daily trading bar. A lot of stocks have good patterns, but then they don't move. Many people have sent me pattern recognition software that they have setup on various software platforms such as TradeStation, or some other software. They run all these scans and here are all these patterns. They come up with all these patterns, but nothing moves. So you really have to find what moves and then find the patterns that they create. I have initially miss the first move of a stock, but I will track it for a month or two waiting for something to set up as opportunistic to buy either a breakout to the upside or a potential sell to the downside. I would say that 95% of my trades are long positions. 99% of my gains are in long positions and the 1% from shorts are for fun and games!

Larry: How do you determine what moves a stock?

Dan: I go with the big funds. When the institutions are buying the stock en masse on volume I will buy the stock too. When I see a stock beginning to move on heavy volume, I will be a buyer with the other institutions. Volume is extremely important. It fact it's everything.

Larry: Do you have any kind of a volume alert?

Dan: No, I don't have any pre-set alerts. I may have a couple of buy alerts set on my eSignal. I have all the stocks memorized because I have done my homework the night before. When the market opens, I know what is moving, what looks good, what is sluggish, what is not moving, what is trying to move, what is faking you out. You really have to spend a lot of time in the market every day. I spend 12 – hours at it every day studying my charts and watching volume behavior and price movement when the market is open. Every day when the market is open that is everything to me. I want to see the behavior, behavior is everything.

Larry: When you see the volume coming in, what patterns do you like to buy on?

Dan: It depends. I certainly like bull flag patterns. They are my favorites. High level channels and horizontal channels work very well too. Occasionally, you will see a good cup and handle. A cup and handle is best when the stock breaks out of the handle on the day of earning. Many times people will say here is the cup and handle and the stock is trying to break out between earnings. That is typically a sell signal to me. I find that those fail quite a bit. So I try to avoid those types of cup and handles. Certainly, you see a lot of oil stocks trying to break out of descending channels here in March. After the market corrects a certain amount of time you see a lot of leading stocks breaking out of descending channels. I'll go ahead and buy some of these stocks with this type of pattern. Sometimes these patterns yield weak moving stocks and sometimes they yield very strong moving stocks. Like any pattern where a stock breaks out, the pattern alone does not guarantee a winner. This is a big fallacy for people who are tying to trade off of chart patterns. They think that patterns are the new thing (deleted) and that is a no fail system. Patterns just give you a leading indication of which stocks are ready to move. Be prepared for the failures. Be quick to cut your losses. When they really start to move big with big volume you need to really step into the stock heavy.

Larry: How do you actually do that?

Dan: A big stock that trades 2-3 million shares per day can make moves of 3, 4 or 5 points per day without breaking a sweat. These are the stocks I really like to key in on. As the stock breaks out I might test the water on it and buy 30 – 50% of the position that I really want to buy. So if I want to buy 200,000 shares of a stock like a Google, I would buy 70,000 to 100,000 shares of the stock and see how the stock reacts then I may wait an hour or two and see how the stock is moving. Then, as the stock continues to move up with heavy volume and is not timid making new highs, I might add another 30,000 to 40,000 shares up to 75% of the position that I want. I may wait 4-5 days to see how the stock acts and then add the final 25% of the position I want.

Larry: How long are you in a position?

Dan: It depends on the market and the stock. If it's breaking out of a high level pattern I would be in the stock for a shorter period of time. Usually 3 – 5 days up to 2 weeks. If the stock has had a long base for example 6 – 8 to 10 weeks and the market is coming off a nice correction, I might be in the stock for 10 – 15 weeks. These are things that take experience and time before you really get the hang of it.

Larry: What about stops, how do you use those?

Dan: If a stock really does not act right and get up an go when it breaks out, for example, I would just sell the stock right there. I would not even wait for it to come back down to the breakout point. If you want to make money in stocks, you have to be in stocks that are moving up. The longer it continues to move up, the more money you make. If the stock breaks up and then goes to sleep, I am out of the stock. I want to keep my money in those fast moving stocks that are always moving up. So that is how I employ stops. Certainly it the stock comes back under where I bought it, I will just checkout. Then, if the stock then turns and breaks out again I would re-buy the stock, for example if the market had a shakeout on a terrorist attack or a news story, the stock can easily breakout again. I would wait for it to clear the bar that it failed on. If the stock broke out at 60 and ran up the next day to 63 and say it had bad news, then the stock comes back down to $58, I would sell out of the stock. When the stock clears 63 again, I would buy the stock again as $63.10 is a new high.

Larry: Why do you think a lot of people are not good traders as you are?

(Awkward question. How about: How do you think traders can improve their skill-set?

Dan: Persistence, homework, more homework and more homework is the reason for success. I feel many traders don't put the time in. They don't have the desire to learn. They don't have the laser beam focus to really zoom in with what is working, why it works, what does not work, why it did not work and to put the years in that it really takes to learn all the stuff. People think that trading is going to be easy. They come in and they get crushed after a little while. Then they say they'll never do it again. Guess what, you'll never do it again and you'll never succeed.

Larry: How long does it take to make a good trader?

Dan: It depends, but with most people that are really successfully they have been at it for 4-6 years at a minimum.

Larry: Have you changed anything in your trading since I talked to you in the last two years?

Dan: In stocks like Google, I have added deep in-the-money stock options, because Google is trading at $300, I did not want to buy it at such a high stock price. I would rather buy the cheaper options. When Google was at $300 I would buy a 2 month out contract, like a Google 260 or a 240 call option. The 240 contract would cost me 65 dollars. That means I would have to pay up $5, but I would not have to pay $300 for the stock. I would save $240 for an extra $5 and this way I could even buy more stock. So I ended up buying an incredible amount of Google and the stock took off and I obviously made a great deal of money. That was the only thing that I changed in my trading, adding deep in the money call contracts out one to two months on very expensive stocks.

Larry: Have you found the volume to be OK to trade those options?

Dan: For the most part yes because I like to trade stocks with high volumes. But I still find it fairly easy to get out of options on low volume stocks for example, the Chicago Mercantile Exchange stock, tick symbol CME, the stock would trade 500,000 – 800,000 shares per day with the stock at $260. I bought the CMD 200 contracts with the stock at $250 or $260. If you bought 10,000 shares and wanted to get out on a flash, it would take you 2-3 hours to get out. If you tried to sell 10,000 shares at a shot you could drive the stock down 4-5 dollars. I could buy 400-500 or even 1,000 contracts of that stock with a phone call I could completely sell it all instantly, with no waiting. I found that the options market is more liquid than many of the stocks, which is especially nice when the stock is not moving . However, when the stock is collapsing that is another story? Because I had Google call contracts when the stock was going up to 440 – 445 and it got a downgrade and the stock got slammed $20, by the time I got out of my contracts. You could watch money evaporate as the contracts were getting filled. What I learned was when Google was moving down like it was is that I had too many contract prices and that was difficult. I had to sit down and go through the different strikes and wait for one strike to be liquidated and then go to the next strike and wait for it to be liquidated. You are spending all this time as you are moving through the strikes and different time frames to sell them all. It took a long time to get out of these options with my traders. The one thing I learned is that you should get options with just one strike and one month. Then you can just click the button once and you're out, you don't have to wait and go through various strikes and expirations to get out of them. It was a learning experience. It cost me a couple of million dollars on that trade but I still made millions on the trade. I only employed options on a couple of stocks. I don't really want to trade options. I only want to trade options after the market has come down after a correction and then comes up out of it, then I'll buy the deep in the money call contracts and that's it. Otherwise, options will kill you, because you are so leveraged. If the market goes against you, you think being on margin is tough! Being on options is tougher because of the greed factor for one, but its the leverage factor that will eat you alive. You might say that you can buy so many more options and you can make so much more money and then if you get caught in a down move due to an earning downgrade or something, you'll be out of cash completely, maybe even wiped out. You need to be careful on margin and even more so on options.

Larry: What is your outlook for the market?

Dan: For me, trading is one day at a time. I never say the market is going to go up or down. It if you trade on a forecast like that, and you load up, the market can turn on you and you can really get hammered. I have a few market timers who send me stuff and it is interesting and that's fine. But, I don't really rely on it for trading. For example, you can be loaded up on chip stocks and say all of a sudden the leader in the group says that they don't see earnings continuing and then the whole group takes a 15% discount and you are on 2 x 1 margin. This may cause you to take a 20 to 25% loss on your positions. You can really get hurt on this. I don't believe in anything but my charts and my price action with stocks.

Larry: What is your protection with something like a terrorist attack?

Dan: I don't have any protection. I don't think anyone does who is a trader. The main thing is not to get too loaded up on margin. If you have to take a brutal discount on your positions and you are loaded on margin or on options and you do get into a wicked terrorist attack you can get really hurt. On something like this the market might gap down a substantial amount, you can get wiped out. You really don't want to be in a position like that at any time. You need to be reasonable in your positions.

Larry: Are there any final recommendations for traders?

Dan: Go to chartpattern.com