

people

Famous for making \$42 million in 23 months, Dan Zanger continues to be one of the most successful traders of his generation. But it hasn't all been plain sailing, with the recent bear market, in particular, causing the pro-trader more than a few worries. On one occasion in October 2000, he lost 32% of his funds in one day. Zanger's spirit, however, is one that cannot be beat, and he bounced back from the experience stronger and wiser. As he says himself, persistence is what sets him apart from the rest of the crowd.

Zanger's trading style is very specific. A momentum trader with a bias towards swingtrading, he goes for the same stocks and trades as the big institutions, and steers well clear of options. He swears by chart patterns and volume, but avoids indicators like the plague. If a stock doesn't accelerate quickly, he sells it immediately. If it takes off straight away, he knows he's "in for a ride". It's a strategy that seems to pay off. On his biggest single day in the market, he netted \$5.2 million.

Here, he speaks frankly to *TRADERS'* about the secrets of his success, his unparalleled drive, and, of course, that famous \$42 million win.



TRADERS': Can you tell us about your background – before you started trading?

ZANGER: I grew up in the San Fernando Valley – a major Los Angeles suburb. Just as I started college, I got ski bum fever and hitchhiked with a pair of skis to Mammoth Mountain, California.

I lived there for about two years. I then moved to Hawaii for a summer and then to Steamboat Springs, Colorado, for a winter. I was tossed off that mountain for habitual high-speed skiing and then found my way to Sun Valley, Idaho, where I finished the season. I did a few odd jobs, such as bell hop, cab driver and prep cook, to support myself.

I then moved back to LA with no education and no professional trade, so I started working for a landscaping company. In a few years, I got my contractor's license and ventured into pool building, where I stayed for 20 years, building exotic pools for the rich and famous in Beverly Hills. However, all the time I was building pools I always kept track of the stock market, as it was my passion. In fact, for many years while I was en route to jobs, I'd listen to Quoteck on the radio for real-time live quotes on my stocks. I'd make trades by mobile phone as I was driving around.

TRADERS': What enticed you into trading?

ZANGER: I used to visit my mother on a regular basis in the mid-1970s. She always used to watch the only business channel

of the day – KWHY TV Channel 22. The show had a ticker tape at the bottom of the screen, and I was fascinated with it. Half an hour after the market closed, a gentleman named Gene Morgan presented his show – *Charting the Market*. He used to manually mark up charts of stocks and the market and show stuff like parabolic curves, flags, pennants, cup and handle patterns and others. He'd show what the stocks did after they left these patterns. I was astounded that charts and various patterns could foretell price movement, and also tell when a market move or stock move had expired. One day, I was watching and a stock exploded across the tape at \$1, so I made my first purchase. I then sold the stock a few weeks later at just over \$3. From that moment forth, I was hooked.

TRADERS': What were your next steps after this rewarding experience? Did you start reading books or did you attend seminars?

ZANGER: Believe it or not, it never occurred to me to read any books that might have existed at the time. Remember, back in the 1970s and 1980s there were no websites or search engines to browse, or anyone to correspond with about the markets. I just read the stock quote page of the daily newspaper and looked for stocks that appeared cheap. I was captivated by tape reading because I could see which stocks were moving that day and try to trade a few. I didn't make any further gains until I got serious and decided to cough up some dough to pay for a seminar led by William O'Neil from the *Investors' Business Daily* newspaper. This was a major turning point in my ability to select winning stocks. At a few seminars in 1989, I learned some additional pointers from *Charting the Market* presenter, Gene Morgan.

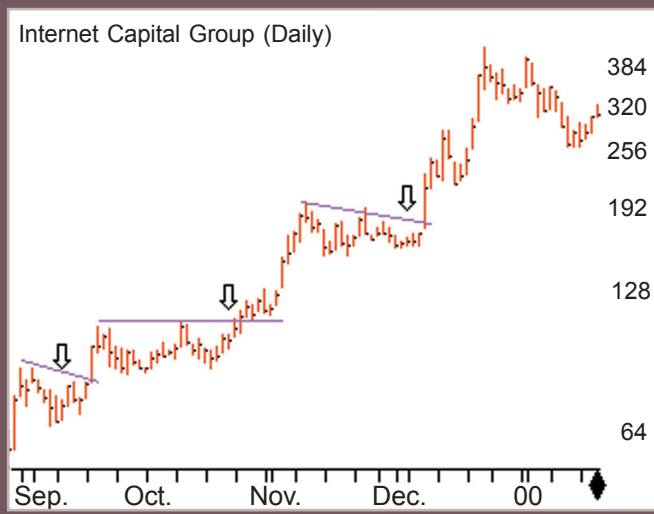
A year or so after that, I read *Technical Analysis of Stock Trends* by Edwards and McGee and *Reminiscences of a Stock Operator* by Jesse Livermore, considered to be one of the greatest trading books of all time. It's so easy to read and understand it's a wonder this book hasn't been read by more people. My style of trading closely resembles that of Livermore.

TRADERS': Were you successful right from the beginning?

ZANGER: Well, it takes years to understand the charts and back in the late 1970s and early 1980s there were no computers with chart programs to download. I had to look for these things in a chart book. I would buy this at the weekend, in addition to trying to understand some fundamentals. I couldn't find cup and handle, pennant or flag patterns at that time. It really takes years of work to be able to identify these things correctly. It wasn't until 1989 that I got my first computer. I installed AIQ Trading Expert and started flicking through charts by the hundreds. Then I started

F1) ICGE

This chart shows continual stair stepping as the stock took off from \$30 a share to over \$400 a share. Each crossing of the trend line was a buy point.



to buy stocks on the move. I was doing pretty well until I ran into my first market correction and got my head handed to me. What the heck is a correction anyway? Ouch! What a way to learn, by the seat of your pants.

TRADERS': Rumour has it that you turned \$11,000 into \$42 million in a matter of a few years. Is it true? How could this happen? Please tell all.

ZANGER: Yes, it's true. In fact, it took only 23 months, lots of hard work, patience and perseverance. It is very hard to believe and I wouldn't have told anyone about it, if a subscriber to my *www.chartpattern.com* newsletter (The Zanger Report) hadn't made millions of dollars using my stock recommendations. A couple of years ago, a journalist from *Fortune* contacted CPAs to ask them if they knew of anyone who had made large gains during the market bubble for an article they were researching for the magazine's December 2000 issue. A CPA referred the journalist to my friend. While they were discussing his portfolio performance, he told them that they really needed to talk to me, as my gains were astronomical. They contacted me immediately. I found myself hesitant at first to discuss my story. However, I felt that this story had to be told, as I knew it could inspire so many others. It would have eaten me up inside for years if I hadn't.

At any rate, I turned \$10,775 into \$2.6 million in 12 months and that grew into \$18 million in just 18 months and subsequently into \$42 million in 23 months. The first 12 months was verified by Effron, which specialises in managed-money auditing for the mutual fund, pension and managed account industries. *Fortune* further verified the 18 month period of June 1, 1998 to December 31, 1999 for the first \$18 million. I've yet to audit up until April 2000, so you'll just have to believe me on that one.

The period from January 1, 2000 to the end of May 2000 was a rather feeble performance, as my portfolio went up by just 120% to \$42 million, even though the NASDAQ was up another 70% or so. It was my weakest period within the bubble cycle. I found myself extremely cautious at this time, as I knew the NASDAQ was going parabolic and I was concerned about a vicious market break that could have happened at any time. As a result, I played it low key and somewhat conservative.

TRADERS': Do you think you would be able to duplicate that performance now?

ZANGER: Yes, I believe I could, especially if another market bubble similar to the last one came around again.

TRADERS': What kind of trader are you?

ZANGER: I'm a momentum trader with a bias towards swingtrading. All of my trades are based on chart patterns, volume and stock behaviour.

TRADERS': How long are your typical trades?

ZANGER: Some are as short as 20 minutes. These are the ones with no power, as they usually come out of bases and are sold right away. Some of my trades last as long as 10 weeks. Most trades in today's market are about 6-12 days long.

TRADERS': What programs do you run during market hours?

ZANGER: I run 4-5 monitors with quote screens, such as eSignal and Mytrack. I also run LIVEWIRE, which is a fast DOS-based program offering hundreds of charts in real-time all at the touch of a button. In addition, I use a position monitor on which I can see my gains or losses in real-time. Finally, I use AIQ's daily charts, and download updates every hour or so to see what's setting up during the day.

TRADERS': No Level 2?

ZANGER: No, I can't watch 40 or 50 stocks closely on Level 2, so I don't use it at all.

TRADERS': Are you a systematic trader?

ZANGER: Yes, I would say so. I buy the same types of stocks with the same types of price action, out of the same types of bases on a continuous basis.

TRADERS': Where does discretion come in?

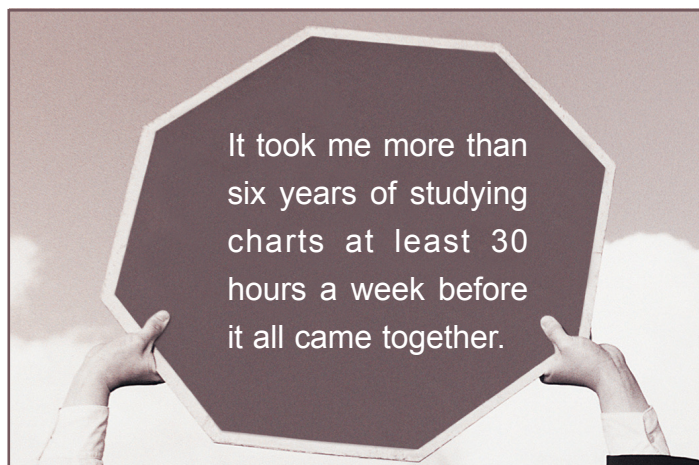
ZANGER: If stocks start to fail on their breakouts, I'll pass on buying those stocks at that time. The market is sending a clear signal that a correction is upon us and it's time to go to cash and/or look for shorts. Also, if the price action isn't what I like, I'll pass on that stock, even if it's coming out of an attractive pattern.

TRADERS': How would you summarise your basic trading approach?

ZANGER: Basically, I own what the big institutions want to own and go when they go. I'm always scanning to buy leading high-beta stocks coming out of well-defined patterns.

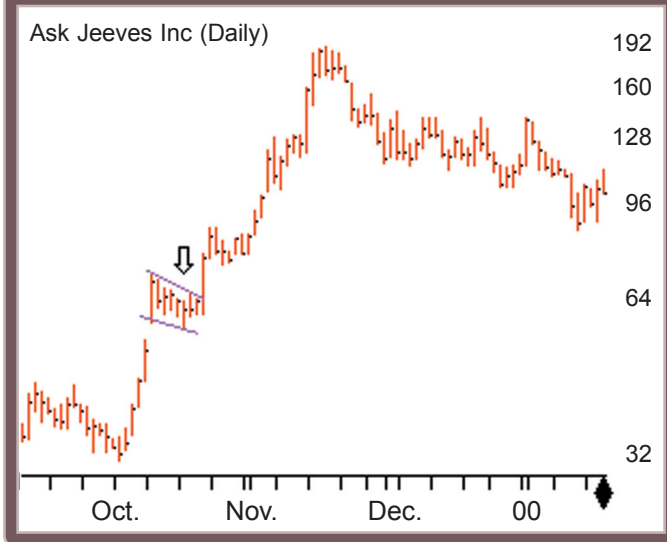
TRADERS': Did you play options at all during this run, and if so, how?

ZANGER: I didn't start making money on stocks until I quit playing options. The only options I do now are selling a few naked



F2) Ash Jeeves

This chart shows a very bullish Flag pattern. My buy point is triggered when the stock leaves the pattern and moves above the trend line.



calls. I sold a bunch of naked calls on CMGI in April 1999 for \$33 each, and a month later I covered them for \$1. I did the same with Doubleclick and SDLI. SDLI broke support one day, so I sold a ton of those calls only to see JDS Uniphase make a buyout bid for SDLI. Consequently, SDLI ran up over 80 points on me during the next few weeks. I covered some of the calls and bought more than enough stock to cover the rest. It was a wild, feverish run for this stock. However, I ended up losing a few hundred thousand dollars on the deal. Those were the only options I traded in that run.

TRADERS': So the rest of your money came just from trading stocks?

ZANGER: Yes, on margin of course.

TRADERS': What were some of those stocks and trades?

ZANGER: There were so many of them in that two-year period it's impossible to remember all of them. It had to have been at least 200 trades or more. I was in and out of Inktomi twice in one day before jumping in at the end of the day just as the stock leaped \$12 to close the day at \$58. The next day it opened at \$64 and raced up to \$90 in the first hour of trading. I sold the stock at \$86 in a few hours.

Doubleclick left a basing area at \$100 and ran to over \$300 in about five weeks pre-split. I was only in this stock for about half of this run. In one stock, whose name eludes me (and probably isn't around anymore), I had about 50,000 shares at \$120 a share. One morning I got up and looked at the opening bid and it was half of what it was the day before. I just about dropped to the floor, as I thought the stock was gapping down. I called my broker and he said there was no bad news or news of a 2 for 1 stock split

to account for such a discount. The stock opened for trading and just sat there for half an hour until people started to realise that it was an unannounced 2 for 1 stock split. Who in the world has ever heard of that? Anyway, the stock started to run hard and moved its way back to \$100 by midday. Hell did I get lucky on that one. I sold out my position by the end of the day and thanked my lucky stars.

Another big winner for me was Amazon. I swingtraded it from \$136 to pre-3 for 1 split \$600 in six weeks. I also bought CMGI two days before it split 2 for 1 for \$118 and sold it the day of the split at post-split prices of \$136 or pre-split \$272 for a gain of close to \$150 on each share in just two days.

I made a hefty chunk with Knight Trading Group as it lifted off its base around \$56 and ran to \$136 in just 10 days. Other major winners were Qualcomm, from \$256 to just a tad under \$800. Then there were so many others it's impossible to list them all here. Remember, stocks were popping \$10-25 a day back then.

TRADERS': Those were amazing times indeed. Do you ever work with indicators or just with chart patterns?

ZANGER: I only work with volume and chart patterns, no indicators whatsoever. They look pretty on the charts, but for the most part are very ineffective for my use. This is especially true in powerful markets that are up or down.

TRADERS': Does volume play a role in your trading approach?

ZANGER: Volume is everything. No stock can make a move up without volume. The greater the volume, the better the potential move.

TRADERS': Can you explain one or two of your typical set-ups?

ZANGER: One of the most well-known chart patterns is the cup and handle. A number of the big winners I traded during the bubble run had just emerged out of this pattern. Amazon.com came out of a cup and handle pattern around \$137 and made its way up to \$600 within six weeks.

Another example was a new issue Internet Capital Group. This stock started trading around \$30 a share in August 1999, and after a week of horizontal rest started to move up aggressively. I couldn't believe my eyes considering that this was a very slow time of the year and not much else was on the move. After a small horizontal set-up of about five days at \$40 a share, the stock hit new highs and I bought a ton of it as it hit this new high. It quickly moved to around \$60, where I sold all of my position. After a two-week rest, a small descending trendline appeared on top of this solid pattern. I was watching this stock constantly, as it was acting very friskily. One day the stock moved sharply over my descending trendline, where I again re-initiated a position.

It popped almost \$20 in two days before going into a longer horizontal base that lasted five weeks. I quickly sold the stock when I detected that the upside action was over on this quick move. I bought this stock once again as it vaulted out of its five-week, tight horizontal base, this time running from \$108 a share to close to \$200 a share in nine trading days. To my astonishment, this stock consolidated again. This time creating a high-level

symmetrical triangle for four weeks, during which it once again, and for the last time, blasted off and ran from \$180 to over \$400 a share in a parabolic blow off top that lasted 11 days. Sadly for me, I wasn't in this stock on its final run. Sadly for Internet Capital Group, it was the end of this stock. It now trades for less than half a dollar a share.

TRADERS': How do you test your trading ideas?

ZANGER: Well, I haven't seen any new types of set-ups on the charts to test. I've done all the testing I'm going to do, unless a new pattern emerges to try. Remember, I use only chart patterns combined with daily volume and price action to enter and exit trades. I use absolutely nothing else.

TRADERS': How often do you look for set-ups?

ZANGER: I never stop looking for set-ups. Once or twice a day I manually scan about 1,500 stocks on my AIQ chart program and look for interesting behaviour. I thought I was scanning only 400 stocks until I counted them recently. This takes me about an hour.

TRADERS': How many different set-ups do you use for trading?

ZANGER: I've never really counted, but I guess it would be around 20 or so.

TRADERS': With so much time scanning stocks manually, how do you find time to write your nightly newsletter?

ZANGER: Well, 12-hour days are nothing new for me. In addition to the newsletter, I have to scan stocks for myself, too.

TRADERS': How do you manage your risk?

ZANGER: It depends on the market and where we are in a market move. The further extended you are combined with time, the more at risk you become. In this case, I start to peel back stocks that are very steep in their angle of ascent and add a few more shares to those just coming out of sound bases. I will also start looking for shorts and get prepared to go into cash and add shorts as fast as possible when the trend is broken.

TRADERS': How do you determine when you are wrong in a trade?

ZANGER: If a stock doesn't accelerate quickly out of a basing area, then I'll sell the stock promptly during that first day. I'll do this even if I've been in this stock for only 20 minutes, regardless of profit or loss at that time. If a stock isn't moving up sharply right away, then the trade must be wrong. Why have my capital tied up in a stock that's going nowhere when I can be in a stock that's going up quickly? It's

hard to make money in a stock that's not going anywhere. And of course, if a stock is heading south then I'm out even quicker. Remember my motto: the only good stock is a stock going up.

TRADERS': How much of your equity do you risk per trade?

ZANGER: It depends on the strength of the overall market and which stocks, if any, are proving to be the true powerhouses. If I can find a few stocks with huge earnings growth that are under-owned and have a large new market niche, such as Yahoo did during the bubble, then I would consider up to 15% of my equity in that stock at a 2 to 1 margin.

At the beginning of my big run, I would only own one stock at a time at 2 to 1 margin and swingtrade that one stock up from 2-5 days and then move on to the next one. (Swingtrading entails buying a stock as it breaks out of a base and runs strong for 2-5 days. If the stock runs strong, I will own it for 2-5 days only.) As time goes on, I increase my allocation, owning two stocks at a time. I stay at two stocks until I go over the \$500,000 dollars portfolio benchmark. I then branch out to owning three stocks. I pretty much stay with three stocks until I go over \$4 million in cash value. When I get to about \$20 million, I have 7-8 stocks. At the peak of a run, I own about 12 stocks at any given time.

TRADERS': How do you manage your open trades?

ZANGER: I constantly add to or sell stocks as they move around. I sell all or part of my stock's position as it moves up strongly and then roll that money into new stocks as they come out of fresh patterns. As stocks move, so does my portfolio. If stocks don't move, neither does my portfolio. There's no need to own stocks when they, or the market, aren't going higher. What's the purpose of that? To say I'm an owner of a particular company because it's

a good company does not apply to my rationale. There's only one reason you own a stock in your portfolio, and that is to make as much money as possible.

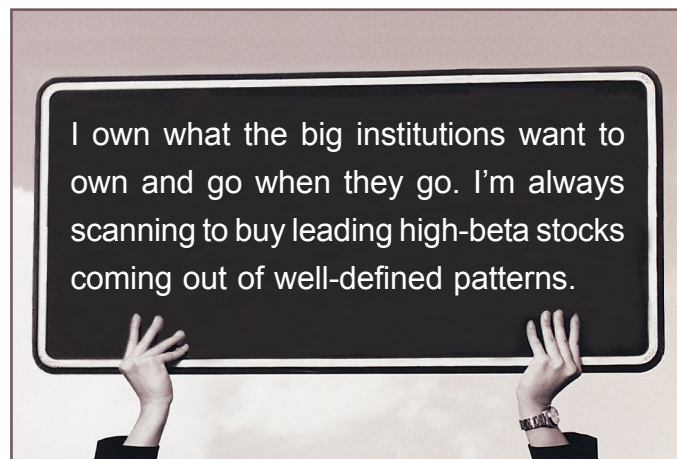
TRADERS': Do you use trailing stops and profit targets?

ZANGER: I never use trailing stops, but I will sell a position of strong stocks moving up quickly or for long periods of time. As far as profit targets go, no one has a clue where a stock will ultimately go. Therefore, I never have targets. I allow the stock by its own actions to put

me into the trade, and then once again by its actions to take me out of the trade.

TRADERS': In terms of executing trades, is that a subjective process or do you do that mechanically?

ZANGER: I look at the stock and its behaviour as it nears a break-



out. You can see traders trying to nibble quietly so as to get as much of the stock before it goes. With some selected stocks, especially ones with low volume, I try to go with them at this point. You have to be careful though, as this can often go against you. Then, when the explosion of volume comes and the stock crosses the breakout point, I will add to, or initiate, a position in the stock if I haven't purchased it yet. If the stock really blasts off, then I back up the truck and get as much stock as I can, because I know we're going for a ride. Yee haw!

TRADERS': What is the ratio between your winning and losing trades?

ZANGER: I have no idea, since I never count them. I do

buy a lot of stocks coming out of bases, as you never know which one will rocket up and which ones won't. If the stock rockets up, then I know I have a winner. At that point, I'll add to my positions on that stock in a big way. This is where the big returns come in: concentration of money in the big movers and selling stocks that fail to rocket out of their bases on the first day.

TRADERS': What was your worst drawdown?

ZANGER: Most drawdowns are about 20% in normal market corrections. Yet this long bear market really got to me and the drawdown was about 75%. Half of this was due to a one-day break in the Fiber Optics sector in October 2000 when NT pre-announced a shortfall in earnings. My portfolio dropped about 32% for the day. It would've been much worse if I hadn't been allocated to a few other groups that day.

TRADERS': You are kidding? When you lost 75% of your funds didn't you want to stop trading?

ZANGER: At times I wanted to stop and sometimes I did, for a brief duration. However, my mantra has always been, "never stop watching the market," and I never have.

TRADERS': Did this bad experience make you a better trader?

ZANGER: A better trader no, a wiser trader yes. Next time a major bear market comes around, I'm heading to Maui and I'll stay there until the next bull market arrives.

TRADERS': What was your biggest upday?

ZANGER: My biggest day in the market was a day after the NASDAQ topped and sank to around 3,200. I covered my shorts at that point and went long on a considerable amount of shares. Then a news story hit the wires and the next day the NASDAQ soared over 200 points. I netted about \$5.2 million that day. In fact, there were many days during 2000 when I could net anywhere

between \$1-3 million. It was out of this world to see this happening in real-time on the monitors. Making money like this never gets me excited though. I had lost control many times before thinking this was nirvana, thinking I would wind up giving it all back.

This re-programmed me to never get excited or emotional about making money and to this day, I can keep very calm in volatile markets. In fact, people joke: "Dan, you must have ice in your veins not to get excited about the gains you made today." Never lose focus on the market or the job of watching stocks.

TRADERS': Any words about fear, greed and self-esteem?

ZANGER: Self-esteem is the one thing that can make or break you. There can be many

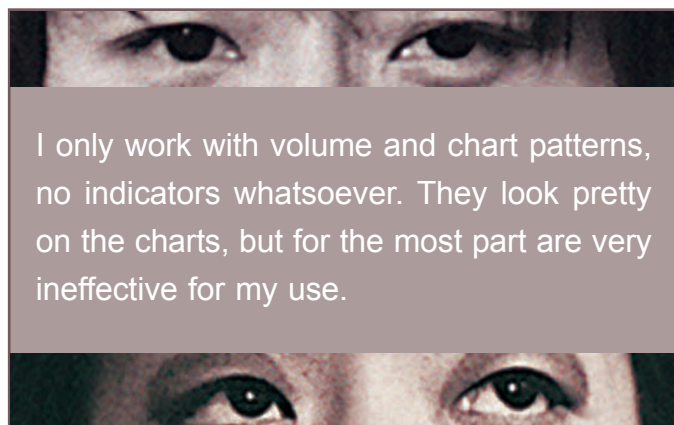
deep-rooted feelings that affect you personally at any given time. If you have any self-destructive things that you're not aware of, you could potentially end up giving back all your gains on a consistent basis, as you feel you are not worth it or not good enough to have it so good. You have to want it. Fear and greed are the emotions that make the market the big money making machine that it is today. "Buy the fear" and "sell the greed" are two of the most important things to remember.

TRADERS': What do you think is the difference between you and so many other traders who have been kicked out of the game?

ZANGER: Persistence. I never give up. I never, ever give up. I realise that if I give up, I will never get any money back that I might lose. I always go back to the charts and stare at them for hours, trying to figure out where and how I went wrong, and where in that chart pattern or daily bars could have foretold that this stock or market was going to crack before it did. In time, with enough persistence and desire, things will start to appear that can often predict a break on a stock or market. It took me more than six years of studying charts at least 30 hours a week before it all came together. You'll find it much easier to find a stock to purchase rather than ultimately being able to predict its potential break through charting. Don't ever give up.

TRADERS': So when you're not trading, how do you enjoy your free time?

ZANGER: I love to play golf, racquetball and tennis. I enjoy my new yacht and collecting California Cabernet and French Burgundy. I'm a pretty good cook, but I still love going to fancy restaurants.



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TRADERS'