

# Macro Market Monitor April 2010

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Macro Market Monitor April 2010 By Matt Blackman Special Issue This Month! Interview with world record stock trader Dan Zanger Trading chart patterns and the market &ndash; What does he see? Market leaders on the move Fertilizer plays Rhyming rallies Déjà vu 2004 Do chart patterns still work? Have a stock trading question for Dan? Get free daily market commentaries here

## Suggested Reading and Useful Resources

\*Newsletter best viewed in Google Chrome or Mozilla Firefox browsers.\*Quote of the Month:

&ldquo;The history of the past interests us only in so far as it illuminates the history of the present.&rdquo; Ernest Dimnet Trading chart patterns and the market An interview with top stock trader Dan Zanger Like many of you, I first read about Dan Zanger in a December 2000 Fortune article entitled My Stocks are Up 10,000! describing how former contractor Zanger had parlayed \$10,775 from the sale of his Porsche into stock market winnings of \$18 million in about as many months. His approach may be simple but it is anything but easy. He uses chart patterns and volume with the occasional indicator to anticipate price movement. Dan continued to build this stock bounty into an incredible \$42 million in a 2 year period during the Internet bubble and bear market that followed. My first article about Dan was an interview published in Technical Analysis of Stocks and Commodities magazine (April 2003 &ndash; see link at the end of the interview) in which he explained that even though he&rsquo;d been out of the media spotlight since 2000, he was still very much alive and on target. I have since written about him a number of times and he continues to amaze his audience of newsletter subscribers, seminar attendees and traders who avidly follow in his &lsquo;balls to the wall&rsquo; approach to trading stocks.

Dan Zanger will be holding his annual ChartPattern.com trading seminar in Miami on April 24, 2010, which I will be attending. Those interested in more information are invited to click the link to the seminar in Suggested Reading below. Trading chart patterns and the market &ndash; What does he see? In March 2009 as the rally was getting under way, I had the pleasure of watching Dan and an Elliott Wave trader trade their very different approaches. At the time Dan was bullish and commented that he believed the market was entering rally mode. The EW trader on the other hand, remained bearish so it proved to be an interesting rivalry. I spoke with Dan by phone on March 12, 2010, nearly one year later to get an update on what he was seeing in the stock market. Here is our discussion accompanied with charts from his daily newsletters.

Figure 1 &ndash; Daily chart of the Diamonds ETF (DIA) showing some bullish comments from Dan Zanger in his newsletter March 10, 2009 as the rally was just beginning. The falling wedge chart pattern along with declining volume was a signal that strength was building in the Dow Jones Industrial Average. To read the complete March 10, 2009 Zanger Report free, click here. Chart courtesy of Chartpattern.com

MB &ndash; It&rsquo;s been a year since our last meeting, Dan. How have you been doing and what are you seeing in the charts these days? DZ &ndash; I&rsquo;m doing extremely well right now. And it&rsquo;s interesting that the Elliott Wave guns that I follow are still bearish. One guy was 200 percent short in February and has been getting hammered. I have been 200 percent long and doing extremely well.

MB &ndash; Since the March 2009 lows, a number of rallies have occurred on low volume. Volume seems to pick up when the market drops and has been light on the upside moves. There have also been comments from pundits that most of the upside moves have occurred after hours which has caused a lot of concern about whether this rally is real or not. Are you seeing this? DZ &ndash; I am not seeing that at all. With the stocks I follow, I&rsquo;ve been seeing heavy volume on breakouts then stocks come down a little on dry volume. Then you will see, especially with the market leading stocks that I'm following, higher highs and higher lows and then volume picks up and the stocks rip. I'm not really following the average stocks or indexes. Maybe the street is doing a lot of song and dance to shake people out a make them think it is not happening. But this market is on the move.

Market leaders on the move MB &ndash; You mentioned that you have been following the market leaders. What have some of your favorite stocks been over the last few months?

Figure 2 &ndash; Daily chart of Financial Bullx3 ETF showing a cup & handle with subsequent breakout in the opening days of March, 2010. To read the complete Zanger Report from March 10, 2010 free, click here. Chart courtesy of Chartpattern.com

DZ &ndash; You got to like all of the technology names that are going well. Certainly Apple (AAPL) has been moving well on strong volume. Amazon (AMZN) also had a huge run, then a 35% retracement which is in pretty much in line with what you look for during a correction. You want to see a 35% move from a low, watch it rest for a while, then watch it turnaround higher and have a nice pop. We are seeing a number of buy signals from horizontal channels and that is positive. Google (GOOG) was doing very well, put in a nice rounded bottom from the corrective area and then moved up 40 to 45 points in a couple days. Financial 3X Bull ETF (FAS) also had a solid run from a horizontal channel and then

good move from 75 to 91 in a week and half or so (see chart above). The Chinese stocks have shown quick moves but you have to be in and out of those pretty fast. A lot of the energy stocks are holding up well. Walter Industries (WLT) has been one of my favorites. We had it at 37 it's now around 88. We had it again at 78 for a little cup and handle breakout.

Stocks are coming around as investors are buying again. Consumers are gradually paying off debt and spending again.

As an example, we saw the Las Vegas sands (LVS) coming out of a 4-month symmetrical triangle. Wynn Casinos (WYNN) was also coming out of a similar symmetrical triangle and looks quite good. Copper stock Freeport McMoran Copper & Gold (FCX) did a run off its lows. U.S. Steel (X) had a nice \$25 pop of its lows which we discussed on the website (Chartpattern.com). A lot of stocks are making solid gains out there. We were in GS for 15 pt gain from its 160 buy point. I've been long all these stocks and I've done very well. The first two weeks of the March were very powerful moves but you know it's not going to last forever.

Fertilizer plays Another group are the fertilizer stocks and they've been gapping, Potash (POT) moved up \$9.00 on triple volume after some analysts raised guidance. Earnings will be up 300% from the same quarter a year ago. As a trader, it's hard not to get excited. MB — Fundamentally, stocks like POT and Agrium (AGU) have been driven by the crop cycle as farmers buy fertilizer for planting. How important has this been lately?

DZ — Farmers are making money again, and the fear factor is gone. They're buying fertilizer as the population has grown. The globe isn't getting any bigger but we keep having more people and that means we need more food and more fertilizer. We are seeing that in the chart patterns — AGU just came out of a cup and handle pattern and has been moving quite well. POT looks to be in the process of building a similar pattern. Rhyming rallies MB — When we were talking in early March 2009, you were frustrated because the volumes were choppy and it wasn't yet obvious that the bottom was in. You were getting in the stocks but then the volume was too thin and you'd have to exit. How much have markets changed since then?

DZ — The way the market was moving in 2009 reminded me of the rally that began in 2003. There were lots of whipsaws but then in 2004, the market calmed down. Earnings started to get more positive, confidence came and jobs came back even though they were calling it a jobless recovery. That is what they are calling it right now. But the important takeaway is that the market calmed down 2004. Housing stocks were starting to take off, energy and technology stocks came alive and started to move. And now, like then, a lot of choppiness has just faded away. I didn't make too much money in 2003 even though the market moved strongly but I did make a lot of money in 2004. That kind of choppiness did not fit my trading style. But then 2004 and 2005 were just tremendous blockbuster years for me.

Figure 3 — Daily chart of the S&P500 Index from March 19, 2003. Note the triple bottom chart pattern and higher low in March than the previous November. To read the complete Zanger Report from March 19, 2003 free, click here. Chart courtesy of Chartpattern.com

MB — What other similarities do you see between 2003 and 2009? DZ — The markets are very similar. In 2009, the bottom was put in, there was a lot of concern about the strength of the market, a lot of disbelief, and earnings were still weak. There were also a lot of sovereign debt concerns. One news story after another panicked the market. Pundits were saying the Dow was going back to 6000 but slowing the rally developed legs. But now the market has changed.

It also took awhile for the market to calm down in 2004. The year 2010 is turning out to be a lot like 2004 and we are seeing the same kind of action. The markets are steady and calm. We're seeing money pour back and volatility slip. There are a lot of good earnings reports coming out and layoffs are abating. It appears that we're at the cusp of another recovery. Déjà vu 2004 MB — So would you characterize this period we are in now (March 2010) as the same as early to mid 2004 and beyond?

DZ — Yes. MB — Are you seeing volume noticeably increase among the market leaders?

DZ — When they break out, volumes are very good. Then volumes back off after these stocks move up and out of their bases. MB — And what kind of volume are you seeing on corrections?

DZ — On the initial selloff that starts the corrections, we are seeing some heavy volume. For example Apple (AAPL) got crushed on the sell-off, volume was crushing and the stock sold off hard losing 20 to 25 points. But then volume dried up and the stock languished when it was just below \$200. MB — When you see volume dry up on a down move, isn't that bullish

DZ — It can be, but heavy volume around a low with the stock holding its price is also bullish. Just because you have a few heavy volume days and the stock is down, isn't a real concern. What we have been seeing lately is what I would call horse trading. Sellers and buyers are trading stocks back and forth but there are no major moves. You will see some heavy volumes on the selloffs at the start of the correction. For example Apple was \$215 in January then just got crushed and the down volume was crushing, as it sold down about 20 points but then volume dried up. Then the stock languished around 190 — 195 after which went back and forth on lighter volume. For example, a heavy volume day in which the stock is down a buck isn't a problem. One guy is selling but another guy is buying which is a good way to hide their trades. Heavy volume (130% or more of average daily volume) with the stock down a dollar means someone is buying it all. The stock will show a red bar but someone is picking it up and this shows a transfer from weak hands to strong hands in a way that most people can't see. MB — There have been complaints that a lot of money is still sitting on the sidelines. What are you seeing?

DZ — Money is coming into the market but yes, a lot of money is still sitting on the sidelines. There's a lot of fear out there, a lot of people don't want to be in the market again. It's a generational thing. But the government is printing money like there's no tomorrow, and they're trying to re-inflate the economy so people get their confidence back. It's an attempt to push home prices back up, push stock and portfolio values

back up along with incomes and this is all part of the reflation process. In that kind of environment, look for the market to go higher. Stocks are riding a wave of money. MB &ndash; Normally, printing money and inflation are initially positive for stocks but then it becomes a negative as then rates have to rise as inflationary pressures build. What do you see?

DZ &ndash; It&rsquo;s the normal cycle, reflate your spending power. And then they have to put the brakes on. Hit the gas pedal and then hit the brakes... MB &ndash; Have you been able to come in and buy the market leaders in size or are you finding that your position sizes have been smaller lately?

DZ &ndash; Now that the March correction is over with, I can buy in size, I see a lot of stability, and I see a lot of positive chart patterns, higher lows, higher highs and lots of breakouts &ndash; breakouts that are not failing. The stocks are following through on heavy continuous volume, a lot of new highs. Many stocks I&rsquo;m following are approaching their previous highs and are hitting new highs. They are creating big cups, everything is working right now. Are chart patterns still working? MB &ndash; Thomas Bulkowski, the author of *The Encyclopedia of Chart Patterns* (Wiley, 2005) wrote an article a few months ago, saying the chart pattern failure rate has increased since the 1990s. Are chart pattern breakouts failing more often now than they used to?

DZ &ndash; That maybe true overall but it&rsquo;s because the market is different. We&rsquo;ve just come through the worst bear market in history. The last decade since 2000 was the worst decade for stocks in history. No other decade has experienced such losses. There&rsquo;s been a lot of fear and the market. The 1929 crash happened during the last year of the decade, but over the decade in the 1920s and the 1930s stocks were up by the end of each decade. And because this has been with worst decade in history for stock market performance and markets are this choppy, chart patterns fail more often than they did during the bull market years (1982 to 2000). Chart patterns generally work best when stocks are either soaring on rising volume or breaking down on heavy selling volume. Read part 2 of the Dan Zanger interview... In this continuing interview Dan talks about how he learned to recognize market tops coming in 1997, 2001 and 2007 as well as more on measuring the strength of a rally and when it is running out of gas. Plus he discusses how dollar strength can affect stocks, energy and commodity prices, how to play some of his signature chart patterns plus so much more&hellip;

Anyone serious about trading and investing won&rsquo;t want to miss it! Have a trading question for Dan? He does not give buy and sell recommendations but would be happy to answer your trading or technical questions. Email them to askdanzanger [at] gmail.com (Remove spaces and substitute @ for [at] ) We&rsquo;ll do our best to get them answered in time for the next MMM.

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The Zanger Report March 10, 2009 (free) <http://www.chartpattern.com/articles/news03-10-09.cfm?TrackVal=mttart02>

The Zanger Report March 10, 2010 (free) <http://www.chartpattern.com/articles/news03-10-10.cfm?TrackVal=mttart02>

The Zanger Report March 19, 2003 (free) <http://www.chartpattern.com/articles/news03-19-03.cfm?TrackVal=mttart02>

Chart Patterns, Trading and DZ Zanger &ndash; Interview by Matt Blackman

<https://docs.google.com/viewer?url=http://chartpattern.com/cf/images/new/articles/stocks-comm-2003.pdf>

My Stocks are Up 10,000! &ndash; Fortune article <http://www.chartpattern.com/news/fortune.html> More on

Dan&rsquo;s Annual ChartPattern.com seminar in Miami <http://www.chartpattern.com/seminar.htm>

Dan Zanger&rsquo;s 10 Trading Golden Rules [http://chartpattern.com/10\\_golden\\_rules.html](http://chartpattern.com/10_golden_rules.html) Reference Tutorial on Chart Patterns [http://chartpattern.com/understanding\\_chart\\_patterns.html](http://chartpattern.com/understanding_chart_patterns.html)

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