

AIQ

Opening Bell

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Opening Bell Interview with Dan Zanger

How Does He Do It? AIQ User Holds World Record for One-Year Portfolio Appreciation

By David Vomund

This month we are pleased to present an interview with Daniel Zanger, publisher of Chartpattern.com. Dan has used AIQ's TradingExpert since 1992. Dan holds the world record for one-year portfolio appreciation, gaining over 29,000%. In about two years, he turned \$11,000 into \$42 million! As a result, he was featured in *Fortune* magazine. Dan is a frequent speaker at AIQ's fall seminars at Lake Tahoe.

Vomund: *At the height of the bubble you set the world record for portfolio appreciation. Can you tell us about that experience?*

Zanger: I'd love to except that we don't have enough space or time here to write about it to give this topic justice for either the reader or me. I will say it was a life changing experience of epic proportions and I'm thrilled that it happened to me.

Vomund: *Can you update us on what*

happened to this portfolio during the bear market and during the bull of the last two years?

Zanger:

As you know, the tax rate was over 40% at the Federal level back then, and then add in the 10% California tax rate, Social Security, and a few other items and I kissed over 50% of



Dan Zanger
Chartpattern.com.

"With the strong bull market we've had over the past 24 months I'm back in the saddle again and if 2005 is as strong as the last 2 years, I should easily get back to the \$40+ million range where I was at the top."

it good-bye quickly. Then one day the fiber optic sector gapped down close to 20% at the open and I was fully margined 2 to 1. There went another 30% of

what I had. I then whittled down the rest over the next two years as the market plunged 80% to where I retained just about 17% of what I had at the very top.

However, with the strong bull market we've had over the past 24 months I'm back in the saddle again and if 2005 is as strong as the last 2 years, I should easily get back to the \$40+ million range where I was at the top.

Vomund: *Has your approach changed over the years?*

Zanger: I have not changed my trading style at all during bull markets such as the one that began in March 2003. What has changed is that I now understand what a major bear market is all about and the devastation that a once every 30 or 70-year bear market can bring. I can assure you that when the next big bear comes around I will be out on my yacht in the Mediterranean or the Caribbean and not trading the market at all. I will say that one must experience every trading situation and market condition to be able to fully take advantage of

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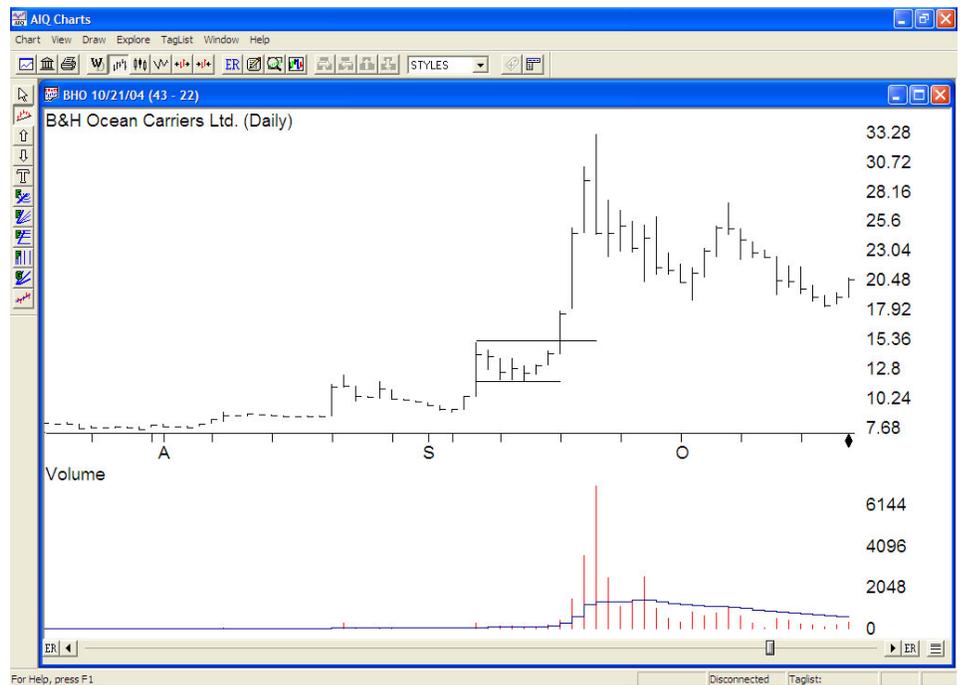


Figure 1. Daily chart of B&H Ocean Carriers. The Bull Flag pattern that developed in early September 2004 preceded a sharp price increase on heavy volume.

current circumstances, and I'm now fit to take advantage of being out of the market when the next bear comes around.

Vomund:
What are TradingExpert's most valuable features?

Zanger: For years the Tag List has been the most important feature. This tool allows me to manually churn through 1300 or more stocks every night in rapid fire succession. There is nothing better than to look at a ton of charts every night. This will hone your skills on identifying chart patterns faster than anything else out there today. In fact, I would say that if it weren't for this tool my learning curve would be years behind. There is no substituting this feature or the time necessary to learn pattern analysis. At least 15 hours a week is a minimum to learn this, plus it is important to follow the market most of the day.

Vomund: *You monitor lots of stocks each day. How do you determine the Tag List of the stocks you track most closely?*

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Zanger: I'm looking for stocks that make big moves so when I see a stock up \$3 or more on heavy volume day in and day out, I add it to my Tag List. Most stocks that I load in die shortly after this initial move, but often reemerge for a second move up later and I want to be there when they do that. The only way to do that is to track all of them every day so that you are ready to grab them when they move.

Vomund: *Your analysis is almost*

completely dependent on price patterns. Can you explain why they are so important and why indicators play only a small role in your analysis?

Zanger: It's more than just price patterns; it is the combination of patterns and price action of the stock during the day plus the strength of the groups that these stocks are in that makes my stock selections so powerful.

Indicators are lagging in nature so by the time they issue a buy or sell signal or tell you that a stock is weakening or strengthening the stock might have already moved 5 to 20%. This is way too late for me. You have to know the meaning of each daily bar combined with its volume to get in or out of a position at what can often turn out to be critical times.

Vomund: *What are some of your favorite price patterns?*

“It is the combination of patterns and price action of the stock during the day plus the strength of the groups that these stocks are in that makes my stock selections so powerful.”

Zanger: One of my favorite patterns is the Bull Flag pattern. This is a continuation pattern and for the most part a stock has already broken out and has succeeded since the breakout. A Bull Flag occurs after a rapid and fairly extensive advance. After a nearly vertical move, the stock fluctuates sideways in a narrow range. The completion of the pattern occurs on a break above the consolidation, ideally on heavy volume. A good example of a Bull Flag is found in **Figure 1**.

Vomund: *You pick very high growth stocks. These stocks go up fast, but can fall even faster. Please tell us about how you protect the downside.*

Zanger: For me it's the behavior of the stock more than anything else. Also, how long the stock has moved

up and how far it has moved up from its base has a lot to do with getting out before it takes a big hit. When I get caught in a falling stock these days it's because my trade size is very large and the float is small and it can take days to effectively get out before a stock gets whacked.

Travelzoo (TZOO) is a case in point. I owned 10% of the total outstanding float of this company back in August of 2004, which amounted to over 100,000 shares. This stock had a huge run from the mid \$60 area to over \$100 in just a few short weeks. I was selling shares all the way up

and was not completely out when news hit the wire that the owner of this company just sold a meager 30 thousand shares of his holdings. This guy owned

80% of the company, which equates to over 10 million shares, so what's 30 thousand shares? Well the street went nuts and this stock tanked over \$12 in an hour and I was not completely out of it, so down I went selling with the other folks. I got tagged for \$12 on about 40,000 shares but still made a huge chunk of money on the whole experience.

Vomund: *What market timing techniques do you use to determine the health of the market?*

Zanger: I use a lot of them, but the one I use most is the McClellan Summation Index. This works pretty good, but nothing works better than watching the charts set up on the leading stocks. This is by

“The Tag List tool allows me to manually churn through 1300 or more stocks every night in rapid fire succession. There is nothing better than to look at a ton of charts every night. This will hone your skills on identifying chart patterns faster than anything else out there today.”

far the most important timing mechanism out there today. That is because no market can rally unless stocks are set to move up from solid basing patterns.

Vomund: *Can you give us some examples of your newsletter stock picks, including when and why they were bought and sold.*

Zanger: A good example of a stock that I've made lots of money on both long and short is Travelzoo Inc. (TZOO) in **Figure 2** (page 4). The down arrows represent buy points. The August buy came after a

“Nothing works better (for market timing) than watching the charts set up on the leading stocks. This is by far the most important timing mechanism out there today. That is because no market can rally unless stocks are set to move up from solid basing patterns.”

mini-Bull Flag pattern. TZOO more than doubled in price after then. In November and December it was hard to trade. A support trendline was broken in early January and

then completed a Bear Flag in mid-January. TZOO was shorted below \$78 when its support trendline was broken.

In today's falling market environment it is also useful to show a stock like Research in Motion (RIMM) found in **Figure 3**. We bought this stock in November 2003 at \$22, but big moves can last only 8 to 20 months before they cave in. RIMM has topped out and currently looks like many other expired growth issues. Don't jump into a falling stock. A good rule is to never own a stock that is below a descending trendline.

Vomund: *Now that you've lived on both coasts, is it easier analyzing and trading stocks on East Coast time or West Coast time?*

Zanger: There is nothing better than trading on the East Coast. I used to have to go to bed around 9:00 pm on the West Coast, which meant coming home early from dinner parties. I had to get up at 5:00 or 5:30 am, get my coffee, turn on the monitors, and bone up on a few selected news items. I'm not a morning person.

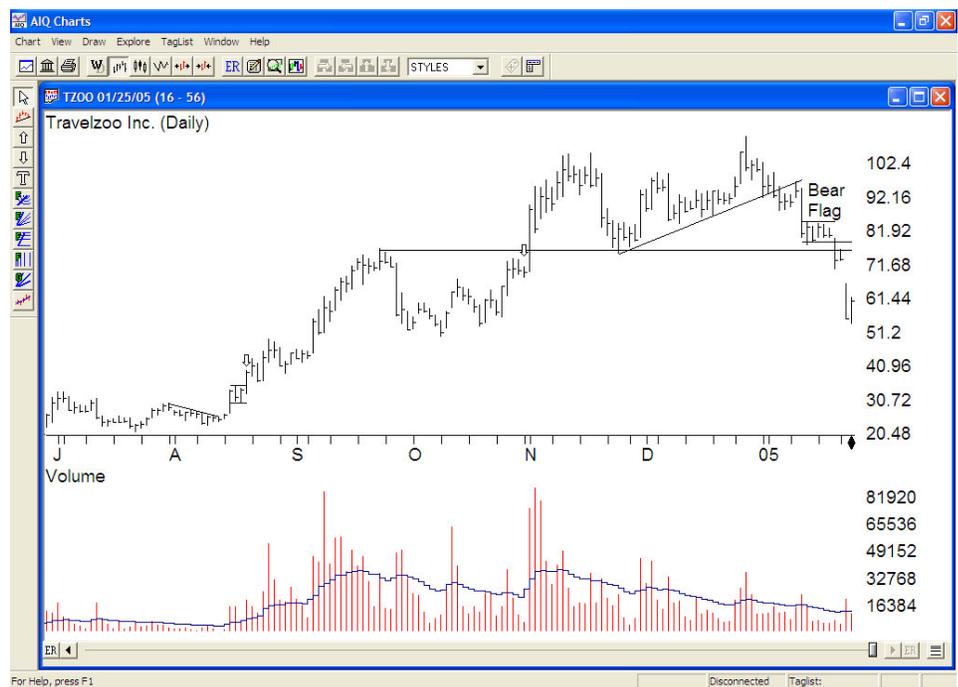


Figure 2. Daily chart of Travelzoo Inc. Down arrows shown on chart signify buying points. Stock was shorted in mid-January following completion of Bear Flag pattern (drawn on chart).

Now that I'm on the East Coast nine months of the year, life is so much better. Now I can stay out till midnight and get up at 8 am and still have an hour and a half to get ready before the market opens. I even have time for a morning swim or jog, or maybe even head into South

Beach Florida where I live today and grab a Starbucks. Life for the trader is very good on the East Coast.

Vomund: *Thanks for sharing your thoughts with us.*

More information on Dan Zanger can be found at www.chartpattern.com.

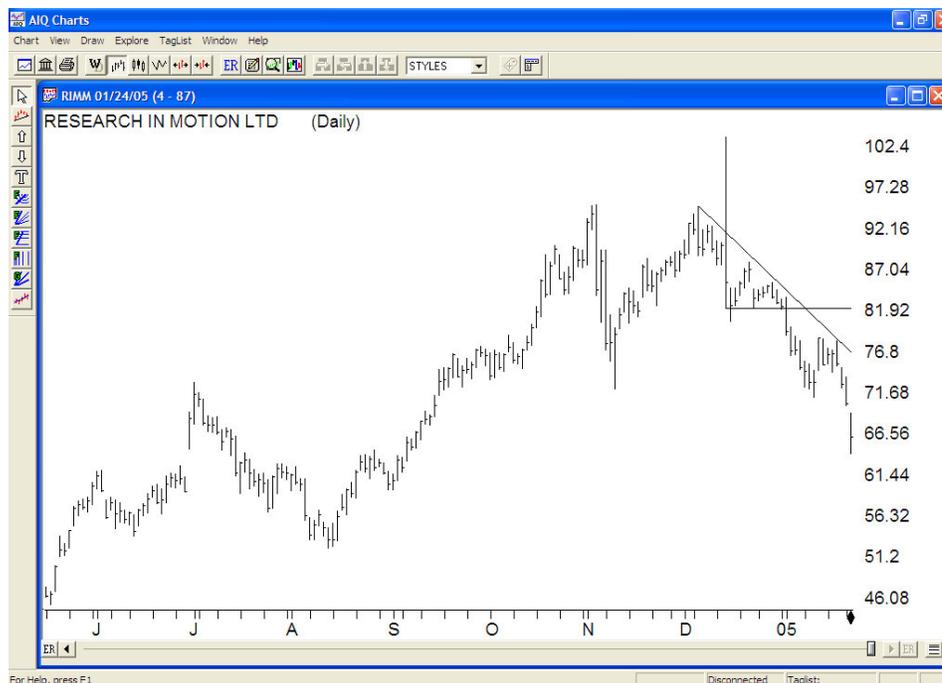


Figure 3. Daily chart of Research In Motion Ltd. an example of a stock that peaked near the end of 2004 and is currently continuing to decline.