101 Charts for Trading Success

by Zak Mir

SAMPLE:

CHARTS IN HISTORY

1. 9/11

A key feature of charting is that trading decisions are made solely on the basis of the price patterns and trends you see in front of you. Ideally, you are taking an objective and dispassionate view on the stock or market that is being analysed, something which even at the best of times can be a very difficult thing to do. There is no greater example of this than the immediate aftermath of the September 11th, 2001 attacks.

For those of my parents' generation, the biggest shared single event of their lives was probably the assassination of President Kennedy. But for those who are now 60 and under, it is 9/11 of which we remember where we were and what we were doing. A decade of geopolitical deterioration has ensued, with little apparent interest in addressing the issues involved. It would appear that the human need to have an enemy is still very much in place, largely because there is money in it, it provides a sense of cultural identity and perhaps most importantly, it is a great booster for political leaders. Of course, alcohol, drugs, junk food and speeding motorists continue to carry a greater mortality than terrorism, or the war against it. But none of these enemies have quite the same cross cultural frisson of opportunity, except maybe the tax raising battle over alleged climate change.

The Set Up

As can be seen from the daily chart of the FTSE 100 for 2001 we were looking at a falling blue chip index going into September, as the unwinding of the dot-com bubble continued for the UK stock market. The seeds of the autumn decline were sown in April/May as bearish divergence was shown in the RSI window, echoing multiple failures at the 6,000 level for the UK index. From August 16th it was possible to draw the line that capped this market going into 9/11, with September 6th witnessing an end of day close below post May 5,200 support. At this point we had a shorting opportunity on the basis of the June resistance line, falling near term moving averages, and the loss of four month support. The floor of the March price channel at 4,250 delivered a one to two month target for the FTSE 100.

Outcome

Conspiracy theorists could argue that equity markets – or at least some participants had an inkling that a terrorist attack was in the offing. But the picture is clouded by the way we were already in bear mode. Usually there is a way of telling whether the market has been genuinely surprised or not. A bolt from the blue shock event (BP (BP.)/Macondo 2010) will deliver an initial low on the day in question – with that support broken as those caught on the hop head for the exit on any initial dead cat bounce. But once these sellers are out – and there is "no one" left to sell, there can very often be a sharp reaction to the upside.

The aftermath of 9/11 essentially followed the bolt from the blue pattern with the FTSE 100 going into a continuation bear flag above 4,700 before a new wave of sellers came in. They fulfilled the March support line projection target of 4,250. But there was more. The September 21st low of 4,219 was over 400 points lower than the September 11th low. However, the RSI on the 11th was 19 and on the 21st 25. This was an instance of massive bullish divergence, a clear buy signal and one that I called at the time. A point to note is that because the Dow was closed between the 10th and the 17th there was no such technical set up, hence the appearance of the FTSE 100 for 9/11.

Conclusion:

The events of 9/11 coincided with a bear phase for equity markets, something which most likely meant that the selling climax which followed caused a sharper rebound in stocks than might have been expected. Nevertheless, a 30% decline from the best levels of 2000 limited the downside.

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