

101 Charts for Trading Success

by Zak Mir

SAMPLE:

STOCK WATCH: BORN IN THE USA

Although I have always been more focused towards U.K. stocks, it has to be admitted that especially in the technology area the likes of Apple (AAPL) and Google (GOOG) are where the fundamental and charting excitement really lies. The financial area is no less exciting with Lehman Brothers having already appeared in *101 Charts* and Citigroup (C) and AIG among those in the frame in the wake of the economic crisis from 2007 onwards. It therefore seems appropriate to check out some of the heroes at key points in their progress.

24. Apple (AAPL): The iPod Bull Run

Shares in Apple at the end of 2010 are now well over \$300. In early 2003 – not that long ago – Apple was trading below \$10 and a respectable maker of pretty looking PCs which did not crash as much as those using the Windows operating system from Microsoft. But it was the iPod that delivered the fundamental change at the end of 2001 with the effect starting to kick in from the start of the Baghdad Bounce in March 2003.

The Set Up



In the late 1990s you could have picked up Apple shares for around four dollars, with a peak in the wake of the dot-com bubble over \$30. Three years later and the shares were back to the \$7 zone. As is usually the case that before every major move there is a countermove offered in order to shake off those who correctly

anticipated it, and more importantly to ensure no one is in there by accident. In the case of Apple this came via a bear trap below \$6.50 in April. In fact, what is incredible here is how many classic technical signals are at play in the wake of the bear trap.

Outcome

The first buy signal here at Apple is that we were treated to bullish divergence in the RSI window between the \$6.46 and \$6.36 lows in mid-April. Those who were not tempted to bottom fish could have then waited for the black 200 day moving average then under \$7.40 to be broken. This was not only broken on May 5th, but there was a gap above the 200 day line. Such gaps are one of the strongest buy signals in the TA armoury, and considering that this turnaround at Apple was a once in a lifetime event, lives up to this tag. As if this was not enough May 15th delivered a golden cross between the 50 and 200 day moving averages, and then one of the most robust of technical buy signals. This was followed by a higher low above both the 50 and 200 day lines, acting as a final confirmation that a sustained move to the upside was likely to follow. Taking this situation forward there was a bounce off the 200 day line in December 2003 just below \$10, a continuation signal. There followed two unfilled gaps in 2004, another 200 day bounce in March 2006, with the sell signal finally coming in May 2006 at \$63 when the 200 day line was finally lost. All this was not too bad for such simple analysis.

Payoff

I could go on with the Apple story, which is a great one technically, in protest at the lack of flash support for iPhones and iPads which is a disaster for anyone wanting to look at Beatles.com and most (currently) financial trading websites. Nevertheless, the multiple buy signals seen in spring 2003 for Apple were transformational, and have been repeated on many occasions before and since. Single digit penny shares in oil & gas explorers and precious metals groups are where you might expect to see an Apple style turnaround at the moment.

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