

Lessons From The Financial Markets For 2013

by Zak Mir

SAMPLE:

Charting Heroes

ARM Holdings (ARM): Ever The Hero

The Set Up

To my mind there was really only one hero stock as far as the FTSE 100 that really fitted the bill in a relatively lacklustre year, and it was chip designer ARM Holdings. In fact I was quite gushing about the company a couple of years back in *101 Charts*, and given the way that the gadget/mobile/smartphone revolution has continued to balloon ever since, you can imagine that my enthusiasm remains. Indeed, this view remains stronger than ever even after the recent carnage as far as Apple shares are concerned, on the old adage that those who make the most out of a Gold Rush are not the miners, but those who make the shovels and pick axes. On this basis ARM's fundamental future appears to be very much a rosy one. The highlight of the year, the best day, came on 23 October with the announcement that third quarter profits more than doubled to £43m.

2012 Price Action

The gap higher for ARM shares in the wake of the Q3 update left a third unfilled gap on the daily chart since 15 October, and less than a month later there were four unfilled gaps. Given that two unfilled gaps in close proximity are usually only seen in the most bullish of situations, it is not surprising that at the time I described ARM as being the proud owner of the strongest blue chip chart of the year. What can be said going into the last month of 2012 is that even though ARM shares have come up a long way already, and appear overstretched as much on a fundamental financial ratios basis, as on the technicals, while above the floor of gap number three this autumn at 695p the upside here should be as great as the 750p level, equating to the top of a rising trend channel from July, by the end of January.

Payoff

Although there is a little ARM in almost every smartphone on the planet, it would not be wise to do an “Apple” and calculate that $2+2=5$. Instead, we have a decent breakout for ARM shares, and while this should continue well into 2013, we should not assume that it will not be a rocky ride.





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