101 Charts for Trading Success

by Zak Mir

SAMPLE:

INTRODUCTION

What attracted me to charting as a method to success on the stock market nearly 25 years ago was a combination of various factors specific to the 1980s. These included privatisations, yuppies and the song "Money for Nothing." The obsession remained despite things we take for granted today, a lack of a cheap PC, a cheap real-time data feed, and decent content on the Internet. But most of all it was laziness. Charting promised to deliver an at-a-glance way of predicting price action and hence gaining riches. Writing my first book notwithstanding, this lazy characteristic has governed my life, and is expected to do so for what it is left of it. It certainly explains why I only spent six weeks studying economics at the LSE. Although unlike Mick Jagger, doing so has not so far been the springboard to rock 'n' roll immortality.

Executed correctly, charting should be a way of delivering high probability percentage trades/investments that remove the task of having to trawl through company accounts, financial ratios, and interviewing megalomaniac CEOs. This form of technical analysis (as opposed to the fundamental variety I have just described) is at best the only legal form of insider-trading. Indeed, there is nothing quite so satisfying as recommending a stock days before a takeover bid on the basis of its charting configuration alone.

In *101 Charts* years of laziness will be suspended in order to deliver an exhaustive guide to making money via identifying price patterns, trends and signals.

101 Charts is a tricks of the trade publication that will hopefully explain some of the most complex set ups in the market as simply as possible and with no mention of logarithms or algebra, or other techno babble that very often plague "expert" investment/trading magazines. The combination of the analysis here is of trend lines, chart patterns, RSI and as much common sense as can be mustered.

It is inevitable that some of the examples as they are skewed toward the present (and the most difficult market conditions) will date well and some embarrassingly badly. For the latter group we have stop losses and more lessons to learn. But the prediction game is one of nothing ventured, nothing gained, and at least to my mind a sitting on the fence opinion is the worst thing that can be offered in the financial markets.

Oh, and the big reason for reading this book, the three T's. Timing, Timing, Timing. I don't care if you are Warren Buffet and have never looked at a chart in your life. TA is all about timing and so cannot be ignored.

Even before I begin I would like to address a potential criticism of the format of this book. Hindsight is of course a wonderful thing and therefore it is easy to look smart after an event – say the fall of Lehman Brothers – and boast that it was an obvious eventuality. It was not, that is why it was such a major event and still sends shivers down Wall Street and beyond. But the theory with *101 Charts* is to dissect the build-up to such an event and glean the warning signs for collapses, and the first glimmers in the dark before the big rallies. I would suggest that if you cannot interpret a past event in a constructive manner, when trying to anticipate what will happen at the cold, hard right edge of a chart you will not stand a chance of success.

FINDING OPPORTUNITIES

As well as the hindsight factor, there is the issue of having a lookout system in place. Only after the event is it possible to filter the cream of the crop in terms of the best set ups over a given period. *101 Charts* is a conglomeration of the greatest charting hits over recent generations, as well as the best of the bunch in the recent past. While there is a risk of some of the set ups going stale, there is a skew towards not only the most difficult/surprise moves of the past, but also the most troublesome situations of the recent past. This is on the basis of my view that the markets are like viruses that constantly evolve to be more and more deadly. The assumption in 2011 is that if a trader who is able to make a decent living now went back to say, 1990 he or she would be the George Soros or Warren Buffett of that time if only on the basis that the massive growth in the amount of money moving around the world and the speeding up of this movement via the internet means that volatility is greater than ever.

If you agree with the idea that the markets move in the direction of greatest collective loss, then the search for a secure methodology is something that every trader should be interested in attaining and hopefully this book will point them in the correct direction.

A point of contention that has to arise in terms of providing examples of charting situations of interest is the way that every day on the stock market there are thousands of set ups and let downs waiting to be traded or avoided. How do you find them? Given the way that my day job is writing on Zaks-TA.com where there is a daily stream of stocks in the news, major markets, and highlights from different sectors I am forced to be eagle eyed at all times. But there are limits. Even the most ardent fan of stocks is probably only going to be familiar with the main indices commodities and say 20 or 30 leading stocks. Out of these at any given time it could be the case that only a handful or even less are presenting compelling opportunities.

Therefore we need technology to provide a helping hand. Particularly useful to me is looking at any financial website where the top ten percentage winners and losers are tabled during the day with ADVFN.com leading the way in the online offering. Indeed, stock screening that really makes the difference, with my preferred methods in terms of software being to use Sharescope (www.sharescope.com) for finding the biggest winners and losers of the recent past and Updata's (www.updata.co.uk). With Sharescope's and Updata's TraderPro software (I have both) you have the ability to identify moving average golden/dead crosses, chart gaps and bearish divergence. Concentrating on mining for just these technical configurations should at least ensure that you are not overwhelmed with potential trading opportunities and can then distil down the best available.

A point that may assure some is the way that of the examples included that were spotted at the time they actually tended to be the more difficult ones rather than the easiest to identify. It could very well be the case that applying the approach of *101 Charts* it is the simplest set ups that you benefit from. Ironically, it is the simplest signals – golden/dead crosses/support or resistance breaks that can be the most difficult to follow as they tend to occur at times when sentiment or logic requires a counter intuitive suspension of belief.

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Published by ADVFN Books

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