

## The Apple Flash Crash



May 6<sup>th</sup>, 2010 was a day in the stock market that will live in infamy. Markets went into a frenzy with the Dow Jones selling off over 1,000 points along with over 1,200 stock halts throughout the day. A quick google search shows thousands of articles noting this roller coaster session. But did you know Apple went through its own, individual flash crash toward the end of 2014? Luckily for me, I was swinging Apple long during the flash crash and can give a first-hand experience of what really happened.

Let's rewind back to November 11, 2014. It's a brisk late-fall morning, leaving my home at 5:45 to beat the NYC traffic, not really top-down weather. However, when you're 23 in a silver convertible Aston Martin, it's always top-down weather (even in the rain if you drive fast enough!). So, I'm flying down the turnpike doing 100+ with the heat on full blast and I'm the first to arrive at my trading desk. Most of my colleagues live in downtown Manhattan and have the luxury of rolling out of bed at 8 or so and cruise in to our morning meeting. Not me.

It's now 8:30 and we begin our morning meeting where everyone goes through their top idea. There are about 20 or so traders all speaking in turn, pitching different stocks.

"MCD short through 99."

"GILD getting ready to beast, \$103 level is KEY."

Then another trader, who we call Wrench (Waspy, Napoleon complex, & wears a 3 piece suit to go to the bathroom. Doesn't even take off the vest. You can't trust a man like that) calls

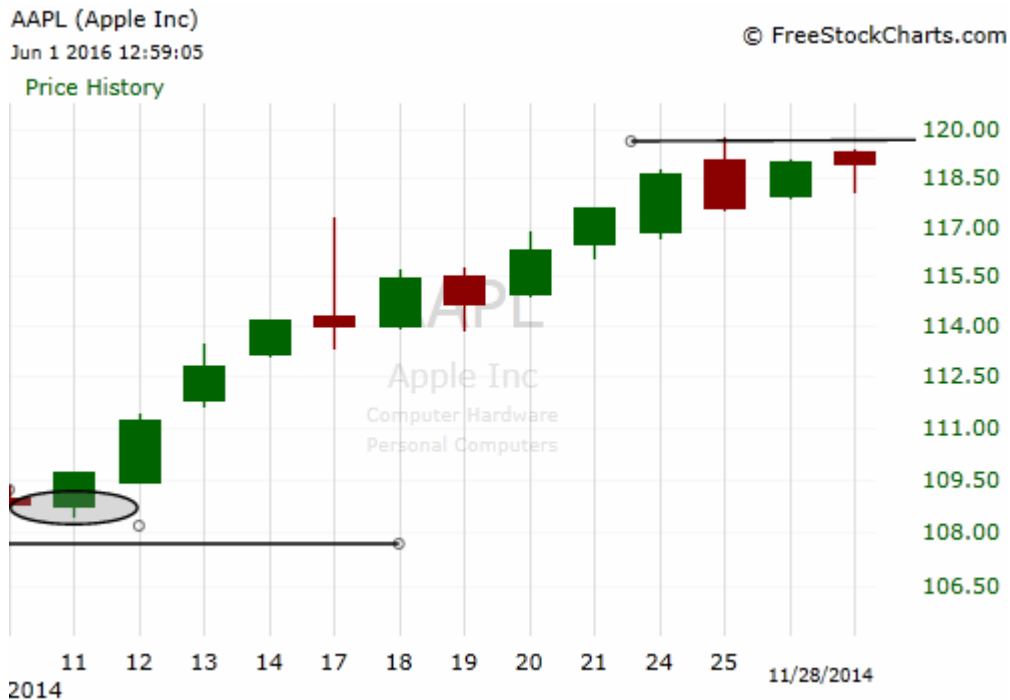
out, "Apple's been strong all week, getting really tight!" The guy is a tool but a decent trader. I type it up, and it is a thing of beauty. A Picasso of daily charts. A textbook Bull Flag in a name that's been a leader, with amazing fundamentals, and you know the company is buying back a ton of their stock. Some would call this an A+ setup. I immediately buy 100 shares.

Now you may be thinking, "Woah big guy, a whole 100 shares!" But, the reason I bought a small piece was to keep an eye on it. I now have some skin in the game, and everyone who's traded knows you will watch things 1000x more closely when you're holding some. After about 15 minutes, AAPL is trading in a surprisingly tight \$0.15 range from \$108.10 - \$108.25. From 8:30 to 9:15, while watching every single tick of the tape, I've built into a position of 1200 shares. I just see the buyers protecting 108, so I'm building into a position just playing off that \$108 figure, only risking 10 cents on the trade. If I'm wrong, I'm down \$120, but if I'm right, looks like we're getting Lobster Rolls for lunch!

Minutes before the open, Apple spikes 40 cents. I'm now up \$500 in my position with \$120 risk on the table. Right off the open, Apple starts RIPPING higher. The quickest buck I've ever seen it move. I immediately put my Sell-Stop in at \$107.99 (as they don't work pre market) and start to throw out some limit-sell orders every half-point above the opening print. It's about 9:35 and my first 100 shares get taken at \$109.24 from my initial entry of \$108.10. Those first 100 shares I sold paid for the risk of the entire trade. If it dies this instant and my stop gets triggered at \$107.99 I'll have lost nothing. So now I'm sitting on 1,100 free shares of Apple stock as it's the strongest stock in the market, a young traders wet dream.

Now it's around 11am. Most stocks that rally off the open will start to put in highs and begin to pull back, causing traders to feel like they're on a roller coaster. Not Apple today. It just keeps trading higher. I sell another 100 shares in front of \$110 and lock in a \$200 gain. I currently have \$300 of locked-in gains and over \$2000 in open P&L in my remaining 1,000 shares as it trades above \$110! It closed near highs on heavy volume so I decided to hold onto the 1,000 shares. Cut your losses short and let your profits ride.

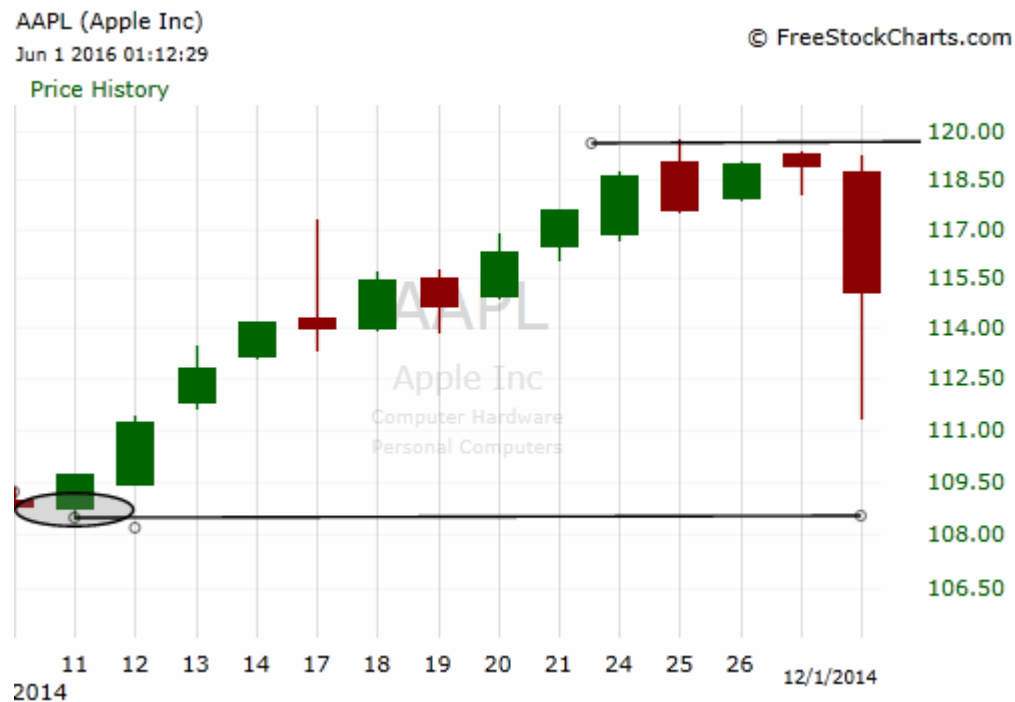
Fast forwarding the next three days : Apple continues to beast, only trading higher each day and closing near highs. Each day I take off 100 shares into the upmove, day 2 I sell 100 shares at \$110.24 for a \$200 gain, day 3 I sell another 100 at \$112.25 for a \$400 gain. At this point in the trade I have sold 500 shares of my original 1200 share position and have locked in some nice profits. My plan to hold the remaining 700 shares until Apple takes out its prior day's lows (as the chart was telling me that was the proper trail).



As you can see, for over 12 trading days in a row, Apple continued to make new higher lows and keep me in the trade. Everyone in my trading group would be asking about Apple, half jealous they missed the trade, and the other half trying to jump in late and ride the trend. I've been both of those types so I can't knock it, trading is a highly competitive sport, I mean job. After watching Apple like a hawk for 2 weeks, you learn how it trades, you ask any trader about a stock and they will describe them like a person. "Oh screw Gild, hes so dirty! Always shaking me out before he beasts." "Amazon is the WORST. Every time, he looks dead, I short it and it rips my fucking face off." are common examples. When I was asked about Apple, I would keep saying "I'm long until it takes out its prior days lows, \$120 seems to have some resistance so we'll see." Vague enough but with enough details that I was giving a dick answer. If you have ever given a stock tip to a friend you know why, if the trade works, it's because they did it, if the trade fails, it's because you suck.

So back to the trade, I'm sitting on 700 shares from \$108.10 and \$120 is looking like a level of resistance, being a trader and knowing that if I was not in the stock already, I would be buying the shit out of \$120 so I decide to take off 100 shares at \$119 for a \$1,000 gain and will keep the remaining 600 to see if \$120 will break tomorrow.

This is what happens tomorrow for me, aka get FUCKED



The "Shoulda, Woulda, Coulda" trader, would sit and say "If I only sold yesterday I would have cleared \$10,000 in the name."

We are not those types of traders, I made the decision the day prior to holding my position. Up until this point of the trade, I was a king. I bought 1200 shares of Apple, risked \$.10 (which any trader will tell you, if you're risking \$.10 the trade already failed) and the stock traded higher 12 days in a row. Talk about a perfect storm right? Well isn't it funny how the market can humble you so quickly, like this day and the last 12 prior I put a sell stop \$.50 below the prior low to stop me out of half my position and the rest I was holding till the grave (not literally to the grave, but back to my price so to speak).

The market opens and Apple starts to trade, nothing out of the ordinary, so my stop is in for the 300 shares, and start to type up other names, when all of a sudden, my P&L goes from very green to bloody red in seconds. By the time I click back over to Apple to see what is going on, I see my sell stop trigger and now my 300 shares are stopped out (for a \$3,000 gain) most would be happy, except I have no idea what is going on! Apple just flushed over \$2 in a 5 minute span, which is FAST. It sometimes takes Apple days to rise \$2, while in 5 mins, \$2 is gone in its share price.

Now I still have a huge cushion of my last 300 shares from \$108.10 except I don't have a plan. This whole time Apple has been a breeze, my plan of stop below prior days low and sell into strength was fine when Apple wanted to play nice, but now it's coming to rip my face off. Not only that, everyone in my trading room is yelling out "What the fuck is going on with Apple" "Should we get short?" "What's it trading at?" "What's your plan." Everyone who has come up to me randomly once a day and asked about Apple are now all shouting at me asking what is going on, and what they should do. While Apple is in a free fall dropping \$1's every minute, it took Apple TWO WEEKS, or 98 HOURS of its stock trading to increase from \$108 to \$118. In a span of TEN MINUTES the entire move was erased. At this point, feeling all the blood rush to my head, and my heart rate double, I blurt out "holding my last to the grave." Everyone in the room knew my price, so the questions stopped. Now I can focus on the Level 2: nope I can't see anything, it was moving so fast, you couldn't read the tape.

(For all the non day traders out there the Level II is essentially the order book for Nasdaq stocks. When orders are placed, they are placed through many different market makers and other market participants. Level II will show you a ranked list of the best bid and ask prices from each of these participants, giving you detailed insight into the price action)

The level 2 was moving so fast, it would be like trying to hit a major league pitch with a wiffle ball bat and a blindfold on. The 10 minute flash crash which felt like an eternity, finally start to rebound. After going on a free fall from \$119.50 down to \$111, it started to bounce back and held \$115. The remaining shares at best were worth about a \$3,000 additional gain before the start of the flash crash, and my P&L went as low as \$600 on the remaining 300. When it got back up to \$115, I took the \$2100 gain and closed the book on Apple.

All in all, this was a trade that Wrench called out and never even got long at any part in the move, and I was able to risk about \$120 if the trade failed and net around \$7,000 in two weeks after fees. It was a wild ride and without proper planning, I would have never been able to have such a great risk reward in the trade. **Have a plan and stick to it.**