What chart patterns can you find? A hint appears below and answers on the next page.

**Hint.** Look for the following chart patterns (If you find others, great!): scallop, diamond, 2 head-and-shoulders, broadening top, high and tight flag.
Price after the head-and-shoulders bottom in April has closed above the down-sloping blue neckline.

**Question 1:** Do you buy, short, or avoid trading this stock?
**Question 2:** If trading this one, what is the target price?
**Question 3:** If trading this one, what is the stop price?

The answers appear on the next page.
Here’s my notebook entry for the trade.

“4/23/04 I believe price will rise to 16 to 17, and, if lucky, push through to make new highs. Earnings are due a month from today, so that gives us room. Downside is 12.94, stop, for a loss of 12%.
Filled at: 14.66 to 14.67
Buy/sell reason: Head-and-shoulders bottom upward breakout
Mood: buoyant but rushed. Wanted to get this in before the close and it may be a hip shot. I’m depending on H&S to perform
S&P direction, over pattern lifetime: Downward
Future market direction (guess): Hard to tell. I expect market to rise for a few days until tagging earlier ascending triangle then declining, forming a large double top.
Confidence? Will trade work? Yes. Confidence is high
Stop: 12.94, or 12%. Placed 4/23/04 at 12.94.
Upside target: 16-17

This is a picture of the general market, represented by the S&P 500. I show a descending, broadening wedge, a chart pattern I didn’t see when I took the ABGX trade. I show the green line as when price began forming the left shoulder of the head-and-shoulders bottom in ABGX. Price moved lower, as my notebook entry describes.

The rise to 16-17 in ABGX would take price to the old high posted in February.

How did the trade go? Look at what happened (next page).
The next trading day, price shot up as the above chart shows. It blew through my 16-17 target and topped out at 19.50, but closed much lower, at 17.70.

Here’s what the Wall Street Journal had to say about the move the next day: "Small companies that are developing cancer treatments saw their shares soar after large-caps Genetech and OSI Pharmaceuticals reported positive data from a late-stage trial of Tarceva, a lung-cancer treatment."

**Question:** Do you hold onto the stock for additional gains, sell, or buy more?

The next page shows how I handled it.
Here’s my notebook.

“Date: 4/27/04
Filled at: 18.308
Sell reason: stock jumped 3 points yesterday on hype.
Mood: cautious. I expected the stock to give back almost all of its gains, but it was up this morning, coming down. A quick decline often follows a quick rise.”

As you can see, I sold a day after the stock peaked and made 25%. Not bad for a 3 days of work.

The end.