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!): triangle, 2 head-and-shoulders, double top, 2 wedges, and a broadening formation.
Price has pierced the neckline of the head-and-shoulders bottom and closed above it.

**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 below and a chart on the next page.

**Answer 1:** Buy because of the upward breakout.

**Answer 2:** Use the measure rule and compute the height of the pattern from the head low to the neckline directly above. That’s 17.70 - 15.28 or 2.42. Add this to the price where it pierces the neckline (16.90) to get a target price of 19.32. Price reaches the target 74% of the time, so look for overhead resistance that might stop an advance. From looking at the chart, I’d say the two shoulder lows from the October head-and-shoulders might be a problem. I show this as a horizontal line that rests just above the broadening formation in Feb-March ‘03.

**Answer 3:** Volatility is 1.07, so a stop no closer than 15.63 (the most recent intraday low of 16.70 – 1.07) would work. That would place the stop below the right shoulder.
The stock moved up after the head-and-shoulders bottom eventually forming a head-and-shoulders top.

Question: If you own the stock, what do you do now? The answer appears below and a chart on the next page.

Answer: Sell. Since price has run up in a straight-line run, it might duplicate that on the downhill decline – a straight-line run that takes price down quickly, bottoming at 24+. That’s where I see a good support zone. I show it as a horizontal line in the chart. Measure the height of the H&S to project a downward price target. That gives a 22.14 target by my calculations. From the 27.25 breakout price, that’s a decline of 19% and that’s a loss you don’t want to be a part of.
As you can see, price pulled back to the H&S top and almost climbed above the right shoulder top before resuming the downtrend. The horizontal blue line is the support zone I showed earlier. It supported price in December ‘03 and acted as resistance in June ’04 and caused price to stall in Sept-October 2004. Also note that the price didn’t decline in a straight-line run, mirroring the move from the August low. Go figure.

The end