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!): wedge, 2 triangles, and a flag.
Price moved from a low of 13.35 to a high of 26.22 in less than a month. Where’s the flag in the high and tight flag? If the region circled in red were higher, that would qualify even though it doesn’t look like a flag (appearing like a flag is not a requirement for a high and tight flag). What interested me was the rising price trend.

**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.

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**Answer 1:** Since price has continued to move up, buy.
**Answer 2:** The rise from the trend start to the top of the flag is about 100%, take half of this and that’s what you can expect. Price reaches the target 90% of the time.
**Answer 3:** In this HTF, a stop is difficult. Placing it below the red-circled area (about 19) would be great but it’s too far away. A volatility stop would place it at 22.92, or about 12% away, base on 2x volatility. The next page shows where I placed it.
Here’s my notebook entry for the trade.

“Date: 8/29/05  
Trade time: buy stop at 25.99, GTC for 2 weeks.  
Filled at: 26.02 on 8/30/05  
Stop: flag low, whatever it happens to be. Now it's 24.95. Stop placed at 23.48  
Upside target: 6.32+ flag low (24.95), say 31.27.  
Future S&P direction (guess): Down  
Buy reason: High and tight flag. Placed a stop order to buy in a penny above the flagpole high (which is 25.98).  

8/30/05 Volatility is $1.71, so the stop should be no closer than today's low of 25.19 - 1.71 or 23.48. That's about 10%.”  

The volatility measure I used then was 1.5x the volatility reading instead of the 2x multiplier I use now.

The above chart is a day later than the previous one.

“8/31/05 Stop raised to 23.86, 1.74 (volatility stop) below today's low of 25.60.”

**Question:** Is it time to sell?
“9/1/05 Stop raised to 25.09, or 1.44 (volatility stop) below today's low of 26.53. I think we dropped off a large up move a month ago. That's why the big change in volatility.”

I raised the stop again, as the above notebook entry says.

**Question:** Time to sell?
How about now? Time to sell? This shows price as of 9/9/05, eight days later than the last chart.

See the next page for the next chart.
“Date: 9/14/05
Filled at: 25.06 to 25.08
Sell reason: Hit stop”

The stop took me out for a 3.8% loss. Price eased down to a low of 23.37 before making at a recent high of 32.74. The decline to 23.37, meant a potential loss of 10%. Did I make a mistake selling too soon or should I have weathered the drawdown? That’s a question only you can answer because one day, you will be confronted with a similar situation, too.

The end