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!): triple bottom, 2 triangles, 2 head-and-shoulders and the start of a Big W.
The stock has not confirmed the triple bottom nor if you interpret the three bottoms as a head-and-shoulders bottom.

**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 screen.

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**Answer 1:** The next page shows my answer. As I look at it now, I think I’d wait for confirmation – price to close above the highest high in the triple bottom or above the down-sloping neckline. Usually, price continues down before reaching confirmation, so taking a position now seems risky.

**Answer 2:** Measure the height of the triple bottom from highest peak to lowest valley in the pattern and project upward from the highest peak to get a target price of 12.85.

**Answer 3:** Place a stop below the right shoulder low or the head low, that’s either two of the last minor lows shown on the chart. Volatility is 66 cents, so a stop placed no closer than 9.95 would work best. The May low is at 10.05, so it’s too close. The head is at 9.91, so that would be a better choice.

Here’s my notebook entry for the trade.
“Date: 5/5/2005  
Filled at: 10.78  
Stop: 9.89 (that’s 2 cents below the head low)  
Upside target: 14, site of Dec 2004 high, or high at LT down-sloping TL drawn from Jan 04 high to Dec 04 high.  
Future S&P direction (guess): Up  
Buy reason: Triple bottom. Early entry before confirmation, but it also lowers the stop distance, which is below the center peak. My gut feeling is that this triple bottom won't confirm and the price will drop, stopping me out.”

Three days later (5/8), I moved the stop at 9.89 to 10.17.

As you can see, the day after I bought the stock made a large up move and a day later (5/9), it gapped upward on a takeover rumor. Price has climbed 24% in just 2 trading days.

Question: Do you hold, buy more, sell, or sell short? My answer appears on the next page.
Here’s my notebook entry for the sale.

“Date: 5/9/05
Filled at: 13.50 and 13.49
Sell reason: Inverted DCB. I sold this on the rumor of a takeover offer from E-Trade. My research in these large 1-day gains suggests a decline in the coming weeks. Best to get out now with a 25% gain in 3 days.”

As you can see, a 25% gain in 3 days was delicious, but nothing like the gain I could have made if I sold at the very peak, 22.25, a potential rise of 106%. Oops.

The end