Bulkowski’s Trading Quiz

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!): right-angled descending broadening wedge (RABFD, 2 of those), double top, scallop, measured move, and a flag.
B and Eve is an Eve & Eve double top. The measured move is ABCD and it follows the same stair-step pattern as the prior up moves. That’s a warning as a pattern so blatant tends to break apart just after you buy in. The RABFD in August has too much white space but I show it anyway. It’s also the start of an ascending scallop.

Price has gapped upward out of the flag and consolidated.

**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 buried in my notebook for the trade, on the next page.
Here’s my notebook entry for the buy.

“Date: 7/11/05
Trade time: market open
Filled at: 69.08
Stop: 63.71, an 8% loss
Upside target: 74.29, using MMU approach from high (67.99) - low (51.52) = 16.47 x 64% percentage meeting price target = 10.54 added to flag low of 63.75.
Future S&P direction (guess): Up
Buy reason: Flag breakout, a measured move up type trade. Oil continues to be strong and hurricane passed the gulf where the co has ops.”

Question: Do you sell, hold, buy more of the stock? Answers on the next page.
Here's my notebook entry:

"Date: 7/21/05
Trade time: market open
Filled at: 67.75
Sell reason: This looks to be making a head-and-shoulders top. Other stocks in the industry are showing weakness by having bearish patterns. It's time to try to limit the loss and get out. Since the price made a higher high by 16 cents today, I just added that to today's price and placed a limit order, day, to sell at 67.56. My guess is that the stock will make a lower low tomorrow, signaling a downward breakout from the H&S top. That would not be good..This stock hasn't performed as I expected almost from day one. It's time to get out. The stock was upgraded by a broker and it sold at the open."

I sold the stock, placing an order to sell at the market open. What I should have done is gauge where the stock was headed and THEN sold. The gap up on strength may have given me enough backbone to stay in the trade longer.

But that’s the danger. If I held on when I thought I should sell and either made more money or lost less, I would be more prone to NOT sell the next time, hoping the stock would move even higher. That’s a recipe for disaster. I guess what I’m saying is that the stock needed to be sold but not by using a market order on the open. Trade it intraday day and sell instead of at the open.

The end