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!): 3 triangles, broadening pattern, 2 head-and-shoulders, big W.
The symmetrical triangle has broken out downward when price closed below the lower trendline.

**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 following pages.
**Answer 1:** The red line shows what I feel is a robust support zone. If price were to bounce off that line and trend up, would the trade be worth taking? The breakout price is 31.70 and the red line is at about 29, so that’s a decline of 8.5%. Price could drop below this and that’s always a possibility, but in a bull market, going short I feel is always more risky than going long. I wouldn’t short it, but if I owned the stock, I would sell it. Why? Because the support zone may cause price to rebound but it may not. Price could continue lower, much lower.

The green trendline also shows a support region but I don’t think the red and green zones are additive. That means the junction of the red and green lines don’t indicate a stronger support area.

What’s the answer to the question about trading this one? I think it’s a personal choice. You might want to short the stock but recognize the decline might not be what you hope. Certainly if you own the stock and get a sell signal like the triangle shows, then it’s time to sell.

**Answer 2:** What’s the target price? I would say 29 looks good. I like the intersection of the red and green lines as the point in time where price might stall or even rebound. Either support line would be a good price target.

**Answer 3:** If you were to short this one, where’s the stop price? There’s no overhead resistance to pin a stop. The top of the triangle is a good stop location. If price closes above the triangle top then it’s a good bet price will continue rising. The high is at 34.60 and the current close at 31.40, so that would mean a potential loss of 10%. That’s a bit high for a stop loss. You could place it at A, above the minor high and above the tight congestion at B. The high at A is 33.63 for a potential loss of 7%, so that’s where I would place it.

The next page shows the final chart.
Price didn’t decline to the red support line but bottomed much higher. Price pulled back and then continued up, rising about 50% from 31 to 46. The triangle busted and those often, but not always, mean a large move in the new breakout direction. They are worth searching for. A busted pattern is one that breaks out downward, moves less than 10% and then rebounds, breaking out the other side of the triangle.

In this example, going short would have been a mistake, but selling a long holding would not have been. Sound contradictory? If price continued down to 20, holding onto the stock would have been a disaster. You don’t want to get into the mode of second-guessing your trades. When you get a sell signal (a close below the triangle trendline), then sell. If price makes a large move up, so what? You don’t own it anymore so it should cease to matter. That’s how I treat any stock that rebounds after I sell. It happens.

The end.