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!): Big W, 2 head-and-shoulders, 2 wedges, 2 scallops.
The rising wedge is usually a bearish chart pattern, so the upward breakout – when price closes above the top trendline – seems unusual. How do you trade 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 starting below and a chart on the next page.

**Answer 1:** If you look at the bearish rising wedge as a busted pattern (the breakout is usually downward but it’s upward in this example), then buy. But first, check for overhead resistance. That appears on the next page.
The two red lines are what I think are overhead resistance. I drew them by connecting the peaks, valleys, and congestion areas. The lower red line looks to be too close to the breakout to stop price. Breakouts usually push through nearby overhead resistance. Will it stop at the top trendline? That’s the danger of trading a chart pattern that is NOT trading at the yearly high. There’s always overhead resistance.

**Answer 2:** Target price. It might stall at the top trendline or continue on to the old high at 18 and form a double top.

**Answer 3:** If you were to buy this stock, a stop placed below the wedge trendline would work. I show possible locations as points A-D. Point A looks too close. A quick down move would trigger a sale. B isn’t much better. C and D seem to be far enough away to lend protection. Volatility is $0.50, meaning a stop place 50 cents below the low at 14.30 would work. The 14.30 is the most recent intraday low price. That means point A is out but anything at B or below will work. On a percentage loss basis, B is at 9%, C is 11%, and D is 14.2%. That’s one of the problems with low priced stocks. A meaningful stop loss point is often a high percentage away from the buy price.

The next page shows what happened to the stock.
Much to my surprise, the lower bar of overhead resistance stopped price on numerous occasions, forming a broadening chart pattern (right-angled and descending). Buying this stock would have been a mistake.

The end.