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: triple bottom and top, double top, triangle, 3 rising valleys.
The triple bottom really has four of them, but ignore that. Price confirms the pattern when it closes above the highest peak between the three bottoms. Price also confirms the descending triangle. The long-term down-sloping trendline shows price piercing it, moving up.

**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:** Recognize that you are late getting into the trade, but the buy signal is clear.
**Answer 2, 3:** The next page shows my notebook entry and it answers these two.
Here’s my notebook entry for the buy.

“Date: 11/17/04
Filled at: 15.869
Stop: 13.23 or 16.7%
Upside target: 18, site of SAR, 17 has a knot of SAR during May ’04.
Future S&P direction (guess): Up. We are moving into December and the markets are searching for new highs.
Buy reason: Busted (but unconfirmed) head-and-shoulders. The stock has pierced the down-sloping trendline and pushed above the H&S. Bollinger bands look good. They are narrow and beginning to widen out, easing the way to higher prices.”

As I read this, I’m scratching my head. I think the busted head and shoulders I refer to is marked L, R, and H for left, right shoulders and head. My jaw dropped when I read of the 16.7% stop distance. That’s just too far. It’s located below the triple bottom low. If a trade has a stop that far away then you really need to reconsider the trade. Do as I say, not as I do! Now, I would use a Fibonacci retrace to narrow the distance to 14.31 or 10% away. Volatility is $0.93, so a stop no closer than 14.54 would work. Placing it there would cut the potential loss to about 8.5%.

I show the red horizontal line as the overhead resistance I mentioned in my notebook entry. That’s the target with a knot of resistance near 17 I also mentioned. That’s the green circle with a green line at 17. Expect price to stall there or at the red line.

The following page shows the Bollinger bands.
The Bollinger bands are just showing the beginning of a widening move. Narrow bands often precede large price moves in the stock.

The following page shows the next step.
From my notebook:

“11/29/04 Stop raised to 13.73
12/6/04 Stop raised to 14.93
12/16/04 Stop raised to 16.23”

Fortunately, I raised the stop, narrowing the potential loss from 16.7% to 13.4% (still too high) to 6% (reasonable) to a gain of 2% on 12/16. That is, if price drops that far. The last stop is positioned below the minor low that occurred just a week or so before.

Question: Looking at the chart now, is the stop in a proper place or should it be closer or farther away?

The next page shows what happened to the stock.
I’ve often remarked that price sometimes makes a quick decline after a quick rise and this is one example. You often see the quick rise/decline behavior in diamonds. A quick rise leads to the diamond and a breakout drops back down just as quickly.

Here, the stock plunged and took me out. It dropped back to the top triangle trendline boundary before forming a double top and then dropping even lower.

I made 2% on the trade and that’s certainly better than the 16.7% loss I started with (that is, the initial stop loss position).

The end