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!): unconfirmed head-and-shoulders, triple bottom, scallop, cup with handle.
I show the cup with handle that connects the two peaks in April and late December (the left shoulder of the head-and-shoulders top). Price broke out upward of the handle when price closed above the left shoulder high. Then price stopped rising at the head and retraced. This is typical of cups. They breakout upward and rise maybe 5 to 15% before dying. Lots of people love cups but my performance stats show they are mid list performers (13th out of 23 with 1 being best). I’ve tried trading cups but their results never lived up to their promise.

**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.

**Answer 1:** Wait for price to close below the head-and-shoulders armpit – the valley between the head and right shoulder before shorting the stock.
**Answer 2:** Measure the height from the head to the neckline directly below the head and project that downward from the right armpit to get a target price.
**Answer 3:** Place a stop at the right shoulder high.
To get a better handle on how far price is likely to drop, look for underlying support zones.

At the base of the ascending scallop is a small knot of price movement. I would expect price to stall here (see the above chart as “Small support zone here.”)

Since a quick decline often follows a quick rise (with a pause in between where chart patterns form as reversals, typically diamonds), I would expect price to eventually return to the low at A after the quick rise to B.

If that didn’t hold, then I think the low of the triple bottom would support price. I show that as the “Big support zone here.”

The next page shows what happened.
The A support zone at the base of the ascending scallop didn’t even slow the decline.

Support at B held up better. Price bounced upward in March 2005 but rounded over and found support near C.

C supported price at a slightly higher level than I expected, forming an ascending triangle. Support and resistance isn’t one price but a zone or area of support or resistance, such as this example shows. The ascending triangle broke out downward, warning anyone still holding onto the stock that it was time to sell. Price gapped lower in early June and has found some footing in August.

The end