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!): Double bottom, head-and-shoulders, potential big W. For the double bottom, identify the correct Adam and Eve combination.
When price closes above point A, it confirms the Eve & Adam double bottom.

**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?

Answers appear below and a chart on the next page.

**Answer 1:** Confirmation means a breakout, so buy.

**Answer 2:** The height is A minus the lower low. That’s 10.20 - 7.63 or 2.57. Add this to the breakout price (10.20) for a target of 12.77. Price hits the target 66% of the time, so be conservative. A better target would be the high where the Big W starts, not the highest high, but the cluster of prices at about 11.45. That’s below the round number 11.50 where everyone else might sell.

**Answer 3:** If you place a stop below the lowest low in the pattern, that would be too far away from the breakout (25%) so you could put a stop at B (12% away) or C (8% below). Both points are support or resistance areas where you could expect price to stop.
Price has reached the top of the Big W and broken out upward from a diamond top.

**Question:** How far will price rise? One answer appears below.

**Answer:** You could guess using support and resistance but here’s another method. Measure from the trend start (7.63) at the Adam bottom to the top of the trend (the right side of the big W) at 11.74. Multiply by 38% (a Fibonacci ratio value) and add it to the trend high. That is $11.74 + (4.11 \times 38\%) = 13.30$. This method is what’s called a Fibonacci extension. The next page shows how well the method worked in this example.
Again, look for a straight-line run from A to B, measure the distance between those two points and project upward from B. In this example, price hits the target and tumbles. The target also nearly matches overhead resistance set up by a peak and valley earlier in the year, as I show.

You may be excited about this, but let me warn you. I don’t think it works that often. If the target happens to coincide with overhead resistance, then it’s more likely to be correct.

The end.