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!): 2 flags, 2 triangles, 2 scallops, diamond.
The high, tight flag appears when price doubles in less than 2 months, as it did here. I circled what I considered the flag portion of the HTF.

**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?

My answers appear on the next page.
Here’s my notebook entry for the trade.

“Date placed: 12/21/05
Order type: buy stop at 20.46, a penny about the HTF high on 12/16/05. Expires in 15 days, on 1/5/06 because the flag length would be too long after that.
Date Bought: 12/23/05
Bought at: 20.49 -- 20.46
Stop, % loss: Flag low, whatever that happens to be. That's too close with this volatile stock.
Volatility, stop: $1.03, 18.11, -10%. Placed 12/23/05
Upside target: 26.16. Using HTF 50% measure rule: 20.45 - 9.03 (9/29/05 low) added to 20.45 high on 12/16/05
Future market direction: Up
Indicators: Bearish divergence in the CCI and riding along the top band in Bollinger
Associated commodities: Oil: Downward trend
Score and price target: +2, 25.43
Industry and stock rank: 10/46, 1/8
Buy reason: HTF
Buy again plans: None.”

I placed a buy stop above the top of the pattern and I find that’s mandatory when trading HTFs. I’ve seen too many of these patterns form a flag, break out upward (but below the flagpole top) and then continue sliding. Placing a buy stop above the highest high in the pattern is the only way to trade this one. I placed a stop according to 1.5x the volatility of $1.03, or 10% below the buy price the day I bought (placed at 18.11). The price target was 26.16, which is half the measure of the flagpole height. The next page shows charts of the CCI and Bollinger bands.
The green sloping line shows the bearish divergence between the CCI indicator and price. In the top half of the picture, the red and green vertical bars are sell or buy signals, respectively. They are generated when the delayed CCI (DCCI) crosses the CCI or when CCI crosses the 0 line. Usually, I ignore the signals. Oddly, this chart says NOT to buy the stock.

Here’s the Bollinger bands. Price is riding along the tops. The only concern is that price will eventually drop from the top band, through the middle one, and touch the bottom one, which would be quite a drop if the bandwidth doesn’t change.
This is the price of oil. It peaked in September and has been on a steady downtrend since then except for a retrace around mid November. The price of oil isn’t as much of a concern as the price of plane fuel, which I don’t track…

“Score and price target: +2, 25.43”

I scored the HTF and found that it had a +2 score with the median rise of 25.43. See my book, Trading Classic Chart Patterns for the scoring system details.

“Industry and stock rank: 10/46, 1/8” I used the price move over the last 6 months for this notebook entry. Out of 46 industries I track, air transports ranked 10th for performance (1 is best). Of the 8 airlines I follow, the stock ranked first, showing excellent upward price momentum.

I drew two horizontal red lines at 17 and 18. This is bracketing the congestion region in early December. Round number resistance is at 20 and 25. You can see that the stock paused at 20, shown by the green line, pointing to the flag portion of the HTF.

The next page shows how the trade progressed.
“12/27/05 Stop raised to 19.13, a penny below the flag low as price climbed over a buck. 1/4/06 Stop raised to 19.78, which is a vol stop using 2x volatility.”

The above chart shows where I bought the stock and where and when I moved the original stop at 18.11. When price made a new high the day after I bought, I moved the stop up to a penny below the prior low, to 19.13. When price made a new high in the new year, I moved the stop up again, using 2x the volatility as a guide.

The following page shows what happened next.
Here's my notebook entry for the exit.

“Date placed: 1/9/06
Date sold: 1/10/06
Sold at: 21.84
Sell reason: I looked at the other HTFs for the past 2 years. Those that confirmed topped out when the CCI diverged from price. The CCI is diverging with price. Today, the transports were up 24 and this stock was down 3 cents (Friday close on 1/6 to Monday close on 1/9). I think it's topped out and I don't want to give back my 7%. I might be early but the market (S&P) has been up for 5 days in a row and it's due for a setback. That I think will happen tomorrow. The transports have made a sym triangle, sorta, with downward spikes. That suggests to me price weakness, that a definite downward breakout will occur.”

I sold at the market open, 21.84, which is just short of the intraday high of 21.97. I felt very strongly about the sale, that I was making the right move. It turns out this was the perfect exit. I escaped the downward price plunge that began on the day I sold. In 6 days, including the day I sold, price plummeted 24%!

I made 6.5% in about 2 weeks time.

The end