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!): head-and-shoulders, wedge, 2 scallops.
At the end of the chart is a rising wedge. Wedges are tough to spot and they don’t work well, but some traders swear by them. Price has poked below the end of the wedge as it’s drawn here but price still closed within the trendline boundaries of the wedge. Thus, no breakout has occurred.

**Question 1:** What is likely to happen next (which way is price likely to go)?

**Question 2:** If you own this stock, do you hold on, sell, buy more, or freeze like a novice trader?

**Question 3:** What is your target price?

**Question 4:** What is your stop price?

The answers appear below and the price action appears on the next page.

**Answer 1:** 69% of the rising wedges I looked at broke out downward, so that’s the way I would guess price is going.

**Answer 2:** If price DOES breakout downward, then how far will it go? Once you know that then you can determine whether it’s time to sell or not or just ride out the decline. If I hold a stock and it breaks out downward, I usually sell immediately. Price prediction is an art, so I play it safe and exit then let the market do what it will without me.

**Answer 3:** Price usually drops to the wedge low 46% of the time in a bull market, so that’s one target. If I owned this stock, I would expect a slide to 28 to 30 before price met support. The green line drawn near 29 on the chart shows what I’m talking about. Price touches or nears the level a few times.

**Answer 4:** Volatility is $1.26 (that’s 1.5x the average high-low range over the last month) and the current low price is 35.29, so a stop closer than 34.03 would risk being stopped out on normal price movement. However, since this is a bearish chart pattern, I would err on the side of caution and place a stop just below point A on the above chart. I would also sell immediately if price closes below the lower wedge trendline. More recently, I’ve increased the volatility to 2x instead of 1.5, so keep that in mind. Research suggests 2x works better than 1.5.
Price punched through the wedge bottom and moved lower, fulfilling the measure rule by spiking below the lowest valley in the wedge. Notice how price in October stopped near 29, just as predicted. Wow. Maybe this stuff works!

The end