Hint. Look for the following chart patterns: double and triple bottom, triangle, double top, pennant
The three bottoms labels 1, 2, and 3 are not the bottoms of a triple bottom. Why not? Because the pattern is not confirmed. That means price doesn’t close above the highest peak in the pattern before tumbling below the pattern’s low.

Price has broken out above the Eve & Eve double bottom, confirming it as a valid chart pattern. It also finished a small pennant pattern. Overhead resistance at the 1, 2, 3 bottom appears as a red line on the chart. If you were to buy now, you are getting in after confirmation and possibly will be buying when price has touched overhead resistance and is about to throwback.

**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:** The safest thing to do is wait for a throwback. A better entry would be to place a stop order to buy at the price of the EEDB top. That would get you in at the breakout price, not a few days after confirmation like you would be doing now.

**Answer 2, 3:** My notebook entry on the next page shows the answers to these two questions.
“Date: 2/7/05
Filled at: 12.69
Stop: 11.05, just below the pennant in Feb.
Upside target: 15.71 using book score method (the median price rise for an EEDB).
Future Nasdaq direction (guess): I expect the Nasdaq to stall at the knot of overhead resistance and turn down. That's not good for the stock, but it shows strong upward momentum and I'm hoping the flag (in the stock) will support the stock.
Buy reason: EEDB. A strong breakout on Friday suggests an extended move, but I think the fundamentals are weak. This may throwback at 14 due to overhead resistance in June 2004. The 13-16 range is going to be a problem for this stock (May to June consolidation region -- a MMD corrective phase [I show this as 1, 2, 3 in the chart]). If the Nasdaq turns around (continues up), this stock might do well. I chose this over Intel because of the book score. Intel has a -4 score and upward breakout from descending triangle. CCI said buy on Friday and the stock is riding the top Bollinger band upward.”

Here’s the Nasdaq chart with the small knot of resistance I wrote about in my notebook. It forms along a resistance band I show as blue lines, corresponding to peaks or valleys.

More on the next page.
This is a complicated looking screen but it shows the CCI indicator in red on the bottom pane and a smoothed CCI in blue (the DCCI). A bullish crossover occurred as shown in the upper partition of the screen in green is the most recent signal. A trading signal is when the CCI line crosses the zero line. The zero line is the one in black on the bottom pane and a green vertical bar shows the buy signal location on the top pane.

The next page shows the Bollinger band.
You can see price in the bottom pane trading along the upper band with the upper and lower bands expanding.

The next page shows the view a few days later.
This figure shows what I saw. The zoom in the upper right shows that price opened near the intraday low and it closed there. The zoom on the left shows what I expected to happen – that of a tail or spike forming on high volume. The high volume led me to believe it was a one-day reversal (the high volume appears on the bar chart, not on the zooms).

**Question:** What do you do with the stock, assuming you own it? Do you buy more, hold, sell, or short the stock?

My answer appears on the next page.
Date: 2/10/2005
Filled at: 13.28
Sell reason: Stock has made what looks like a tail. Time to sell before I give back more profit and the stock plunges.

The chart shows where I bought and sold. The lesson I learned from this trade is that with a spike/tail, you should always wait another day for the picture to clarify. In short, I sold too soon. I made about 4.5%. That’s not bad for a 3-day hold time. On an annual basis, it’s over 540%. Now THAT’s a good gain!

The end