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!): wedge, v top – extended, triangle, diamond, head-and-shoulders, broadening pattern, triple bottom.
The extended V top may be new to you. It is to me and you’ll find it on my website in Chart Patterns/V top, extended.

Anyway, the head-and-shoulders bottom appears clearly formed, but price is heading down.

**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 1-3:** The next page shows my notebook entry for the trade and it answers the questions
This is my notebook entry that serves as a checklist. I may look at other items not on the list, but I want to make sure I check these before placing the trade.

“Date placed: 12/7/05
Order type: market
Date Bought: 12/8/05
Bought at: 23.12
1) Stop, % loss: 22.41, or 3.4%
2) Volatility, stop: $0.59, 22.43
3) Upside target: 25.65, the lower end of congestion in Aug 05
4) Future market direction: Dow utilities: It has formed a small base from 11/25/05 onward after a larger basing structure from Oct ’05 onward, and I think is poised to move up. The sharp down move today is worrisome as it may mean it’s about to tumble.
5) Indicators: CCI bullish divergence. Bollinger: says it may continue down for a day or two before bouncing off the horizontal bottom channel line.
Associated commodities: None.
6) Score and price target: -1. Target: 29.93
7) Industry and stock rank: 37/45, 11 out of 11 in the industry
SAR: (support and resistance) ~25, price of the Nov 05 descending triangle, more at 25.65, price of the triple bottom in August ’05, more at 27.68, congestion on the rise and fall to/from the June ’05 peak.
Buy reason: Big W, formed as a head-and-shoulders bottom. Yield is 4.9% at the close of 23.20.
Buy again plans: 24.32, when price moves above the right shoulder, buy more.”

1, 2) Stop loss. The stop is just below the head, which has a low of 22.50.
3) The target is the bottom of the triple bottom in August.
4) See chart

Above I show the “basing structures” I mentioned in the notebook entry. This is in the DOW Utilities average. The down day I mention is the last bar shown on the chart.
5) This is a chart of the CCI (commodity channel index). The index trends up (higher lows) while price trends down (lower lows). Usually, price follows the indicator so this suggests a bullish turn in the stock.

This is the Bollinger band. Price has come close to but not touched the lower trendline, suggesting additional downside. If that’s they case, why did I buy? Because I could be wrong and it could zoom up tomorrow. I now think it’s best to wait for the turn, especially when bottom fishing like I’m doing here. However, the shape of the head-and-shoulders was so clear, I thought this to be a sure thing. Little did I know…
6) Score and price target. Using my *Trading Classic Chart Patterns* book’s scoring system, I found that it predicted a target of 29.93 and the probability of reaching that median rise was NOT good.

7) Industry and stock rank: 37/45, 11 out of 11 in the industry. This is a comparison of the current price with 6 months ago, sorted by the 45 industries in the list and then sorted by the 11 companies in the Eastern electric utility industry. The stock ranked dead last for performance. Is that to be expected since the stock was making a new low? Maybe.

Here’s my notebook entry for the sale

“Date sold: 12/30/05
Sold at: I timed the exit and got what I thought was a good price, 22.69.
Sell reason: End of year tax loss selling. This is going down, I predict, so it’s time to dump it and lower my cap gains taxes. This H&S bottom didn't work as expected.”

The next page shows what happened to the stock.
As you can see, the day after I sold, the stock took off, gapping upward. It figures…Notice that price stopped at the overhead resistance level, just as I predicted. And so far, the stock hasn’t closed in much on the 29.93 median rise, just as the scoring system predicted (it said the probability was less than hopeful to reach the median). But it’s early yet.

The end