Hint. Look for the following chart patterns (If you find others, great!): double bottom, 3 scallops, triangle, rectangle, Big W.
Notice the two inverted and ascending scallops. Point A is much lower than B but B is only marginally lower than C. That suggests a weakening of the upward price move leading to the rectangle and symmetrical triangle. The triangle has a downward breakout. The scallops predict a trend reversal. Is the prediction correct? We’ll see.

**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 first answer appears below and a chart on the next page.

**Answer 1:** If you owned the stock, then a downward breakout from the triangle would be a sell signal, the scallops provide a warning of a coming trend change. Would you risk a short sale? A further analysis follows.
The red trendline is a support line. Consider shorting the stock if price closed below the trendline. The green horizontal trendlines outline a support zone formed along the top and bottom of the rectangle. With support close to the chart pattern, a short would be a risky trade. If price reverses, it would be difficult to close out the short and make a profit.

**Answer 2:** What is the target price? You can use the measure rule for the symmetrical triangle and that’s a good first step. Finding support zones is vital. If you can determine how far price is going down or up, then that means big bucks. Look at the next page.
Shown in red are regions that I think would support the stock. The first is the bottom of the rectangle as I’ve mentioned. The next line down connects the three minor lows in August through October. We are not dealing with individual prices but zones or areas of price support. The bottom two lines highlight a region of support with minor lows touching the bottom trendline and peaks along the top. I didn’t take much time picking the places to draw these lines, but just connected the highs and lows as an ‘internal trendline,’ as they are called. Those are trendlines that connect the bulk of the price movement and cut off the outliers, the one-day spikes where few trades occur.

Price could reverse at any of these areas.

**Answer 3:** Where is the stop price? Above the top of the triangle – that’s an easy one. If price busts the triangle (meaning the downward breakout reverses and price breaks out upward), then close out the short immediately. It means price is going higher. The next page shows how the analysis did.
When I put together a quiz, I don’t look ahead to see how price did. I make my predictions using the chart in front of me, just as you do when you look at the quiz. Having said that, notice that price pulled back to the bottom of the triangle. That might scare away novice traders but it’s expected because they occur between 40% and 70% of the time, depending on the chart pattern type (symmetricals pullback 66% of the time).

Here, price bounced off the top of the rectangle and pulled back. Then it made a straight-line decline to point A, punching through the first support zone along the way. It bottomed near where I thought the second support zone would be. Since the July 2003 low, the stock hasn’t touched this support zone. The lowest it has traveled is 26.49, with the low at point A at 26.66 for reference.

If you shorted the stock, where would you close out the short? Look at the next page.
I find trendlines useful. In this case, when price closed above the red down-sloping trendline, I would consider covering the short. Using the measure rule for trendlines, measure the decline from A to the trendline at B, vertically. Project the move from the breakout price upward as shown. I am using the log scale so if you physically measure the move, you should switch to the arithmetic scale so vertical distances are the same. That gives a target price showing how high price might move. It suggests that you close out the short now or suffer the consequences.

The end