This is a complicated screen but you can see the cup with handle forming from Dec to June and the handle after that. My guess is that this one will fail. Cups have a strong tendency to rise 10% or 15% after the breakout and then tank. That may happen here. Look how timely the pipe bottom in August 2004 was… The green Bs and red Ss are buy and sell transactions.

The next page shows the weekly chart.
There’s the symmetrical triangle I was talking about. IF price can pierce the top trendline then this could be a winner.

Here’s my notebook entry for each of my trades. They will give you an idea of how I think.

Date: 8/26/04 I placed an order to buy at 11, stop. The stock is moving sideways, consolidating, and it's a shark-32 pattern. I am hoping for an upward breakout from this congestion region. Fundamentals are with me as price has been climbing with brokers recommending the stock. The last earnings report was a good one.
Trade time: (unfilled day order only)
Filled at: Not filled
Stop: 9.93, below round number support and outside of the .37 volatility.
Upside target:
Future S&P direction (guess): Upward if the upward breakout from a descending broadening wedge holds. Otherwise, it'll tumble to the other side of the wedge and this trade will likely fail.
Buy reason: pipe bottom.

Date: 8/30/04
Filled at: 10.53
Stop: 9.91, a loss of 5.9%
Upside target: 12, overhead resistance
Future S&P direction (guess): upward, breaking out of a descending broadening wedge
Buy reason: pipe bottom with lots of support at 10.50. Market may be choppy going into September, DJIA is down 20 points as is Nasdaq. Large dip down washed out the sellers and a small shark-32 pattern/symmetrical triangle suggests price is going to breakout soon. Volume has been sloping down, supporting the coming breakout. Hope it's to the upside.

9/14/04 Stop raised to the buy price of 10.53 today.
9/21/04 I canceled the stop because it was too close. This stock has thrown back and is searching for a reason to go higher. I may buy more and don't want to get stopped out on a brief dip.

Date: 9/21/2004
Shares: Bought less than normal because this may confound me and move lower. It is having difficulty moving up, so it is not acting exactly as expected.
Filled at: 10.96
Upside target: Same as above
Future S&P direction (guess): Upward
Buy reason: Buy after throwback. This is another opportunity to buy in. The Fib retrace from 8/13/04 to 9/14/04 at 38% supports the current price.

9/30/04 Stop raised to 10.48 after the close
11/17/04 Stop raised to 12.47
12/2/04 Stop raised to 12.83
12/16/04 Stop raised to 13.53
1/13/05 Stopped out at 13.53 in general market weakness since 1/1/05

Date: 5/2/05
Filled at: 13.13
Stop: 12.71, not placed
Upside target: 14.44
Future S&P direction (guess): Up, both S&P and Nasdaq after hitting a support zone.
Buy reason: Earnings flag trade. Intraday, just as I was changing the bid from 13.11 to 13.13, the price dropped to 13.11 and is now at 13.06. Rotten timing. I knew that if support broke at 13.13, the price would drop which is why a bid at 13.11 would be a mistake. If they took that, the price would likely continue down. I wasn't sure that 13.11 would ever hit, so I moved it up .02.

5/4/05 Stop placed at 11.94, below the 62% retrace of the prior up move from it's start (11.10 on 4/15/05) to the flag high at 13.47 on 4/22/05.
5/8/05 Stop raised to 12.17
5/13/05 Stop raised to 12.91, just below the flag apex.
5/19/05 Stop raised to 13.23, just below Fib retrace of 62%.

Date: 5/26/05
Trade time: market open
Filled at: 14.15
Sell reason: I think this stock has peaked, short term. MACD says momentum turned lower today (5/25). It's fulfilled the flag measure rule and is butting up against overhead resistance coupled with a Nasdaq that's poised to tumble. I want to take my $ and exit. Stat!

Date: 7/6/05
Trade time: at market open tomorrow
Filled at: 14.22
Stop: 13.33, or 6% down
Upside target: 18
Future Nasdaq direction (guess): Up
Buy reason: A perfect cup with handle. I'm buying before confirmation because I feel strongly about this one. On the weekly chart, the Jan 05 peak pokes through a long term down trendline. If this stock can finally push through that resistance, the sky's the limit. I might buy more if that happens. Score +3 for 18.19 target. Only 2 problems: a weak market and lack of confirmation yet. Before the open on 7/7/05, terrorists exploded 4 bombs in London. I thought that would cause the stock to gap lower on the open and then recover through the day. It turns out I was right as I got a fill (14.22) much lower than yesterday's close (14.48).

Check with your tax adviser before taking the following as gospel as tax laws change: This is my interpretation.

Let's talk about the wash sale rule. ‘The wash-sale rule applies if within 30 days before or after the sale of stock or other securities showing a loss you buy "substantially identical" stock or securities.’ If you own 100 shares of IBM at 30 and it cost you 100, you can’t buy another 100 and sell the original ones tomorrow and take a loss deduction.
Likewise, you can’t sell your 100 shares then buy it again within 30 days and take a loss deduction on your taxes. Some traders are exempt from this rule.

Knowing that, I decided to sell my EMC holdings for a small gain (1.9%). Why? The peak at B is below A and that usually suggests a trend change. If price can’t rise above the prior high, then price will fall back. If it does, I’d take a loss. Although I think EMC is a good buy, I didn’t want to suffer through a massive loss plus wait 30 days before I could buy again. This way, I capture a small profit and I can buy again immediately should price continue higher.

Here’s my notebook entry for the trade.

Date: 7/13/05
Filled at: 14.51
Sell reason: I believe this has formed a lower high. That suggests a short-term trend change. Since I have a profit, I thought I’d cash out now and wait for it to go down then recover. When it breaks out of the long term down trendline then it might be worth another look.

The End