Instead of the usual quiz, I thought I’d review mistakes plus a short quiz and an actual trade.

**Review and Mistakes**

The above chart shows two patterns, one without the trendlines drawn. The image on the right isn’t a descending triangle because it contains too much white space. This is from Yahoo, May 05 onward. Compare the image with the following one.

Notice that the above pattern doesn’t have much white space. Price crosses the pattern from high to low often, touching each trendline plenty of times. This is a perfect example of an ascending triangle. This is from Tultex (TTX) July to Sept 95.

The above example shows the raw chart on the left and an attempt to create a descending triangle from the image on the right. Notice that the pattern has three trendline touches on the top, called minor highs – peaks. The middle valley is called a minor low as the left image shows. Do NOT draw a horizontal trendline from the start and end of the daily price data and call them minor lows (as the arrows on the right image shows). Those end points don’t stop at valleys.
They are not minor lows even though the daily bar has a low on those two points and they happen to touch the trendline. They do not count as touches. The triangle needs at least TWO minor high touches of the top trendline and TWO minor low touches of the lower trendline. The above chart shows only one minor low touch of the lower trendline. Thus, it’s not a descending triangle. This also applies to other chart patterns: most need at least two or even three trendline touches using distinct peaks and valleys.

**Quiz**

Below is the weekly chart showing a symmetrical triangle. The partial decline suggests an upward breakout. Imagine that you buy the stock.

The next chart shows the daily scale.

This is the daily chart showing the partial decline. What do you do with the stock? You already own it. Do you sell, hold, or buy more? My answer is on the next page.
This is the chart of EMC. I show the buy and sell points for my trade. Here’s my notebook entry for the trade.

“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).

Date: 7/13/05
Trade time: 11:06
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.”

This was a hunch that worked out. If I held on, I’d be looking at four digit loss (if I sold at the low) instead of the three digit profit I made.

The end.