Bulkowski’s Trading Quiz

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!): 2 triangles, wedge, broadening formation, double bottom and top, 2 scallops.
Please forgive how my computer drew the blue lines, but you get the picture. Price has broken out downward from the broadening formation in March 2005. It has also confirmed the Eve & Adam double top, suggesting a downward price trend.

**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:** Since the breakout is downward, short the stock but recognize that when price hits the ascending triangle, it’s likely to reverse. That doesn’t leave much of a profit opportunity.  
**Answer 2:** I’d use underlying support as the target – the top of the ascending triangle.  
**Answer 3:** The top of the broadening pattern is 9.8% away. That’s just inside the 10% or less that I like to see for a stop, so that’s where I’d place it. It still seems unusually far away, though.
You can see that price moved up after the breakout in a pullback attempt before resuming the downward move. Price hit a support layer setup by the large ascending triangle and the decline stopped. Price made a nice uphill run after that.

Price didn’t actually reach the top of the triangle at 24.17 but dropped to a low of 24.83.

The end