Bulkowski’s Trading Quiz

What chart patterns can you find? A hint appears below and answers on the next page.

**Eagle Materials Inc. (Cement & Aggregates, NYSE, EXP)**

**Hint.** Look for the following chart patterns (If you find others, great!): flag/pennant, 3 broadening formations, rectangle, 2 scallops, double bottom.
The broadening top has a partial decline in the shape of a flag. A partial decline correctly predicts an upward breakout 72% of the time in a bull market. The bottom of the flag corresponds to a 38% retrace of the move from A to B. The breakout from the flag is upward.

**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:** With price moving up after bouncing off the 38% Fib retrace and breakout of the flag, it’s an early buy signal.

**Answer 2:** Compute the height of the broadening top (the difference between B and A) to get a height of 8.22. Add this to the top of the pattern, A, to get a target of 53.92, which is conveniently below the 54 round number.

**Answer 3:** Volatility is $1.76 so place a stop no closer than 42.24 (the low on the last day shown is at 44). That is below the bottom of the flag and it’s a good stop location. That would mean a potential loss of 6%.
A buy order was the correct choice because the stock continued to move up. As the blue trendline shows, price lost
momentum and broke through the trendline near the top of the chart. A shorter trendline, shown in green, also shows
price breaking down.

**Question:** Do you buy more, sell, or even short the stock? The next page shows a new chart and the answer.
This chart is somewhat complicated but focus on the green pointer on the left. It shows where we left off from the last chart. Price gapped downward but found support in the low 50’s and formed a double bottom/symmetrical triangle. Price broke out upward and continued its bull run. If you sold the day after the gap down, you would have been filled between 55.45 and 56.70. The low a few days later was at 52.80, so you would have been selling near the low.

I believe that selling is the proper course of action. After all, price often continues dramatically lower. If it had continued down to 25, how would you feel if you sold at 56?

The next page shows you a trick that’s rarely used but it works 63% of the time, according to a study of trendlines I did.
The measure rule for trendlines: Find the widest distance from the high to the trendline before the breakout but AFTER the most recent trendline touch. I show that as the red line AB. Subtract the height from the breakout price, C, to get a target. In this case, the measure rule worked because price dropped more than the height, so it may serve as the minimum price move to expect.

The end