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 double bottoms, big W, flag, 2 head-and-shoulders.
The complex head-and-shoulders bottom (chart center) has a dual head (the Adam & Adam valleys) with nearby shoulders LS and RS. The red line on the Adam & Eve double bottom shows the confirmation price. If you placed a buy stop at that price, you would have bought in at the breakout. If you waited for price to close above the confirmation point, you would have remained out of the trade for at least another day because price closed below the red line on the day it gapped upward (meaning the pattern was NOT confirmed). The next day (the last one on the chart) is the first day price closed above the confirmation point. That would have been the buy signal and you would place a buy order the following day.

**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:** Buy the stock because it has an upward breakout. However, the risk is increased because price has climbed far from the breakout price. If it throws back you could be cashed out and suffer a loss even though the chances are 86% that price will resume the upward move. If this were my trade, I would skip it or wait for a throwback because I’m too late getting in.

**Answer 2:** Measure the height of the chart pattern and add it to the confirmation price to get a target of 58.14, which price reaches 66% of the time.

**Answer 3:** Volatility is $1.89 so a stop no closer than $55.18 – 1.89 = 53.29 would keep you away from being stopped out on normal price fluctuations. That’s measured from the current low and that’s slightly above the confirmation price (red line on the chart). Since price is on a straight-line run, I would use a 62% Fib retrace as the stop point. That would place the stop at 51.50 which is 62% of the rise from the Eve bottom. That would put a potential loss at 9% as measured from the most recent closing price.
I show the confirmation price as a red line, the target as the blue line, and show that price did not throwback. Thus, I would not have bought this stock unless I had a buy stop at the breakout price. Anyway, price has formed a small ascending triangle.

**Question:** If you owned this stock, would you sell or hold on for additional gains? The answer appears below.

**Answer:** Since the breakout is downward, that’s a sell signal. I would sell. However, if you were to short this stock, how far would it drop? Measure the height of the triangle from the top trendline (65.35) to the lowest valley (62) for a height of 3.35. Project this downward from the breakout price (63.45) to get a target of 60.10. That’s a potential decline of 5%. Price reaches the target 54% of the time in a bull market. Is a 5% decline worth selling your stock? Is it worth shorting the stock? The next page shows the chart and the price action answers those questions.
As the above chart shows, the stock dropped to a price of 59.01, beating the 60.10 price target handily. Nevertheless, that’s a decline of just 7% and that’s if you traded it perfectly. My belief is that if you sold this stock short, you would have taken a loss. If you sold a long holding, you would have watched from the sidelines as price climbed to a high of 78.05 by November.

The end