This stock has split its shares and my program has a bug in it such that it didn’t split the opening price. Thus, the opening is pegged at the intraday high. Ignore it. What chart patterns can you find? A hint appears below and answers on the next page.

**Hint.** Look for the following chart patterns: head-and-shoulders, at least 2 scallops, triangle, simple ABC correction (2 really), and the start of a measured move up.
The stock has broken out upward from the simple ABC correction, suggesting good gains ahead. The green line highlights the measured move up chart pattern from EAC and higher from there.

**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 stock has climbed above the top of the corrective phase of the measured move up (part of the simple ABC Correction, the peak at D), that’s the buy signal.
**Answer 2:** Use the measured move up (MMU) to predict a target. The height from E to D is 57.59 (D) – 36 (E) = 21.59. Since the MMU measure rule works just 38% of the time, let’s multiply the height by 38% to get 8.20. Add this to the corrective phase low at C (48.66) to get a conservative target of 56.86. If you look at the chart, price has already hit the target! If we use the full height we get a target of 70.25, about $10 above where it’s trading now.
**Answer 3:** What’s the stop price? Let me answer that in my notebook entry that follows on the next page.
Date: 9/8/05
Filled at: 58.77. I used a limit order to buy.
Stop: None. Buy more if it hits 50.10. 50 should be a support zone.
Upside target: 65.79. Using a MMU measure rule, it's 57.59 (8/2) - 36 (4/11/05) = 21.59 x .38% accuracy = 8.20. From the high on 8/2 that's a target of 65.79.
Future S&P direction (guess): Up

Buy reason: Simple ABC Correction and Fundamentals. With hurricane Katrina chewing up 90,000 square miles of Alabama, LA, and Miss, I figure they will need a bunch of concrete, which the company provides materials for. This should be a holding of 2 to 3 years, not a quick in-out play. Put a stop, but consider buying more if price drops substantially. Intraday, the stock made a higher high so I knew price was trending up even though it was below the prior day's close of 59.80. It's now 59.18, moving up. As to the ABC correction, this is the second one in the price trend, so that makes me nervous. Plus, I'm way late getting into the trade. I should have bought over a week ago just after the hurricane struck.”

I considered this a long-term trade, so I was willing not to use a stop. My bet was that 2 to 3 years down the road when I sold the stock would be substantially higher, handling business from the hurricane recovery which will be in full gear by then. Whether this is still true remains to be seen. For short-term traders, volatility is 2.81, so a stop no closer than 57.87 (the current low) – 2.81 = 55.06 would work. That places the stop slightly below peak B. I think that’s too close. I’d probably place it below A, at about 52.63 for a potential loss of 9%.

As to the target, you’ll notice that I used the high at D and projected upward. I did this because price had already met the target (answer 2).

The warnings I issued in my buy reason – getting in late and a second simple ABC correction – are red flags to the trade. Getting in late means smaller profits or even a loss unless you can price it at a better entry. For me it usually means lower profits. With 2 ABCs (the first begins at the May 04 low on the chart, simple ABC correction at the head and shoulders to point E, and upward to D) occurring, how much higher can the stock go? Plenty if my fundamental analysis is correct. Some will recognize this as scenario trading, something I warn traders against doing. I tried it here and we'll see how it turns out. Scenario trading is investing in an idea you firmly believe in. In this case, that’s Hurricane Katrina chewing up foundations, roads, and bridges coupled with a shortage of concrete already, it’s an easy score. Or so I thought. Other investors thought so because the stock has climbed from the low of about 25 at the start of the chart to a recent 60+. Wish I had a piece of that…

The next page shows another chart.
After the buy, price dropped for a few days despite my confidence that it would rise. Nevertheless, price climbed to peak at A, hitting 67.98, exceeding my notebook target of 65.79 and falling just pennies short of the 70.25 full height target from answer 2. The log scale makes the distance appear smaller…

Since peaking at A, price has moved down steadily and has now closed below the trendline I show starting in April. The stock has bottomed at 53 and closed at 55.40.

**Question**: Even though this is a long term holding, do you buy more, sell, hold, or even short the stock?

My answer appears on the next page.
“Date: 10/27/05 after mkt closed
Sold at: market open
Sell reason: This was a scenario trade gone bad. Although I think this stock has promise long term, short term it’s going down. It has closed below an up-sloping trendline formed along the bottoms from 4/18/05 to 8/26/05 to today. Time to get out. The general market is in a downtrend now, so I'm limiting my exposure.”

Here’s the chart since then.

I decided to cut my loss and sell at the market open, filled at 54.07, losing 8% on the trade. That’s certainly better than riding it down to a recent low of 49.20 (16% loss). I can always buy back in if I think the concrete business isn’t getting stoned any more. [Subsequently, the stock bottomed at 45.30, recovered to 65.53 and then plunged, reaching a low of 35.71 in August 2006.]

The lesson I learned from this trade is that it pays not to ignore long-term holdings. Even though the stock may recover in a few years, it may not, especially if you sell your losses at tax season (which I usually do). Use a stop to limit losses even in long-term trades unless they are near to going from a short-term holding to a long-term one. Then, holding on may make sense for tax reasons.

The end.