Hint. Look for the following chart patterns (If you find others, great!): broadening formation, high and tight flag, failed big W, head-and-shoulders, double bottom.
The failed big W are the two Ws that don’t line up (they are supposed to in a working pattern). The Adam & Eve double bottom didn’t work well. The two parallel lines on the right are a high and tight flag (HTF). Price moved from 6.71 to 13.08 in just over a month then backtracked and it looked like it was breaking out of the flag portion of the HTF.

**Question:** How do you trade the HTF pattern? The next page shows the price action and how I traded it.
This is from my trading notebook.

Date: 12/23/04  
Trade time: open  
Filled at: 11.69  
Stop: 10.33  
Upside target: 15  
Future S&P direction (guess): Up  
Buy reason: High, tight flag with upward breakout as oil prices drop.

A HTF is supposed to have a large up move – about half the length of the prior uptrend. That would mean a 3-point move up from the low of 10.73. That’s about a 30% climb. I felt it was worth the risk.

Here’s the price action to the next point.

Clearly the airline was not cooperating as price tumbled instead of taking off. What do you do now? Price looks like it might find support around the round number 10, which also corresponds to the consolidation region in early November.

**Question:** Do you hold on a bit longer, sell, or maybe even buy more (averaging down)?

The next page shows what I did.
Date: 1/4/2005
Filled at: 10.334
Sell reason: Hit stop on market sell off.

The stock hit my stop loss order and I was taken out for a loss of about 12%. Ouch. The good news is it could have been worse. I could have sold near the triple bottom low of about 8.

The end