Bulkowski’s Trading Quiz

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

General Electric Co (Diversified Co., NYSE, GE)

Hint. Look for the following chart patterns (If you find others, great!): double top, wedge, rectangle, triple bottom, triple top.
A and E is an Adam & Eve double top even though the decline between the tops isn’t 10%, the minimum required for them. The triple top in June/July doesn’t confirm so it’s not a triple top. That means price never closed below the lowest low between the three peaks, so it’s just another 3 bumps on the price chart.

The stock has broken out of the rectangle and confirmed the triple bottom.

**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:** Upward breakout: buy.
**Answer 2:** Compute the height of the rectangle or triple bottom and project it upward. The high is at 36.61 and the low is 34.95 for a height of 1.66. Using a full height means price will hit the target 85% of the time. Thus, let’s multiply the height by 85% to get a closer target: 1.41 + rect top of 36.61 = 38.02, call it 38. The mid December high is at 37.75, so price may stall there, but a 38 target would be fine. I’d probably put it at 37.91, just to avoid a round number resistance. Everyone else is going to sell at 38 and force price down. You want to exit before that happens.
**Answer 3:** A stop just below the rectangle low (34.95) would be a good choice, say 34.91. Price closed at 36.67, so that would represent a loss of 4.6%. This is tiny by my standards, so it’s a good spot. Volatility stop: $35.51 -3.2%. 2x volatility: $0.97. This is a better location which we’ll see on the next chart.
As you can see, price didn’t even come close to the price target. The flat horizontal consolidation region would also make for a good stop loss location, which would cut the potential loss nearly in half. That would have been a good play because price threw back and continued down.

The end