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 head-and-shoulders, diamond, triangle, scallop, wedge.
Price has gapped lower…

**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.

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**Answer 1:** Price has made a new high then formed a lower high, one sign of a price reversal. If you draw a trendline along the low prices, like I show, price has gapped through it. It’s time to sell or sell short.

**Answer 2:** Find the target price in several ways. You can use the measure rule for trendlines. Another method is to find underlying support. I show a meager level with the red horizontal trendlines. Another method is to measure the rise from A to B than compute a Fibonacci retrace of that amount. A and B were chosen because they are turning points. The 38% retrace level is in the middle of the horizontal red lines, about 38.50. The 50% retrace is at 36 while the 62% retrace is at 34.

**Answer 3:** If you shorted this stock, a good stop price would be above B, the high at 47.74 (not adjusted for splits).
You can see that price continued down. The point of this quiz is to use trendlines as sell signals. They are one of my favorite tools, especially for short-term trades where a bearish chart pattern may not appear.

When price plunged through the 62% Fib retrace line, that confirmed the downward move. Notice how the 62% level acted as support in November.

The end.