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 tops, broadening pattern, wedge, 2 triangles.
The broadening top has pierced the upper trendline and closed above it.

**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 because of the upward breakout, but look for overhead resistance first. See the next page.
The red lines show possible places of overhead resistance. Whether price will reverse there is anyone’s guess, but it’s better to depend on a reversal. That is a good segue to answer 2.

**Answer 2:** If price reverses at the first line, that’s a gain of 2%. If it climbs to the top line, that’s a gain of 6.7%. Price could go much higher, or not. Again, that’s the difficulty of trading a chart pattern that is not at the yearly high: You often run into overhead resistance.

**Answer 3:** What’s the stop price? To answer that, find underlying support. Where is it? The next page shows my guess.
The two green lines show what I think are support zones. I placed them using the top or bottoms in the price cluster from March onward. If price declines to the first line, that’s a drop of 6%. The second green line down from the top means a drop of 8.3%, line 3: 13.4% and the bottom line: 19%.

Comparing the risk reward ratio, we have a possible drop of 6% versus a reward of 2%. The next lines show a risk of 8.3% versus a rise of 6.7%. In other words, the risk of a decline is higher than the reward, if my analysis turns out to be correct. That is a red flag. Some analysts look for a reward/risk ratio of 2 to 1 or even 4 to 1 as a minimum before they will invest.

In my trading, I don’t care about the ratios. I place the stop appropriately for the trade and worry about overhead resistance. Often, price will punch through the resistance and soar, so a trade with a poor ratio turns into a big winner. But that’s just me. The real ratio is not where support is, but where you place the stop. So, where DO you place the stop?

Volatility is $1.08, so a stop no closer than 31 would work. That’s 1.08 below the current low of 32.08. That’s a potential loss of just over 6%, and it’s also the site of the top green line. I’d put the stop a few pennies lower than the line. You want the support zone to, well, support prices so the stop won’t take you out. With 31 being a round number, that should also be avoided. I’d place a stop at 30.93. That’s a potential giveback of 6.4%.

How did we do? The next page shows the answer.
Price touched overhead resistance and threw back to the broadening top. Lucky guess on my part. Price is still above the stop price shown as the green support line, but price is heading down. What do you do now?

Question: Do you sell your long holding, short, or flee in panic? The answer appears below.

Answer: This is typical behavior for a throwback. Since we have a stop in place, you should hold onto your holding. Since underlying support is nearby, DON’T short the stock. The correct answer is to flee in panic. When you settle down after that, you can come back to see what happened with a more rational mind. See the next page.
Price didn’t hit the stop point and it climbed well above the 35+ top overhead resistance line. Whether you could stomach the up and down price movements of the broadening tops is something left for another quiz.

The end.