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!): Big W, broadening top, double bottom, simple ABC correction, channel.
The Big W is between the two Ws with an Eve & Eve and Adam & Adam double bottoms forming the reversal pattern at the base. The EEDB doesn’t have a 10% rise between the two bottoms. The December channel is also a small ABC correction, so you can see how well that one did.

The simple ABC correction has broken out upward when price closed above the pattern’s high (although a trendline break is also a good signal).

**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 the breakout is upward, confirming the pattern as a valid one.  
**Answer 2:** Target price? I have no idea. The pattern doesn’t have a measure rule yet. How about 68.18? That’s the height projected upward from the trendline breakout price. Using the measured move up measure rule gives a target of 68.94. I use the big Ws right handle low as the start of the MMU uptrend because it makes the chart pattern look proportional. The low there is 37.56 on 10/20, measured upward to the top of the pattern, 63.19 and projected from the breakout at 59.20, where price pierces the down-sloping trendline. I used 38% of the height because only 38% of the time does price hit the full height target.  
**Answer 3:** Place a stop loss below the minor low before the most recent high. That’s on May 13 at low of 55.40, so I’d place it at 55.33. The stock closed at 64.70 so that would give a potential loss of 14%. That’s much too far. Volatility is $2.65, so place a stop no closer than the day’s low (63.69) minus 2.65 or 61.04. I’d place it at 60.93. That’s a 6% giveback, which is better than 14%.
Price reached a high of 85.45 before giving easing down.

The end.