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!): broadening top, 2 head-and-shoulders, double top, long islands
A long island is price action offset by gaps. The gaps do not share the same price. If they did then you would have an island reversal. The Adam & Eve has a wimpy eve top but at this price, the % difference between peaks is small. The head-and-shoulders bottom in August is also not as symmetrical as I like to see.

The August head-and-shoulders bottom has broken out upward.

**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, a close above the neckline. For steep up-sloping necklines, use a close above the right armpit as the buy signal (which I use any time the neckline slopes upward).

**Answer 2:** Based on resistance, a good target would be 68. A cluster of price occurs during early July and early November where price peaks at 68. The measure rule for the HSB is the height taken from the neckline directly above the head projected upward from the neckline pierce or right armpit high. The head bottoms at 59.78 and the neckline is about 64.50 at that location, for a height of 4.72. The right armpit high is 64.92 for a target of 69.64. Price reaches the target just 74% of the time, so be conservative. I’d use the 68 target because I use resistance over the measure rule any day of the week.

**Answer 3:** The right shoulder low (62.80) is a good stop loss price. I’d put is at 62.73, an oddball number. That makes the potential loss of 5%, assuming entry at the close of 66.
You can see that price failed to reach overhead resistance at 68. Resistance is not a specific point but a zone or area of prices. Drawing an up-sloping trendline below the minor lows, like that shown, would have been a good sell signal or you could wait for the stop to take you out (but you’d lose more money).

The end.