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!): rising and falling wedges, descending triangle, right-angled and descending broadening formation (RABFD), inverted and ascending scallop.
Please forgive the drawing of the blue lines. They are done by computer and it’s not always accurate or pretty. The HCR is a horizontal consolidation region. The flag is a flag but not one I’d trade because it doesn’t have a vertical flagpole. It’s more of an HCR, a support or resistance zone.

The RABFD on the right has broken out upward. It then threw back but is now heading higher. That’s the buy signal.

**Question:** Do you buy the stock? Be sure to include a stop price and upward target price.

My answer is on the next page.
Here’s my notebook entry for the trade.

Date: 6/9/2004
Filled at: 15.81
Stop: 14.27, 9.7% away. This is just below the low on 4/21/04. Placed 6/9/04
Upside target: 17, using height measure rule: 15.30 + (15.30 - 13.56)
Mood (will trade work? Bought too soon?): Cautious. Other airlines are moving lower, so I don't really trust this one. Long term, I think the price is a good one. Short term, who knows?
S&P direction over pattern lifetime: Down
Future market direction (guess): Dow transports will stall soon as it reaches old high in January. S&P same. Up but will likely stall in the coming days as it matches late January peaks.
Buy reason: Throwback from RABFD completed and oil prices are trending down. Since most of the fuel is hedged, the price won't make much difference. If it can push through the HCR (flag in Dec 03), then this has a chance of moving up.

The following picture shows the trade as it progressed.

![Price has thrown back to the second RABFD and continued lower.](image)

**Question:** Do you hold knowing that 85% of the time, price will remain above the bottom of the RABFD, sell your holdings, or buy more? The next page shows what I did.
The stops appear as black dots at the time and price placed.

6/21/04 Stop raised to 14.87
6/28/04 Stop raised to 15.41

Date: 7/13/04
Filled at: 15.41
Mood (sell too soon?): I expected this because the last 2 days the stock neared the stop. Not upset, just disappointed.
Sell reason: stopped out. I should have sold when the stock jumped up 5% in one day [that’s an event pattern I call an inverted dead-cat bounce]. Oops! Instead of taking a 4 digit profit, I took a 3 digit loss. The good news is that I raised the stop loss to cut it to 2.5%.

The End.