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 scallops, 2 broadening patterns, 2 triangles, head-and-shoulders.
It’s not too late to buy the inverted and ascending scallop in March 2003, but I didn’t buy the stock because of it. What other method did I use to signal a buy? Here’s a hint: think trend change. The answer shows on the next page.

**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?

I’ll answer these questions by quoting my notebook for the trade.
I used the 1-2-3 trend change approach. 1. Price closes above the down-sloping trendline. 2. Price tests the low at point A. 3. Price rises above the high between the low and test. I show the peak as a green line. Once the 3 conditions have been met, the trend is said to have changed from down to up. Want more info? See my “Getting Started in Chart Patterns” book, page 27.

Here’s my notebook entry for the trade. I adjusted the numbers in the entry for a 2:1 stock split.

“4/11/03 I bought at market around 1 pm. I got tired of waiting and each time I waited, the price climbed. This is near the yearly low, so the risk is reduced. They have raised earnings estimates recently, so that's good but retail sales from major retailers (for example, Wal-Mart) were soft in March. MMU [measured move up] target is 16, Symmetrical triangle SAR [support and resistance at the…] apex at 17.50. Downside is old low at 10, far from the 14.23 purchase price. You might think of this as a 1-2-3 trend change trade, suggesting an upward price trend now. With war with Iraq winding down, the economy might rebound. There are many bottoms at 14.50, so that might be a repel point too. If it drops, I plan to buy more because I think it's still a good stock with upside potential and the nearby store seems to have the parking lot full.”

See the next page for more excitement.
Price has climbed to a high of 25.31 from the 14.23 buy price. That’s a rise of 78%. Price is trending lower. Another sell signal has appeared.

**Question:** What is the sell signal? Answer is at bottom of page from my notebook.

**Answer:** “1/10/04 I intend to sell half my holdings on Monday opening (it’s Saturday). **Three falling peaks** [that’s the chart pattern sell signal. See the above chart 1, 2, 3. Price has closed below the low at point 4, confirming the pattern and issuing the sell signal] suggests further downward spin. It busted below SAR congestion in Dec 2003 (a small diamond bottom). Nov H&S [head-and-shoulders] top is sending prices lower. Since price has closed at the daily low, that suggests a lower low Monday but perhaps, a higher close. It could continue spinning down. It’s broken below trendline support, the line starting in May 03 and connecting August and Dec lows. H&S measure rule says decline to 19.66 from the 22.50 neckline breakout.” The sale filled at 20.78.
Question: Does the chart show another sell signal or will it continue to rise just as it did from the last sale? I must admit that my timing on MIK has been lousy, but that didn’t prevent me from making big bucks in it... just not as big as I could have.

My answer appears below.

Answer: From my notebook: “5/17/04. I sold at market. This is going go measured move down to 21, maybe more, so it's time to sell especially with weak same store sales and insider selling.

Date: 5/17/2004
Filled at: 22.78
Mood (sell too soon?): Good. Was time to sell the latest holdings and am confident I saved a few $. I expect this to continue down.
Sell reason: MMD to 21 or lower. Weak same store sales with insider selling.

See next page
The measured move down is a stair step chart pattern. See my website or my books for more information.

The following chart shows what happened to the stock.
As you can see, the measured move down didn’t occur and price went on to make a new high at 43.61. On the trade, I made 60%, including dividends.

The end