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!): two diamonds, two head-and-shoulders, and one broadening top.
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. Diamond tops with upward breakouts in a bull market rank 21 out of 23 for overall performance, with 1 being best. So, diamonds suck. If you think of a diamond as a loose consolidation region, use caution when trading them. I’ve noticed that tight regions (tight flags or pennants where the price action is more horizontal instead of vertical, and packed together) perform better according to my research. The region from 3/23/05 to 4/6/05 at around 36 is tight. The May-June diamond is loose.

Answer 2: Measure the height of the diamond from top to bottom and project it from the breakout price (where price pierces the diamond trendline).

Answer 3: Place the stop below the diamond bottom.
Here’s my notebook entry for a trade in this stock. “7/6/05 I want to buy this stock because it's making a new high out of congestion. On the longer scale, it looks like a flat base breakout. Even though the market is down today, the stock is up. Unfortunately, with such a strong up move, I fear a retrace is likely. That's what my gut says, so I'm going to wait for price to collapse before taking a position.”

Here’s the weekly chart.

Price has closed above the two peaks in Feb and Dec 2004. That’s a good sign if it can hold it and move higher.

Question: Is the stock still a buy?

The next page shows the answer.
This is still on the weekly scale but price moved up, throwing back after July but trending higher. I should have bought, but didn’t… Notice how price tumbled after the diamond tops.

The end