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!): 3 scallops, 2 wedges, triangle, 2 head-and-shoulders
Price has broken out downward when it closed below the rising wedge, just as the chart pattern predicts.

**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.

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**Answer 1:** Since the breakout is downward, you can sell an existing holding or go short.
**Answer 2:** If shorting, price tumbles to the start of the wedge 58% of the time, which is the price target for rising wedges. A 58% success rate doesn’t inspire much confidence. Price might bottom at 11.50, near the site of the flat price movement just before the wedge starts in late February 2003, but there are other support zones on the way to that price. 
**Answer 3:** Place a stop just above the wedge high and above the large rounding turn from Nov 2002 to January 2003, say 13.30, which is 3 cents above the 12/12/2002 high. That would put the potential loss at 4%. Volatility is 22 cents, so a stop no closer than 13.16 (the intraday high at 12.94 + 22 cents) would work well.
As the above chart shows, price took off so a short position would have ended in a loss. You might pull up this stock on your own chart/computer and explore indicators to see if they foretell the false breakout. The ascending triangle shows a downward breakout.

**Question:** Do you short the stock again? If you decide to short, pick a price target and stop loss level. The next page shows the answer.
As you can see, the stock made a premature downward breakout from the ascending triangle. Price shot out the top of the chart pattern and made a new high more than double the top of the triangle. If you didn’t place a stop, you’d be holding a massive loss.

The end