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!): Big W, 2 double bottoms, double top, descending triangle, pennant.
The Eve & Eve double bottom appears beginning in August 2003. If you constructed a descending triangle out of this, you would be incorrect as the inset shows. There is too much white space in the pattern for it to be a descending triangle, and the two bottoms don’t line up either (but that’s a small complaint). I put the descending triangle in the hint just to throw you off. Don’t try to make a pattern where none exists. The chart doesn’t contain a descending triangle.

The pennant is larger than I like to see but it does have a flagpole leading down to it, so it’s fine. The Adam & Eve double bottom in July 2004 is not really an AEDB because the rise between the two bottoms is not at least 10%.

**Question 1:** The August downward price spike on very high volume suggests what (it’s the price spike that gapped downward just above the tall red volume bar)? See **Answer 1** below.

Do you see anything worth buying on what’s called the “hard right edge?” That’s the most recent price on the chart. **Question 2:** If so, what’s your stop location?

**Question 3:** How much can you expect to make?

Answers are below. The story continues on the next page.

**Answer 1:** The downward price spike implies a rising price trend (as happened). Price closed near the intraday high and the range was tall and on high volume. The downward push knocked out the nervous sellers and those having a stop loss in place, allowing price to move up on buying demand.

**Answer 2:** The stock closed at 40.53. The AEDB low is at 38.75. A stop below this low, say 38.67 would be 4.5%. It’s a good location because the loss is small and the AEDB low would tend to support price.
Answer 3: I would guess that if price continued to move up, it would stall near the top of the Big W at 42.49. Call it 42 where a knot of resistance appears on the left peak of the Big W.

Before I get to the next price chart, look at the AEDB in July. If you score this chart pattern according to my *Trading Classic Chart Patterns* book, you get a +2 score. That means the probability is good, but no guarantee, that price will reach or exceeded the median rise of 50.40.

Here’s my notebook entry for the trade.

Date: 8/9/04  
Filled at: 40.61  
Stop: 38  
Upside target: 50.40 by scoring system
Future market direction (guess): Unknown. Utility index may double top and tumble. It’s at the left peak high.
Buy reason: AEDB after throwback. Interest rates are set to rise tomorrow 0.25 points, so that’s a negative. This looks like it has bottomed and utilities are the only thing going up in this market (general, S&P market). Yield is 5.4%.

This is a picture of the Dow Jones Utility average on the day I bought PEG. Peaks 1 and 3 top out near the same price level. Peak 2 is slightly higher than 3. That’s okay providing price continues rising but, as I mentioned in my EMC trade (an earlier quiz), I sold when price attempted to make a new high and failed. It was a good call as price has tumbled since then. When I mentioned a double top forming, it looked like I was talking about peaks 1 and 2, not 2 and 3, but does it matter?

The next page shows the price action since then.
Price has reached the resistance level of the top of the Big W and has started down. The FED raised interest rates by 0.25%. The reason I bought the stock was because it was a utility (think dividends) and utilities were moving up. Nevertheless, if a stock is going to tumble, it’s best to sell. If the stock is going to rise, then hold on. What’s going to happen now?

**Question:** To put it another way, if you own this stock, do you sell, buy more, or hold on?

The next page shows the price action.
I decided to hold on. Price gapped lower at point 1 (early Sept), the day after the prior chart ended, but the drop stopped at a low of 40.68. Then it went on to make a new high after giving me a dividend of $220 (where the red exclamation point is in late Sept), followed by a lower low. Connecting the peaks and valleys formed a broadening top shown in blue. Price broke out upward from this chart pattern only to form an Eve & Eve double top. It confirmed on the day shown. Confirmation means price closed below the low posted between the two peaks. Again, the low doesn’t drop 10% but that’s okay. The EEDT says price is going down.

**Question 1:** Do you buy more, sell, or hold on? The answer is below. The next page shows the following price action.

**Answer 1:** How far is price likely to fall? My guess is the top of the big W, call it 42. If you use the full height of the double top projected downward, that would mean a decline to 41.81. That’s the double top high at 45.29, valley low at 43.55, giving a height of 1.74. Subtracting this from the valley low gives a target of 41.81, close to the 42 target. That’s a give back of just 4% below the valley low (43.55). I don’t think that’s a decline worth getting excited about. Besides, I’m in the stock to collect the dividend. My scoring system says there’s a slim chance that price will drop to 37.07, the median decline. That’s a potential decline of 14.8%, and that is large enough to pay attention to.
Surprise! A takeover offer valued at 52.74 sent the stock soaring, peaking just over 52 as you can see (remember my book scored a median target of 50.40, which turned out to be a good call). The falling wedge in Nov-Dec is not drawn correctly by my computer. The top trendline should be steeper, touching the top spike in early December, giving two touches of the top trendline and just two below. Wedges require 5 touches, but I ignored that in this case for some reason. I really don’t like the look of this wedge either…so I removed it from my system. Anyway, price has formed a symmetrical triangle. I collected another $220 dividend in late December (the red exclamation point) below the “Div” word in blue.

A utility taking over another utility (as is happening here) will take a year to close and the authorities can block it. In the meantime, anything can happen. If the Feds do block it, the stock will tumble, probably declining to the low 40s.

Question: Knowing that a quick decline often follows a quick rise, do you sell, buy more, or hold on? The answer is below. The next page shows the price action.

Answer: If the triangle were to breakout downward, then consider selling. A downward breakout might suggest trouble with the takeover offer and price might tumble dramatically. If the triangle breaks out upward then hold on for additional gains. Another suitor might come in and force a bidding contest.
As you can see in the above chart, price broke out upward. On March 5, 2005, the stock hit a new high of 56.23, well above the takeover offer of 52.74. There is no news to account for the rising price.

**Question:** What do you do now? Do you hold, sell, or buy more? The answer is below.

**Answer:** Price could continue to rise but why take the chance? I placed a stop at 53.33, just below support at 53.50 (and below the knot of support formed a week before the right price high). A stop will allow price to climb but if it doesn’t, I’m protected. The next page shows what happened.
Date: 3/22/05
Filled at: 53.30
Sell reason: hit stop as FED raises interest rates

The red “S” in March shows where I sold the stock. I collected another dividend posted before I sold. The stock has continued to climb, reaching a high of 65.60 yesterday (Thursday). That’s well above the takeover offer of 52.74. I still don’t know why the stock is so high, but utilities have done well in this market. Including dividends, I made just over 35%. And that’s in a stodgy utility stock!

The End