Hint. Look for the following chart patterns (If you find others, great!): triangle, 2 head-and-shoulders, wedge, dead-cat bounce.
The dead-cat bounce is the large decline on the highest volume on the chart and it came when the company disclosed problems with its Celebrex drug. The same day, reports came of a class action lawsuit filed against the company. Price bounced, rounded over (at the first touch of the ascending triangle) and headed down into January and February before recovering.

I took an interest in the company on the last day shown.

**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 on the next page and are from my notebook.
Date: 5/20/05
Filled at: 28.71
Stop: 26.53, below the minor high 2 valleys ago.
Upside target: 31. Score -3 with target of 34.67. I see overhead SAR at 34.
Future S&P direction (guess): Down
Buy reason: Upward breakout from an ascending triangle. This has moved beyond the breakout but I consider it a good buy. This also pays a dividend and I consider it a longer-term holding. Keep the stop farther away to let this work higher.”

I scored the ascending triangle according to the method outlined in my book, *Trading Classic Chart Patterns* and the score came up -3. Scores below 0 suggest price won’t climb to the median rise of 34.67. That should have scared me out of the trade, but I was looking for a longer-term play with income from the dividend.

Here’s the chart for the next move.

![Pfizer Inc. (Drug, NYSE, PFE)](chart)

After the purchase, price dropped back to the top ascending triangle trendline (point A) before recovering. The day before the last price bar on the chart, price makes a new minor high.

**Question.** If you owned this stock, what do you do next? The next page discusses my answer.
“6/25/05 Raised stop to 27.23 because of market downturn and need to tighten the stop. This is below the valley low of 27.31. If hit, it confirms a double top.

Date: 7/1/05
Filled at: 26.85
Sell reason: Stopped out on news that the company abandoned a drug in development.”

The above chart shows what happened. Price dropped below the double top confirmation price, where I had a stop. The stock sold for a loss of 6.6%, which is quite good (that is, small). In the short hold time, I didn’t earn a dividend either. The good news is that I sold the stock instead of riding it down. Even for a long-term holding, it can pay sell when the trend changes.

How could I have improved the trade? If I placed a buy stop a penny above the top trendline, that would have lowered my cost. Depending on where I placed the stop, the minor decline into the triangle at point A probably wouldn’t have taken me out. Thus, I believe I would have lost less money than I actually did.

The end