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!): triangle, diamond, head-and-shoulders.
There’s not much to look at here. The diamond top is questionable (please forgive the way it’s drawn). The head-and-shoulders could also be a symmetrical triangle if you connect the head and right shoulder with a trendline.

**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?

Since this is an actual trade I made, the next page shows the answers in notebook form.
“Date placed: 12/3/05, Saturday
Order type: stop order to buy at 50.53, GTC, above round number 50.50.
Bought at: 50.54
Stop: Volatility stop at 47.06. Placed 12/5/05
Upside target: 56, site of congestion in Sept. Score target 64.18
Future market direction: Up. The S&P has paused after a run up from the October 2005 lows. It’s gathering strength now.
Indicators: score: -1. CCI shows divergence until Nov when price got in gear. It issued a buy signal on 12/1. Bollinger shows narrowing bands.
Industry: Ranks 17/46 overall. In a rank of the industry itself, the stock ranks dead last among the 8
Buy reason: Head-and-shoulders bottom. A big W pattern. Oil has retraced 50% of the up move from the May 2005 low and Sept high. It looks poised to move higher. As I was researching this, I found lots of negative about the company. Nothing specific, but it might move down from here.”

Above I show the congestion region circled in green at the target price of 56. The Big W pattern begins from the highest peak on the chart and reverses at the head-and-shoulders bottom. My hope was a rise back to the top of the Big W, about 60.

The score I mention is taken from my Trading Classic Chart Patterns book where it scores a chart pattern for performance. This one scored -1 with a median rise to 64.18. The negative score means it was unlikely (but not impossible) to reach the target. Usually I avoid trading chart patterns with scores below 0. Then tend to fail just as the numbers suggest.

The industry and company ranks are a relative strength test of the stock’s performance over the past 6 months, grouped by industry and ranked. It ranked 17 out of 46 industries and dead last 8 out of 8 among petroleum producers.

The red line shows overhead resistance at 53. I circled the bottoms I mentioned in the notebook.
This is a picture of the S&P 500 index. I said the index was gathering strength after the October run up. I circle the pause region. After I bought, the index moved horizontally for a month and then began a choppy move to higher ground.

More on next page
This is the divergence I mentioned in my notebook between the CCI indicator and price. It’s a complicated screen with the top half showing buy (green) and red (sell) signals. I show divergence by the thick blue line. CCI/DCCI signals occur when the two cross or the CCI crosses the 0 line. I use it mostly for divergence. The DCCI is a “delayed CCI” line, a moving average of the CCI line. CCI is the commodity channel index.

More on next page
“12/9/05 Stop raised to 48.78, just below the right shoulder low.  
12/12/05 Stop raised to 49.63, below volatility stop and below Fibonacci retrace as price makes a new high but closes much lower. I want to narrow the possible loss.”

I show the 12/9 stop as the red lines on the day (second bar from the right) and price level. The inset shows the Fibonacci retrace of the move from A to B and the 12/12 stop location (approximate).

The next page shows the final chart.
Date sold: 12/19/05
Sold at: 49.59
Sell reason: hit stop

I took a small loss when price threw back to the base of the chart pattern and took me out in the process. Price did go on to complete the Big W chart pattern, pushing through overhead resistance at 53 and 56. Too bad I wasn’t in the stock at that time…

The end