Bulkowski’s Trading Quiz

Here’s the latest 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 wedges, triangle, 2 head-and-shoulders, broadening formation
Price has looped up then back down and formed a right shoulder, touching the neckline or the bottom trendline of a broadening wedge in April.

**Question 0:** How can we tell the breakout is going to be downward most of the time?

**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 0:** A partial rise that forms the right shoulder correctly predicts a downward breakout 74% of the time.

**Answer 1:** If the breakout is downward, short the stock or sell a long holding.

**Answer 2:** You can compute the height of the head-and-shoulders top from head to neckline directly below then project the result downward from the location where price pierces the neckline (a line drawn along the armpits. I show it as the bottom blue trendline). Alternatively, the lowest low in the broadening formation becomes the target. In this case, look at underlying support setup by the congestion in January as a likely reversal point. I circled that in the chart.

**Answer 3:** A stop above the right shoulder top would work well in this situation. Volatility says that’s much too close. The vol stop says to place it at 53.31 or 11.6% above the current close. 2x Vol is 3.77, so this is a very volatile stock. I’d probably go with the vol stop setting instead of the right shoulder, just to be safe.
I’m always surprised when I see my support and resistance locations/guesses come true. Here’s a good example. The congestion I circled in the prior chart stopped the decline. Price has rebounded.

**Question:** There are other chart patterns to the right of the broadening wedge. What are they?

**Question:** Could you have predicted the downward move in late February, the last bar shown?

The next page shows the answers.
The fake upward breakout from the ascending triangle is one reason why I dislike them (See August-Sept). If you went long, you would likely have been stopped out for a loss when it busted and broke out downward.

The ascending broadening wedge in February predicted a downward breakout. How? On page 88 of my *Encyclopedia of Chart Patterns, 2nd Edition*, it shows that the vast majority (65%) of patterns have downward breakouts. That’s enough to wake you up.

The end