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!): Head-and-shoulders, 4 triangles, and 2 scallops.
The head-and-shoulders bottom has broken out upward when it closed above the neckline.

**Question 1:** Do you buy or short the stock?
**Question 2:** What is your target price?
**Question 3:** What is your stop price?

The answers appear below and a chart on the next page.

**Answer 1:** Buy because the breakout is upward.
**Answer 2:** Compute the height of the H&S from the head low (16.22) to the neckline (17.21), measured vertically and add it to the price where the stock crosses the neckline (16.89). That gives a target of 17.88. Price hits the target 74% of the time so be conservative. Look for overhead resistance that would pose a problem for the stock.
**Answer 3:** Since this is such a small pattern, place a stop below the head, call it 16.17. That gives a potential loss of about 4%. Volatility is 59 cents, so the stop is far enough away that you won’t likely be stopped out on normal price fluctuation. See my website “stop placement” if a volatility stop is new to you. The score according to my *Trading Classic Chart Patterns* book rates the head-and-shoulders bottom a -3, meaning the probability of hitting the 21.96 median price target is small.
Ignore the stuff in red. It’s from a pattern recognition program. After the head-and-shoulders in October 2004, the stock has climbed and formed an Adam & Adam double top, confirmed when price closed below the low between the two tops.

**Question 1:** Do you sell, short, or buy?
**Question 2:** How could you have exited a position in the stock sooner?

The answers appear below and a chart on the next page.

**Answer 1:** Sell an existing holding and consider shorting the stock. If you decide to short the stock, be aware that price may rebound at TL 2, a trendline connecting the lows and forming a right-angled and descending broadening chart pattern. If this were my trade, I’d avoid shorting the stock based on what I see and what I think is a limited downside move due to underlying support.

**Answer 2:** Use the sell trendline. When price closes below the trendline, sell.
You can see that price did bounce off the TL 2 trendline before forming a partial rise and staging a downward breakout. Price eventually recovered and formed an Adam & Adam top at 21.84, just pennies below the book score median rise of 21.96. Price failed to meet the target before tumbling more than 20%, as predicted, but it was a near miss.

The end