Hint. Earnings were released on 10/29. That’s the day price shot out of congestion above the start of the letter N in November 2003 on the chart. Here’s the chart patterns I found: 2 triangles, 3 scallops, triple top, 2 double tops, and one mysterious event pattern for which you’ve already been given a hint.
The EEDT (Eve & Eve double top) shares the peaks of a triple top. AADT is an Adam & Adam double top.

Look at the mysterious event pattern: an earnings flag. Of course, it’s not a flag at all, but more of a descending broadening wedge. That’s okay. Price has closed above the top trendline in the pattern signaling a buy.

**Question:** Do you buy this pattern, short it, or just hold your nose and make a strange face?

If you choose to trade it, where do you put your stop? What is the target price?

The next page shows my answer, eventually…
Price targets. Let’s go through it with this example. Here’s a zoom.

Price begins the uptrend at A (34.47), the minor low before the earnings announcement. Price rises to B (40.57) where it tops out at the flagpole high. That difference, B – A, is the height of the chart pattern, or 6.10. Projected upward from the low at C (38.05) would give a target of 44.15. That’s almost rise of about 10% from the close 40.49. The chances of price making it to 40.49 is 64%. That’s 2 of every 3 trades will rise that far.

Since this is an event pattern, let’s use the measure rule for that. It’s B – D + C. Point D (35.36) is the low on the day of the announcement. This puts the target at 43.26. But, price makes it to the target 86% of the time. For safety, let’s multiply each target height (6.10 and 5.21) by the “percentage meeting the price target” and add the result to point C. The new flag target becomes 3.90 + 38.05 or 41.95. The earnings flag says price will rise to 4.48 + 38.05 or 42.53. You can find most measure rule formulas on my website (except event patterns. Go figure). See “measure rule.”

The next page shows the weekly chart.
I drew a horizontal line at about 42 and it lines up with 2 peaks in 3/2002 and 7/2002. The first peak has comparatively high volume and I know from my studies that a high volume peak puts up more overhead resistance than a low volume one. Price often pushes threw, though, but it’s cause for concern. My guess is that price will stall at 42. That doesn’t leave much room for error (profit), but you never know. The top of the first peak is at 42.60, the second at 41.90.

Here’s how I traded it, from my notebook.

“11/26/03 I bought at market, filled at 40.12. This is an earnings flag trade. Qtr report on 10/30 at 35.36 launched the flagpole. It topped out at 40.57. Thus, the measure is 5.21. From the flag low at 38.41 (it's the close because HLC data not available), that means a rise to 43.62. I expect this to near 45 before stopping, just because of round number resistance and wishful thinking. Yesterday, the closing price pierced the flag's down-trendline, signaling a buy. Chemicals were strong in a weak market, so that is also good news. Volume is heavy on the flagpole rise then lower on the flag itself. Today is day before Thanksgiving, so expect low volume and high volatility. Sell at 38.90, otherwise set a limit order (to sell) at 45. On weekly chart, the flag low matches a LT down trendline from peaks in late March and July.”

The next page shows how the trade went.
“12/22/03 stop placed at 38
12/31/03 stop raised to 39.90.
1/7/04 raised stop to 40.65”

I show the stops as black dots. Overhead resistance at 42 is the horizontal line. An up-sloping trendline tracks the lows of the uptrend. Price has peaked at 43.69 so far, exceeding both the flag and earnings flag targets, 41.95 and 42.53, respectively.

Price has pierced the up-sloping trendline and closed lower.

**Question:** Do you sell it, short it, or just close your eyes and pray (hold)?

The next page shows the answer.
I wish I had sold on the trendline pierce, but I didn’t. Here’s the notebook entry for the sale.

“1/22/04 I was stopped out at 40.60 when prices blew through my stop at 40.65. Oil prices have been shooting up and natural gas prices as well. If I had to do this again, I would put an order to sell at the MMU (measured move up) profit target of 43.62. Prices topped out at 43.69. That would have made me four figures in about 2 months. I got worried when prices pierced the trendline, moving down. Maybe that was a sell signal, but I wanted to give the stock every opportunity to do well. I expect prices to rebound and move higher. I made about $115, net.”

Price dropped to a low of 35.90 on 5/17/04 (a few days after the low shown on the right) and recovered to posted a new high on 3/9/05 at 50.

The end.