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!): rectangle, 3 broadening patterns, triangle, head-and-shoulders.
RABFA is a right-angled broadening formation, ascending. Many of these chart patterns (on this chart) are not easy to spot...except for the descending triangle. The breakout is downward from it.

**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 1:** If I own the stock, I’d sell it, regardless if support is nearby. Price often pierces a support zone and continues tumbling. If you want to short the stock, then look for underlying support to see how far price is likely to go before taking a position.

**Answer 2:** Assume a short sale. Compute the height of the triangle from highest high to the horizontal trendline and subtract the result from the value of the horizontal trendline to get a target. Price hits the target 54% of the time, so be conservative in your target. Look for nearby support where price might stall or reverse. See the next page. Pullbacks also occur 54% of the time…(that’s a hint).
I drew green lines starting from the price peaks to the left of the chart pattern and red lines from the valleys. Where a nest of lines appears, it might indicate support.

**Answer 3**: Stop? A volatility stop is calculated to be 33.14, or 3.9% above the current high based on 2x volatility of 72 cents. That would place the stop just above the congestion area circled in red on the chart. That’s what I would use.

The following chart (next page) shows how the trade progressed.
Price was scared off by underlying support and moved to the other side of the chart pattern, busting it. A busted descending triangle (where the breakout is downward but quickly reverses and flies out the top) is one of the patterns I look for because it usually signals a good move ahead. But in this case?

Your short position has been stopped out, if you placed the stop where I suggested…

**Question:** Should you buy the stock now?

The next page shows the answer.
Price dropped, which is a surprise, but a properly placed stop would keep losses to a minimum. Price did recover and take off, but not in a straight-line run.

The end.