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!): 2 scallops, head-and-shoulders, wedge, 2 triangles, double top.
The stock has NOT broken out of the broadening wedge in April.

**Question:** If we owned the stock, why should we be worried?

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

**Answer:** If you have my *Encyclopedia of Chart Patterns* 2nd edition book, on page 88 it shows the number of formations: 187 breakout downward and just 68 breakout upward. Thus, if you owned the stock, you should be on the lookout for a downward breakout.
Here’s the next chart. Price broke out upward! What a surprise. Since then price has eased lower.

**Question:** Is it time to sell or buy more? Maybe even short? Justify your answer. My answer is on the next page.
Price formed a symmetrical triangle (red lines). Even if you didn’t notice the triangle, peak B is below A. When price fails to exceed its old high, that’s a signal of a trend change (a retest of the high, it’s called). I’ve sold stocks because of it and save myself a bunch of money by getting out early. Is that the case here? …wait.

Notice how point C fails to touch the top trendline. Usually you see this behavior in the broadening patterns and it’s called a partial rise. A partial rise predicts a downward breakout, and that’s what’s happened here. When price closed below the lower trendline boundary, that was the sell signal. Should you take it?

Before you sell your position, how far will price drop? Look for underlying support zones. I show my guess in green. I circled the important points that caused me to locate the lines where I did. For example, the top trendline has a circle in June. That knot of congestion repelled price in August (not circled) and the two valleys in October (circled) show support there. Since price didn’t pause in January at that level, it may mean the support area is weak enough now that it won’t stop a tumble. For that reason, the second green line may give way easily, too. Thus, you’re looking at a possible decline to 24-25, which is quite far from 31, where it’s at now. Thus, you should sell a long position based on this analysis.

The next page shows what the stock did.
As the chart shows, price tumbled but took its time at first. Oddly, the top green support zone boosted prices for a while, much to my surprise. The second green line also supported price, but briefly. The last line was a dud when price shot through it in late October. It did provide overhead resistance in January, though.

The end