Bulkowski’s Trading 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 broadening patterns, small head-and-shoulders, double top, wedge, triangle.
The symmetrical triangle shows a downward breakout in which price returns to the triangle trendline boundaries and breaks out upward, busting the triangle. Busted patterns have a tendency to do very well.

**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.

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**Answer 1:** Since the latest breakout is upward after a downward breakout, buy.

**Answer 2:** Measure the triangle height and project the height upward from the breakout. Here’s the math: 18-16.25+17.65 = 19.40. That’s a rise of 10%. I picked a target using overhead resistance, shown as the green line and knot of resistance circled.

**Answer 3:** My notebook entry spells out the details but it’s point A in the above chart.

“Date: 10/25/05 placed after market close today
Bought at: 18.06 on 10/26/05
Stop: 16.53, or 8.5% away. (2 cents below point A in prior chart)
Upside target: 21, site of some resistance, also some at 19.
Future S&P direction (guess): Up for a few more days until it hits sym tri in index and then tumbles.
Buy reason: busted symmetrical triangle.”

**Question:** What do you do now? Do you trade the stock or what? The answer appears on the next page.
“11/3/2005 After the close: Stop raised to 17.38 since the stock made a new minor high.

11/7/05 Stop raised to 17.67. This is below the Fib retrace and at the top of 10/28/05 daily pipe bottom.

11/10/05 Stop raised to 17.93 as the stock makes a new high but the stop is still below the 62% Fib retrace.

11/11/05 Stop raised to 18.47. Big day (up $0.68) as the stock was upgraded by a broker. This is just below the 50% Fib retrace value and below 18.50 round number.”

The above chart shows the price action after I bought. Price made a good move uphill.

**Question:** Is it time to sell, buy more, or just hold on?

The next page shows my answer.
“Date placed: 11/22/05
Order type: buy stop at 20.76
Bought at: 20.7585 on 11/23/05
Stop: 18.47. Placed 11/23
Upside target: 24
Future market direction: Up. S&P is moving up parabolic and I’d be surprised if it continues much longer.
Indicators: CCI should signal a buy tomorrow if price moves up. Bollinger: price is nearing the top of the band.
Industry: Almost all are moving up robustly.
SAR: 21-22 during April 2005, 23.50 or so
Buy reason: Big W breakout upward, confirming the chart pattern. Oil prices have been trending downward.”

Question: Did I made the right move, to buy more?

The next page shows what happened.
Date placed: 11/28/05
Sold at: 19.1865 -- 19.25. on 11/29/05
Sell reason: The stock has made a large down move today, following the market lower and others in the industry down. I believe this will move lower, forming a handle to the Big W. On the intraday scale, 1-minute, there's support during the last 1.5 hours at 19.46. I placed the stop below round number support at 19.43. In short, I raised the stop to 19.43. I should have placed the stop at 19.80.

The stock moved much lower on the open and I sold near the intraday low. Had I viewed this in real time, I would have froze as price dropped. It recovered but it took 20 minutes with 4 downward price lunges before recovering. Don't know if I would have sold manually at a higher price, but it couldn't have done much worse...

As you can see, the stock continued to drop before recovering and heading back up. I ended up losing 1.3% on the two trades, combined.

The end