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!): wedge, 2 triangles, scallop, rectangle, head-and-shoulders, broadening formation.
The complex head-and-shoulders bottom (cHSB) has an upward breakout when price rises above the green neckline, a line joining the armpits. Most times, you’ll see a near horizontal neckline in cHSBs.

**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:** The breakout is upward. Buy.

**Answer 2:** Measure the height of the pattern from head low to the neckline directly above. The head low is at 13.07, the neckline is at 15.54 for a height of 2.47. Add the height to the breakout price to get the target. Breakout is at 15.48, the right shoulder high (which I use when the neckline slopes up). Thus, the target is 17.95. That’s a 16% rise, which seems doable. Price hits the target 74% of the time, which isn’t bad. For safety, you might want to multiply the height (2.47) times 74% = $1.83 and then add that to the breakout: 17.31. That gives a closer target and one more likely to be hit.

**Answer 3:** 2x volatility is $1.01 so place a stop no closer than 14.55, or 13.1% away. That’s too far away, but as I look at the chart, since price gapped up, I would probably place it farther away, believe it or not. I’d use the right-most right shoulder low, at 14.13. Yes, that would place the stop about 16% away, but my fear would be price rounding over in an area gap, closing you out prematurely. This may be a case where you want to NOT buy the stock. Price is racing away from you. Tests show that if you can’t get in within 5% of the breakout price, then the chances increase that you’ll have a losing trade. Upon reflection, I’d skip this trade because you can’t get in at a good price and the stop is much too far away.
As you can see, price threw back to the neckline and rebounded, moving up in a straight-line run. The throwback would be a good time to enter in this example. Things started getting choppy from Oct to Jan as price moved horizontally. Premature breakout upward and downward price spikes appear in the ascending triangle. Those tend to drive traders crazy. They get stopped out in both directions. Price eventually broke out upward from the ascending triangle then threw back and continued lower.

**Question:** If you owned this stock, would it be time to sell?

Answer is on the next page.
The worst-case scenario is to have a stop placed below the chart pattern low (green line). Sell when price closes below it. The answer to the question is yes, you’d sell. I’d also have a stop closer than the bottom of the chart pattern so I wouldn’t give back as much money. Perhaps extend the bottom triangle trendline upward and when price closes below the line, that’s the sell signal.

The end