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!): triangle, 2 wedges, scallop. Maybe a head-and-shoulders if you use your imagination.
The descending triangle I don’t particularly like on this price scale because of the uneven bottoms. The head-and-shoulders top has unequal shoulders. I like better symmetry between the shoulder highs. When deciding this, I compare the future to a human bust. If the human looks like an alien, then it’s likely not a head-and-shoulders. The ascending, broadening wedge in January has touched the top trendline...twice in the last week.

**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:** Buy. The next page shows why.
**Answer 2:** Use the height of the pattern projected upward from the breakout price to get a price target. High is at 33.94, low at 31.17 for a height of 2.77. Added to the breakout price of 33.94 (pattern high), we get a target of 36.71. Since price meets the target 69% of the time, multiply the height by 69% and then project upward. Using this method we get a closer target of 35.85. What about overhead resistance? There is none except round number resistance at 35, the closest round number. The three highs near 34 may also put up a fight as price tries to push through.
**Answer 3:** 2x volatility is $1.00, so place a stop no closer than 32.43 or 3.5% below the close.
When price touches the top trendline, drops down, and then reverses before coming close to or touching the bottom trendline, the chances are 35% that it correctly predicts an upward breakout. That’s terrible, but in the absence of anything else, it might be enough to allow you to buy in early. Please note that the pattern should be fully established before you look for partial rises or declines. By that, I mean the chart pattern should obey all of the identification guidelines for it. See my *Encyclopedia of Chart Patterns* for details.

How did the trade go? Here’s the chart.

What patterns can you find? What would lead you to buy the stock at the current price? Where is your stop?

The next page shows the answers.
The descending triangle has an upward breakout, signaling a continued move up. Price threw back to the triangle boundary and that's not unusual (happens 35% of the time). The triangle bottom would be a good stop location and the next chart shows why. Note how price found support at the 35 round number (green line). Price also easily passed the 36.71 target, too. A stop below the descending triangle would have saved you a ton of money.

The end.