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 right-angled and ascending broadening formations, 2 triangles, wedge, broadening top.
Price has broken out downward from the descending triangle by closing below the lower trendline.

**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:** Sell an existing holding or short the stock.

**Answer 2:** Measure the height of the triangle from highest high to the horizontal trendline and subtract the result from the bottom trendline. Here are the numbers: 19.30 (H) – 18.73 (L) = 0.57. 18.73 – 0.57 = 18.16. Clearly, this is a small descending triangle, suggesting a meager decline. Will price drop to 18.16 and then recover? To answer that, let’s find nearby support. See the next page.
I show what I think is the support zone, well below the chart pattern. Even though the chart pattern is small the potential for a large decline is high (because of the absence of support). The circle in green shows congestion that might slow a price decline.

**Answer 3:** If selling short, what is the stop price? Volatility is 52 cents. I measure that by computing the daily high-low price range over the last month and then multiplying by 2. Adding this to the intraday high price gives a stop price of 19.33 or 3.9% above the close. That’s just above the chart pattern’s high and it’s a good location. A volatility stop helps prevent the trade from being stopped out on normal price fluctuation.

The next page shows the result.
Price drops in an unsteady manner, finding support sooner than I thought, between 17 and 18 (area in red, an ascending broadening wedge). The complex head-and-shoulders bottom lifts price in the support zone I identified in the prior chart.

The end.