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.

Teleflex Inc (Diversified Co., NYSE, TFX)

Hint. Look for the following chart patterns (If you find others, great!): 2 diamonds, head-and-shoulders, 2 scallops, double top.
Price has closed above the inverted and ascending scallop in November.

**Question 0:** How do you know the rapid decline from C to D is overextended?

**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 0:** There is no way to know for sure, but measure the height of the double top and subtract it from the lowest low between the two peaks. That gives a target of 44 – (50.98 – 44) or 37.02. Price hit bottom at 34, well below the target. Thus, the decline might be excessive. If this is a dead-cat bounce pattern, then trading the stock is risky. Find out why the stock declined so rapidly before taking a position. Checking an indicator like RSI (Wilder’s relative strength index) shows the stock well into oversold territory.

**Answer 1:** Let’s ignore the possibility of a dead cat bounce. Since price has closed above the scallop top, that’s the buy signal.

**Answer 2:** Use the measure rule to get a target. The scallop high is at 42.67, low: 34 for a height of 8.67. Added to the high gives a target of 51.34. Price reaches the target 61% of the time so consider multiplying the height by 61% to get a closer target. Check for overhead resistance before making a target selection.

**Answer 3:** The right scallop low at 39.20 is 9% below the current close and since it’s below a congestion region (the top of the scallop), it represents a good location for a stop. Current 2x volatility is $1.77, so a stop placed no closer than 40.30 (6.4% below the close) would help keep you from being stopped out on normal volatility. Thus, I’d feel safe with the 39.20 stop or even move it to below 40, like 39.93 (keep it away from round numbers like 40, 45 and so on).
The above chart shows what happened after the buy. Price ran into overhead resistance setup by the middle valley of the double top and threw back to the scallop breakout price, which happens 61% of the time, before soaring up to A. Price then stumbled to B, a decline from 48.25 to 43.60, or nearly 10%. Let’s say you hung onto the stock. Price moved up then consolidated in a horizontal price movement starting in April. From C, price has made two successively higher lows and higher highs.

**Question:** Is it time to sell? The answer appears on the next page.
I show a sell trendline that I would have used to determine whether it was time to sell or not. With price making a lower high at A (looking like the right shoulder of a head-and-shoulders top), that’s a clue of a coming trend change. A close below the green trendline (drawn along the valleys which line up quite well), is further evidence of a downturn.

The sell location shows a pullback to the trendline and it gives the trader another opportunity to get out before the decline really begins. The stock dropped from the sell price 55.15 to a low of 33.82, or 39%.

The end