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!): 2 scallops, wedge, broadening top, head-and-shoulders.
The head-and-shoulders top has broken out downward.

**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 a long holding. If considering a short, answer the next two questions first. That will tell you if you can make a profit commensurate with the risk.
**Answer 2:** Measure the height of the head-and-shoulders top from head peak to the neckline (the slanting blue line) vertically (shown as a red line). Then subtract the height from the breakout price. In this case, since the neckline slopes downward, use the right shoulder low as the breakout price. The target is: 58.67 (high) – 47.81 (neckline) = 10.86 height. Breakout is at 46.97 for a target of 36.11. That’s a 23% decline from the current close, which seems high. But it corresponds to point A, a likely support point.
**Answer 3:** Volatility is 3.39, which is unusually high. The volatility stop is thus 51.25 or 9.7% above the close. Compute a volatility stop by using the last 30 calendar days of high - low differences, averaged and multiplied by 2. Volatility stops help avoid positions from being stopped out by normal price action. Since the stop is near the right shoulder top, it’s a good stop location.
As you can see in the above chart, price moved lower and made it below the target, bottoming at a recent price of 28.70, a decline of 39% from the breakout.

I show the turning points in the stock, most of which correspond to a prior peak or valley.

The end.