Bulikowski’s Trading Quiz

Here’s the latest quiz. What chart patterns can you find? A hint appears below and answers on the next page.

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**Hint.** Look for the following chart patterns (If you find others, great!): 3 broadening patterns, 2 triangles, 1 scallop.

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I show the descending triangle in green because Patternz (my computer program) loves it but I don’t (it looks to cut off a rounding turn). Price has closed above the broadening formation on the right.

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 partial decline predicts an upward breakout but it’s correct only 63% of the time in a bull market.
Answer 2: Use the measure rule, which is the pattern height added to the breakout price. The top trendline is at 47.99 and the low is at 44.28 for a height of 3.71. Add this to the price of the top trendline and the target becomes 51.70. Price reaches the target 63% of the time. Thus, consider multiplying the height by 63% before adding it to the top trendline price. That gives a closer target of 50.33.
Answer 3: 2x Volatility is $1.24, so a stop placed 3% down or 46.63 would keep you away from being stopped out on normal volatility. That’s a bit close for me, so I’d place it below the minor low at A, shown in the chart above, 45.55.
Price moved up then consolidated in a rectangle.

**Question:** Why should you sell the stock now, or should you? The answer appears on the next page.
A complex head-and-shoulder top forms. When price closes below the neckline, a line drawn connecting the armpits (the valleys between the shoulders and heads), it signals a sale. Price drops from a breakout price of 48.84 to a recent low of 28.40 (occurred on 2/1/2006 not shown).

Did price reach either the near (50.33) or farther away (51.70) targets? Yes. The first came as price exited the rectangle, moving up, and the second was reached when price formed the left shoulder.

The end