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 broadening patterns, channel, head-and-shoulders, triangle.
The Dec-April broadening top shows a partial decline at B but fails to breakout upward at C, as usually happens. Had you bought this stock, you would likely have been stopped out (you would have a stop in place, wouldn’t you?).

The head-and-shoulders top shows a large downward plunge in the stock on higher volume.

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?
Question 4: Where are support zones?

The answers appear below and a chart on the next page.

Answer 1: Short the stock. A high volume downward plunge like this is less likely to pullback than one on low volume. Why? Momentum carries price down farther, too far -- usually -- to pull back.
Answer 2: Measure the H&S height from head to neckline directly below. That’s 48.80 – 42.24 = 6.26. The breakout price is 43.15 so a ‘full measure’ (using the full height) is 43.15 – 6.26 or 36.89. Price reaches the target 55% of the time, so it’s best to be conservative. Take 55% of the height to get 6.26 x 55% = 3.44. Subtract this from the breakout price to get a closer target of 39.71. Price has reached a low of 40.11. Do you really want to make a trade that suggests a decline of just 40 cents? Even using the full measure from today’s close, that’s an 8% decline.
Answer 3: Volatility is $2.07, which is huge. That would mean placing a stop no closer than 46.97, or 16.2% away from the current close! That’s today’s high + 2.07. That’s much too far away because the close is well below the intraday high. What about using the right shoulder high as the stop price? 45.25 – 40.41 = 12% rise. That’s still too far away. The inability to place a stop at a good location is a definite clue that you should walk away from this trade.
Answer 4: see next page
I show two possible support zones. The first one is setup by the 3 tops in Dec, Jan, and April. They coincide with the current price. Another support zone shows as a longer blue line and it corresponds with additional peaks. Below those two, it might be tough sledding for price to decline below 38. Thus, from today’s close of 40.41, a decline to 38 is just a 6% decline. Without being able to place a stop nearby, I’d skip this trade. But then again, I know what’s coming!

The next chart shows the story. See the next page.
Price made a lower low the next day, to 38.35 before rebounding (a quarterly earnings announcement sent the stock tumbling by the way, as the letters Qtr show). The price (were PP appears…it’s a pipe bottom) corresponds to the lower support line shown in the prior chart. The decline sent price through the closer 39.71 target but it didn’t reach the lower target of 36.89 (which used the full height of the measure rule). In order to make money shorting this stock, you would have had to trade it perfectly by having an order to short it in place as soon as price crossed the neckline and close the short when price reached bottom.

The end