Hint. Look for the following chart patterns (If you find others, great!): triangle, 2 rectangles, wedge, 2 spikes or tails.
Spikes or tails predict short-term price reversals. Upward spikes like the ones shown here are less reliable than spikes plunging downward. But, these two do well, anyway.

The rectangle bottom has broken out upward.

**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:** Flat bases such as the rectangle bottom are usually good trading candidates. Buy.
**Answer 2:** Use the height of the rectangle projected upward as the price target. The rect top is at 11.30 and the bottom is at 10, for a height of 1.30. Add this to the rect top to get a target of 12.60. I show the target price as the short green line in the above chart.
**Answer 3:** Rects are a natural support zones, so place a stop below the rectangle bottom. To avoid the round number 10, place the stop at 9.93. Of course, that’s a big giveback from the closing price of 11.50 – 14% below. I show a closer stop location by the red line. This would narrow the potential loss to 10.29 or 11%. A volatility stop suggests placing it no closer than 10.12, or 12% away. A large stop distance like the ones described here is common for low priced stocks (stocks below $10-15).
This chart shows the end of the rectangle on the left. Price throws back at point A, something that happens 53% of the time in rectangles. From then on, it’s a nice run up, almost tripling in price. The dead-cat bounce occurs on a profit shortfall.

**Question.** What technical evidence would have warned you of the coming DCB?

The answer appears on the next page.
The short answer is, I’m not sure you could have predicted the DCB. That’s the nature of surprising events. A trendline break (shown in green, if you extend it into the future) may have provided some warning. But the stock price moved from trending up to moving horizontally. A dual-head, head-and-shoulders top (red lettering) with additional shoulders A and B (blue), may have signaled a reversal if you spotted it. This is not a pronounced chart pattern and one I hesitate to even call a head-and-shoulders. The broadening formation breaks downward about half the time, so that’s no clue either. Yes, price did poke through the bottom of the pattern and if you lower the top trendline, it poked out the top, too. So, that’s no help. A check of the indicators might be revealing but that’s for you to explore.

The end.