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!): double top, wedge, scallop, and triangle.
Price has closed above the top of the descending triangle.

**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 because of the upward breakout.
**Answer 2:** Base the target on pattern height or overhead resistance. Since this is near the yearly high, overhead resistance takes the form of round numbers (50, 55, 60, etc). The closest one is 55, which is close to the November high. As to the measure rule (pattern height), the highest high in the pattern is at 52.32, the low at 50.65 for a height of 1.67. Add the height to the breakout price (51.88) for a target of 53.55. Price reaches the target 84% of the time.
**Answer 3:** The bottom of the triangle represents a good stop location because it shows support. But is it close enough? From the close on the last day shown, a drop to the bottom trendline would mean a loss of 3.2%. Being so small suggests it’s too close. Volatility is $1.45, so a stop no closer than 50.15 or 4.2% below would work well. I think the trendline location is fine, but I might want to place a stop below round number 50, say 49.93, just to be safe.
Price looped around and completed a throwback as the above chart shows. Then price resumed its advance. On the last day shown, price has moved down on volume lower than in the past.

**Question:** Is it time to sell? The next page shows the answer.
My original chart shows a symmetrical triangle. That’s the up-sloping green line coupled with a down-sloping blue line on the top. That shows a definite sell signal when price closes below the green line. However, I like the pattern better as a descending triangle because it has 3 touches on the bottom (not including the day before it punches through), so a horizontal line fits better. The descending triangle doesn’t have a sell signal until the day price gaps lower.

The answer to the prior question is to sell at the market open. Had you done that, you’d save a bunch of money.

Notice that the triangle revolves around the 55 round number, where overhead resistance might appear…and it did.

The end