Hint. Look for the following chart patterns (If you find others, great!): This is a tough quiz. Find 2 wedges, head-and-shoulders, and a high and tight flag.
This high and tight flag has a rise of about 90% instead of a doubling of price in less than 2 months. The ascending broadening wedge in June at point A signals a buy.

**Question 0:** Describe the buy signal.

**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 0:** A partial decline (PD) correctly signals an upward breakout 35% of the time. A PD occurs when price touches the top trendline, heads lower but doesn’t touch or come that close to the bottom trendline before reversing. An upward breakout follows when the partial decline works. The partial decline begins at D, drops to A before reversing and heading higher. Before looking for a PD, make sure the chart pattern is valid (complete). In this example, it’s best to wait for 3 touches of each trendline, that way, you avoid what looks like a partial decline at B. To validate a partial decline, consider a Fibonacci retrace of the C to D distance. If point A is 62% of the rise from C to D and price begins heading up, there’s a good chance a partial decline is occurring and you can buy in early.

**Answer 1:** Buy because of the partial decline or a close above the top of the wedge.

**Answer 2:** The target is the pattern height added to the top of the pattern. That gives a target of: 17.36 (high) – 12.18 (low) = 5.18 height. Add 5.18 to the high, 17.36 for a target of 22.54. Price reaches the target 69% of the time. You can multiply the height by 69% to get a closer target. Another way to check the target is to compute how much of a rise that entails. The target of 22.54 is 30% above the 17.36 high. That’s going to be difficult to reach so you should adjust your target.

**Answer 3:** A stop placed below point A would work well in this situation, but that’s a potential loss of 18%! A volatility stop says to put the stop at 14.95, or 17% away, which isn’t much help. Skip the trade because you can’t place a good stop close enough.

Let’s assume you bought the stock anyway. Here’s what happened.
A chart pattern sell signal appears on the chart.

**Question:** What is the signal? In other words, why should you sell? The answer appears on the next page.
The downward breakout from the rising wedge is a sell signal with a decline target of the bottom of the wedge, or about 18.63 from the close on the breakout day of 26.17. That’s a decline of 29%, which is huge if it occurs…and it did.

Notice that price exceeded the 22.54 price target by climbing to 29.09.

The end