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!): Big W, 3 types of broadening patterns, and a pennant.
The stock has broken out upward from the descending broadening wedge.

**Question 1:** Do you buy or sell the stock?

**Question 2:** What is the price target?

**Question 3:** What is the stop loss price?

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

**Answer 1:** Buy because the breakout is upward. In fact, since price enters this chart pattern moving upward and the breakout is upward, the chart pattern tends to perform better (it acts as a continuation of the price trend, not as a reversal).

**Answer 2:** The top of the chart pattern is the price target. That’s 75.29.

**Answer 3:** Since price has moved up in a straight-line run, I would use a stop based on a Fibonacci retrace of 62%. Subtract B (69.15) from A (73.74) giving a value of 4.59. Take 62% of this, 2.85 and subtract it from A. The stop should be placed at 70.89. A check on volatility shows that it’s $1.27, and with a low at 72.71, that would place a stop at 71.44, so the 70.89 stop is comfortably below this, out of range of normal price fluctuations. If you don’t understand a volatility stop, visit my website and look for “Stop placement.”
The above chart shows that price moved up until peaking in December and moving down marginally.

**Question:** Should you hold on for additional gains? The next page shows the answer.
Selling was the wise course. Sometimes, a bearish chart pattern does not appear at the top of a price reversal, so you have to use other indicators to signal a sale. In this example, a spike or tail appears. It’s a tall one-day price move in which the price closes near the intraday low. It usually signals a short-term decline but price often recovers quickly. Another sell signal occurred when price closed below the up, “sell” trendline. Holding on much longer than that resulted in disaster.

The end.