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!): rectangle, head-and-shoulders, 2 broadening patterns, and a triple bottom.
This is not an easy quiz because price is so congested with large swings. Since the triple bottom has a lower confirmation price (price must rise above the highest high in the pattern or, as in this case, the green sloping trendline), that’s the pattern we chose to trade. Price has closed above the green line.

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: You have a buy signal.
Answer 2: Use the height of the triple bottom projected upward from the top. The high is at 52.34 and the low is at 49.21 for a height of 3.13. Add this to the highest high for a target of 55.47. Price reaches the target 64% of the time, so be conservative and look for overhead resistance. Price might stall at the old high at A (shown in red).
Answer 3: The bottom of the triple bottom should support price. Assuming a buy price at the current close of 52.54, that’s a drop of 6.3%, which is good. A volatility stop using 2x the daily high-low average over the last month is $1.80. From the current intraday low, that means place a stop no closer than 49.56 or 5.7%. Either price will work.
Price has reached a high and backed off. Is it now time to sell? Justify your answer. The next page shows what happened.
Price continued declining. Drawing a trendline (blue line) as shown signals a sell when price crossed the line. You can expect price to drop to the top red line showing support. It could drop as low as the bottom red line, but that might depend on how the market and industry are performing. Since the trendline pierce occurred in the last days of 2005, you might want to sell it, or not, for tax reasons. Also, since a trendline break is not a guarantee of a trend change, see the 1-2-3 trend change method on my website. You’ll find it in “10 Other patterns” on the left of the home page then “Trend change, 1-2-3.”

The end