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.

V. F. Corp (Apparel, NYSE, VFC)

Hint. Look for the following chart patterns (If you find others, great!): Diamond, scallop, wedge, head-and-shoulders, broadening pattern, triangle.
Price has declined in the inverted scallop.

**Question:** How can you tell that the decline is at its end? The answer appears in the following chart and a discussion on the next page.
1) The three red lines are a Fibonacci retrace of the move from A to B. Since price has hit the 62% retrace line, there’s a good chance that price will resume the up trend. Recent research indicates that 67% retrace (instead of 62%) will work in 2 out of 3 times.

2) Price has touched the support line. I drew this blue line along the price tops in April 2003 and the peaks near A in Sept 2003. The peaks will tend to support price.

Of course, there’s no guarantee that price will rebound but it’s a low risk entry point for the trade. Or is it?

**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.

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**Answer 1:** Buy now.
**Answer 2:** For a target price, take the difference between the scallop high and low and add it to the high. That would be: 44.07 – 38.19 + 44.07 = 49.95, just below the 50 round number where everyone on the planet will try to sell.
**Answer 3:** 2x the volatility is $1.34, so place a stop no closer than 38.86, or 3.5% below the current low price. If price drops below point A, below the start of the pattern, then sell. If the analysis is correct about support at the Fib retrace line, then price should move up. I’d use the 38.86 vol stop as my stop loss point.
Price took off from the retrace low and I show the buy point in blue. Price looped around and touched bottom in a throwback (red line), bouncing once before resuming the uptrend. As price climbed, you should raise the stop. The green horizontal consolidation region should support price, so that would be a good stop place.

Price has dropped below the small congestion region shown by the circle.

**Question:** Do you sell, hold, or just flee in panic?

The answer appears on the next page.
If I owned this stock and it broke out downward like it did, I’d search for a reason to support a sell decision. I might see the rising wedge and that would be all the proof I needed. However, the downside would be a drop to the support zone I show as two horizontal red lines. Price could drop farther. These red lines are the same two as I outlined in the previous chart as green lines (without looking ahead, either). Funny how you can find these support zones if you look. Anyway, a sell would have saved a decline from 44.32 to a low of 42.55. That’s not much of a drop as it turns out.

Notice the green line I drew in at 50. See how price bumped up against it starting in June and lasting to October? Wow. When price hit 50, people sold and forced price back down, multiple times. Eventually, price pierced the 50 zone and shot upward in a one day price gain of 3.74 in October then price went horizontal again before jumping upward in February.

Tom