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!): 2 triangles, 2 wedges, head-and-shoulders, broadening formation, flag.
Earnings were released on the 22nd and the next day price made a large move upward then rounded over as it consolidated its gains.

**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. This is an earnings flag trade although a “flag” is not really present. That’s ok. Flags and pennants are rare after a large move up from an earnings announcement. Just look for a consolidation pattern.
**Answer 2, 3:** See my notebook entry for the trade, next page.
“1/12/04 I bought at market. This is an earnings flag trade coupled with a symmetrical triangle support. Price was up $0.25 to 22.60 on 4k volume -- thin, but I believe the stock is breaking out upward from the small flag at the peak of the up trend on 12/30/03. The stock was filled at 22.60. Upside is 29% rise from top of earnings flag, or 30.37. That sounds like wishful thinking, but I have no other upside estimates. Downside is triangle apex at 20.84. That would be an 8% loss. The symmetrical triangle has met the measure rule already. I bought this as soon as funds were available.”

The target price is the low on the announcement day at 20.25 and the pattern high is at 23.55 for a height of 3.30. Added to the flag low of 22.10 gives a target of 25.40. I don’t know where the 29% I mention in the above notebook entry comes from…

Here’s the next chart.

Price has gone nowhere since purchase.

**Question:** What do you do now, if anything? My answer appears below.

**Answer:** “1/21/04 Stop at 20.57.” See the next page for placement. The horizontal red line shows the stop level, the vertical line denotes the date placed.
The stock has eased higher in an unsteady manner as if it's struggling to find its way.

**Question:** What do you do now, if anything? My answer appears below.

**Answer:** “3/8/04 Stop placed at 21.91.” See the next page for placement.
Price made a large move down.

**Question:** What, if anything, do you do now? My answer appears below and a chart shows on the next page.

**Answer:** “3/22/04 After the market closed, I put in an order to sell my holdings at the market open. This has broken out of an ascending triangle. With the market heading down, this situation can only get worse. Time to take a small loss.”
I sold at the market open and lost just over 1%. What would you have done differently? Think about it.

The end.