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!): potential high and tight flag (unconfirmed), head-and-shoulders 3 double bottoms, potential Big W.
I’ve been looking for Big W chart patterns because they represent a better profit opportunity than a regular double bottom. This is an example of what I like to see in a Big W – a flat price run followed by the Big W and then a recovery when the Big W completes.
With this Big W, I don’t like the run up to the head-and-shoulders top. I much prefer the flat run then a Big W. The decline from the head-and-shoulders is a nice straight-line run, which is good. That usually means a high velocity climb back to the old high, or nearly so.

This could also form a double top when it completes down the road. How long would that take? Measure the decline from the head to the middle of the double bottom and project into the future. That would mean completion about mid June if the future mirrors the past.

**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:** It’s too soon to buy, I think. Wait for the pattern to confirm unless you are an aggressive trader.

**Answer 2:** Near the old high, say 33-34.

**Answer 3:** If you wait for confirmation of the double bottom, then a stop below the horizontal consolidation region shown by the red line in the above chart I think would work well. If you were to buy now, then place a stop below the lower of the two bottoms.
The above chart shows what happened. Price gapped higher from the right Eve bottom but did not confirm the pattern until late May. I show confirmation as the green line. Price eventually closes above it (the price at point B), confirming the double bottom. For Big Ws, if you buy near the second bottom low, you can ride price up to the confirmation point (the high between the two bottoms, B) and cash out there. In this example, that would have been less than a week after the second Eve bottom (point A). Price often stalls there at the confirmation line, but not always, before continuing higher. That strategy would have worked well in this case.

**Question 1:** Price has moved down for 3 days. Do you buy, short, or avoid trading this stock? The answer appears on the next page.
Price confirmed a double top when it closed below the confirmation line formed as the low between the two tops (the red line). Price pulled back as it so often does before continuing down. The correct choice was to sell immediately.

The end.