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!): double top, 2 head-and-shoulders, scallop, flag.
The head-and-shoulders top has a downward breakout when price closed below the red neckline drawn connecting the two armpits of the chart pattern.

**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:** If I owned the stock, I would sell immediately. If I wanted to short the stock, then I would do additional research such as the next answers provide. I’d also look at support zones, which this particular quiz doesn’t cover.

**Answer 2:** I would score the chart pattern. This uses the scoring system I outline in my *Trading Classic Chart Patterns* book. It weights various factors to determine how likely the stock will be to reach the median decline. I won’t go through the analysis this time. However, the system says it’s unlikely (score -2) to reach the median decline of 30.41. That’s one target. Also, compute the height of the head-and-shoulders from the head to the neckline directly below and project the height downward from the breakout price. That would give: 41.14 – 35.60 for a height of 5.54. The breakout price is 37.13 so the target is 31.59, quite close to the 30.41 score target. The likelihood of price reaching the predicted target is just 55% so you might want to multiply the height, 5.54, by 55% to get 3.05 and subtract that from the breakout price for a closer target of 34.08.

**Answer 3:** If shorting this stock, then place a stop above the right shoulder top. That would be about 38.43. Volatility is $1.85 so a stop no closer than 40.22 would work better. That represents a rise of 7% and that’s the stop I would use.
You can see that price made a straight line run down to point A, bottoming at 30.13. That is well below the conservative target of 34.08, below the not-so-conservative target of 31.59, and marginally below the median drop to 30.41 the scoring system predicted it wouldn’t reach!

The End.