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!): 3 scallops, three rising valleys. Not much happening on this one.
You are going to come across this situation many times in your trading career. Price has closed below the trendline. What do you do?

**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**: The trendline break is not a sell signal but is a warning. Let’s look at the weekly scale. See the next page.
Pipes are the parallel downward spikes. I drew some of them at the major turning points, just for fun. The red line represents overhead resistance. The blue line shows what I believe is a support zone. The green line is an up-sloping trendline.

**Answer 2:** What is the price target for this stock? The blue line is at 38.40, a decline from the current close of 45.90, a decline of 16%.

For a measure of the decline, use the prior minor high at A (49.80) and launch point at B (46) to gauge the decline after the breakout, C (46.94). Here’s the formula: C – (A – B). That’s 46.94 – (49.80 - 46) or 43.14. From the current close, that’s a decline of 6%, but it should serve as a minimum.

Continued on the next page.
Answer 3: Stop? The question really is, should you sell? You can use the 1-2-3 trend change method that’s available on my website, so I won’t repeat that here. I’ll show the 3 points later.

What can we learn from looking at an indicator? Here’s the CCI.

This is a screen capture. It shows the stock during the first day price drops below a trendline. The lower half shows the red CCI line dropping below 0. That’s a sell signal. The indicator also made a sell signal when the CCI crossed below the DCCI line two days before. Price also shows divergence with the indicator. The indicator is making lower highs (green trendline) but price is making new highs. Price is diverging from the indicator, a bearish development.

Price is trending down and the indicator says sell. Is that enough of a sell signal? See the next page.
There’s also a three-day rule. If price remains below the trendline for 3 days, then consider selling. Here’s the chart.

![Chart showing price below trendline]

As the above chart shows, price is still below the trendline, but looking like a pullback. It’s worth waiting another day to see what happens. The tradeoff is price may tumble, widening the loss.

**Question:** do you sell now or wait another day? Here’s the next day’s chart.

![Next day’s chart showing price heading down]

Price is heading down, clearly. It’s time to sell. The next page shows what happened.
Price made a large, one-day downward spike, hitting a low of 37.75. That’s a little below the 38.40 blue support line I show on page 3 and well below the 43.14 measure rule target for a trendline. If you used the 1-2-3 trend change method, you would have held onto the stock. The trendline pierce is at 1. A test of the high is at 2, and the intervening low is at 3. Price never closed below 3, which is the sell signal. Even so, the stock declined about 18% (at 3), which is a hefty paper loss.

The end.