Hint. Look for the following chart patterns (If you find others, great!): 2 head-and-shoulders, double top, Big M and W, 2 double bottoms, scallop.
I show the complex head-and-shoulders top (cHST) neckline in red to illustrate a point. Complex H&S patterns usually have a horizontal or near horizontal neckline. This cHST I don’t like. It just looks weird. Anyway, the Eve & Eve double bottom is also a Big W because it has a tall left side. The Adam & Eve double top in Nov ’02 is also a Big M for the same reason – a tall left side. Notice that price returns to near the launch price (about 14 in October ’02 and the return in Feb ’03 at the head low). Will the EEDB in Nov 03 work the same way? Will price return to the peak at 21?

Question 4: Price has NOT confirmed the EEDB, but do we have a buy signal anyway? If so, then what 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 starting on the next page.
Answers 1 and 4: I show a portion of the chart and drew a green trendline along the price tops. A close above the green trendline would be a buy signal. With wide right Eve bottoms, if the top of the bottom (if that makes any sense) is flat then a close above this ‘shelf” would also be a buy signal. The above picture doesn’t show a shelf because the right Eve bottom isn’t wide enough and the top isn’t that flat. I show an example of a shelf below.

The shelf should support price if it happens to return. A stop below these shelves is usually a good location.

Answer 2: Target price. Measure the height of the double bottom and project it upward from the breakout price. The height is from the lowest bottom to the peak between the bottoms. The breakout price is the peak between the two bottoms. In this example, forget the measure rule. Use the top of the Big W as the target. That would be at 21, the left top where the Big W begins. Price may encounter overhead resistance as I show in the chart on the next page.
The resistance zones appear in red and they correspond to price congestion, where price moves horizontally, forming a solid block.

**Answer 3:** Stop. Place a stop loss order below the lower of the two bottoms, being mindful of volatility. Volatility is 67 cents so my program calculates a stop of 16.66 (67 cents below the current intraday low) or 3.7% below the current close. The right double bottom low is at 16.98, so the stop should be placed at 16.66, quite a bit lower for protection unless you are feeling confident of a continued move up.

The next page shows what happened.
Price didn’t quite make it up to the target, but that’s typical for chart patterns. It pays to be conservative in your price targets. You can see how price paused at the upper red resistance line in Jan 04. If you traded this, you would raise your stop as price climbed. Eventually you would be taken out as price headed back down after closing on the 21 price target in January.

The end