Here’s the latest quiz. What chart patterns can you find? A hint appears below and answers on the next page.

**Williams-Sonoma Inc. (Retail (Special Lines), NYSE, WSM)**

**Hint.** Look for the following chart patterns (If you find others, great!): 4 head-and-shoulders, broadening pattern.
Price has begun moving up after touching the bottom of the broadening bottom for the third time. I don’t care for broadening patterns because I find they fail often and are hard to trade. However, if you can recognize one before the third bottom touch, then buy after price begins moving up after touch 3 and hope for an upward breakout.

**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. The third touch is often a good time to buy. Keep an eye out for a partial rise which may predict a downward breakout (it’s correct 67% of the time).  
**Answer 2**: Compute the height of the pattern from highest peak to lowest valley: 37.49 – 32.75 for a height of 4.74. Add this to the highest peak to get a target of 42.23. Price reaches the target 59% of the time. Consider multiplying the height by 59% to get a closer, more realistic target.  
**Answer 3**: For a stop, place it below the lowest valley. In this case, that would be below 32.75. Be sure to check volatility to make sure the stop is not too close.
Price moved up nicely from the third touch of the broadening bottom and formed a roof pattern at the old high.

**Question:** Do you buy, sell, short, or avoid trading this stock?

The next page shows the answer.
The roof pattern was a trick pattern as I didn’t show a breakout. The correct answer to trading the stock was to wait for the breakout. In this case, the breakout was upward and price moved up so you would hold onto the stock.

Question: Do you buy, sell, short, or avoid trading this stock?

The next page shows what happened.
I circled in red a congestion region that has a downward breakout. It’s a small chart pattern called a shark-32.

**Shark-32**

The shark-32 appears in the circle as the last 3 days before the breakout. It signals caution. In this example, it warned of a trend change and a time to sell.

The end