Bulkanowski’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!): triangle, 3 head-and-shoulders, triple bottom.
The descending triangle is the huge chart pattern that fills most of the screen. A head-and-shoulders bottom (HSB) is the one on the far right. If you wait for price to close above the neckline, it might take forever for that to happen. Instead, use a close above the right armpit as the buy signal. The HSB chart pattern shows such a case.

**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 because of the upward breakout.
**Answer 2:** You can use the measure rule for H&S bottoms or look for overhead resistance. Of the two, resistance is the more important. The next page shows where I think resistance is hiding.
**Answer 3:** See the chart on the next page.
I show the price target as red lines constructed joining what I feel are zones of overhead resistance. The green line connecting the three bottoms of the triple bottom in Sept would make a good support zone. Place a stop below the green line, probably at a price slightly below the left shoulder.

How did we do? The next page shows the answer.
The two red lines show what I felt was overhead resistance. I did reasonably well with the first circle in April. Price stalled moving higher in the middle circle and dropped below the lower resistance line while in the third, right, circle, price couldn’t top the higher red line without first dropping back to base camp beneath the lower red line then trying once more for the summit.

On the hard right edge of the chart, as it’s called, price has been trending down for 4 days in a row.

**Question:** Do you sell?

The next page shows the answer.
If you chose to sell, that would be a mistake. The green trendline says all is well. Price dropped from 22.65 to a low of 22.04, not much to worry about. However, price has pierced the up-sloping green line in May 2004.

**Question:** Do you sell now?

The next page show the answer.
The stock dropped from a close of 26.92 to a low of 25.19 before starting to recover. Although the chart does not show it, the stock made a new high of 67.30. Selling this holding would have been a mistake.

The end