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!): channel, scallop, pennant/wedge/channel, triple top.
The long pennant forms after a brisk move up in October on high volume. You could also call the pennant a channel or rising wedge as it’s really too long to call it a pennant. The median width of a pennant is 8 days with a 10-day average, so this one over a month long is probably a channel or wedge.

Let’s call the pennant a rising wedge and base our trade on that.

**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 wedge seems out of proportion to the rise leading to it. That should serve as a red flag signaling caution. Buy but do so with caution and the understanding that an upward breakout from a rising wedge is unusual.

**Answer 2:** Target price? Good question. Try this. Construct a Fibonacci extension of the run up leading to the wedge. I show that on the next page.
The phi extension as it’s called, I show as parallel dashed lines on the above chart. It’s an extension of the move from A to B. An article in SFO magazine on August 2004 discusses the technique if you need more information. Point A is at a low of 16.18, B (the day before the breakout) has a high of 21.04. The difference between those two is 4.86. Multiply this by 1.618 to get 7.86. Add this to A to get the extension value of 24.04 where the top dashed line appears. If price fails to push much above the line at 21, it will likely decline to the lower extension line at 19+. That’s the theory anyway. Your target would be say 23.97 to avoid the round number resistance of 24.

**Answer 3:** Where’s the stop? The lower Fib line at 19+ looks like a good place to me. It’s below a region of consolidation and it is above the quick price run up. A decline below this might mean price will tumble and do so rapidly, returning to A. The decline from the close at the last price on the chart and the stop at 19.19 is 10%. That’s a bit high but acceptable for an initial position. The 19+ line also is a 38% retrace of the move from A to B. The dashed line at 18 represents a 62% retrace so the 50% retrace is in the middle.

The next page shows what happened.
Price didn’t move higher but tumbled to the stop point and took us out. It hit a low of 18.96, just below the 19.19 stop price. Notice how price touched the lower Fib line and reversed. At point A where it approached the 24 target, price didn’t quite make it. It collapsed back to the lower Fib line around 21 in March through May (the large red circle), making a few days dash to a lower Fib line at 19 before returning to 21 in mid April.

Fib extensions look to be an exciting way to find support and resistance zones. Don’t get too excited. I quit using Fib extensions because I found them to be unreliable. Experiment with them yourself and see what you learn.

The end