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!): 2 triangles, scallop, wedge, diamond.
Price has broken out upward from the descending triangle.

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. Since price is near the yearly high, there is almost no overhead resistance except for 65 -- a round number.

Answer 2: Take the height of the triangle and add it to the breakout price. The high is at A, 63.99, the low at B, 61.77, for a height of 2.22. Add this to the price where it crosses the top trendline at C, 63.28, to get a target of 65.50. Price reaches the target 84% of the time. If it makes you feel better, multiply the height by 84% and add the smaller amount to the breakout. That gives a closer target of 65.14.

Answer 3: A stop placed below the lower pattern trendline would work well in this case. From the close, the stop represents a 3% loss. Volatility is 92 cents, so a stop no closer than 62.36 (the intraday low minus $0.92) would work. I would keep the stop just below the lower trendline.
Price has collapsed back upon itself, perhaps scared off by the 65 round number.

Question: Do you hold onto your position or sell it? Maybe go short?

The next page shows the answer.
Price did not drop to our stop price, but took off in a straight-line uphill run that rounded over. It looks like it’s forming an inverted and ascending scallop. I looked at the retrace of the rise from A to B. It has touched the 38% Fibonacci retrace level.

Question: Do you hold onto your position or sell it? Maybe go short?
Question: Where do you place a stop now?

The next page shows the answers.
Price lifted off nicely, making a quick move up before throwing back to the upper reaches of the chart pattern. Price throws back 61% of the time (nearly 2 out of every 3 times) so it was expected. A stop below the lower edge of the scallop would work (shown in green).

Question: Do you hold onto your position or sell it? Maybe go short?

The next page shows the answer.
Price formed a falling wedge, dropping back to the top of the descending triangle before finding support. If you didn’t move the stop up as price climbed, you would have been stopped out at the price shown above by the green line.

Ignore the descending triangle in July 2005. That was drawn by my program and it’s an example of what NOT to do – cut off a rounding turn and call it a triangle. There’s too much white space between the touches at the start of the pattern and the end.

Speaking of ends…

The end.