Bulkowski’s Trading 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!): head-and-shoulders, diamond, scallop, 2 double tops.
The double tops I don’t particularly like because the peaks are too uneven. The right one is difficult to tell if it’s an Adam or Eve top. The turns look rounded forming an Eve top but they have a tall price spike, suggesting an Adam top. I suppose you could connect trendlines along the top and bottom and form a broadening top.

Price has closed below the complex head-and-shoulders top on the right.

**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:** Since price has closed below the blue neckline, sell an existing holding or sell short.
**Answer 2:** Take the height of the pattern from the highest head price (40.63) to the neckline directly below 37.74 for a height of 2.89. Subtract this from the breakout price of 38.25 to get a target of 35.36. Price meets the target just 55% of the time so be conservative and assume price will not make it down that far.
**Answer 3:** Volatility is 1.18 so a stop no closer than 39.79 (the intraday high of 38.61+ 1.18). The high at the right shoulder is 39.36 and the head is at 40.63 so the stop is somewhere between those.
Price moved down nicely and hit the target a few weeks after the breakout. Volume was unusually high on the one-day downward plunge. As with such large price spikes, price recovered and eased over until bottoming in July. It has recovered somewhat since then.

Question: If you shorted this stock, do you cover or wait for the decline to continue? The next page shows the answer.
I drew a down-sloping trendline to signal a possible trend change. When price closed above the trendline, that would have been my signal to cover the short and get out. Alternatively, an order to cover the short at the target price would work well in this situation (the green line).

The end