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!): Ascending triangle, unconfirmed triple top, two ascending scallops, two rectangles, a falling wedge, flag, broadening formation – right angled and ascending, head-and-shoulders
The stock is at the yearly high and it could triple top or break out in any direction from the triangle. The weekly chart is unrevealing, as this stock has moved up too far, so there’s no overhead resistance to speak of.

**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 next page shows my notebook entry for the trade and it’ll answer the above questions.
As of the last date shown in the prior page, 1/31, I place a stop order to buy a penny above the top trendline. Getting in early is key to a successful trade. The order filled on 2/1, where my notebook begins.

“Date: 2/1/05
Filled at: 52.07 after placing a buy stop at 52.06. Earnings were released yesterday and the stock took off this morning. Stop: 49.21
Upside target: 55, measure rule for ascending triangles: 52.05 - 48.90 + 52.05 = 55.20
Future S&P direction (guess): down
Buy reason: Placed a buy stop at the breakout price plus a penny, 52.06, to catch the breakout and limit the downside after a potential throwback. Oils are hot and I think this stock has room to grow. Plus, it has a dividend. Book score is -1 but that expects a throwback and I'll be happy if price comes close to the predicted 65.91 book score target.”

For those of you that own my Trading Classic Chart Patterns book, you’ll know what the score means (a way to score chart patterns to determine whether they will perform or not).

You can see that I bought on the day price shot out of the triangle. A perfect entry. Now what? The stock has zoomed from 52 to 64 in about a month, a rise of 23%. Price has formed a new pattern, a pennant. Pennants are known as half-staff patterns because they form roughly midway in a strong price trend.

**Question:** What do you do with the stock now, hold, buy more, or sell?

The next page shows what I did. If you buy, then determine a stop point and a target price.
I placed a stop as prices rose. Here’s my notebook entry.

“2/7/05 Stop raised to 51.07
2/10/05 Stop raised to 52.93. I used Fib retrace of 62% of the up move since 1/28/05 to place the stop. I put it about 25 cents below.
2/16/05 Stop raised to 53.93, just below the 62% retrace value as the stock jumped up
2/18/05 Stop raised to 55.93. I'm getting nervous about the straight-line run, so I'm tightening up the stop. A quick decline often follows a quick rise so...
2/24/05 Stop raised to 56.93. The stock has continued to move up, so the stop reflects this, but I'm keeping my distance as a pause is due.
2/26/05 Stop raised to 58.47
3/5/2005 Stop raised to 61.15.
3/9/05 I was stopped out in a late day sell off. The stock blew through my stop at 61.15 and sold at 60.90.”

I sold the day price tumbled out of the pennant. The low for the day was 60.70 and it closed at 60.79, so I didn’t sell at the low, but it was well below the high of 64.37, the peak on the chart. Nevertheless, you can see that the stock gave back nearly all of the gains from the breakout. That’s the importance of using a stop: you protect profits.

The end.