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, but there’s not much to choose from here: 2 triangles, triple top, rectangle, and a broadening pattern, 3 of which appear on top of each other.
The light green formation in October 2003 is an ascending triangle. The tops 1, 2, and 3 are a triple top, unconfirmed. The blue lines show the outline of a rectangle top.

Concerning the symmetrical triangle in August/Sept 2005, it broke out downward and then reversed direction to shoot out the top of the triangle, busting it. That suggests a powerful up move, or does it?

**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. Busted patterns tend to do very well, so if you see one, consider trading it.

**Answer 2:** See the next page for the target price, an alternative way to find it instead of using the measure rule.
This is a zoom of the symmetrical triangle. Begin from the highest high in the pattern and draw the red line parallel to the bottom of the sym triangle (shown as a duplicate line in green for clarity). The price where the red line reaches the DATE of breakout becomes the target. I show the intersection with a circle. The price of the circle is the target price and it’s slightly below 46.

Since we have no overhead resistance, that makes trading this stock easier.

**Answer 3:** Where should you place a stop? A stop placed below the minor low I show as point A I think would work. Volatility is $1.89, so a stop no closer than 41.42 would help keep you from being stopped out on normal price fluctuation. That’s 1.89 minus the current low of 43.31.

Here’s my notebook entry for the trade.

> “Date: 9/8/04
> Filled at: 44.279
> Stop: 40.70 or 8% Just below triangle bottom. Placed 9/8/04
> Upside target: 56.14
> Future S&P direction (guess): up
> Buy reason: Busted symmetrical triangle with upward breakout (initially broke out downward but only by a little). Reported better than expected strength in its markets, so earnings will do well. The stock is up on a down day. Score: +4 with 56.14 target. The trucking stocks are the best performers over last 6 months and this stock is doing very well. I expect the good news to continue.”

I placed the stop closer, at 40.70 which I show as the red line. That means I could tolerate an 8% decline before being stopped out.

The upside target is 56.14. I found that by using the scoring system I discussed in my book *Trading Classic Chart Patterns*. The chart pattern had a +4 score, suggesting it was likely to reach the median rise of 56.14.

How did the stock do? Here’s the chart.
As you can see, price has climbed to the 56.14 target and peaked at 56.81, slightly exceeding the target. Here’s my notebook entry and it concerns stop placement. I show them on the date and price where they were applied as red circles.

“9/30/01 Stop raised to 43.75 after the close
11/17/04 Stop raised to 46.93
11/19/04 Stop raised to 47.93
12/2/04 Stop raised to 49.43
12/6/04 Stop raised to 50.83
12/21/04 Stop raised to 51.77
12/23/04 Stop raised to 52.77
12/29/04 Stop raised to 53.77”

Notice how the dots cluster as I get more nervous about the stock. Here’s the final notebook entry.

“Date: 1/5/2005
Filled at: 53.776
Sell reason: Hit stop”

The stop forced a sale, but was this the proper selling point? What would you have done? The next page shows the final chart.
Price backtracked a bit before surging to new highs, reaching 64.47. Then the stock tumbled back down to a low of 38.81 as the price of gas took off. I made just over 21% on the trade.

The end