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!): 2 head-and-shoulders, at least 1 scallop, cup with handle missing.
The cup with handle seems to be missing the handle so you can call it a rounding turn. The head-and-shoulders top has broken out downward. If you owned this stock, should you sell? If not, should your short it? Since the stock has split, the open price appears pegged near the top of each price bar. Ignore 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.

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**Answer 1:** The H&S top shows a sell signal. If you own shares, sell them. Consider shorting but look for underlying support first. See the next page. Support will help determine how far price may tumble.
Shown in blue are where I think the stock will find support. These areas match price congestion in Sept ‘04 and June ’04. If so, the decline looks large enough to suggest a short sale might be profitable. The top blue line means an 8% decline and the bottom one is 14% down from the close.

**Answer 2:** See the above paragraph. Price may reverse somewhere within those blue lines…or it may continue down. **Answer 3:** Place a stop above the right shoulder. That would mean an 8% loss. Volatility is $1.42, so a stop no closer than 38.40 would help prevent you from being stopped out on volatility. The right shoulder is at 38.90, so it’s a perfect spot for a stop.

The next page shows the results.
Price pulled back and almost hit the top point above the right shoulder but then declined. It found support at the lower blue support line in February ’05 through March before rebounding.

I drew green circles around the points where price found support or resistance at the blue lines. I’m surprised the top line found such support.

The end.