Preface to the Second Edition

On March 24, 2000, the financial world changed. No, that was not the date this book first hit the store shelves, but the beginning of a bear market that lasted $2\frac{1}{2}$ years. Finally, I had bear market data to use for finding chart patterns!

After spending nearly 5 years recovering from the work needed to complete the first edition, I decided to undertake an update. I changed the editorial content of the book in small ways, but made substantial improvements in others. Here is the list of the important changes:

- Bull and bear market statistics for complete coverage.
- Expanded statistics, all in a similar format:

  Results Snapshot, at the start of each chapter shows the most important numbers and surprises.

  General statistics, including the average rise or decline, busted pattern performance, and benchmark performance.

  Failure rates, a list of ten breakpoints to show how often a pattern fails.

  Breakout and postbreakout statistics, showing performance over the yearly price range, pullback rates, and performance after a gap.

  Frequency distribution of days to the ultimate high or low, showing when the trend is likely to end.

  Size statistics, describing how performance varies for pattern height, width, and combinations of both.

  Volume statistics, including volume trend, a new concept I call *volume shapes,* and breakout day volume.

  For best performance, a list of trading tips and where to find them in each chapter.

- More chart patterns. I added 14 new chart patterns.
- Event patterns. I added 9 new types of patterns, which I call event patterns. These include earnings surprises, drug approvals, store sales, and stock upgrades and downgrades.
- More samples. I found over 38,500 chart pattern samples, more than double the 15,000 used in the first edition, making many of the statistics rock solid.
- Keyed table entries. Each table entry appears in bold at the start of its corresponding text discussion for easy locating.
- Glossary and methodology. Instead of peppering the text with repeated explanations, a new chapter explains how I arrived at each table entry.

Thanks to the thousands who purchased the first edition. I am confident that this second edition will help you become a more knowledgeable and successful trader.

THOMAS N. BULKOWSKI
January 2005

Preface to the First Edition

When I was a little tyke I decided the easiest way to riches was to play the stock market. It was, after all, a level playing field, a negative-sum game with somebody winning and somebody losing. (Hint: The winner is always the broker.) All one had to do to win was pick stocks that went up and avoid stocks that went down. Easy.

I kept this in mind when I graduated from Syracuse University with an engineering degree and showed up early for my first professional job. Each morning I cracked open the newspaper and plotted my stock picks on a piece of graph paper taped to the wall. Bob, my office mate, used the same newspaper to select his stocks. I chose my selections after exhausting fundamental research, but Bob simply closed his eyes, twirled his hand around, and plunged his finger into the newspaper. When he opened his eyes and removed his finger, he announced another pick.

After several months of tracking both our selections, I made a startling discovery: I was getting creamed. Bob's random selections were beating the tar out of my carefully researched choices. I also discovered something else: I was learning a lot by paper trading.

With the hesitancy and distrust inherited from my parents, I studied two dozen firms before making my final selection and first purchase: I opened a money market account. The timing was excellent; I was earning over 17% on my cash. At first glance, the return might imply a very risky investment but it was not. The prime rate was, after all, at 21%.

Flush with success, I gathered my courage and opened a brokerage account and began investing the few pennies I saved. Again, the timing was excellent as I caught the beginning of a major bull market. I bought a stock at a split-adjusted price of 88 cents and watched it go to $30 and change.

Lest you think that everything was easy, consider what happened. My stock portfolio was growing by leaps and bounds, but my professional career was about to take a turn for the worse. After switching careers more often than