

Point and Figure Charting

Alan Clement

About Alan Clement

- Been involved with financial markets for over 20 years
- IFTA Certified Financial Technician
- Trading for a living for 7 years
- Use 100% Technical Analysis
- Mechanical Trader
- Design mechanical trading systems
- Contribute to *The Age* Technical Analysis column

What I Use

- Price
- Intermarket Analysis
- Candlestick Charts
- Ichimoku Cloud Charts
- Point & Figure Charts

What is Point & Figure Charting?

- A method of charting price, without reference to time.
- One of the oldest price charting methods known.
- A very efficient method of following price action as it develops.
- An objective method of determining trends and price breakouts.

Why Use Point & Figure?

- Get clarity on the “Big Picture”
- Objectively gauge trends and consolidation
- Easily spot areas of potential support and resistance
- Easily locate areas of congestion
- Calculate price targets
- Derive trading signals and easily measure risk/reward ratios

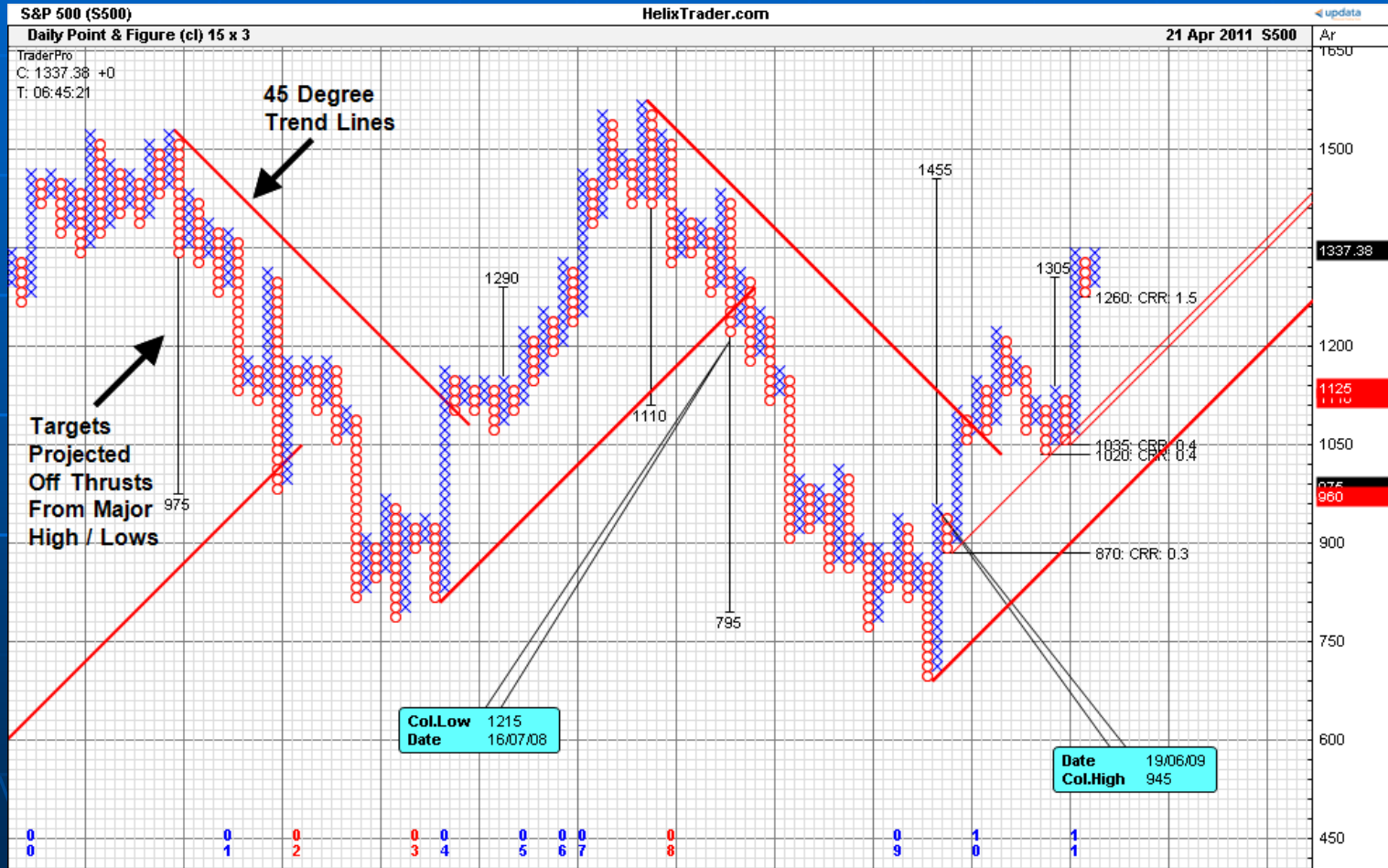
Point & Figure Advantages

- Removes noise giving greater clarity
- Granularity can be easily controlled
- Provides an objective indication of trend
- Strength of trend can be easily measured
- Areas of future support / resistance can be objectively determined
- Uncannily accurate price targets

How Point & Figure Differs

- Less detail on chart
- No gaps
- Traditional patterns less obvious
- No time dimension
- Arguably stronger trading signals

Chart Example



Point & Figure Construction

- Box Size?
 - General rule of thumb is to use 1% of the current price rounded to nearest 1, 5, 10, 100 etc
- Reversal Size?
 - 3 box reversal is standard
- Price element?
 - Closing price

P&F Construction

20/12/2010	1257
27/12/2010	1258
3/01/2011	1272
10/01/2011	1293
18/01/2011	1283
24/01/2011	1276
31/01/2011	1311
7/02/2011	1329
14/02/2011	1343
22/02/2011	1320
28/02/2011	1321
7/03/2011	1304
14/03/2011	1279
21/03/2011	1314
28/03/2011	1332
4/04/2011	1328
11/04/2011	1320
18/04/2011	1337
25/04/2011	1364
2/05/2011	1340
9/05/2011	1338
16/05/2011	1333
23/05/2011	1331
31/05/2011	1300
6/06/2011	1271
13/06/2011	1272
20/06/2011	1268
27/06/2011	1340
5/07/2011	1344
11/07/2011	1316
18/07/2011	1345
25/07/2011	1337

1365							
1350							
1335							
1320							
1305							
1290							
1275							
1260							
1245							

P&F Construction

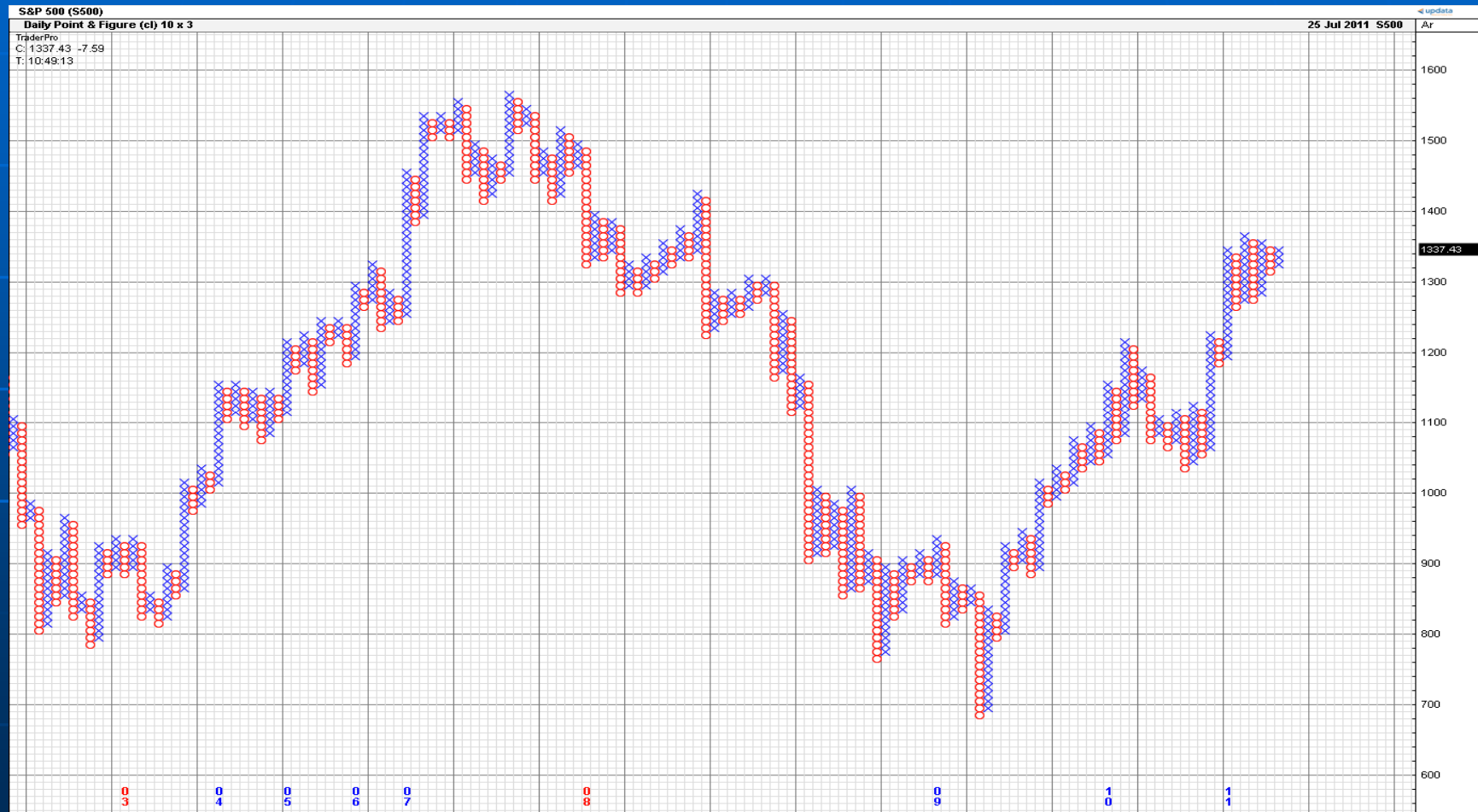
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27/12/2010	1258
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10/01/2011	1293
18/01/2011	1283
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5/07/2011	1344
11/07/2011	1316
18/07/2011	1345
25/07/2011	1337

1365						
1350			X			
1335	X		X	O	X	
1320	X	O	X	O	X	
1305	X	O	X	O	X	
1290	X	O		O	X	
1275	X			O		
1260	X					
1245	X					

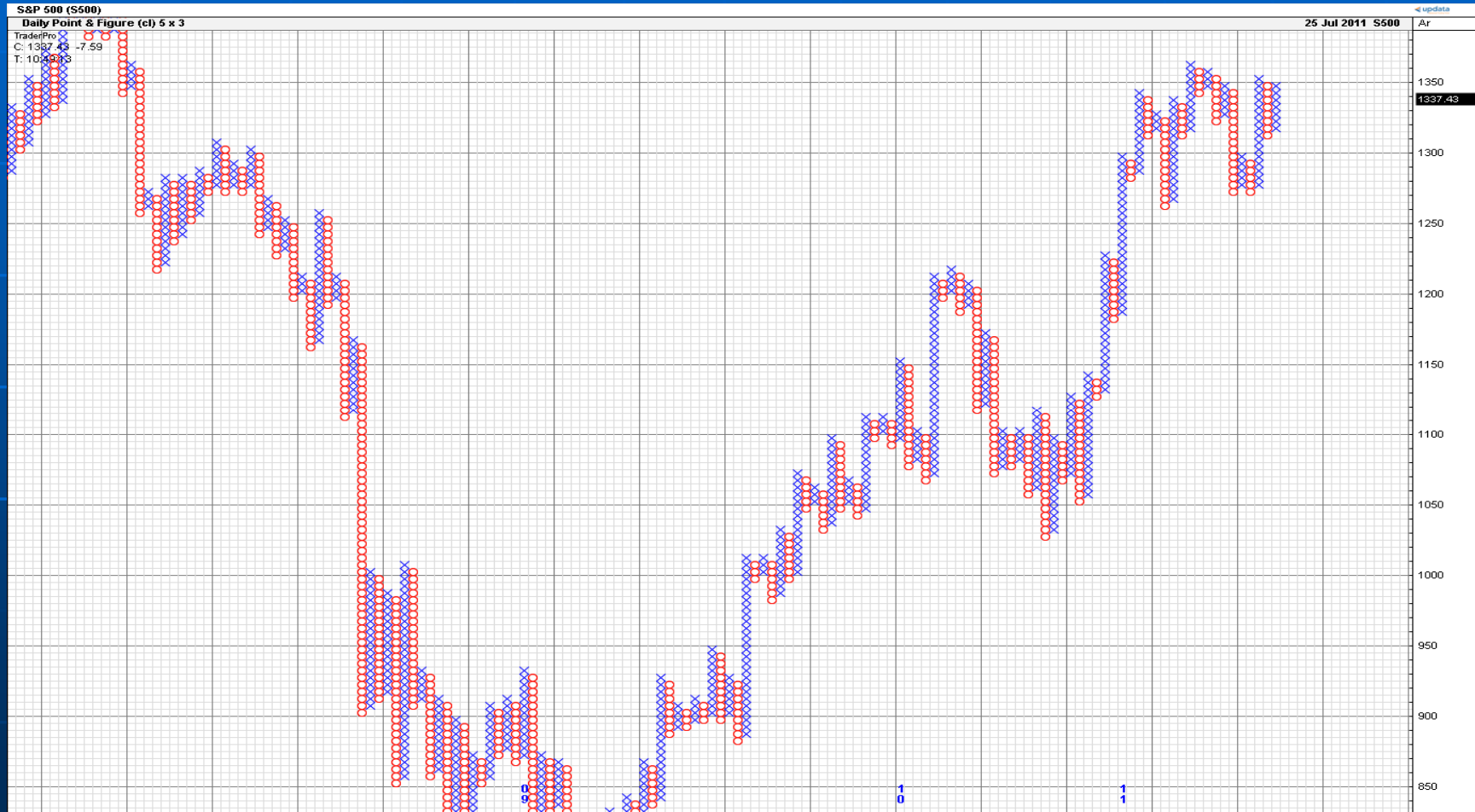
Adjusting Granularity

- Increase and decrease box size to see more granularity on the chart
- This is analogous to switching timeframes on bar / candle charts
- Smaller box size will introduce more "noise" in the price action.
- Larger box size will compress chart data.
- Think of it like zooming in and zooming out.

S&P500 10 box size



S&P500 5 box size



Patterns & Signals

<u>Shakeout</u>						<u>Bullish Triangle</u>					<u>Bearish Signal</u>									
Reversal stock makes two tops and then breaks a double reversal bottom. This rids the stock of weak holders. Can buy on 3 box reversal up. Shakeout is completed when the triple top is broken.						Series of lower tops and higher bottoms. Chart breaks one way or other. Take action on the breakout. 5 columns needed.					Series of lower tops and higher bottoms. Quick up and stock breaks. No accumulation. 7 columns needed.									
45						45						45								X
					X						X								X	
					X						X								X	
					X						X								X	
					X						X		X						X	
40					X	40					X	40	X	0					X	
	X		X		X						X		X	0	X				X	
	X	0	X	0	X		X				X			0	X	0			B	
	X	0	X	0	X		X	0			X			0	X	0	X		X	
	X	0	X	0	B		X	0	X		X			0		0	X	0	X	
35	X	0		0	X	35	X	0	X	0	X	35				0	X	0	X	
	X			0	X		X	0	X	0	X					0		0	X	
	X			0			X	0	X	0						0		0	X	
	X						X	0	X	0								0	X	
	X						X	0										0		
30	X					30	X					30								

Patterns & Signals

<u>Double Bottom</u>						<u>Triple Bottom</u>						<u>Bearish Catapult</u>					
An 0 (down) column triple exceeds a previous followed 0 (down) column. The simplest of all sell						An 0 column exceeds two previous columns or levels of support.						Combination of the bottom sell signal by double bottom.					
45						45						45					
								X		X				X		X	
40		X				40	0	X	0	X	0	40	0	X	0	X	0
	0	X	0				0	X	0	X	0		0	X	0	X	0
	0	X	0				0		0		0		0		0		X
	0		0								S					0	X
			S								0					0	X
			0								0					0	0
35			0			35					0	35					S
			0								0						0
																	0
																	0
30						30						30					

Patterns & Signals

Bearish Triangle

Series of lower tops and higher bottoms. Chart breaks one way or other. Take action on the breakout. 5 columns needed

45						
	0					
	0	X				
40	0	X	0			
	0	X	0	X	0	
	0	X	0	X	0	
	0	X	0	X	0	
	0	X	0	X	0	
	0	X	0			S
35	0	X			0	
	0				0	
					0	
					0	
30						

Bullish Signal Reversal

Series of higher tops and bottoms. Quick reversal down and stock breaks down. No accumulation occurs. 7 columns needed.

45								
							X	
							X	0
40				X		X	0	
				X	0	X	0	
		X		X	0	X	0	
		X	0	X	0	X	0	
		X	0	X	0			0
35		X	0	X				S
	0	X	0					0
	0	X						0
	0							0
								0
30								

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25/07/2011	1337

Bullish Shakeout or Bearish Catapult setting up?

1365						
1350			X			
1335	X		X	O	X	
1320	X	O	X	O	X	
1305	X	O	X	O	X	
1290	X	O		O	X	
1275	X			O		
1260	X					
1245	X					

Low Pole



High Pole



Let's Find Some Patterns



Trends

- Trendlines always drawn at 45 degrees to the square grid from significant high or low
- Trend broken when a break of trendline occurs with a valid pattern
- As soon as a valid trend break occurs, a trendline in the opposite direction can be drawn

Trendlines



Support & Resistance



cf. Candlestick



Targets

- Vertical Targets are calculated from the first major thrust off a significant high or low.
- Target = Number of Xs or Ox in first thrust column *times* box size *times* reversal size *added* to low or *subtracted* from high.
- Easy way: 3 times height of first column from high / low
- Targets given must be activated with a pattern before valid

Target Examples

Short Target example:

High (1575) less [10 "O"s X box size (15) X reversal (3)]

$$(10 \times 15 \times 3) = 450$$
$$1575 - 450 = 1110$$

Long Target example:

Low (690) plus [17 "X"s X box size (15) X reversal (3)]

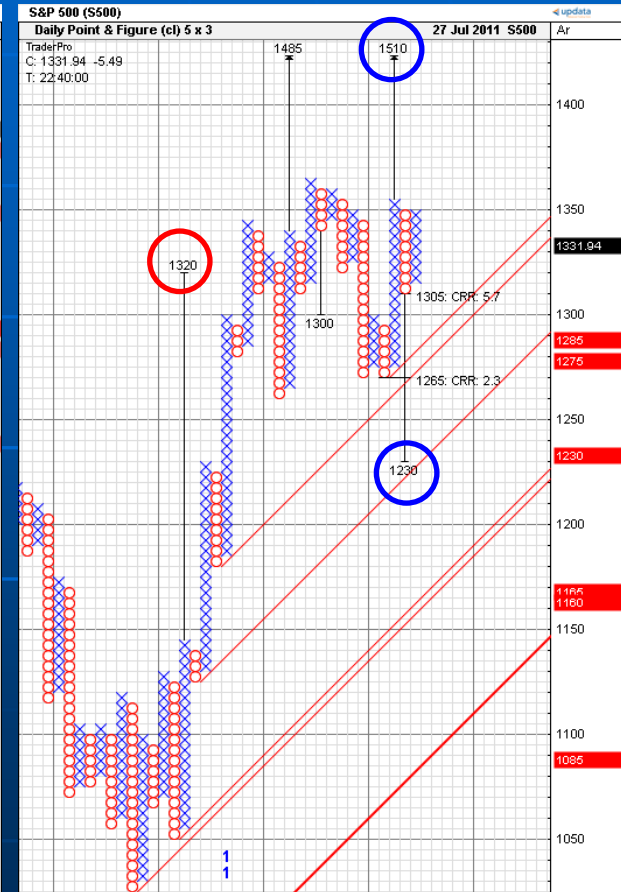
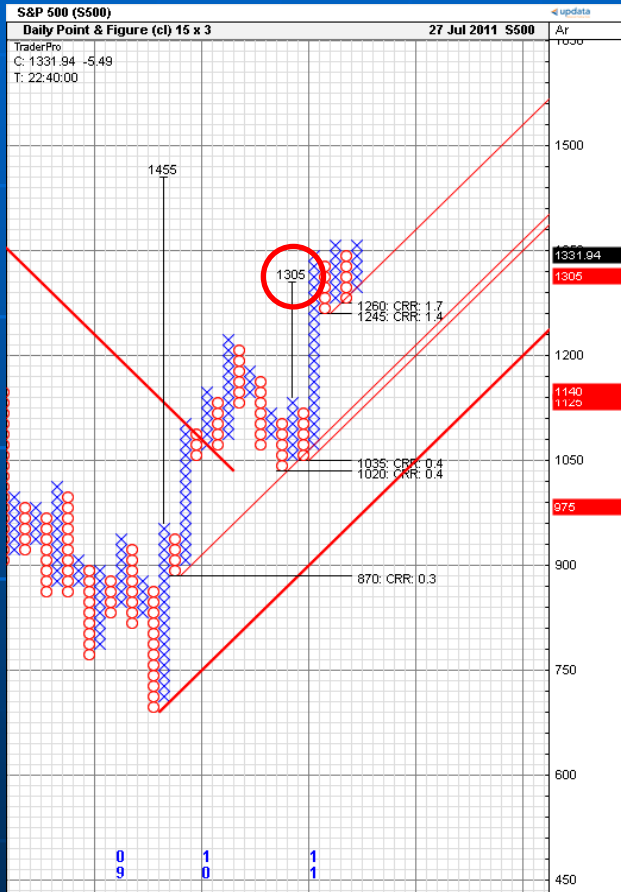
$$(17 \times 15 \times 3) = 765$$
$$690 + 765 = 1455$$



Some Target Tips

- Targets have no timescale
- Are previous targets in the same direction being achieved?
- Clustered counts enhance probability
- Count negation
- Opposing counts
- Combine counts with trendlines

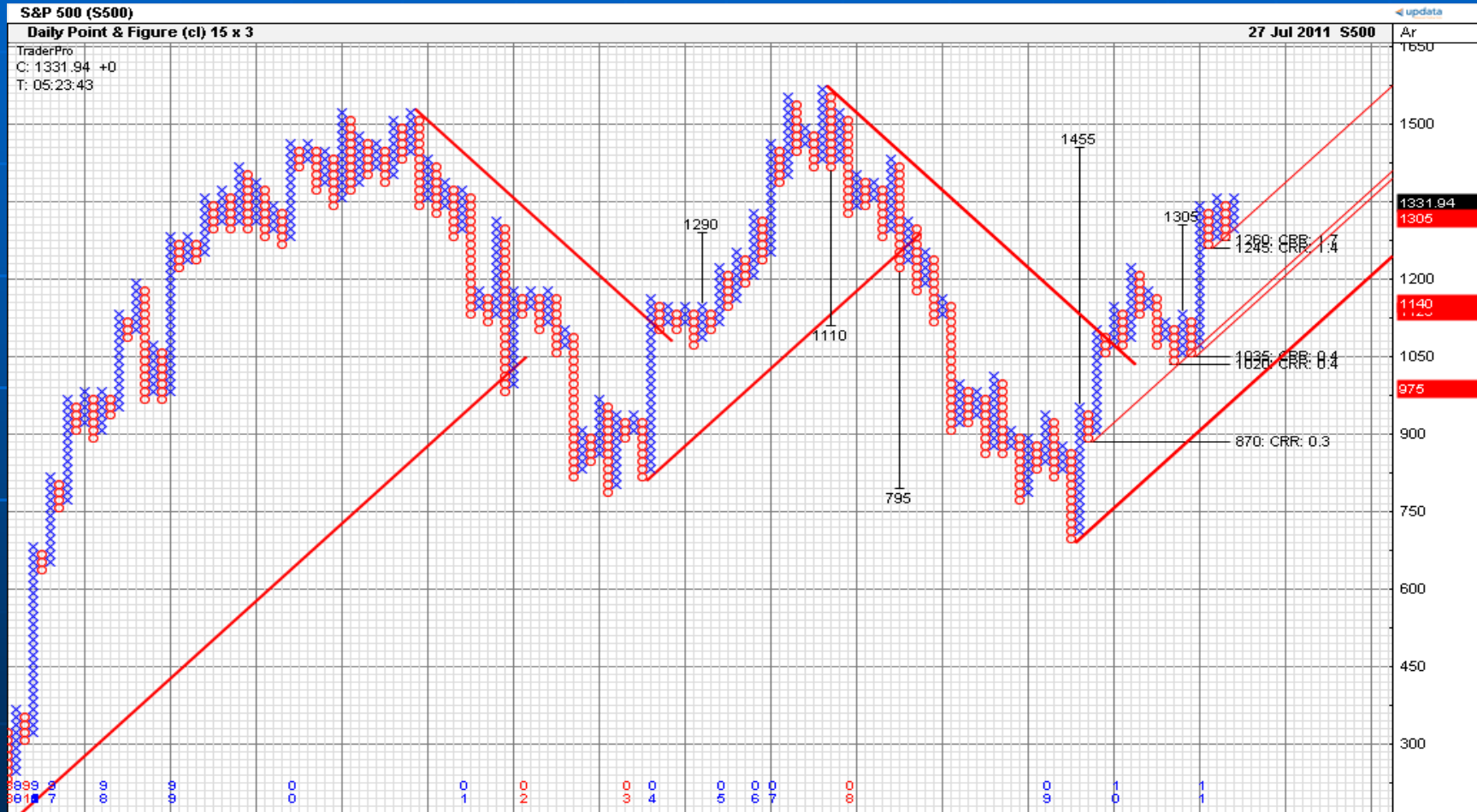
Target Tips



Using P&F for Entry Signals

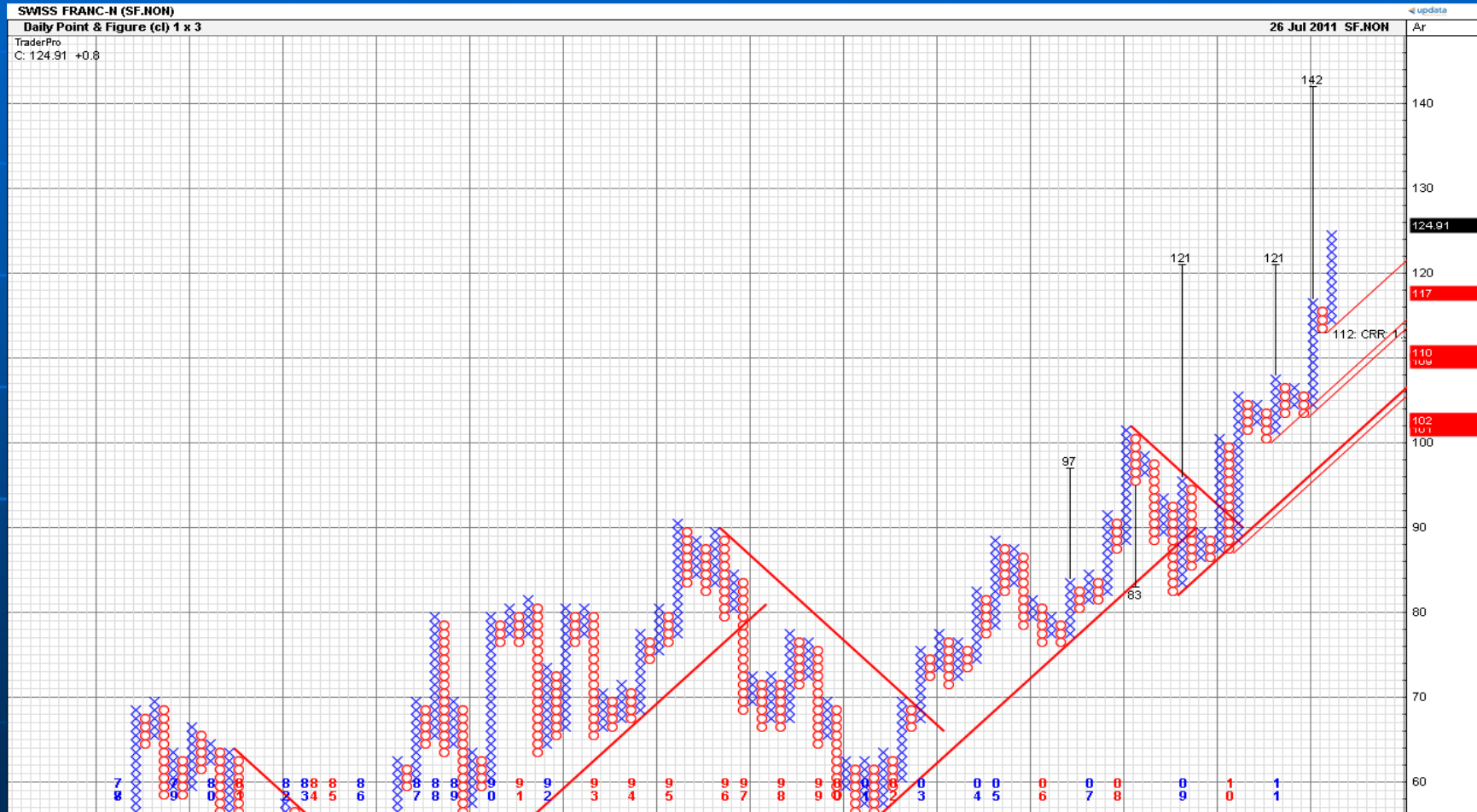
- Don't take every DTBO and DBBO
- Look for congestion followed by higher probability pattern
- Take signals in the direction of the trend
- Use column lows / highs to position your stop
- Use targets to calculate risk / reward ratio

Entry Signals

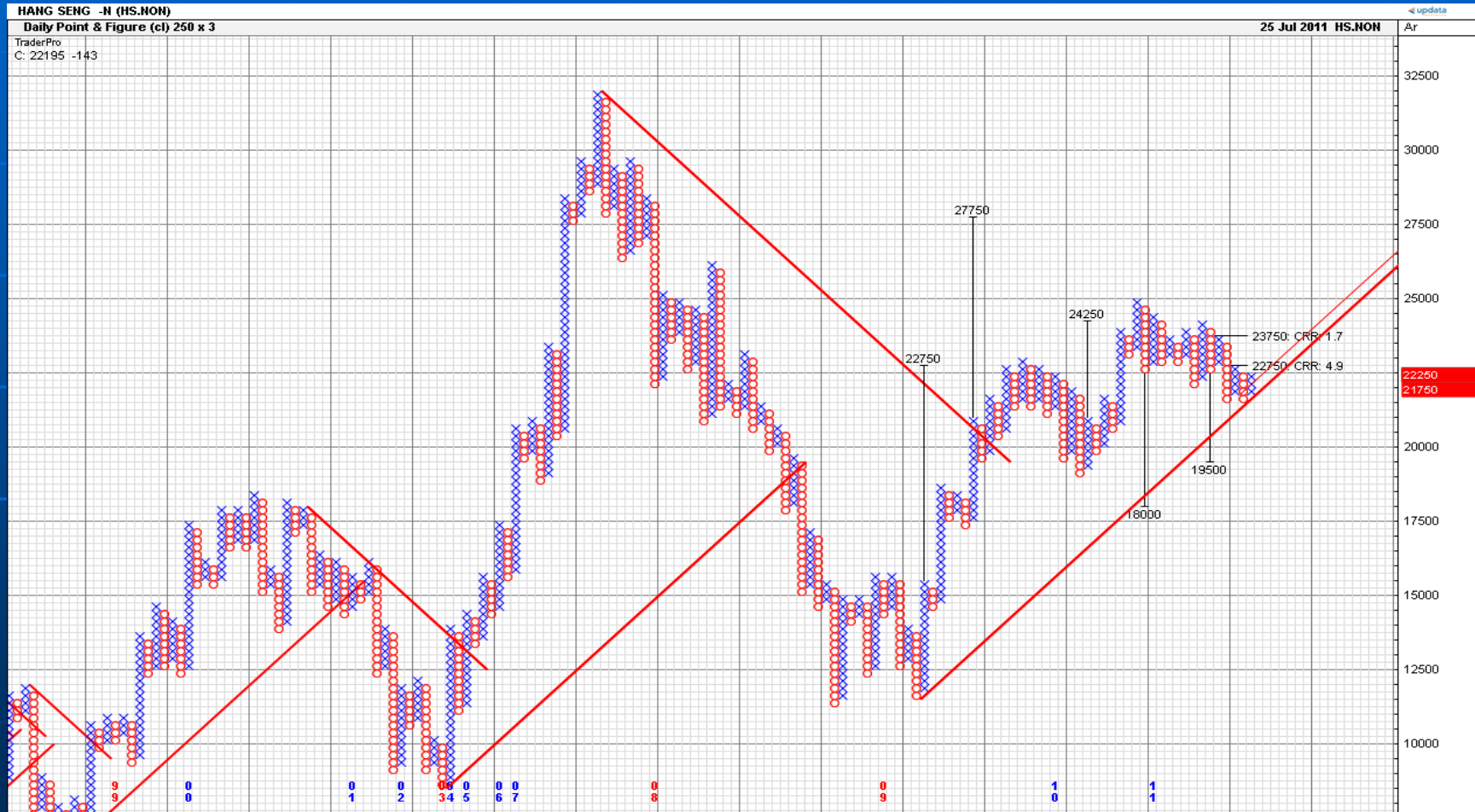


That's enough theory, let's
analyse some charts!

Swiss Franc 1 x 3



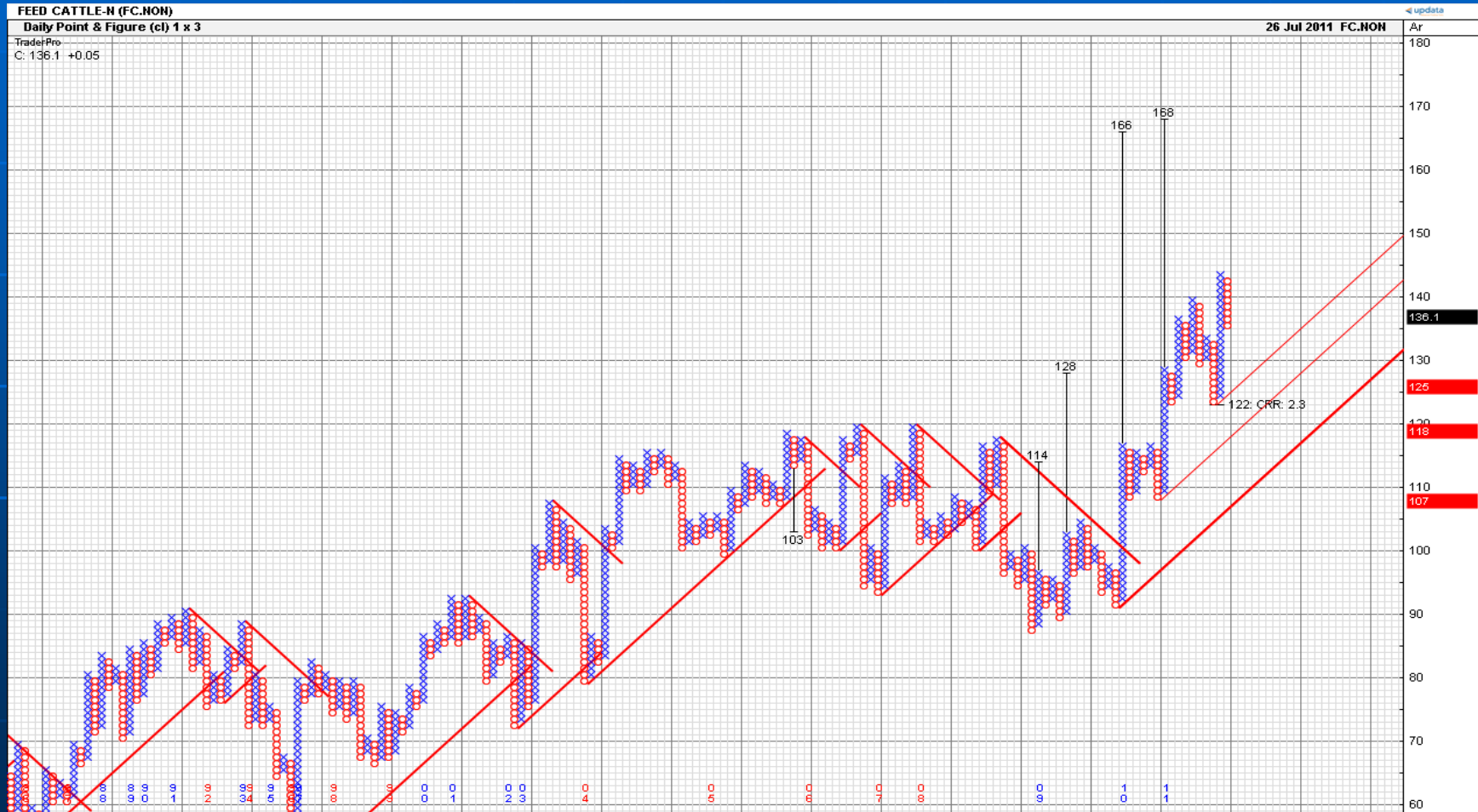
Hang Seng 250 x 3



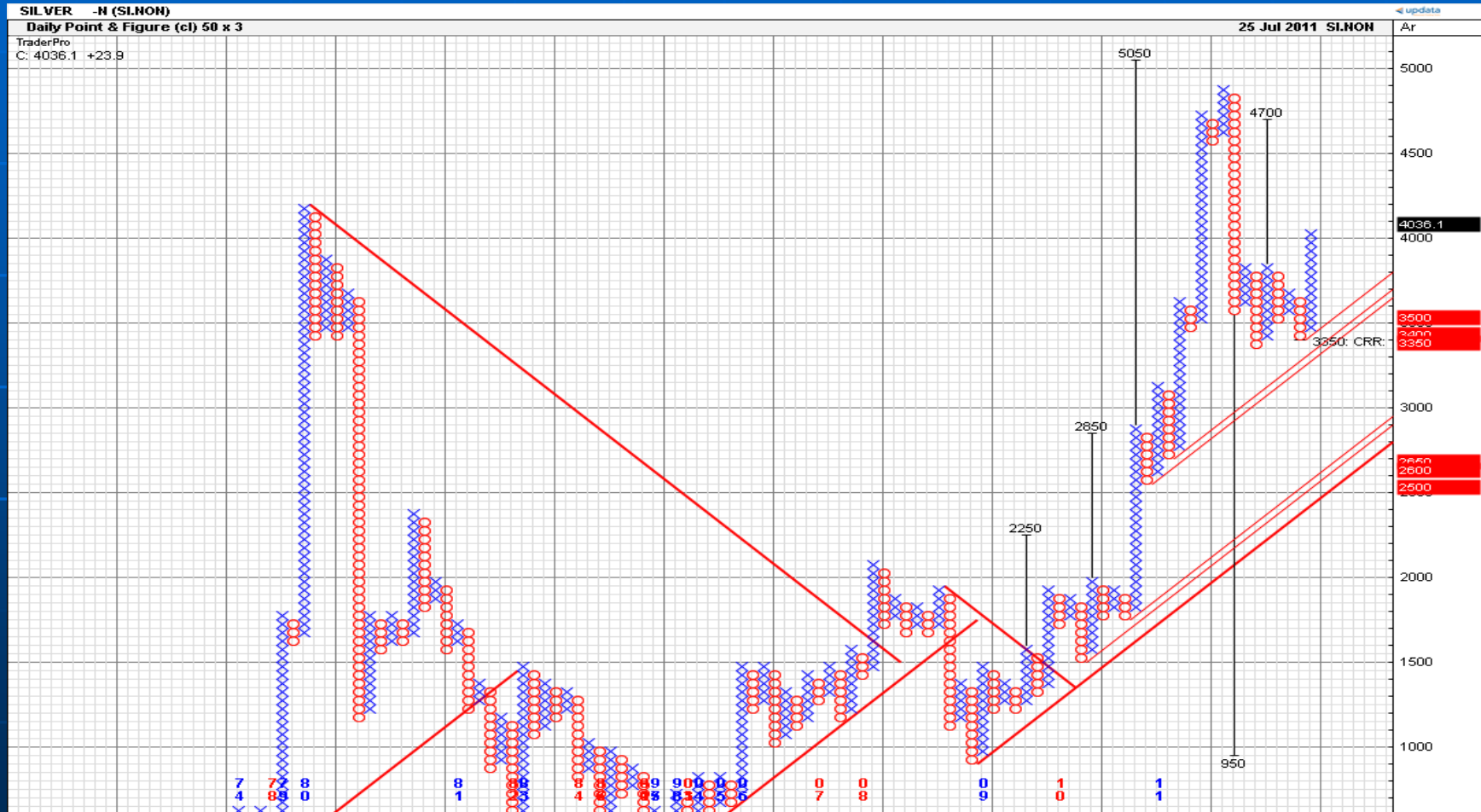
Gold 15 x 3



Feed Cattle 1 x 3



Silver 50 x 3



US Dollar 0.5 X 3



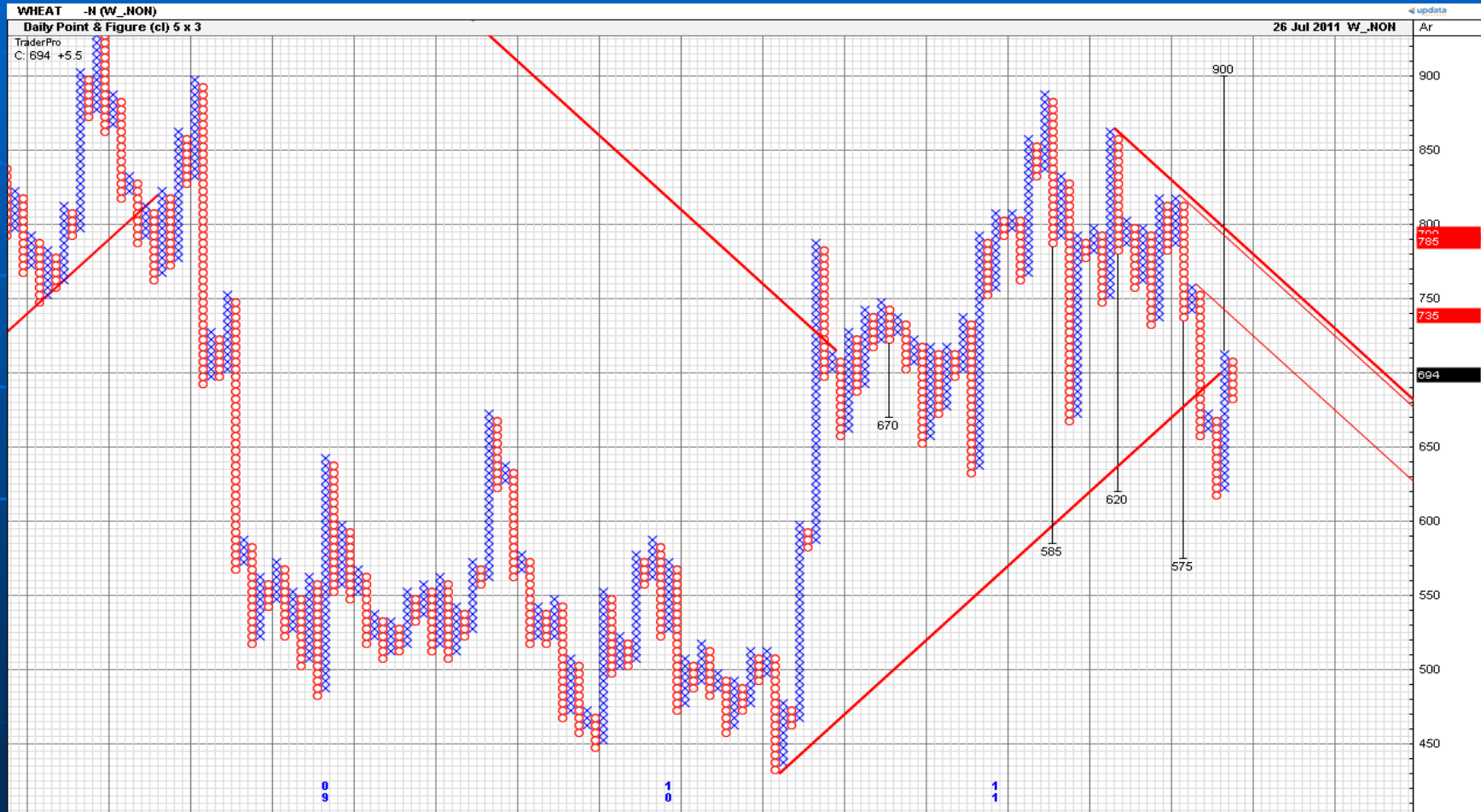
Corn 5 x 3



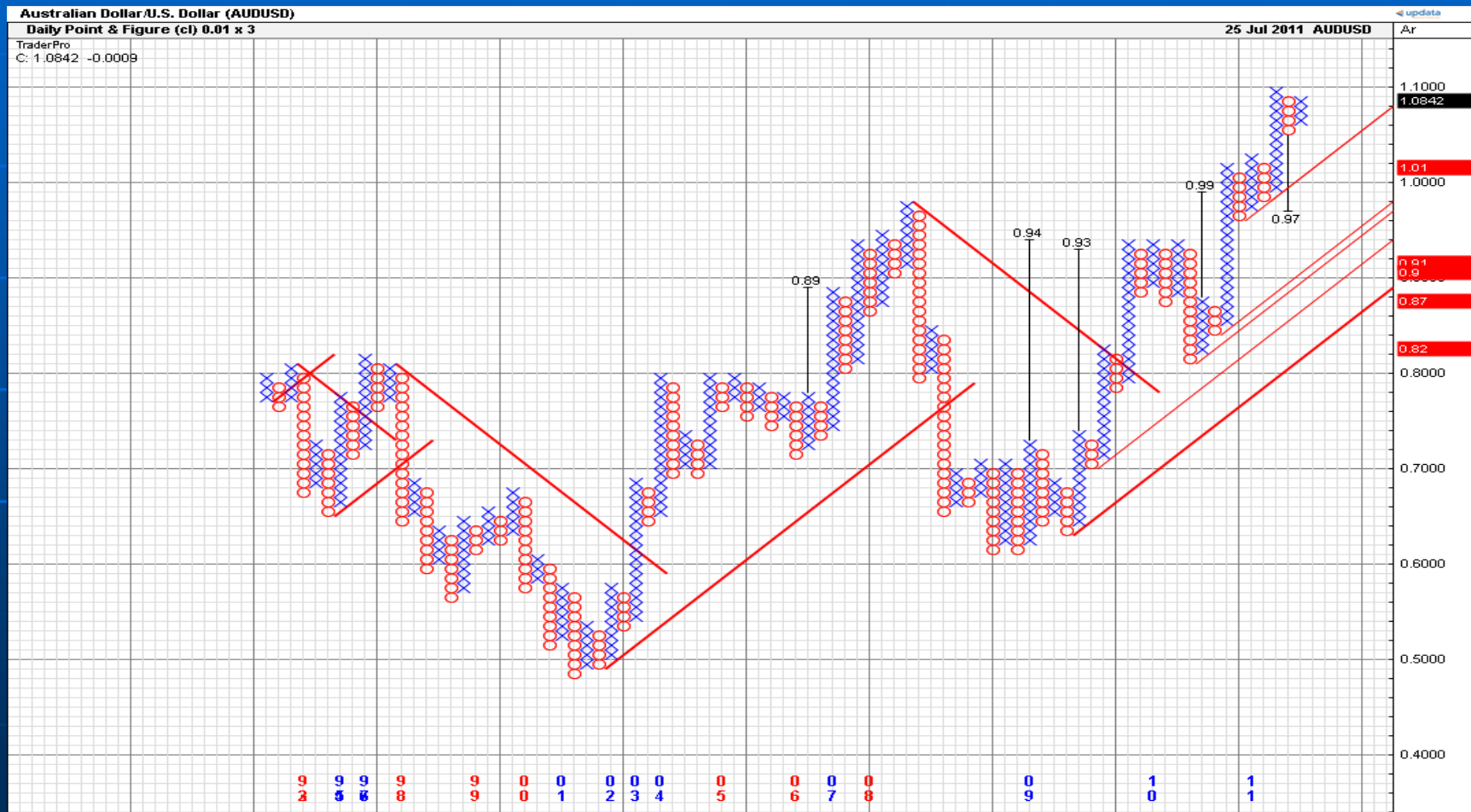
Wheat 10 x 3



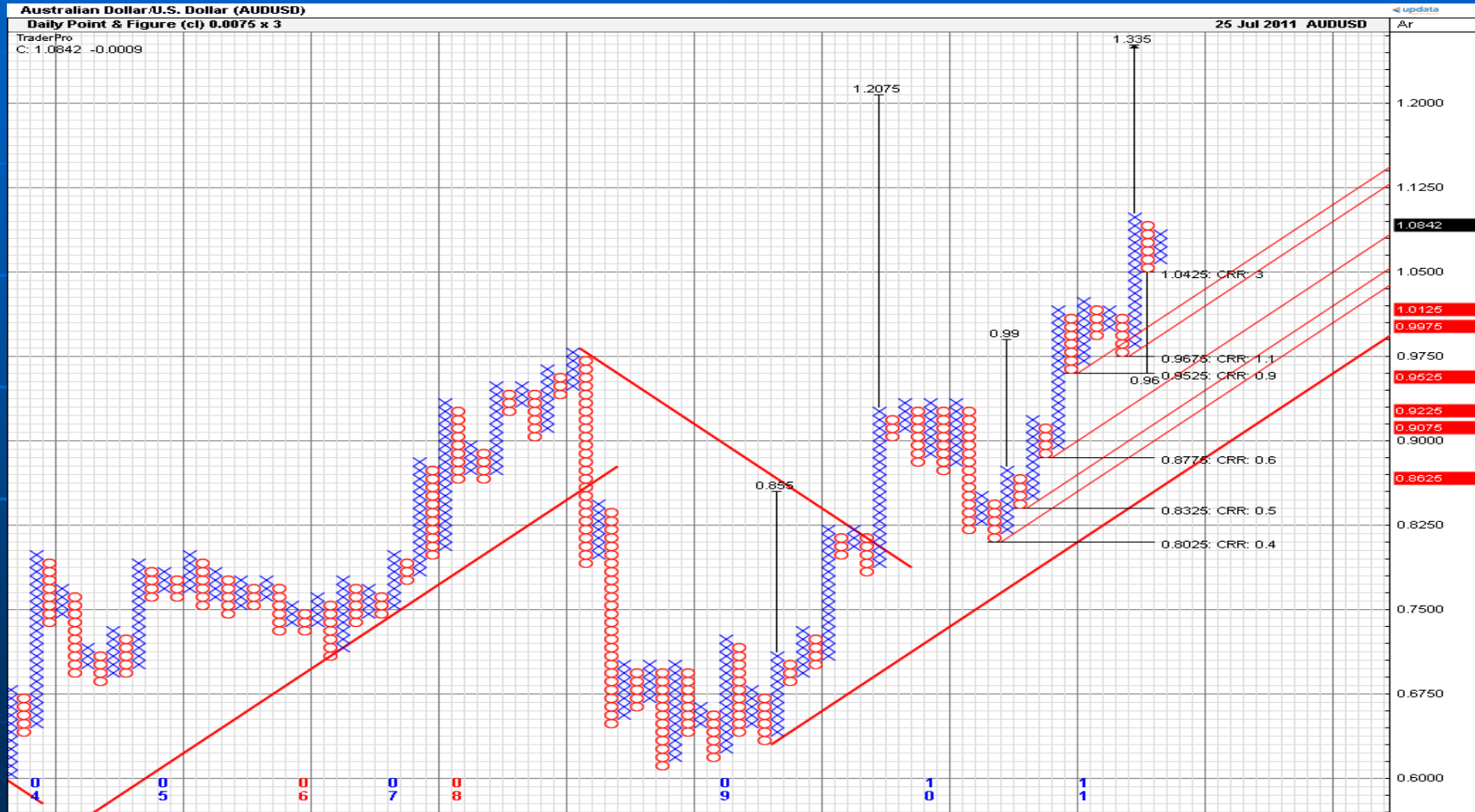
Wheat 5 x 3



AUD/USD 0.01 X 3



AUD/USD 0.0075 X 3



AUD/USD 0.005 X 3



Advanced Topics to Investigate

- Different reversal sizes
- Log Scale Charts
- Horizontal Counts
- Use P&F as an Indicator
- Use as Market Breadth indication
- Moving Averages
- Parabolic SAR
- Bollinger Bands

Summary

- P&F is a great addition to your trading armoury, to be used alongside your other techniques
- Get the Big Picture and an objective view of trend and targets
- Start with a 1% box size and drill down and up for more / less granularity
- Look for highest probability setups when trading off P&F charts
- Look for clustering targets in the direction of the trend

Further Study

The Definitive Guide to Point and Figure – Jeremy du Plessis

Kaplan – Short Course 9063:
Specialist Techniques in TA
as part of the ATAA Diploma in TA
See www.ataa.com.au