

Contents

Praise for The Definitive Guide to Point and Figure Charting	xv
About the Author	xvii
Preface to the Second Edition	xix
Preface to the First Edition	xxi
Introduction	xxv
Introduction to Technical Analysis	xxxii
1. Introduction to Point and Figure Charts	1
History and development	4
Where did Point and Figure charts get their name?	16
The use of Point and Figure charts over the years	18
The <i>voice</i> of the market	18
2. Characteristics and Construction	23
Characteristics of Point and Figure charts	25
Constructed with Xs and Os	26
Up moves and down moves	26
Xs and Os called boxes	26
Box size	26
Reversal size	26
Variable sensitivity	27
Price gaps	27
Price on Y-axis but no time on X-axis	27
Two-dimensional charts	28
No volume	28
Demand and supply	28
Naming Point and Figure charts	28
Point and Figure construction	29
1-box reversal charts	30
Why change columns when price reverses?	30
One-step-back	32
Using other box sizes	34
Construction example of a 1-box reversal chart	35

Important note	36
Filling and emptying glasses	41
Example of building a 1-box reversal Point and Figure chart	42
3-box reversal charts	44
Constructed from 1-box charts	44
Unique asymmetric filter	44
Consider the value of the box	47
Example of a 10 x 3 Point and Figure chart	47
Constructed from the 1-box chart	52
Characteristics of 3-box reversal charts	52
5-box reversal charts	53
2-box and other reversal charts	54
2-box reversal charts	54
Characteristics of 2-box reversal charts	55
Other box reversals	55
Summary so far	55
1-box reversal charts	56
3-box reversal charts	56
5-box reversal charts	57
2-box reversal charts	57
The move from intra-day to end-of-day – the great controversy	58
Close only method	59
Plotting a close only end-of-day Point and Figure chart when data is being received in real-time	59
High/low method	60
Example of a 10 x 3 Point and Figure chart using high/low prices	61
Plotting high/low end-of-day Point and Figure charts when data is being received in real-time	67
Problems with the high/low method	67
Other construction methods	68
The low/high method	68
The open/high/low/close method	69
End-of-interval time frame Point and Figure charts	70
Log scale Point and Figure charts	71
Naming log scaled Point and Figure charts	73

Choosing between log and arithmetic	74
Stops and log scale Point and Figure charts	77
Summary	77
3. Understanding Patterns and Signals	79
1-Box and 3-Box Reversal Charts	81
Do not ignore 1-box reversal charts	81
Point and Figure signals	82
Double-top and bottom patterns	82
Continuation as well as reversal	84
Reversal patterns in 1-box charts	86
Triple-top and bottom patterns	89
Triple-top and bottom patterns in 3-box charts	89
Triple-top and bottom patterns in 1-box charts	91
Compound patterns	91
Knowing when to ignore signals	92
Control and reassertion of control	94
The strength of the pattern	95
Upside and downside triangles – sloping bottom or sloping top	95
Symmetrical triangles – sloping top and sloping bottom	98
The breakout and pullback	101
3-box catapult patterns	101
1-box catapult patterns	103
Terminology clarification	108
1-box and 3-box patterns	108
Traps	108
Bull trap	109
Bear trap	109
Trading traps	110
Shakeouts	111
Broadening patterns	112
1-box broadening patterns	114
Bullish and bearish patterns that reverse	115
Bearish pattern reversed	115
Bullish pattern reversed	117
Comparing 3-box and 1-box charts	118

Poles	120
Trading strategy with poles	122
Poles in 1-box reversal charts	124
Opposing poles	127
Other Patterns	127
Congestion analysis	128
The fulcrum	129
Strength and weakness in fulcrum patterns	132
Final word on patterns	138
2-box reversal charts	138
Summary	140
4. Understanding and using Trend lines	143
Trend line breaks	146
45° Bullish support and bearish resistance lines	148
Rationale for bullish and bearish 45° trend lines	148
Where to draw bullish support and bearish resistance lines	150
45° trend line drawing rules	151
Implications of different box reversals on 45° trend lines	154
45° lines and log scaled charts	156
Internal 45° trend lines	157
Measuring the strength of 45° lines	160
Parallel trend lines	161
Trend lines and signal rules	164
Exercise in drawing 45° trend lines on a log scale chart	164
45° or subjective – which do you draw?	169
Summary	172
5. Projecting Price Targets	175
Counts on 1-box reversal charts	177
How to establish a horizontal count on 1-box reversal charts	178
Summary of 1-box counts	189
Counts on 3-box reversal charts	189
Vertical counts on 3-box reversal charts	190
How to establish upside targets using the vertical count method on 3-box charts	191

How to establish downside targets using the vertical count method on 3-box charts	194
Vertical count establishment and activation	197
When should activation take place?	199
The logic of the vertical count	199
Horizontal counts on 3-box reversal charts	199
How to establish upside targets using the horizontal count method on 3-box charts	200
How to establish downside targets using the horizontal count method on 3-box charts	203
Horizontal count establishment and activation	205
The logic of the horizontal count	205
Things you should know about Point and Figure counts	206
Targets have no time-scale	207
Nearest counts must be achieved first	207
Clustering of counts	207
Negating a count	207
Opposing counts	208
Using counts to assess trend strength	209
Unfulfilled counts	210
Improbable and impossible counts	210
Counts on different time horizons	212
Good counter or bad counter	215
Counts on close, high/low, low/high or ohlc charts	216
Counts on other box reversal charts	218
Counts on log scale charts	219
Accuracy of counts on log scale charts	221
De Villiers and Taylor 3-box horizontal counts	222
Risk and reward	222
Risk:reward ratio from vertical counts on 3-box charts	223
Risk:reward ratio from horizontal counts on 3-box charts	225
Risk:reward ratio from horizontal counts on 1-box charts	228
Risk:reward ratios on shorts	231
Final word on risk:reward	232
Another way of projecting targets – Fibonacci retracements	233
Summary	236

6. Analysing Point and Figure Charts	239
Implications of changing the construction parameters	242
Changing the reversal size	242
Changing the box size	243
Changing the data time frame	244
Changing the construction method	245
Choosing your chart parameters	246
Knowing your time horizon	246
Choosing the reversal size	246
Choosing the correct box size	250
Choosing the construction method	254
Choosing the data time frame	259
Choosing your scaling	262
Drawing your first Point and Figure chart	262
Consistency	264
Showing gaps	264
Other ways of determining box size	266
Volatility based box sizes	266
Analysis of 3-box reversal charts	269
Flipping charts	273
Taking a shorter-term view	280
Changing time frames	283
Analysis using 1-box reversal charts	288
Taking a shorter-term view	297
Analysis of 2-box charts	300
Stoplosses on Point and Figure	302
Placing a stop to limit a loss	302
Placing a stop to protect a profit	303
Trailing stops	303
Trailing stops based on volatility	306
Stoplosses based on column changes	307
Stoploss summary	308
Low-risk entries	308
Summary	309

7. Point and Figure Charts of Indicators	311
Point and Figure of relative strength	314
Using Point and Figure counts on relative strength charts	320
Point and Figure of on-balance volume	321
Point and Figure of oscillators	323
Summary	325
8. Optimisation of Point and Figure Charts	327
The case for and against optimisation	329
Approaching Point and Figure optimisation	330
Test parameters	333
Data consistency and adaptability	333
Alternative exits	336
Optimisation of FTSE 100 constituents for longs	336
Optimisation of S&P 100 constituents for longs	337
Optimising for shorts	339
Optimisation of FTSE 100 constituents for shorts	339
Optimisation of S&P 100 constituents for shorts	341
Optimising for specific patterns	342
Catapult entry signals	342
Optimisation of FTSE 100 constituents for catapult entry for longs	342
Optimisation of S&P 100 constituents for catapult entry for longs	344
Triple-top entry signals	345
Optimisation of FTSE 100 constituents for triple-top entry for longs	345
Optimisation of S&P 100 constituents for triple-top entry for longs	346
Conclusion	347
9. Point and Figure's Contribution to Market Breadth	349
Introduction	351
A caveat	352
Bullish Percent	353
Analysing Bullish Percent as a line chart	353
Divergence	357
Adjusting the sensitivity of Bullish Percent	357
Analysing Bullish Percent as a Point and Figure chart	360
Close only, high/low, low/high or ohlc data	363

Bullish Trend Percent	367
X-Column Percent	370
Other Market Breadth Indicators based on Point and Figure	371
Market Breadth on other markets	372
Summary	373

10. Advanced Point and Figure Techniques **375**

Moving averages on Point and Figure	377
How to use moving averages on Point and Figure charts	381
Moving averages on 3-box reversal charts	381
Moving averages on 1-box reversal charts	390
Fine-tuning the guidelines	393
Final word on moving averages	393
Parabolic stop and reverse (SAR) on Point and Figure	394
Taking earlier signals	395
Parabolic on 1-box charts	396
Parabolic acceleration factor	398
Combining parabolics with trend lines	400
Bollinger Bands on Point and Figure	401
Overbought or oversold	401
Volatility and the squeeze	403
More Bollinger Bands examples	406
Activity histograms	408
Price Level Activity histogram	408
Volume at Price Level histogram	414
Activity at Price Level or Volume at Price Level	417
The effect of gaps on Activity histograms	417
Summary	419

11. Chart Examples **421**

Spot Euro Dollar (daily) 0.01 x 1	424
Spot Euro Dollar (60 minute) 0.01 x 1	425
Gold PM Fix 5 x 1	426
Gold PM Fix 5 x 3	427
Brent Crude Index (IPE) 2% x 1	428
Brent Crude Index (IPE) 1% x 3	429

MIB 30 Index 1% x 3	430
Nikkei 225 Index 100 x 3	431
Hang Seng Index 100 x 3	432
DJ Euro Stoxx 50 1% x 3	433
Infineon Technologies AG 2% x 3	434
IBM 1% x 3	435
Compuware Corporation 1% x 1	436
Intel Corporation 0.25 x 3	437
American Express Company 1.5% x 3	438
Three month sterling interest rate future (June 2005) (60 minute) 0.025 x 1	439
Gold 15 x 3	440
US 10 year yield 0.025 x 3	441
Brent Crude \$1 x 3	442
Summary	443
12. Dividing your Stocks into Bullish and Bearish	445
Adding relative strength to the search	451
Conclusion	453
References and Further Reading	459
Appendix A – Construction of 2-Box Reversal Charts	461
Example of a 10 x 2 Point and Figure chart	463
Appendix B – Construction of 1-Box Reversal High/Low Charts	469
Example of a 10 x 1 Point and Figure chart using high/low prices	471
Appendix C – Construction of Log Scaled Charts	483
Index	487