

Point and Figure Charting Method



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INTRODUCTION TO POINT AND FIGURE CHARTING METHOD

Most people are already familiar with line chart, bar chart and candlestick chart. However, many are unfamiliar with Point and Figure chart.

Line chart uses a simple line to join the points denoting the closing prices. It is simple and visually pleasing. Therefore, it is an excellent tool for communication to non-specialized audience. Bar chart and candlestick chart, on the other hand, use open, high, low and close prices in the construction. These full data allow analysts to better understand what is happening in the market. Gaps, islands, key reversals, chart patterns...etc. are among the interpretations analysts may derive from bar and candlestick charts.

All three charts scaled prices on the vertical (Y) axis and time on the horizontal (X) axis. Volume is usually plotted as histogram below prices along the X axis.

Box and Box Size

Point and Figure charts are plotted on square-grid paper using high/low prices, each grid is called a 'box'. Each box is assigned with a value (eg: 10 cents, 20 cents...etc. for stocks or 25 points, 50 points for indices) called 'box size'. The vertical y-axis is for price whereas the horizontal x-axis is for the number of reversal. Point and Figure charts do not take time and volume into consideration. It is a pure price charting method that reflects uncontaminated supply and demand. Passage of time and volume has no impact on the chart.

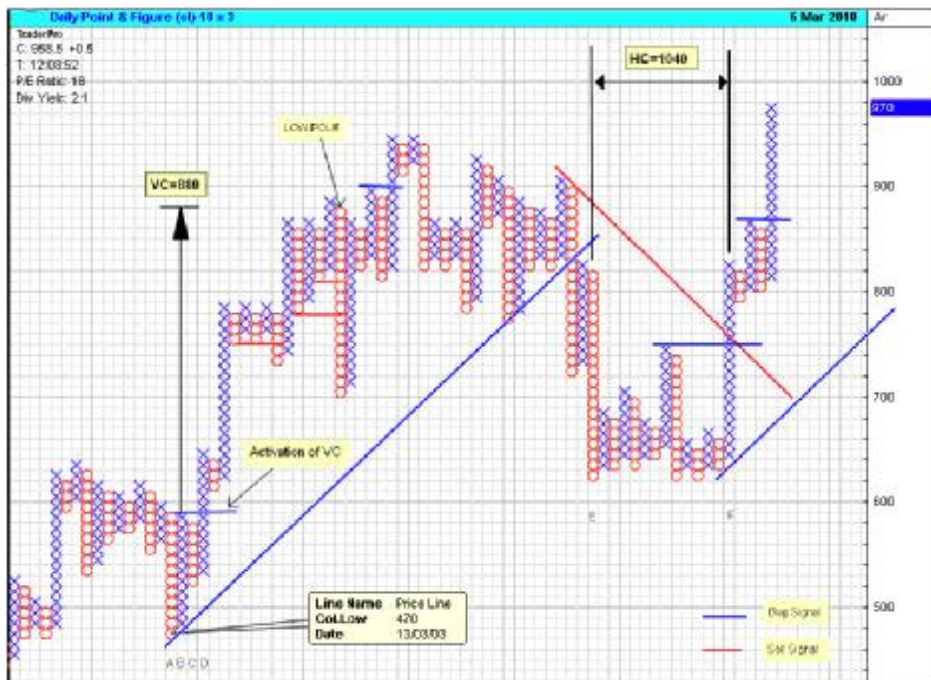


Figure 1 : Example of a Point and Figure Chart

X's and Os

- When demand exceeds supply (more buyers than sellers), stock prices rise. An ascending column of Xs on the chart depicts this.
- When supply exceeds demand (more sellers than buyers), stock prices fall. A descending column of Os on the chart depicts this.

Note that individual boxes will be filled only when stock prices rise completely through the box. For example, if the box size is 10 cents. A new box will be filled only when prices rise through 10 cents. Any value below 10 cents will not cause the box to be filled.

Reversal

Point and Figure chart uses asymmetrical filter rule for price reversal. Reversal refers to the process of changing from a column of Xs to Os or Os to Xs. The number of boxes required to change column is known as reversal size (it is usually 3 boxes although any other numbers are possible). That means, Point and Figure charts will not change direction (ie: from a column of Xs to a column of Os or vice versa) unless the price moves more than 3 boxes (or unit of price) in the opposite direction. Therefore, there can be no fewer than three boxes in a column.

Naming Point and Figure Charts

Point and Figure charts are named according to the 'box size' x 'reversal size'. If the box size is 10 cents (or 10 points) and the reversal size is 3-box. The Point and Figure chart is named "10x3".

45° Trendline

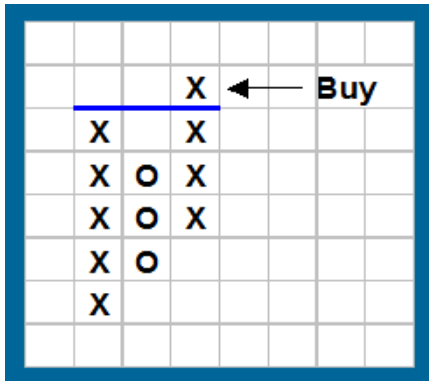
Unlike line chart, bar chart and candlestick chart where up trendline or down trendline are drawn by joining the successive troughs or peaks with at least 3 touches. Trendlines for Point and Figure chart are drawn at 45° from the top or bottom as soon as a high or low point is determined. The up trendline is called the Bullish Support Line and the down trendline is called the Bearish Resistance Line.

Basic Buy and Sell Signal

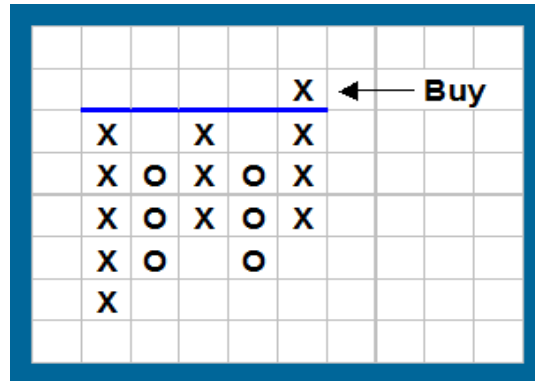
When demand overcomes supply, the column of Xs breaks above the previous column of Xs. This is the most basic Point and Figure double-top (or triple-top) buy signal.

Conversely, when supply outstrips demand, the column of Os breaks below the previous column of Os. This becomes the most basic Point and Figure double-bottom (or triple-bottom) sell signal.

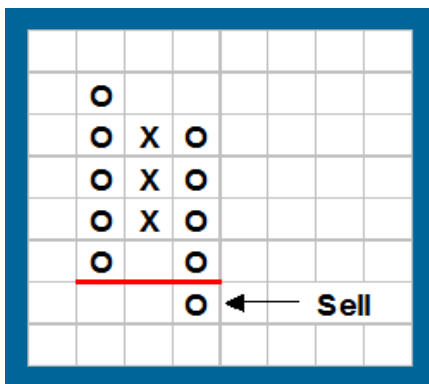
All other buy and sell signals or chart patterns are variation from the basic double or triple top and bottom buy/sell signals.



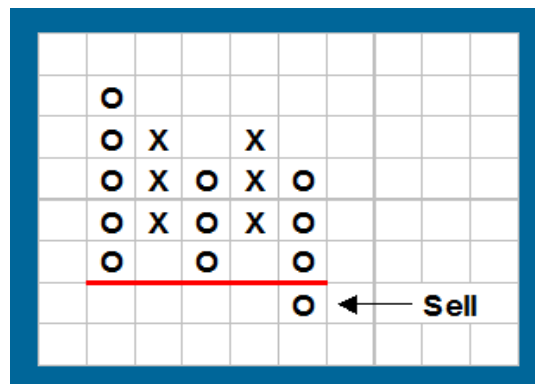
Double-top Buy



Triple-top Buy



Double-bottom Sell



Triple-bottom Sell

Figure 2 : Point and Figure Buy / Sell Signals

Price Target

Point and Figure charts allow the determination of price target by mean of a methodology called "count" (literally counting the boxes). There are two different types of "count" namely "horizontal count" and "vertical count". For 1-box reversal Point and Figure charts, only "horizontal count" is possible. For 3-box reversal, both "horizontal count" and "vertical count" can be used. Horizontal count is slightly more complicated than vertical count and will not be covered here. Below, we focus on vertical count....

Vertical Count (3-box charts)

How to establish upside targets using the vertical count method

(The steps below are taken from "The Definitive Guide To Point and Figure" by Jeremy Du Plessis)

Step 1 – Choose a column of Xs considering the rules below

- The most important count is one from an important bottom. Look for an important bottom at the end of a downtrend where a column of Os has reversed into a column of Xs
- The column of Xs should be the first rising column from the bottom
- The column of Xs must be a completed column. This means that the length of the column of Xs must be fixed by the creation of a new column of Os to the right of it.
- If, however, you have already counted from the bottom, then there are three other counts you may consider:
 1. Look for a second column of Xs off the bottom, but only if the first column of Xs is a short column, or
 2. Look for an intermediate mini-bottom during an uptrend, or
 3. Look for any significant X column breakout. This could be a column of Xs that breaks out of a sideways congestion, or any other X column that changes the look of the chart.

Step 2 – Count the number of Xs in the column and calculate the count

- Once the column has been chosen, and its length fixed by the emergence of a new column in the opposite direction, count the number of Xs in the column
- Multiply the number of Xs by the box size (the value of each X and O)
- Multiply this product by the reversal, which is 3
- Add this total to the value of the lowest O in the column of Os immediately to the left of the counting column
- You now have the upside target, which you may mark on the chart

Example 1:

Reference the 10x3 Point and Figure chart below for The Straits Times Index (STI).

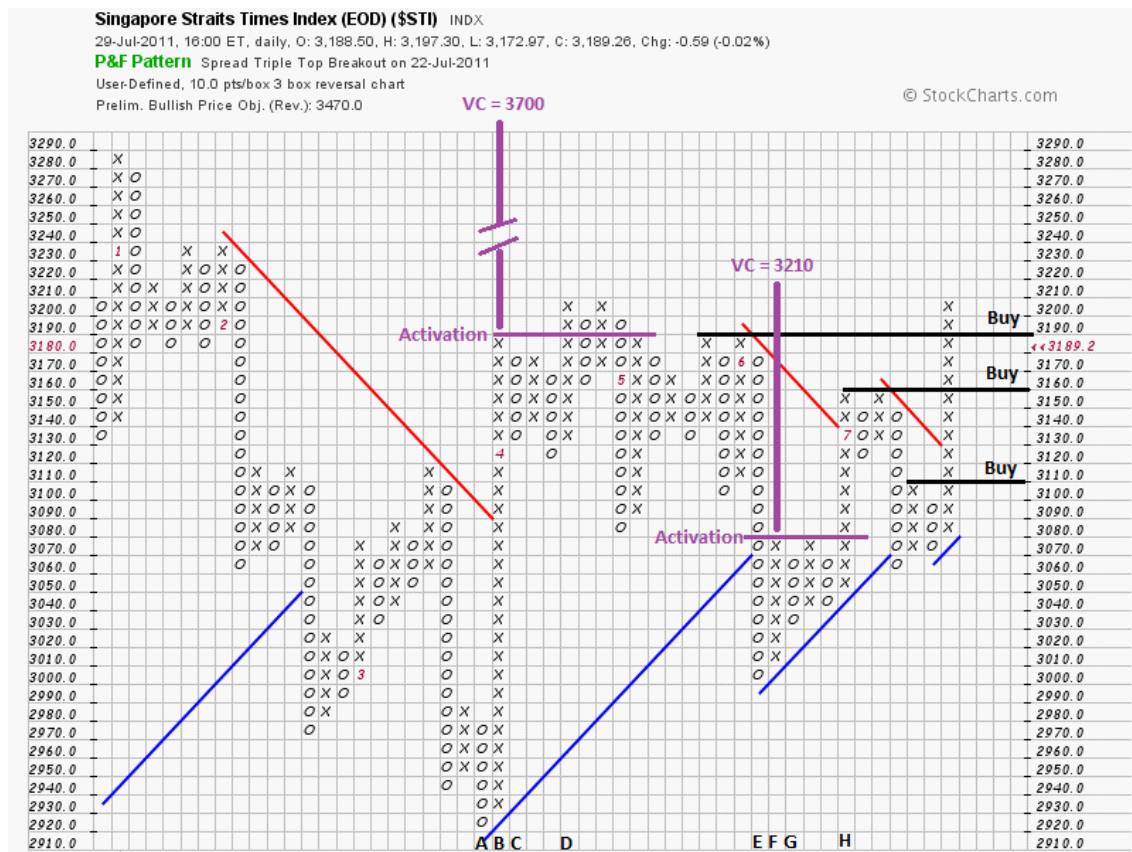
1. Column A is an important low and could therefore be chosen for vertical count
2. Column B is the first rising column of Xs from the bottom
3. Column C fixed the length of column B
4. Vertical Count:

$$26 \text{ (number of Xs)} \times 10 \text{ (box size)} \times 3 \text{ (reversal)} = 780$$

$$780 + 2920 \text{ (lowest O in the column of Os to the left of the counting column)} = 3700$$

Example 2:

1. Column E is an intermediate mini bottom and could therefore be chosen for vertical count
2. Column F is the first rising column of Xs from the mini bottom
3. Column G fixed the length of column F
4. Vertical Count:
 - 7 (number of Xs) x 10 (box size) x 3 (reversal)
 - 210 + 3000 (lowest O in the column of Os to the left of the counting column)= 3210



Summing up

Point and Figure Charts are often regarded as the 'voice of the market' due to the fact that it does not take time into consideration. The chart move only when market moves. Point and Figure Charts provide unambiguous buy and sell signals as well as price targets through the measuring techniques called Vertical Count and Horizontal Count.