Forex
Point & Figure
Trading Formula

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An Introduction To Point & Figure Charting

Wouldn't it be great if you there were a charting system that instead of focusing on minutes, half-hours, hours, days, and weeks, actually followed and tracked the money?

And wouldn't it be great if those charts created an accurate way to trade that was actually *better* than any other system out there—*and easier to understand?*

Well fortunately, such a charting system does exist, and it's called **Point and Figure Charting**.

What is a Point & Figure Chart?

"Point & Figure" is a charting method that follows changes in prices rather than time. Most charting systems (including candlesticks, line charts and bar charts) track values based on specific timeframes, so you can look at how values change over the course of minutes, hours, days, weeks, etc.

Point and figure charts are very different, however, in that any column can represent any amount of time. In fact, ***time is completely irrelevant!*** If the price of the security, commodity (or in this case), currency doesn't change, then no new markings appear on the chart.

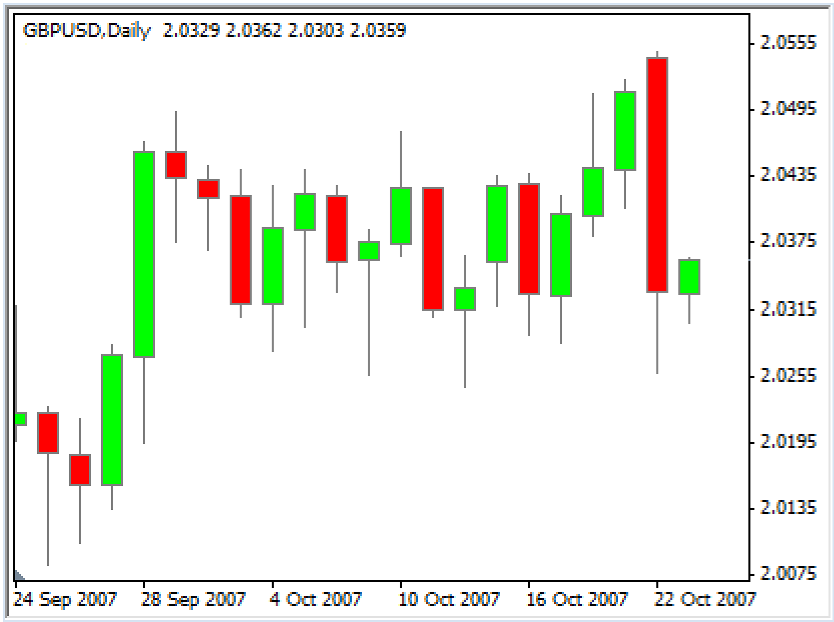
Now I realize that this may sound strange at first, especially if all you've ever dealt with are time-based charting methods. But consider this:

> **If you think about it, isn't time a somewhat arbitrary way to track movement?**

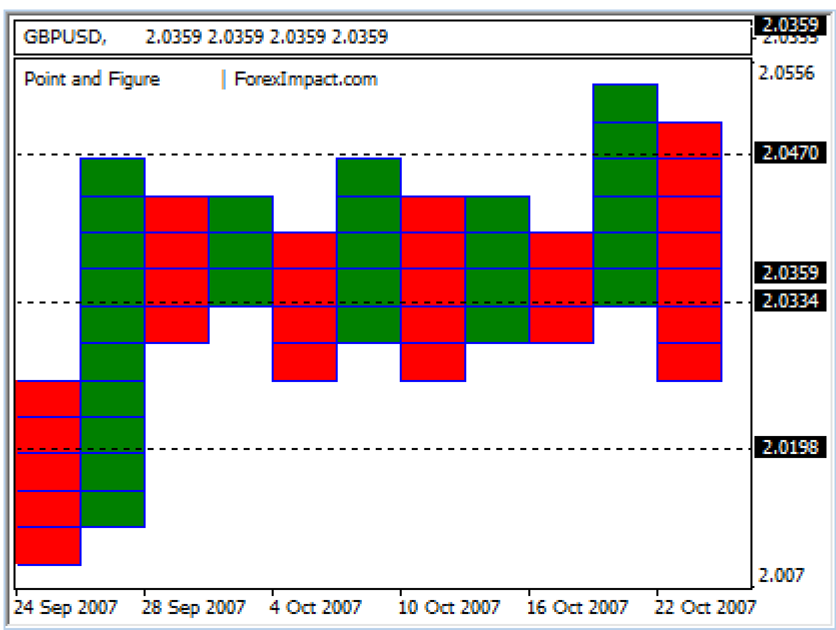
Last I checked, we as traders only make money when PRICES move. The fact that an hour, day or even week has gone by is irrelevant. The only thing that matters is PRICE MOVEMENT.

For example, look at these two charts for the *exact* same currency pair during the *exact* same block of time…

GPB/USD on a Standard Candlestick Chart: 9/24/07 – 10/22/07



GPB/USD on a Point and Figure Chart: 9/24/07 – 10/22/07



Yes, believe it or not these charts are reflecting the exact same time period for the exact same currency pair, but as you can see the point and figure chart has significantly less data.

That's because there is no set amount of time for each "box". If nothing major happens on a trading day (which was the case in the example above), then point and figure charting filters out the "noise" and only records the larger moves.

Also, if you understood the 16 point and figure box patterns (and you will by the end of this training), you'd be able to tell at a glance that this is NOT a time you would want to be trading. On the standard candlestick chart, however, this is far less clear, which could lead even experienced traders to chase false breakouts and reversals.

We'll discuss the "boxes" and "patterns" in much greater depth as we progress through this training, but for now just know that they only appear when the price moves a pre-determined amount. If the value of the currency pair doesn't change (or if it only changes a very small amount), no new markings, or "noise" appears on the chart like they would with other charting methods.

There are several unique aspects to a point and figure chart that also makes it a very beneficial system to use. Three of the main ones are:

- **They have simple, easy to understand, and well-defined trading rules.** This removes the "human element" to a large degree, which helps to eliminate bad trades…

- **They eliminate the clutter and "noise" of price changes that are so small they don't affect the big picture.** This allows the trader to filter all the small moves that might otherwise distract them, and focus instead on the larger trends and trend reversals…

- **The chart only follows price patterns which is one of the few indicators that <u>DOES NOT</u> lag.** This means you get to base your trading decisions on what the market is doing RIGHT NOW, not what it did in the past.

  Now don't get me wrong…I'm not saying that lagging indicators can't also be incredibly helpful, but when compared to actual price movement there's really no comparison.

This makes trading extremely easy since the chart's rules are simple, which means even novice traders can learn very quickly when they should buy and when they should sell. In fact, it's probably one of the least complex systems out there, which is part of the reason it's so effective…and profitable!

How Are Point & Figure Charts Constructed?

Traditional point and figure charts are plotted on a grid and made up of columns of X's and O's (the X's representing a gain, the O's a loss). In the "olden days", point and figure charters would compose their charts, by hand, on graph paper.

The first thing they would need to decide is what level of price-movement they want to measure. In the case of the Forex, for example, they might decide to track it in 5 pip increments so that only movements 5 pips or greater get tracked. In the case of the EUR/USD, the chart may look something like this:

EUR / USD

1.405								
1.410	X		X					
1.415	X		X	O				
1.420	X	O	X	O	X			
1.425	X	O	X	O	X	O		
1.430		O		O	X	O		
1.435				O		O		
1.440						O		

Once the increment, or "box value", is the scale that measures price change. So if you are looking at ignoring anything less than a 5 pip move, you set each number on the left column 5 pips apart. Anytime the currency moves 5 pips or more in any direction, you record it. (Again, with an "X" to represent a gain and an "O" to represent a loss.) When the movement is less than 5 pips, you don't record anything.

As long as the price continues to move in its current direction, then you would continue marking your chart with either an X or an O in the same column. So in the example above, as long as the value moved upward from 1.410 to 1.415 to 1.420, etc…you would continue making X's.

But remember, you only make a new X when the value moves 5 pips or more! If the value moves from 1.420 to 1.423, you do nothing. If it reverses from 1.420 to 1.418…you do nothing.

Now, let's say the currency moves from 1.425 to 1.420 as in the example above. In this case, you now have a reversal that is equal to or greater than the "box value", so at this point you would start a new column and begin using O's instead of X's since the reversal was from a gain into a loss. In the example above we are using a reversal size of one box. The typical reversal size is a three box reversal.

This trend continues with the columns switching back and forth between X's and O's. Before long, patterns begin to emerge on the chart, and **it's these patterns that point and figure traders use to determine their buys and sells**.

If all this is still a little unclear right now, that's ok…don't let it bother you. I have included my proprietary "Forex Point & Figure Pro" plug-in with this package, so you'll never need to track the price movements by hand.

Much like your obnoxious high school math teacher, I wanted to show you how to do it by hand before I let you use your "calculator". ☺

> **NOTE:** With the "Forex Point & Figure" plug-in that came with this package, X's (gains) are represented by a green box and O's (losses) are represented by a red box.

Tested and Proven Point & Figure Trading Rules

Already in this course you've heard me talk about how easy Point and Figure is to trade and how it has well-defined trading rules, so before we move further let's talk about some of those rules…

Box Sizes and Reversal Sizes

As you can see from the example chart on page 5, Point and Figure charts use boxes (not candlesticks or lines) to build the chart. These boxes have a particular "pip value", so in other words one box may represent 3 pips, 4 pips, 5 pips, etc. Really the pip value could be anything, but from the trading and testing I have done **<u>the best box value to use is a five pip box</u>**. This allows you a largest number of trades while still giving you enough room to make a good profit.

You can use larger or smaller box values…just keep in mind that the smaller the box value, the more movement you will see in your chart. The larger the box value, the less movement you will see in your chart (and therefore the less trades you'll be able to put on).

To signal that a reversal has occurred in a point and figure chart, you have to designate the "reversal box size" you want in boxes. So, **if you have a reversal box size of <u>three</u> (which is what I use and recommend)** and a box size of five pips, then you are willing to allow the market to pull back fourteen pips without showing that a reversal has occurred. However, as soon as the fifteenth pip of the reversal occurs then it will be plotted on the chart as a reversal.
*(5 pip box size * 3 box reversal size = 15 pips)*

Horizontal and Vertical Price Objectives

As your point and figure chart is built and you enter trades, it would be nice to know when to lock in profits, right? Well, the point and figure chart gives you <u>two different ways of find price objectives</u>. They are the **horizontal count price objective** and the **vertical count price objective**.

To calculate the horizontal count price objective (**HC Price Objective**) all you have to do is count the number of columns horizontally within the consolidation area before the breakout. Then, for a BUY ORDER, you add this number of boxes to your entry (and subtract for a SELL ORDER). If this sounds difficult and complex now, don't worry…I promise it will become clearer when we go through the examples below.

The vertical count price objective (**VC Price Objective**) is calculated by taking the number of boxes vertically that are within the consolidation area before the breakout. Then add this number to the entry for a buy order and subtract this number from the entry for a sell short order.

To calculate a second horizontal count price objective or a second vertical count price objective, just multiply the HC or VC Price Objective by the box size. For example, if you have a HC Price Objective of eight and a box size of five then your 2nd HC Price Objective would be forty. (8 * 5 = 40)

Knowing Where To Place Your Stop Loss

If the trade does not go your way, then you need a way to get out and still preserve your account balance. We accomplish this with a **stop loss** (which the point and figure chart also helps us determine). The simplest way to find the stop loss location is to find the area of support for a buy order or the area of resistance for a sell order.

You will want to place your stop loss <u>one box</u> beyond the support or resistance areas before the breakout occurred. The simplest way to find this area of support or resistance is to place your stop loss one box below the most current pullback right before the breakout.

We'll talk more about the specifics of trading with Point & Figure charts later on in this course, but before we get too deep into the details I thought it would be appropriate to first discuss where came from and why this amazing trading "art form" was nearly lost…

A Brief History of Point & Figure Charting

Charles Dow, the same man who founded the Wall Street Journal and invented the Dow Jones Industrial Average, is widely credited with inventing Point and Figure Charting. And while some historians doubt if he was the actual inventor, he was certainly the first prominent trader to go on record as using the unique charting method.

In fact, Dow once credited this charting system with making him a killing in the stock market around the turn of the 20th century...long before computerized trading could even be imagined.

What first attracted Dow to this method of trading was the fact that he could eliminate "white noise", or low level price movements, that fill up time frames, but don't actually cause strong movements to be profitable. By following the money (and not a linear time scale), Dow was able to implement a trading system that would go on to make him incredibly wealthy.

Part of the original appeal of the point & figure method was that it made it easy for traders (before the age of computers) to maintain a large collection of data without becoming overwhelmed.

And if you think about it, it makes perfect sense…

Since point & figure charts only tracked the major movements rather than specific closing prices at specific times, data could be condensed into much more manageable sizes.

Just try to imagine what it would be like to track even one stock on a minute or even 30-minute basis before computers. *It would be almost impossible!*

Now try to imagine tracking 50 stocks over the same period of time…

…that truly is impossible!

But by filtering out the insignificant moves, traders could now analyze over 50 charts in a day with just a few pages of graph paper and a pencil! And as a side benefit, the picks they made were actually **MORE ACCURATE** and **MORE PROFITABLE** because they weren't distracted by the "false reversals" or enticed to jump into "sideways markets". Thanks to the beauty and simplicity of the Point and Figure system, all this "noise" was filtered out automatically!

During the first part of the 20th century, Point and Figure charting was still relatively unknown. And while it had a brief mention in *The Game in Wall Street and How To Play It Successfully* in 1898, it wasn't officially talked about in a published book until 1933 when Victor de Villiers released *The Point and Figure Method of Anticipating Stock Price Movement*.

Villiers book ushered in a "Golden Age" for point and figure charting, but sadly for contemporary traders it did not last very long…

While point and figure trading continued to receive wide acclaim through the early 20th century and into the 1930s, enthusiasm began to wane a bit during the 1940s. The 1950s saw a small resurgence in its use by institutional traders, but by the 1960s the charting method was considered a "dead language" and it was neither used nor studied by the vast majority of active traders.

All this begs the question…

> ***Why would a charting method with such a rich history, solid fundamentals and rock-solid results fall out of the "trading consciousness"?***

The answer is simple: Computers

Remember earlier how I talked about point and figure's simplicity, and the advantage it gives traders by allowing them to consolidate their data into only that which is the most important?

Well once computers came onto the scene, the need to "consolidate data" diminished, and before long the advantages that point and figure charting offered seemed almost passé. Almost overnight, this amazingly effective trading system went the way of green shag carpet and dark wood paneling.

In other words, it became "un-cool" to trade with point and figure!

After all, more is always better, right? And if we CAN keep track of more data, we should certainly use it, right? *RIGHT!?*

NO! More is <u>NOT</u> always better, and just because technology makes it possible to do something, that doesn't necessarily mean you SHOULD do it. This is a trap that far too many people fall into, and in this case point and figure became the unlikely victim.

Now, I'm not saying that point and figure died out completely. In fact, because the technical aspects of point-and-figure were so sound, this strategy was picked up by professional traders on the floor of the Chicago Mercantile Exchange and the Chicago Board of Trade, and it's still in use today! It's just that nobody talked about…

…until now!

Point & Figure: Standing the Test of Time

There have been several studies done on point and figure charting, both from the earliest time of its use, and in more recent times. Since this method was originally used in the stock market, further studies were done in the 1970s to see if this method could work in commodities markets as well.

In 1970 Charles C. Thiel, Jr. and Robert E. Davis worked together on a study that concentrated on the point and figure charting method with a particular focus on the commodities market. This study looked at point and figure charting of the markets, analyzed how resistance and support lines were formed, and whether or not this system actually worked.

Using the old standard of point and figure methods and studying the markets between 1960 and 1969, they found that out of 799 signals, 53% were profitable, with an average net profit on all trades of $311. *These numbers were remarkable to say the least!*

To further test the point and figure charting method, they ran a computer simulation using the same rules, but only tested 6 months that ended in 1974. In that extremely active market, the results from 375 signals showed 40% of the trades as profitable with the net profit overall the trades $306.

Both these studies show that point and figure charting can be a very profitable system for trading outside the stock market, and while more studies are sure to be done, it seems that point and figure holds up to the very best of its competitors.

What follows in this training is a snapshot of the research I have done on the point and figure method in the Forex market…

The majority of my research into using the point and figure method in the Forex market was to answer one question: Does point and figure work in the Forex market? While in the pursuit to answer this question, I also answered a few others.

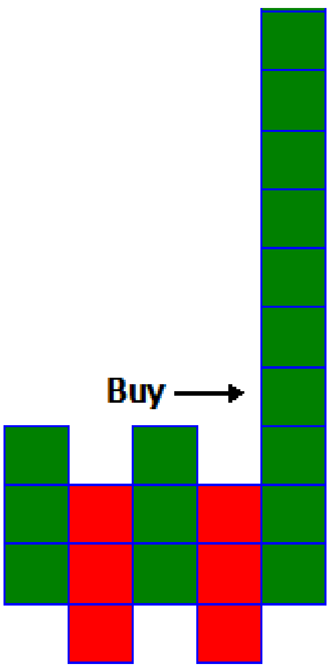
In the following pages you will learn what patterns are profitable to trade. How to trade them, including; setup, entry, stop loss, and an exit or price objectives. You will also learn which box size and reversal size is the most profitable.

Point & Figure Chart Formations

Point and Figure charts trade off of chart formations that help to determine were key support and resistance areas are located. There are chart partners that would initiate a buy order and other chart partners that would signal a sell order. In the following section we will cover both long and short chart formations.

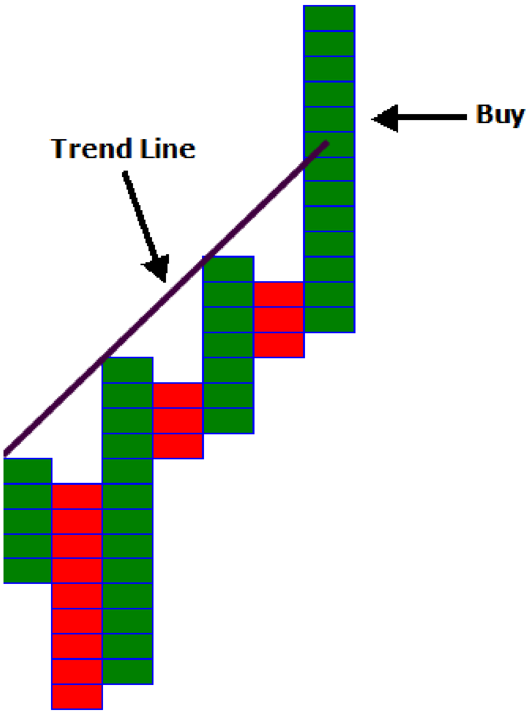
Long Chart Formations: There are eight long chart formations.

Triple Top

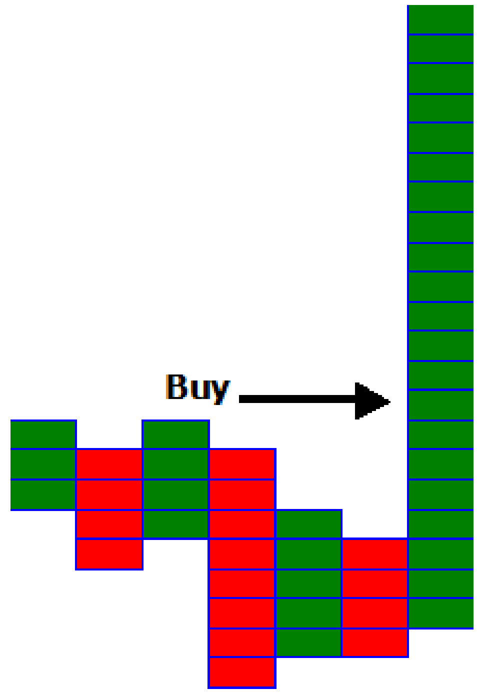


Ascending Triple Top

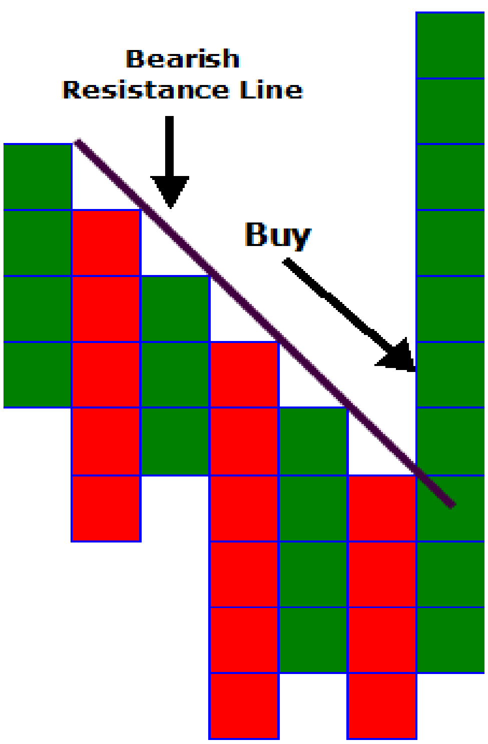
Bullish Resistance Line



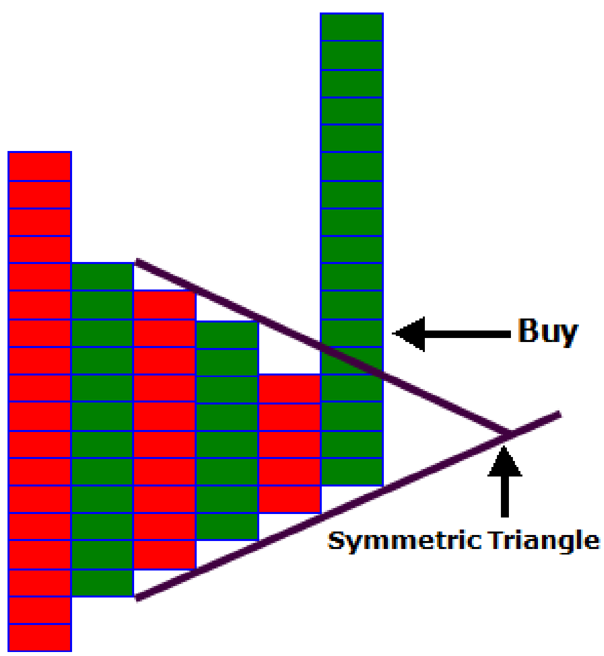
Spread Triple Top



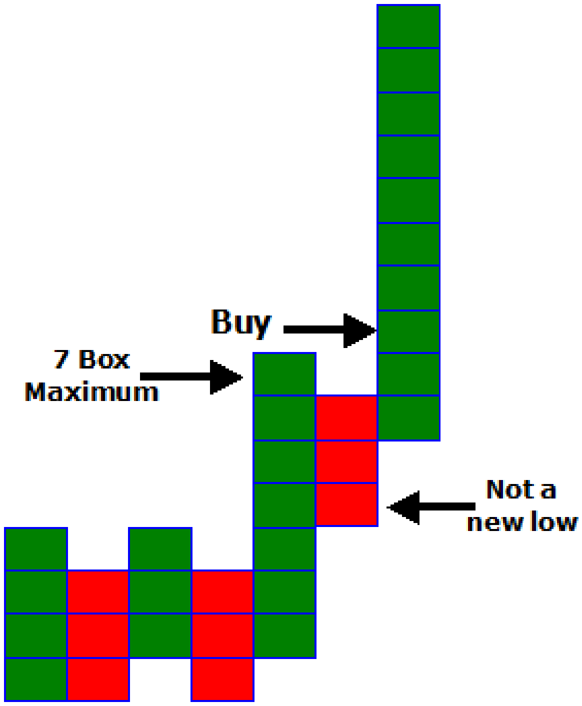
Bearish Resistance Line



Symmetric Triangle



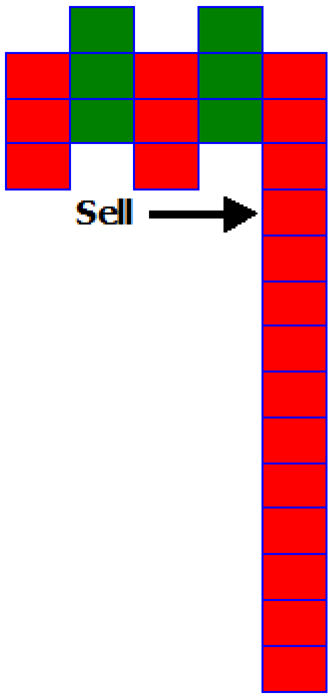
Bullish Catapult



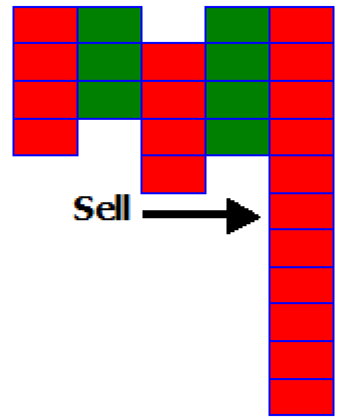
Ascending Triangle

Short Chart Formations: There are eight short chart formations.

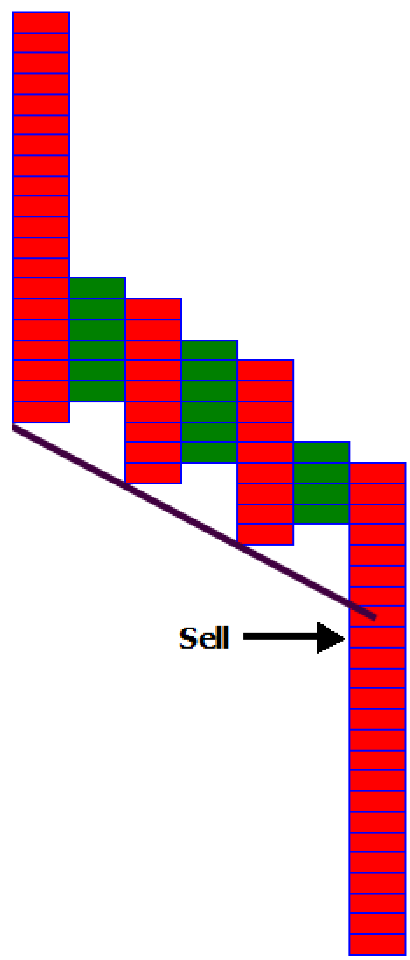
Triple Bottom



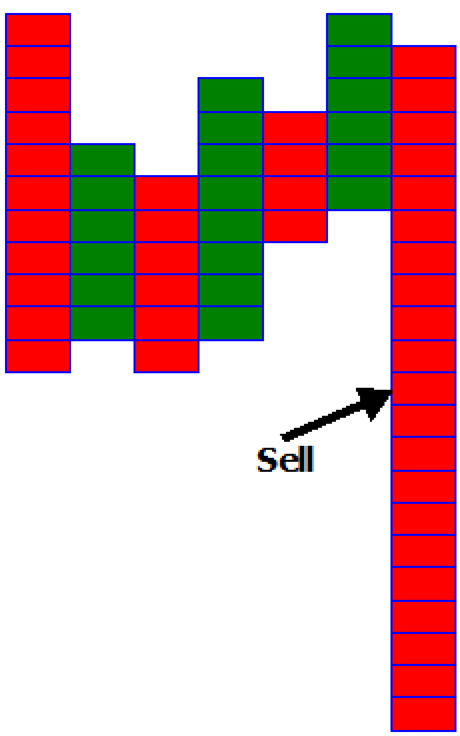
Descending Triple Bottom



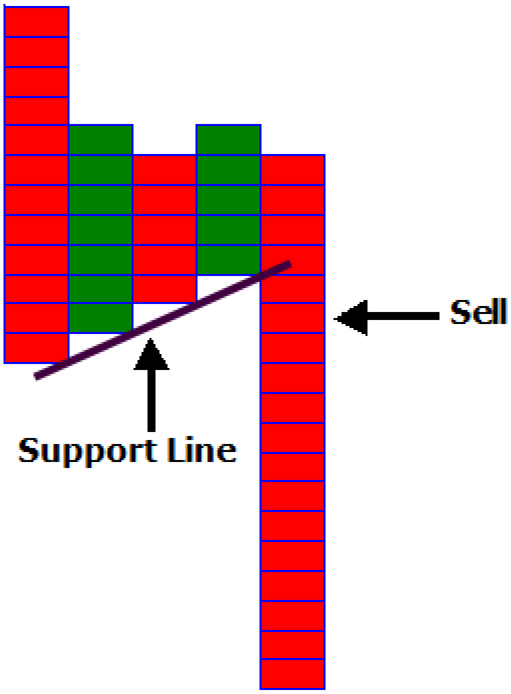
Bearish Support Line



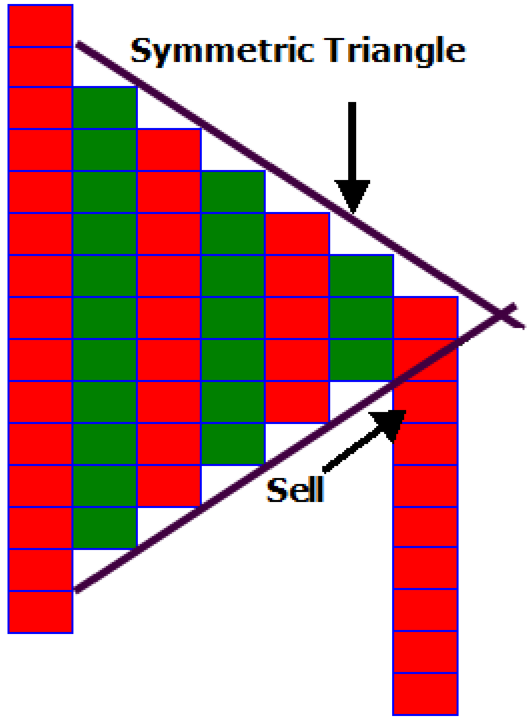
Spread Triple Bottom



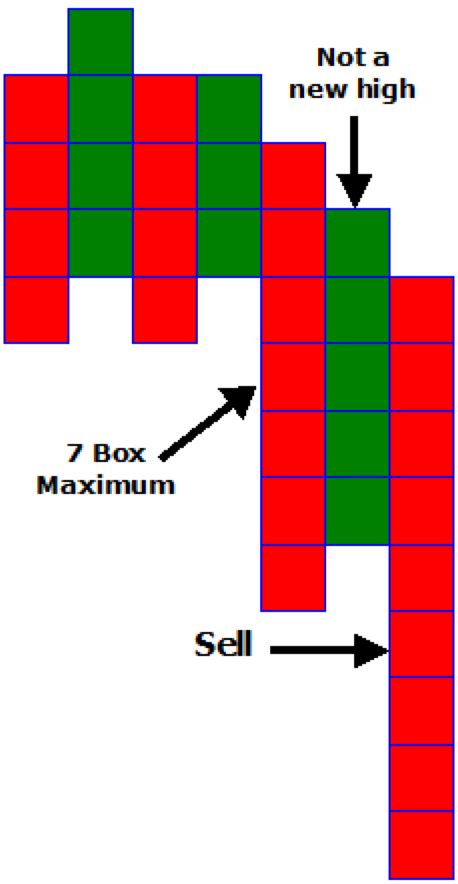
Bullish Support Line



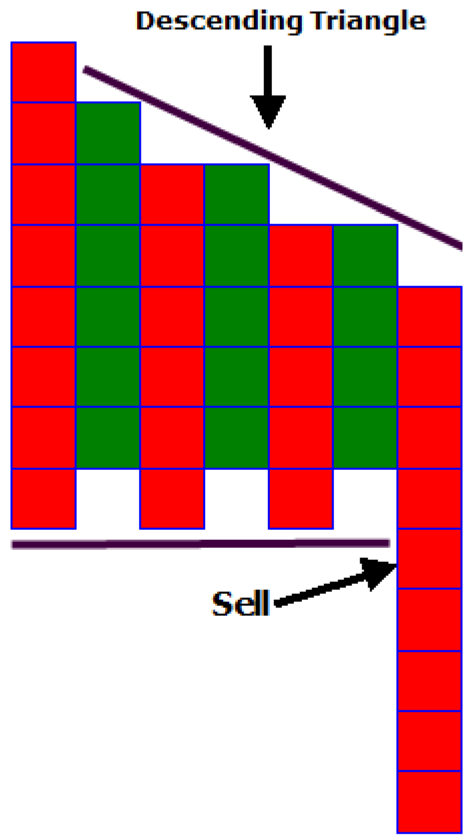
Symmetric Triangle



Bearish Catapult



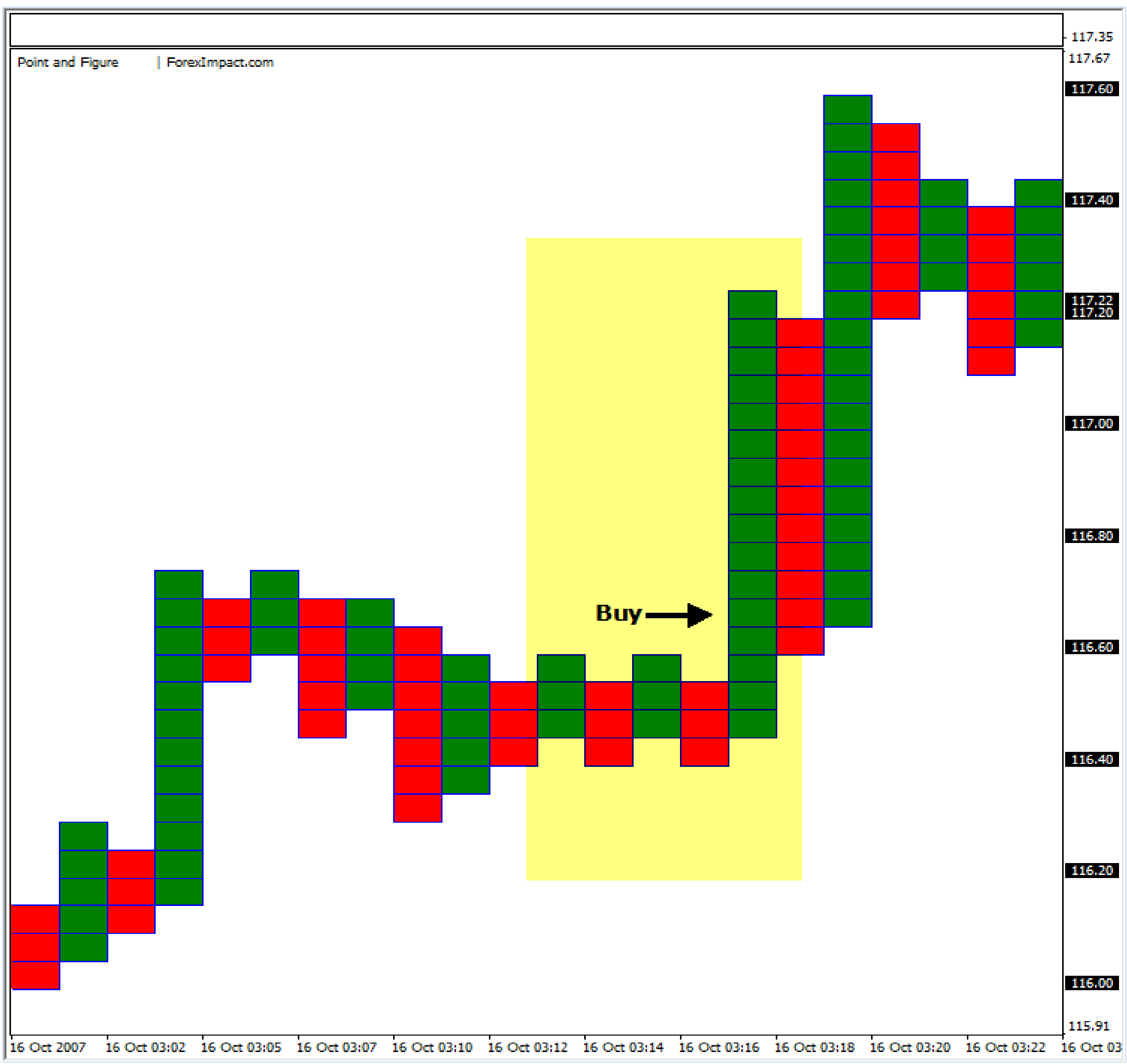
Descending Triangle



The Triple Top Pattern

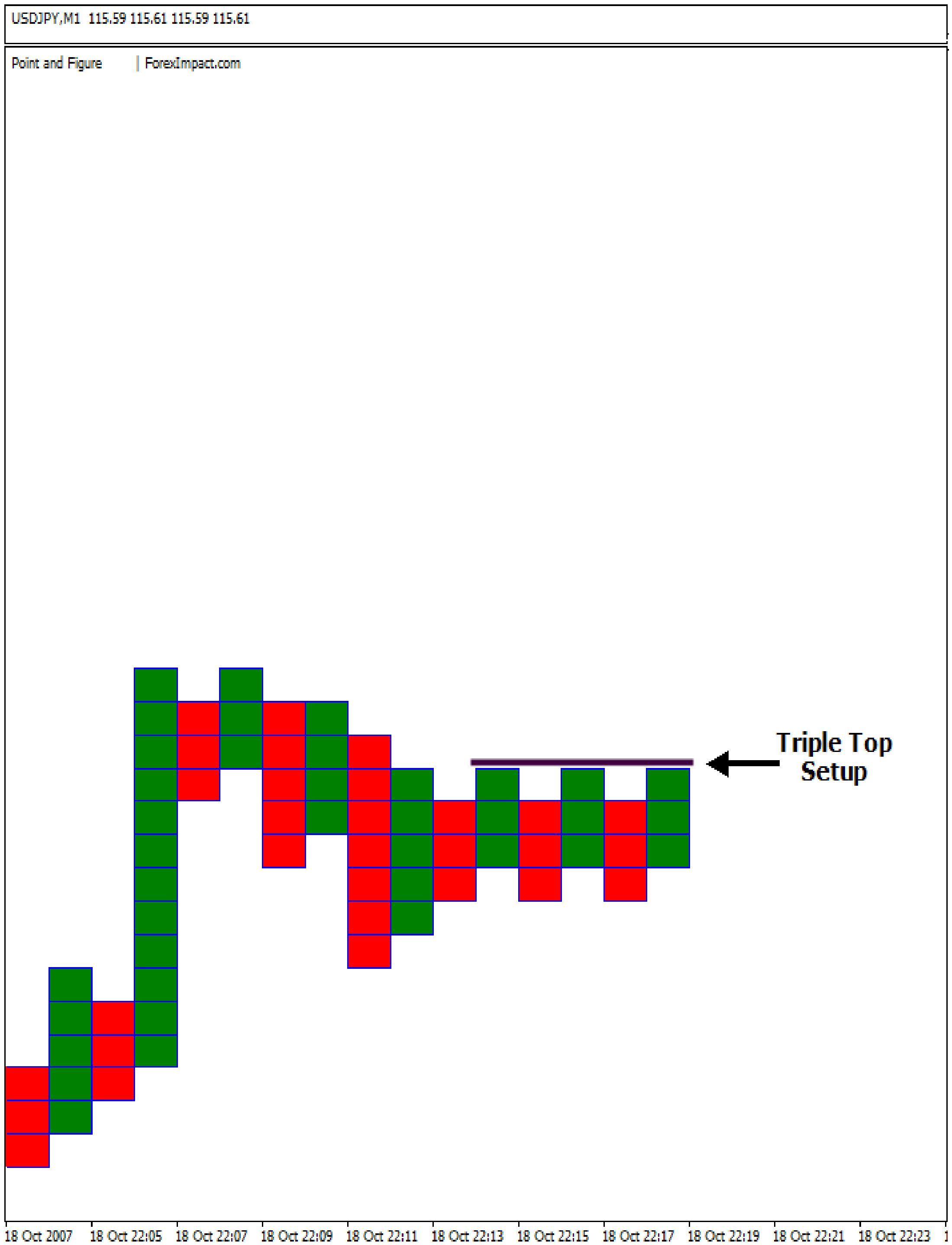
From the research that was conducted, the Triple Top chart formation is the most common long charting pattern when using point and figure in the Forex. It also is the most profitable, but this is probably due to the number of trades that were taken.

The Triple Top chart formation clearly shows where resistance is coming into the market. If this resistance is broken then there is a high probability that the market will continue to move higher. Below is an example of a triple top in context with the rest of the chart. As you can see, our long entry would be one box above the triple top boxes.



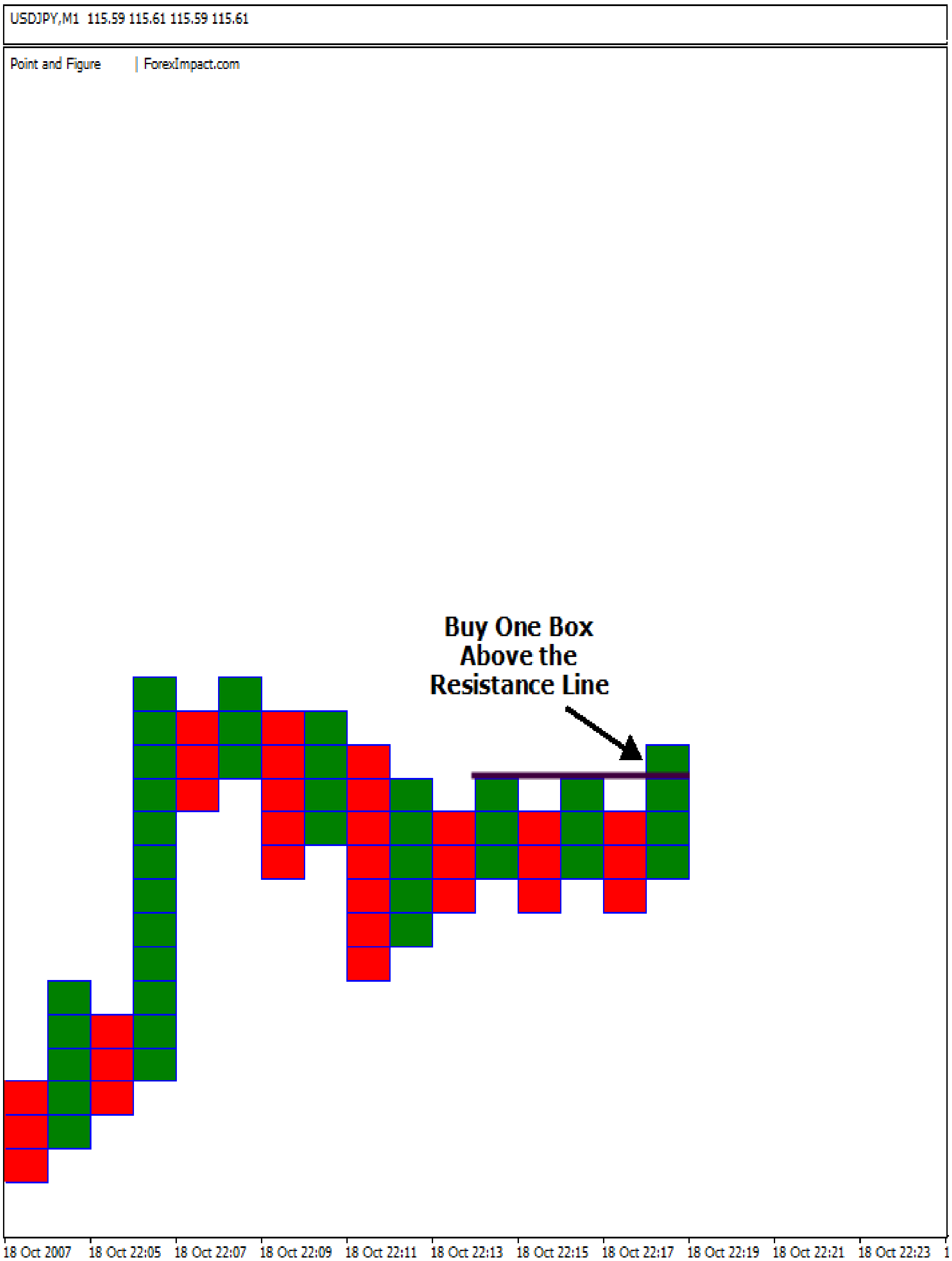
Triple Top Setup:

The setup for the triple top chart formation occurs, when the market creates a new high and then test that high two more times. This forms a resistance line and creates a triple top.



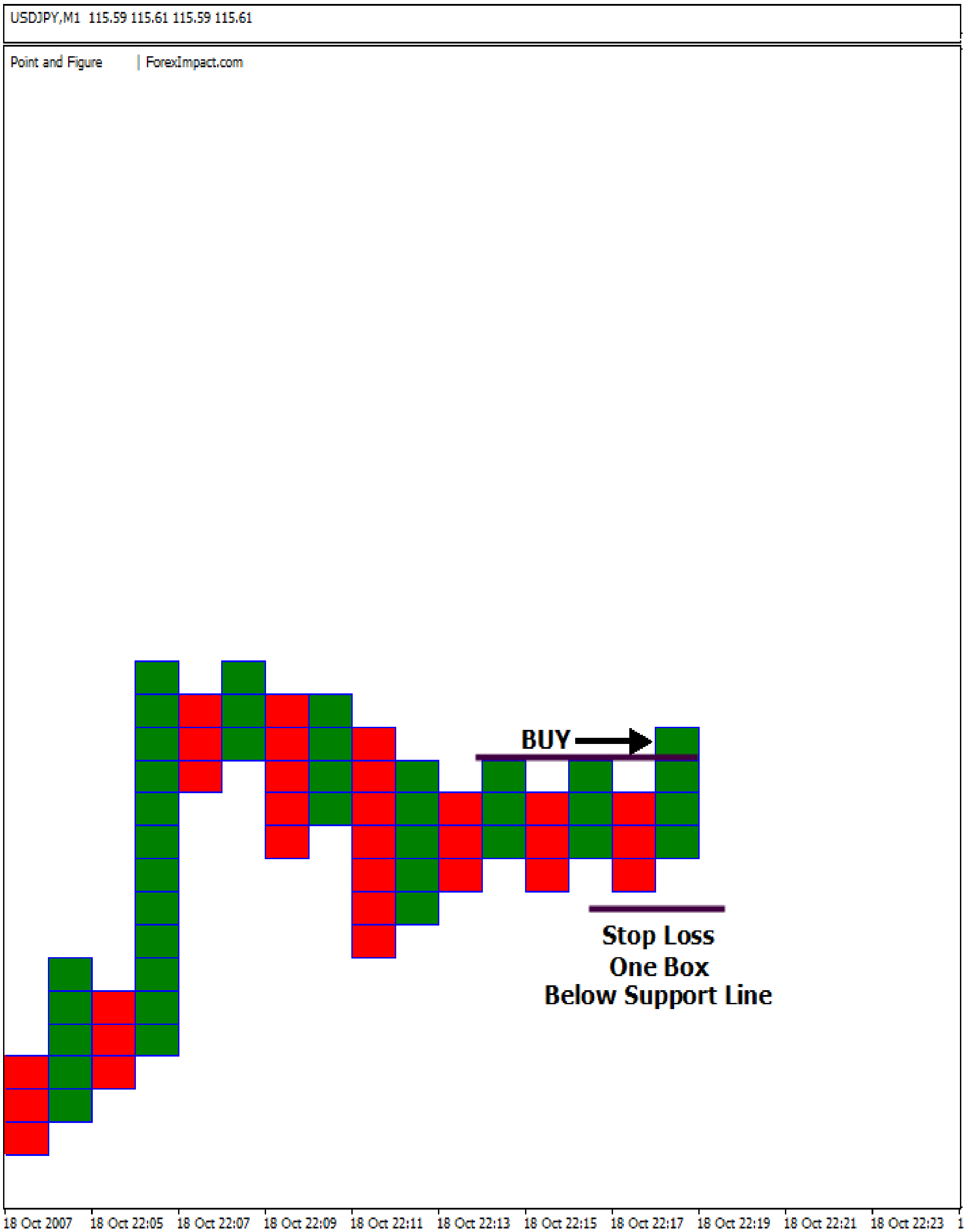
Triple Top Entry:

The Triple Top entry occurs when the price breaks the resistance line by one box size.



Triple Top Stop Loss:

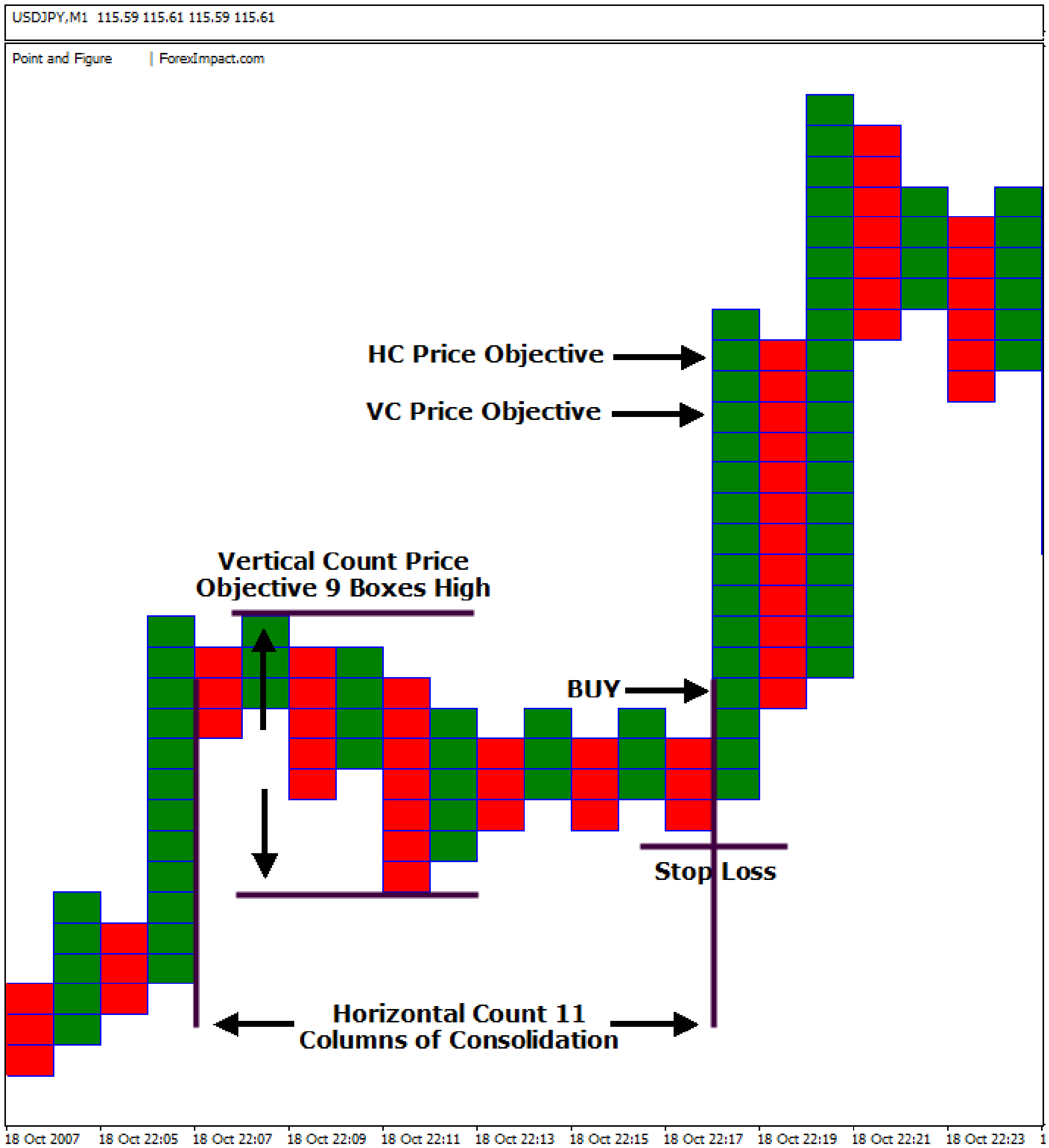
After you have entered the trade, you now need to place your stop loss. The stop loss would be placed one box below the lowest low of the columns that make up the Triple Top formation. This would be one box below the market support line or area.



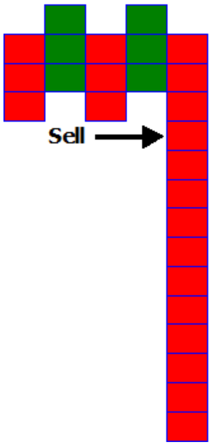
Triple Top Price Objective: There are two different ways to calculate the Price Objective when trading a Point & Figure chart formation: Horizontal Count method and Vertical Count method.

To get the HC Price Objective, count the number of columns within the consolidation area before the breakout. In the example below there are 11, so our HC Price Objective would be 11 boxes beyond our entry.

To obtain the VC Price Objective, count the boxes from the highest box to the lowest box within the consolidation area before the breakout. Then add that number, 9 boxes, to the entry. If you want to obtain a larger price objective, multiply the HC or VC by the box size.



The Triple Bottom Pattern



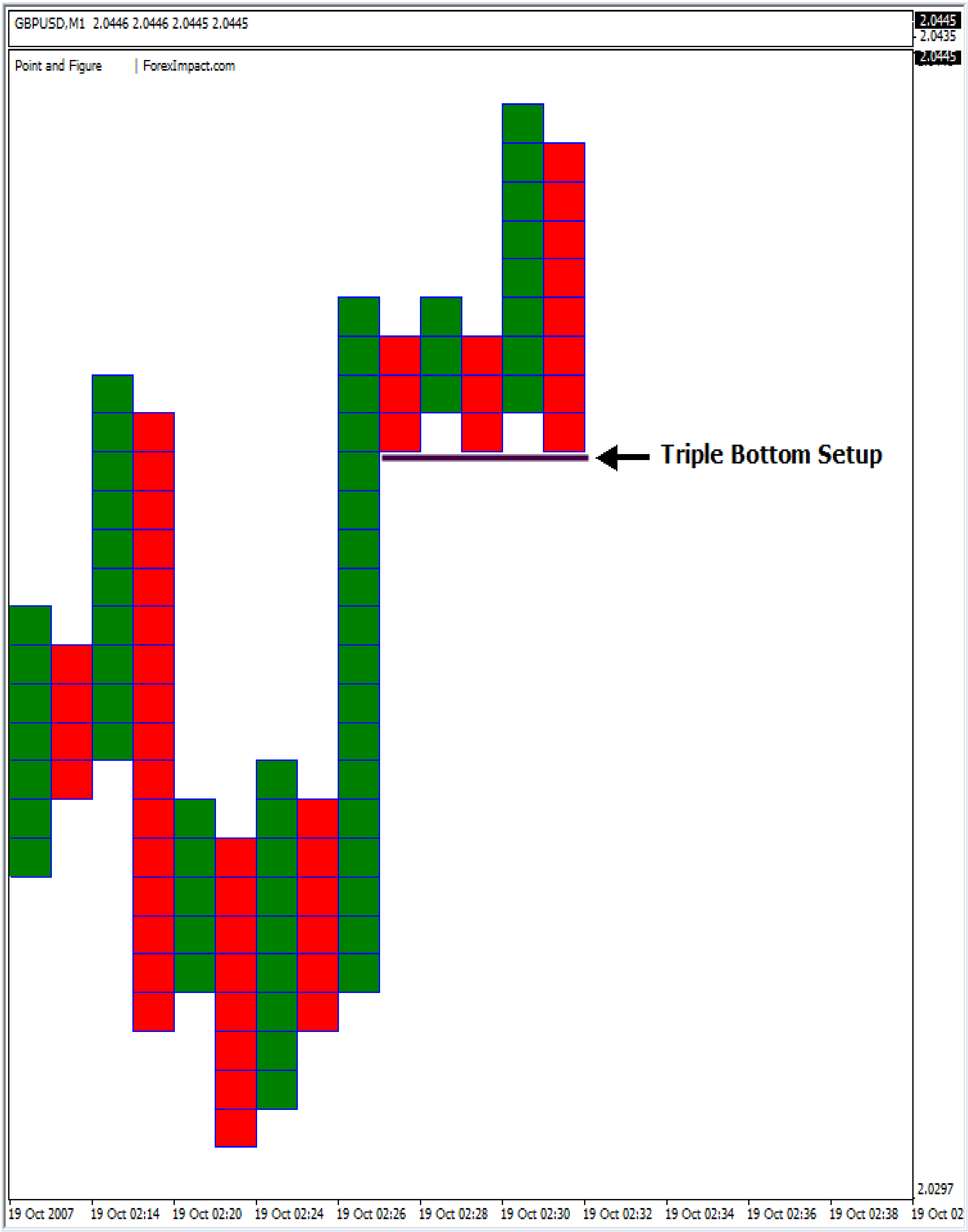
The Triple Bottom chart formation clearly shows where support is coming into the market. If this support is broken then there is a high probability that the market will continue to move lower.

Like the Triple Top chart pattern just discussed, the Triple Bottom pattern occurs very frequently and is also highly profitable when traded in the Forex market.

When trading this patter, we are looking for a break below the previously tested lows as in the example below...

Triple Bottom Setup:

The setup for the triple bottom chart formation occurs, when the market creates a new low and then test that low two more times. This forms a support line and creates the triple bottom chart formation.

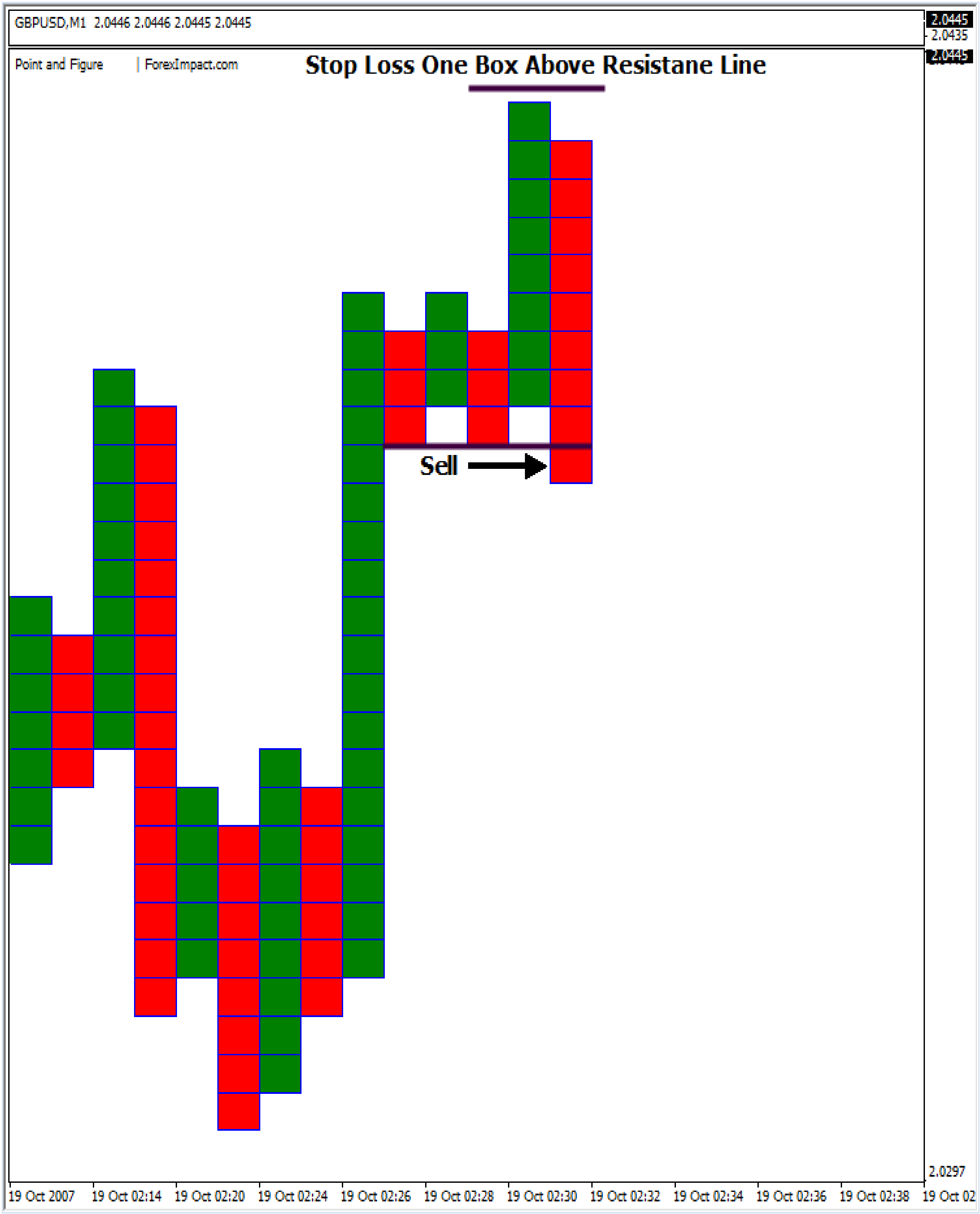


Triple Bottom Entry:

The Triple Bottom entry occurs when the price breaks the support line by one box size.

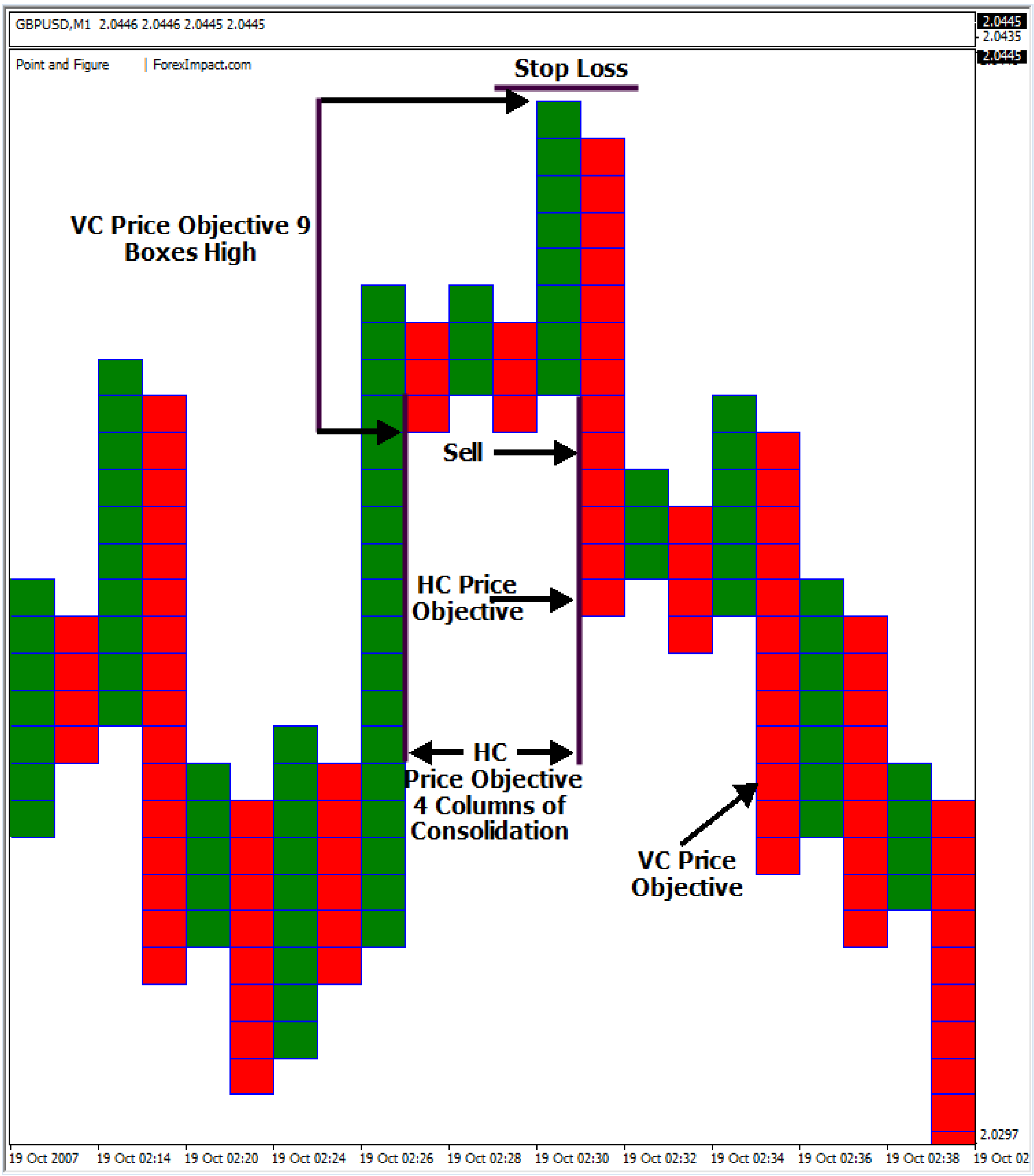
Triple Bottom Stop Loss:

After you have entered the trade, you now need to place your stop loss. The stop loss would be placed one box above the highest high of the columns that make up the Triple Bottom formation. This would be one box above the market resistance line or area.



Triple Bottom Price Objective: To obtain the HC Price Objective, count the number of columns within the consolidation area before the breakout. In the example below there are 4, so our HC Price Objective would be 4 boxes below our entry.

To obtain the VC Price Objective, count the boxes from the highest box to the lowest box within the consolidation area before the breakout. Then subtract, 9 boxes, from the entry. If you want to obtain a larger price objective, then multiple the HC or VC by the box size.

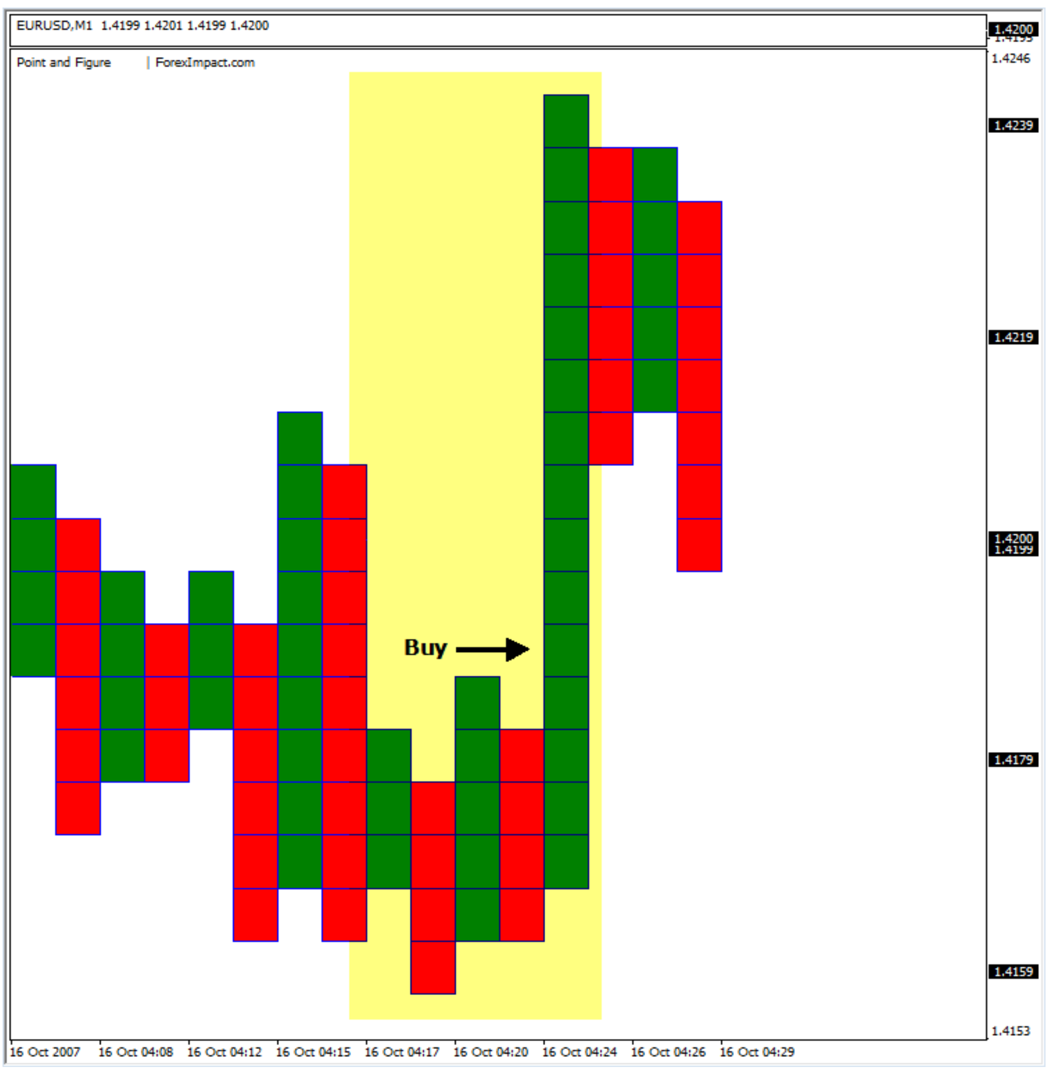


The Ascending Triple Top Pattern

The Ascending Triple Top chart formation is the second most profitable and the second most common trading pattern when trading Point & Figure charts in the Forex.

The Ascending Triple Top chart formation looks for the market to make a new high and then pull back, make a second new high and then pull back, and then if a third new high is created a buy order is signaled.

If the market makes a third new high (as it did in the example below), we are going to go long looking for the market to move higher.

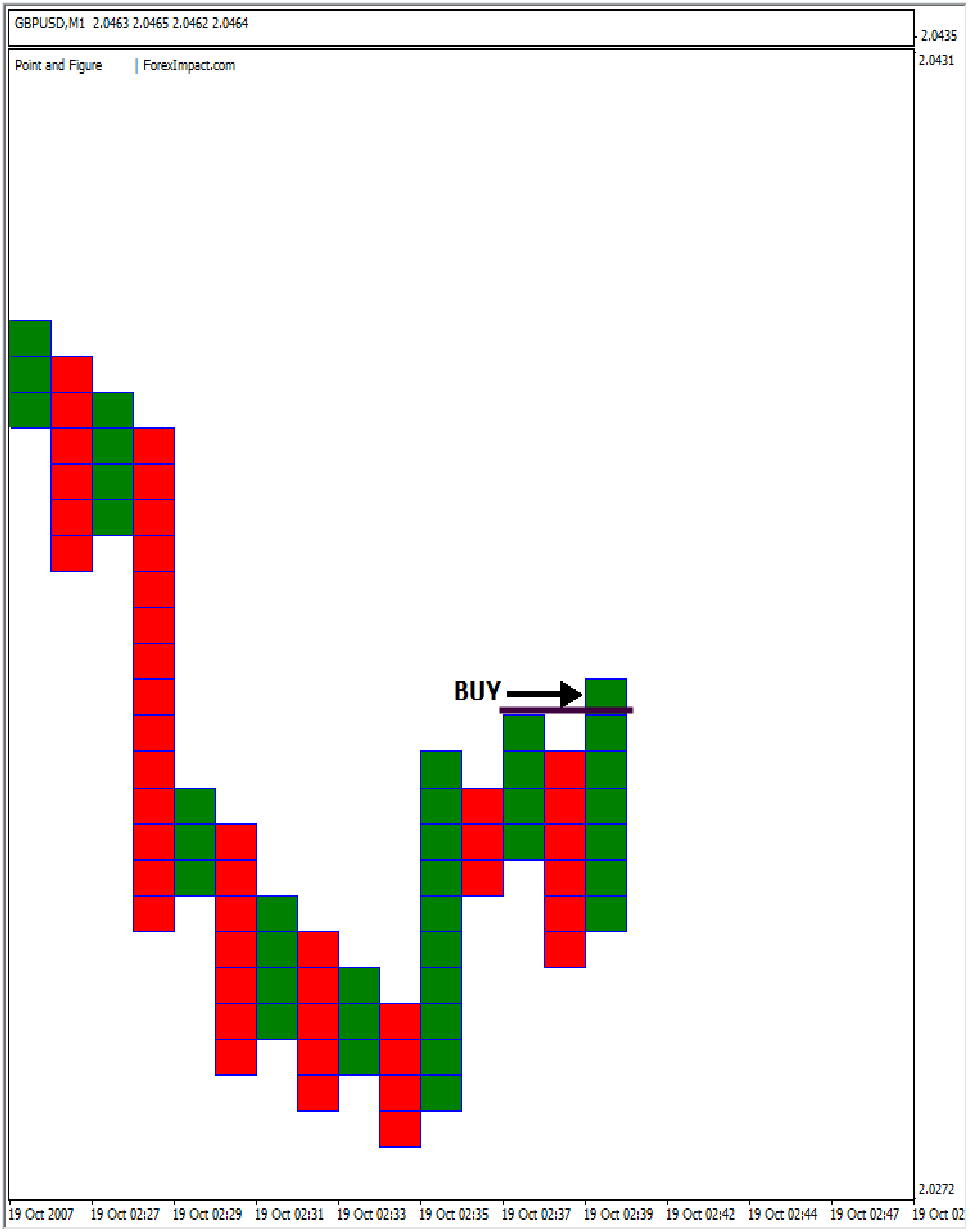


Ascending Triple Top Setup:

The setup for the Ascending Triple Top is created when the market makes a new high then pulls back, makes another new high then pulls back, and then moves higher to the previous high.

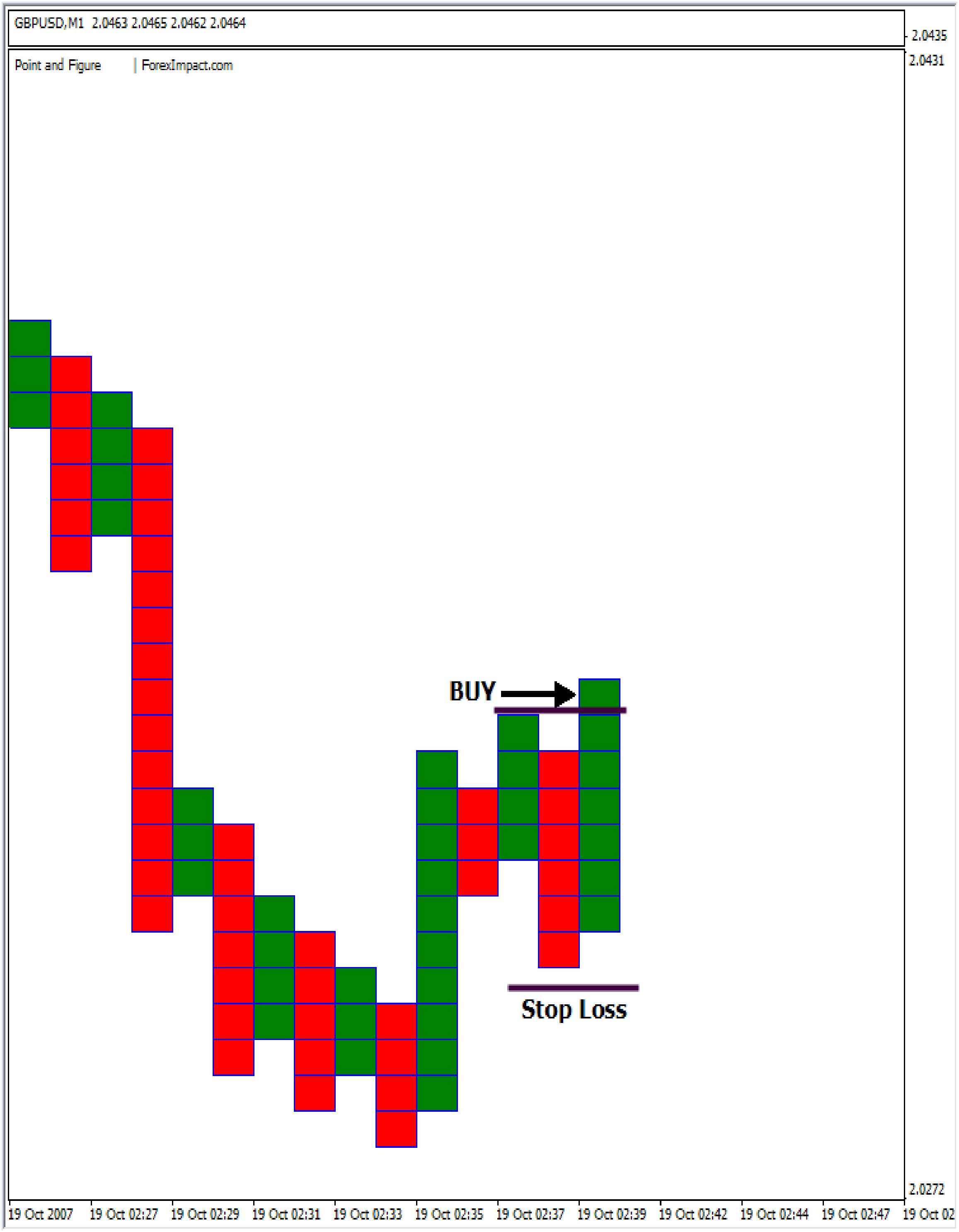
Ascending Triple Top Entry:

The entry for the Ascending Triple Top occurs when the market makes a third new high in a row. We want to buy one box above the previous high.



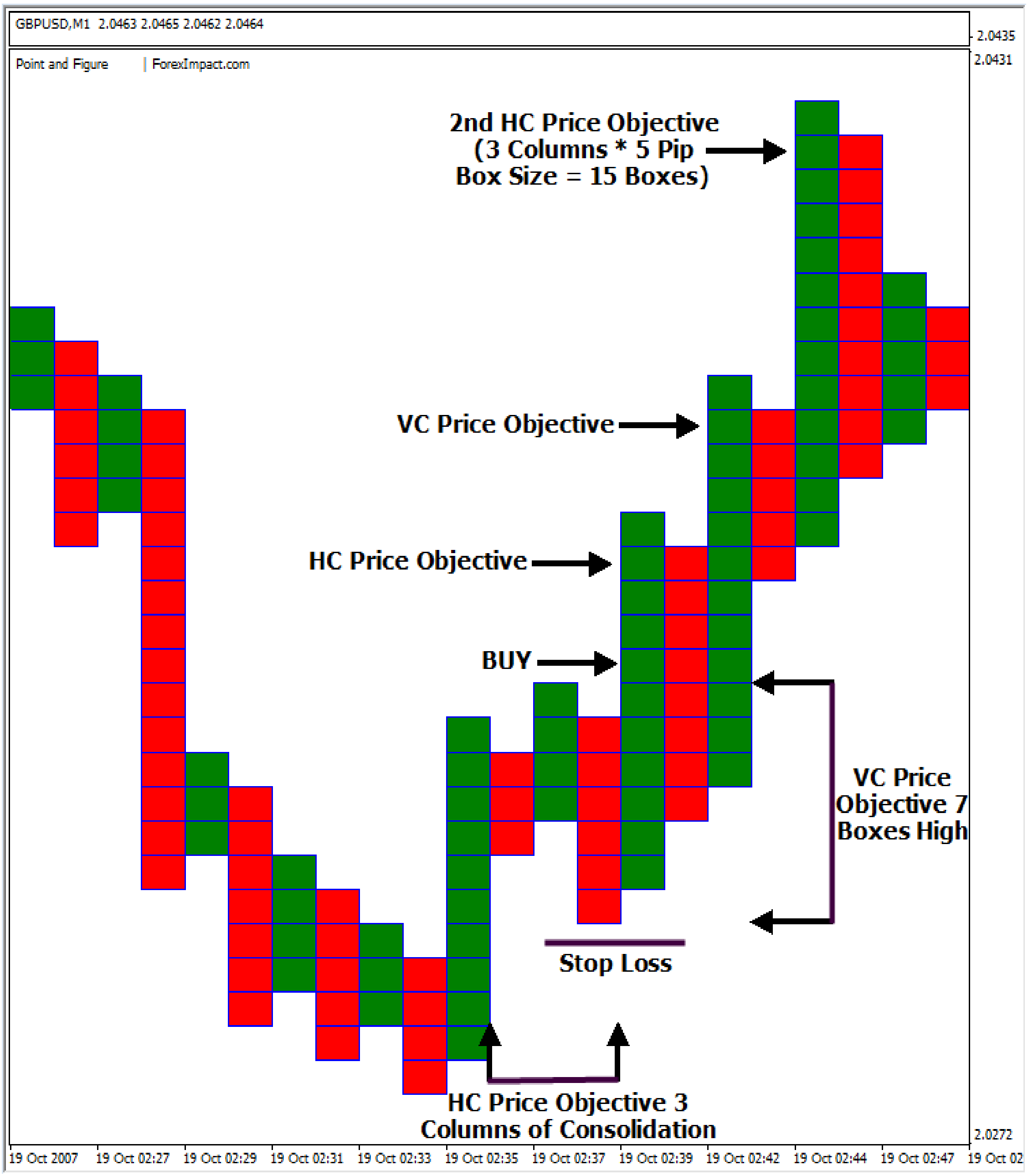
Ascending Triple Top Stop Loss:

The stop loss is placed one box below the lowest low of the columns that make up the Ascending Triple Top formation.

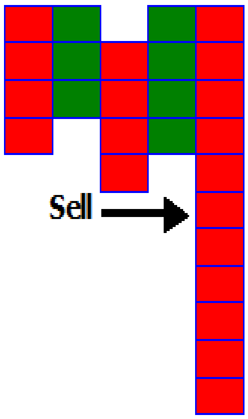


Ascending Triple Top Price Objective:

The example below has three price objectives: The horizontal price objective is three boxes above the entry. The second price objective is the vertical count price objective and is located 7 boxes above the entry. The third price objective is the 2nd or extended horizontal count price objective. This is calculated by taking the HC price objective (3) and multiplying it by the box size (5). In our example below, the 2nd HC price objective is 15 boxes above the entry.



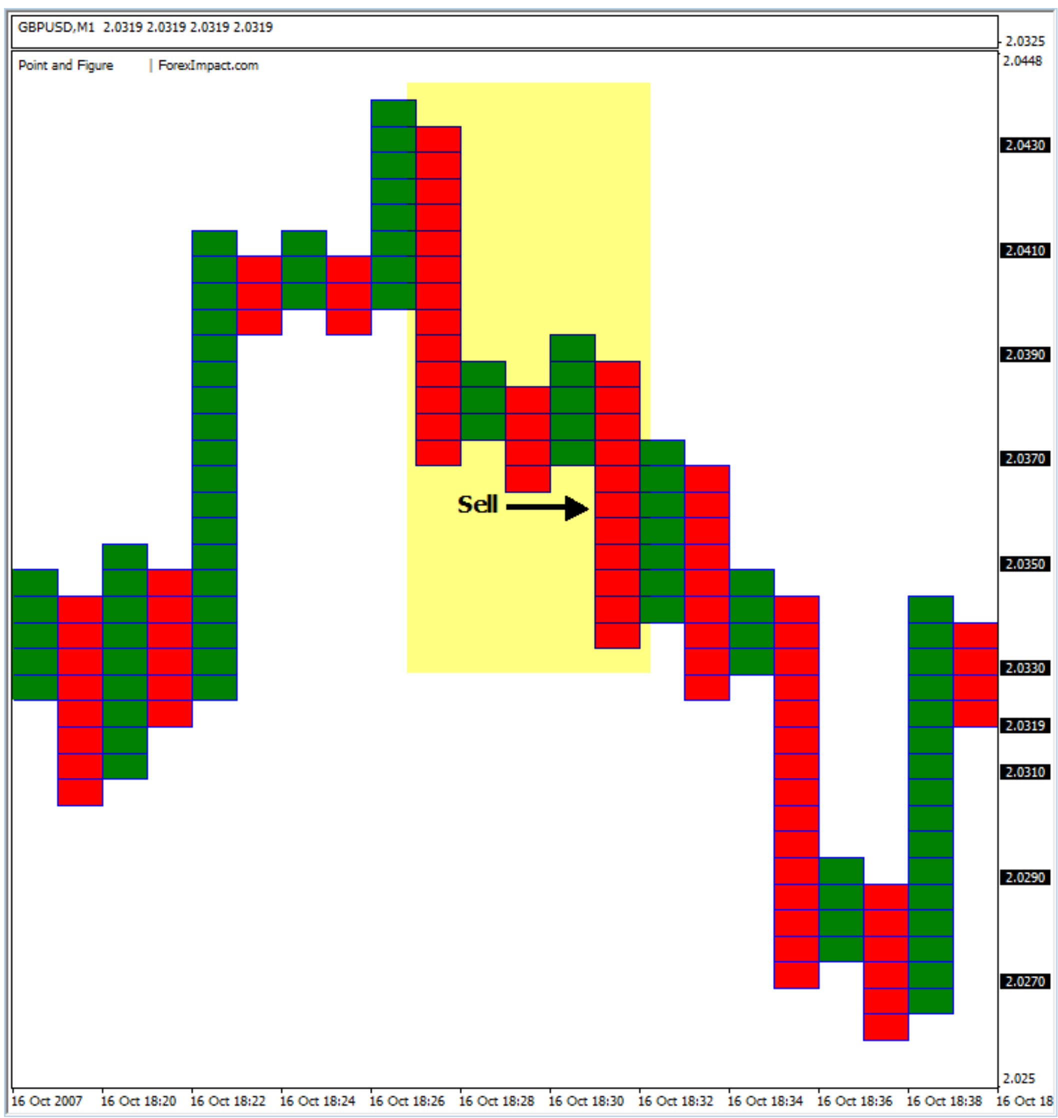
The Descending Triple Bottom Pattern



The Descending Triple Bottom chart formation is the second most profitable and the second most common trading pattern when trading short.

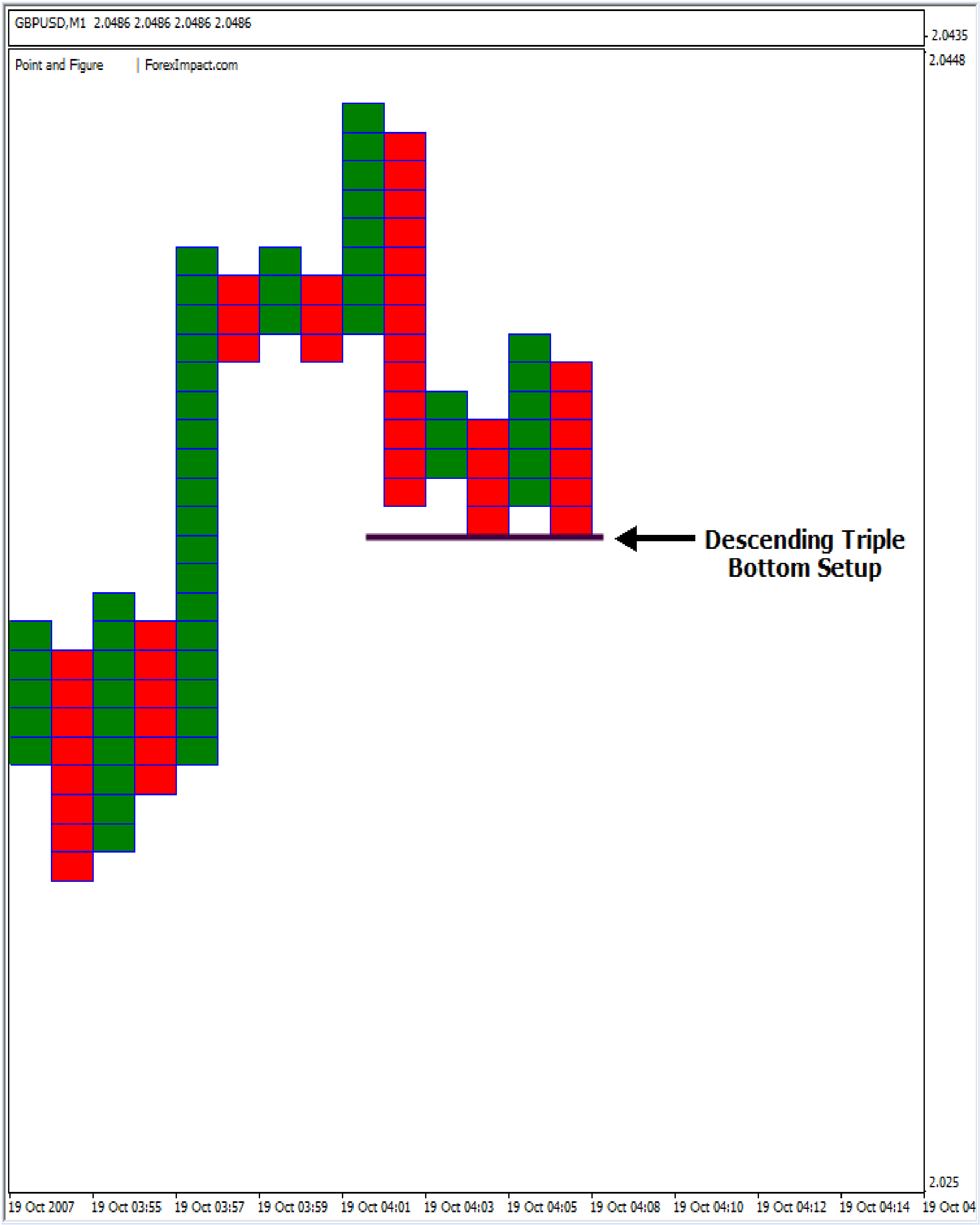
The Descending Triple Bottom chart formation looks for the market to make a new low and then pull back, make a second new low and then pull back, and if a third new low is created a sell order is signaled.

If the market makes a third new low, we are going to go short looking for the market to move lower.



Descending Triple Bottom Setup:

The setup for the Descending Triple Bottom is created when the market makes a new low then pulls back, makes another new low then pulls back, and then moves lower to the previous low.

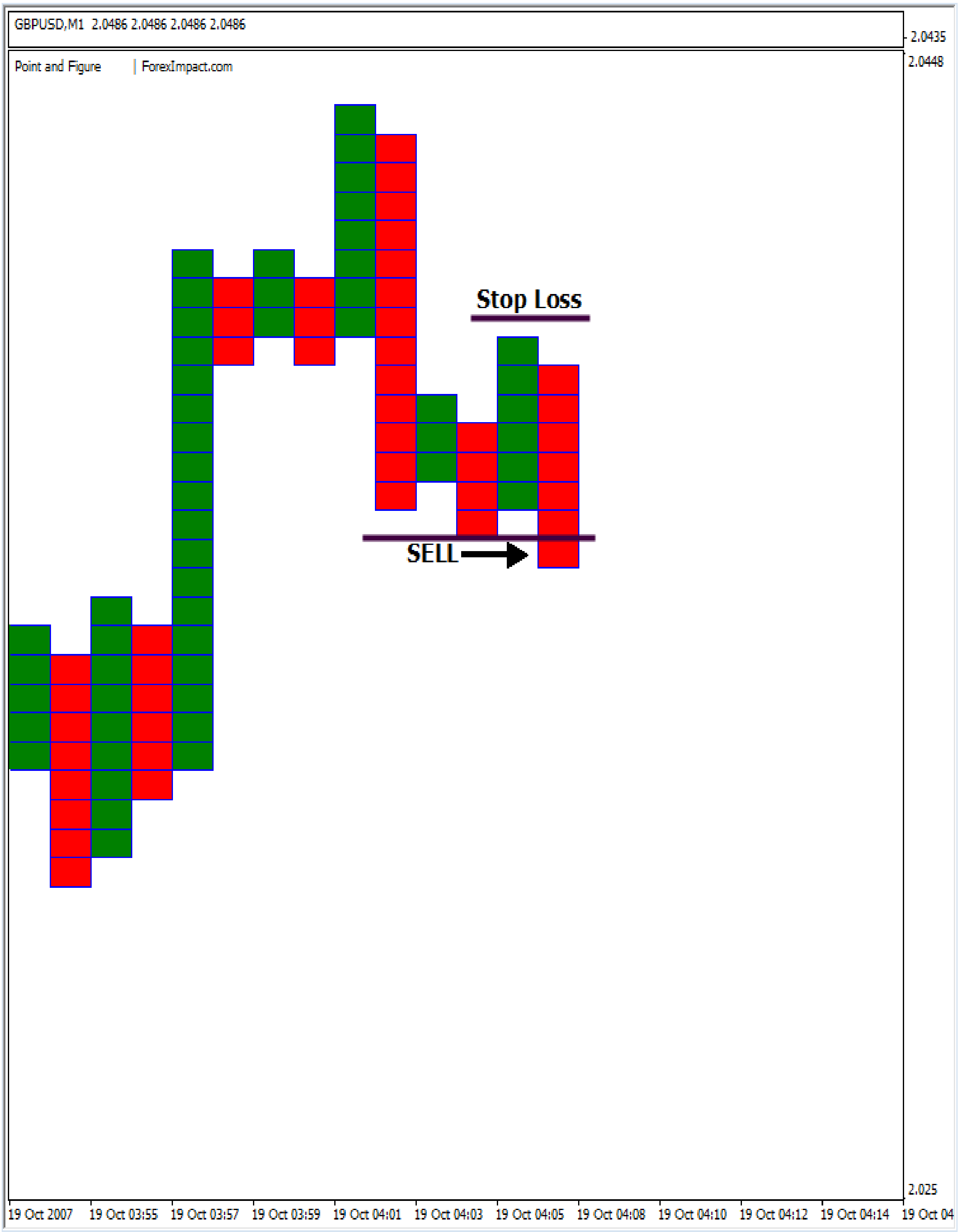


Descending Triple Bottom Entry:

The entry for the Descending Triple Bottom occurs when the market makes a third new low in a row. We want to sell one box below the previous low.

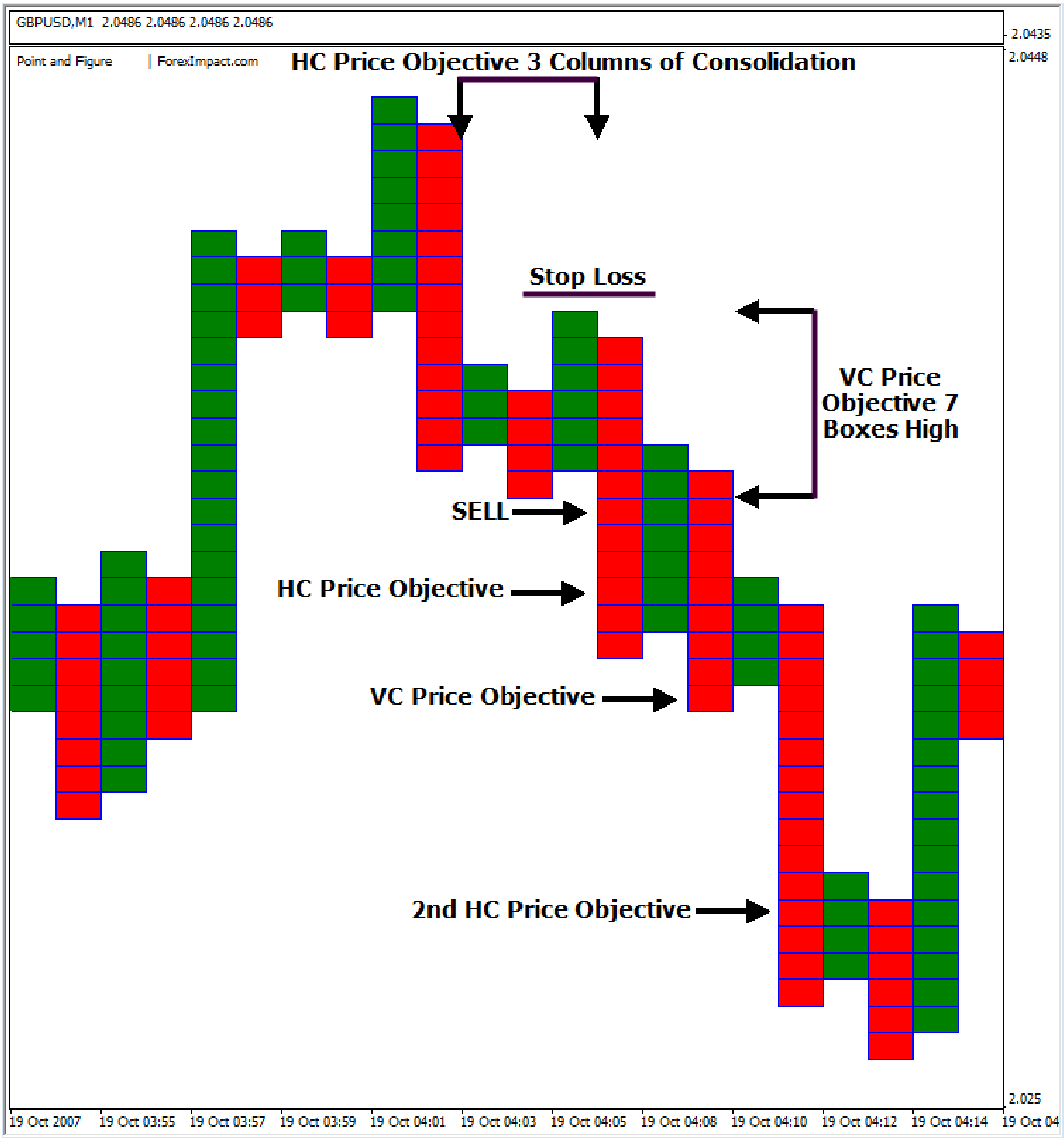
Descending Triple Bottom Stop Loss:

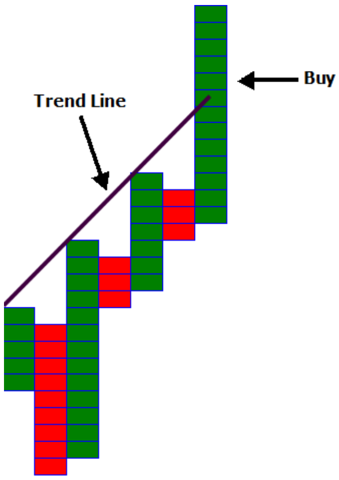
The stop loss is placed one box above the highest high of the columns that make up the Descending Triple Bottom formation.



Descending Triple Bottom Price Objective:

The example below has three price objectives: The horizontal price objective is three boxes below the entry. The second price objective is the vertical count price objective and is located 7 boxes below the entry. The third price objective is the 2^{nd} or extended horizontal count price objective. This is calculated by taking the HC price objective (3) and multiplying it by the box size (5). In our example below the 2^{nd} HC price objective is 15 boxes below the entry. *When a price objective is hit, it is a good time to move your stop loss to lock in profits.*

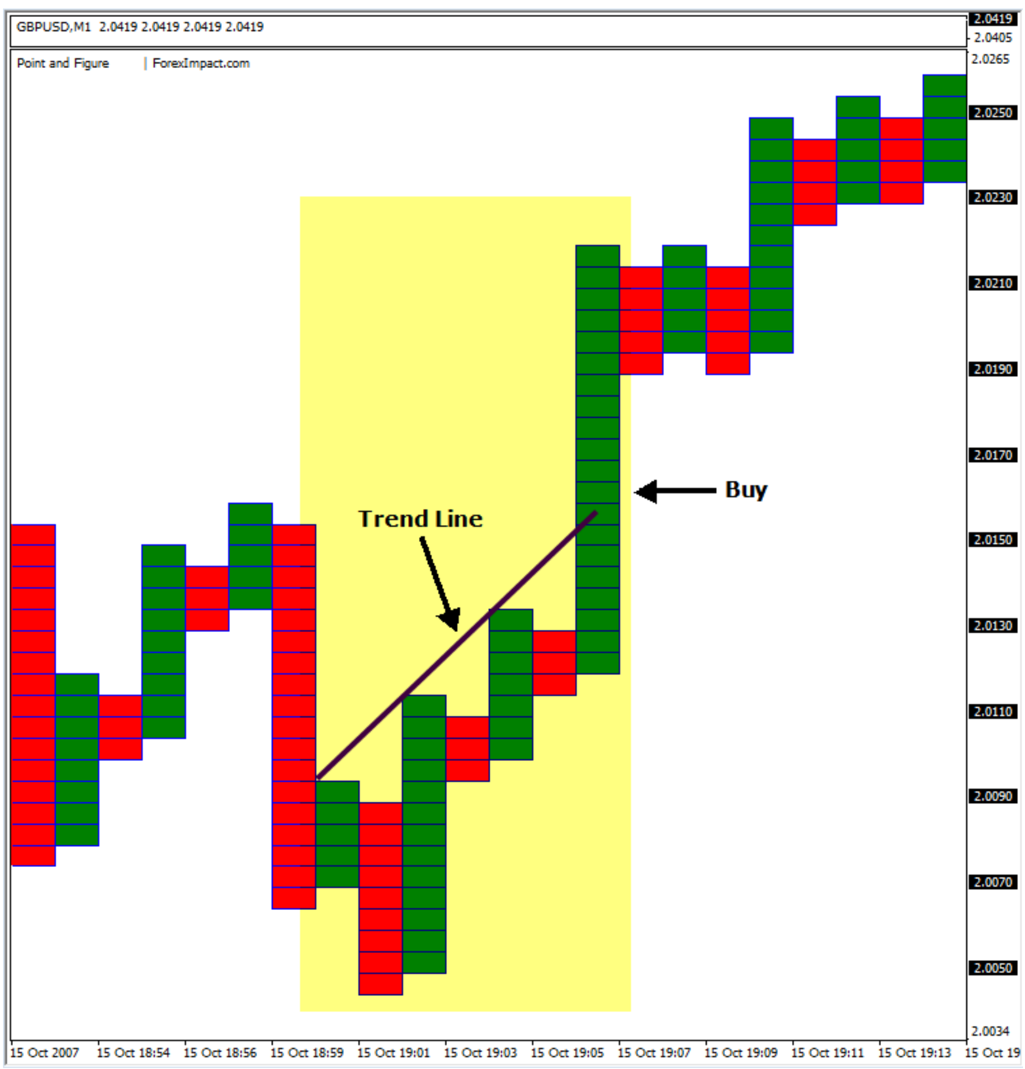




The Bullish Resistance Line Pattern

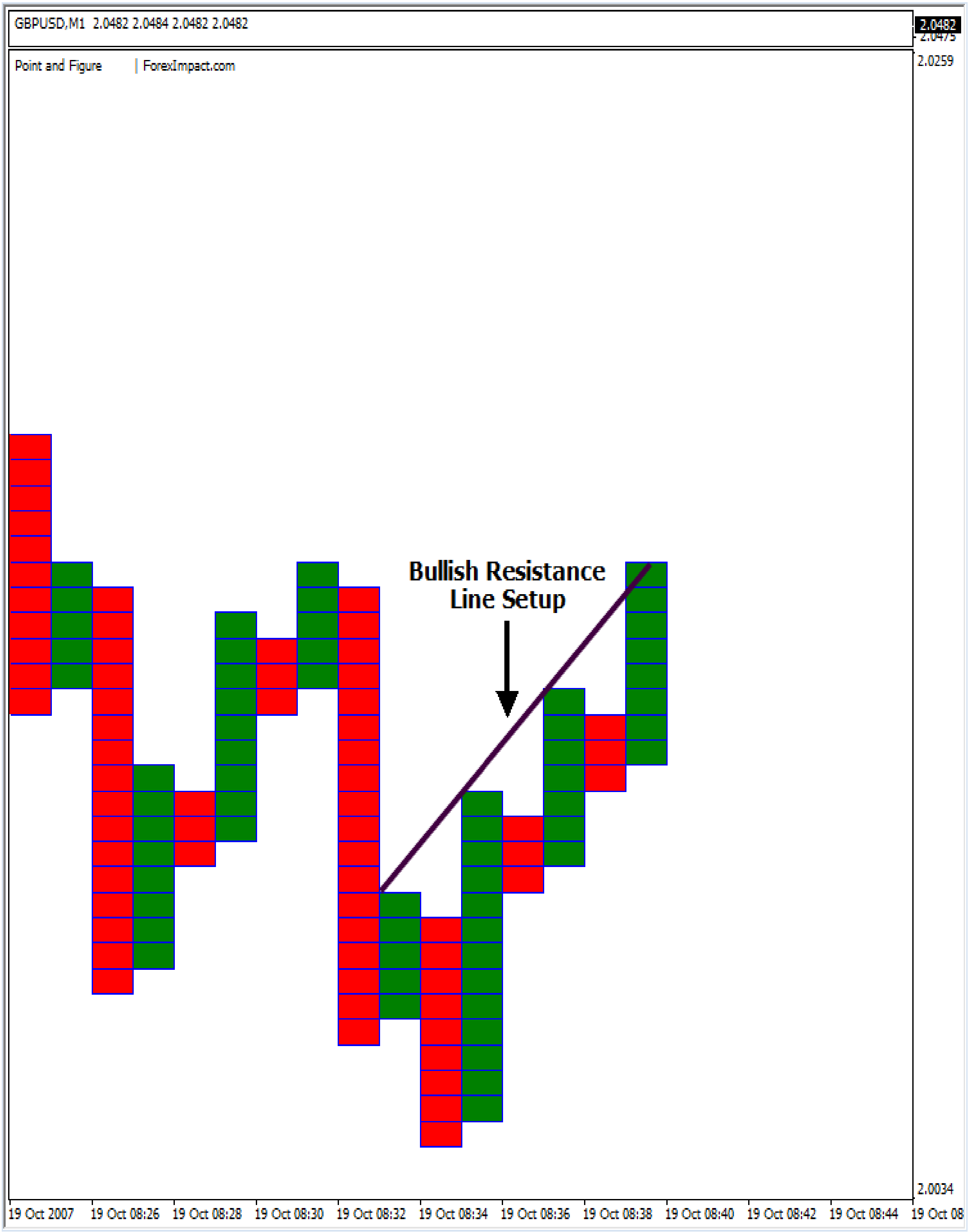
The Bullish Resistance Line is the third most profitable and third most occurring long pattern that you can trade. This chart formation relies on the breakout of an upward trend line.

We are looking for the market to make several new highs in a row and then breakout of the trend line that was created from the new highs. At the break of the trend line we would look to go long. (Side note: If you are not sure how many new highs you need to create a trend line, use three new highs as a rule of thumb.)



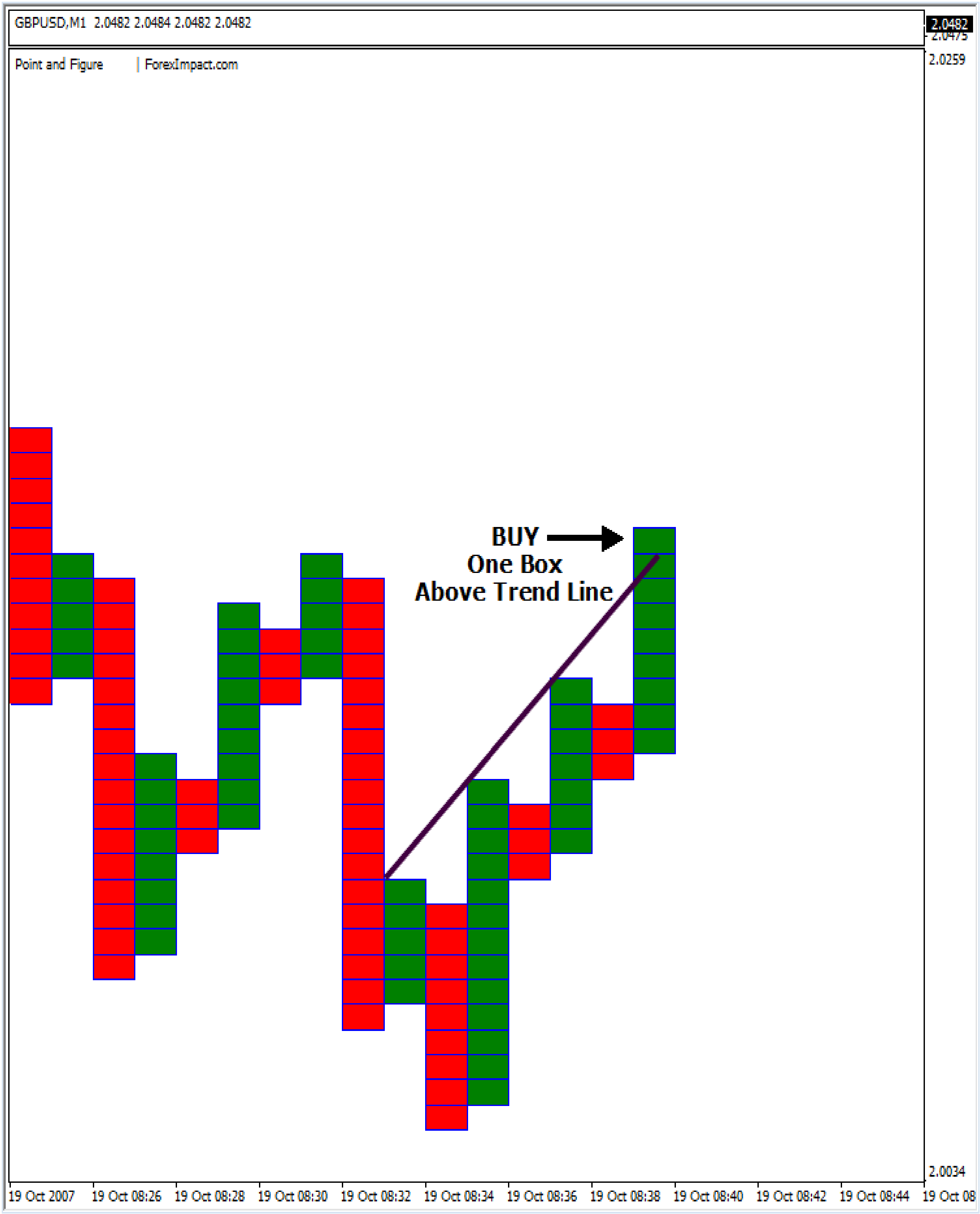
Bullish Resistance Line Setup:

The chart below is an example of a Bullish Resistance Line setup. The market makes a new high several times to form an area of resistance. We are looking for this resistance to be broken to go long.



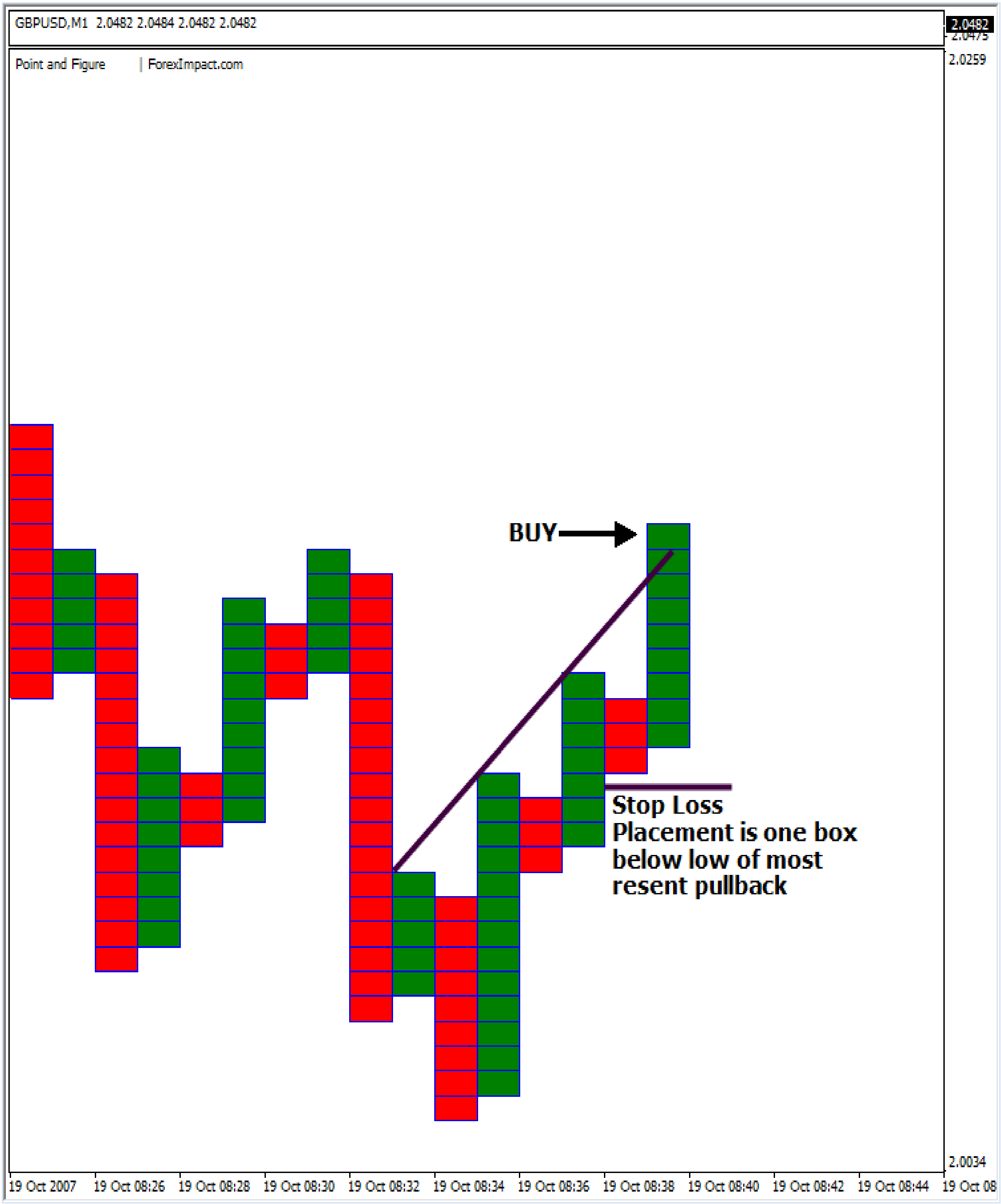
Bullish Resistance Line Entry:

The entry for the Bullish Resistance Line charting pattern is one box above the trend line. The trend shows where there is resistance in the market. When this resistance is broken it signals a buying opportunity.



Bullish Resistance Line Stop Loss:

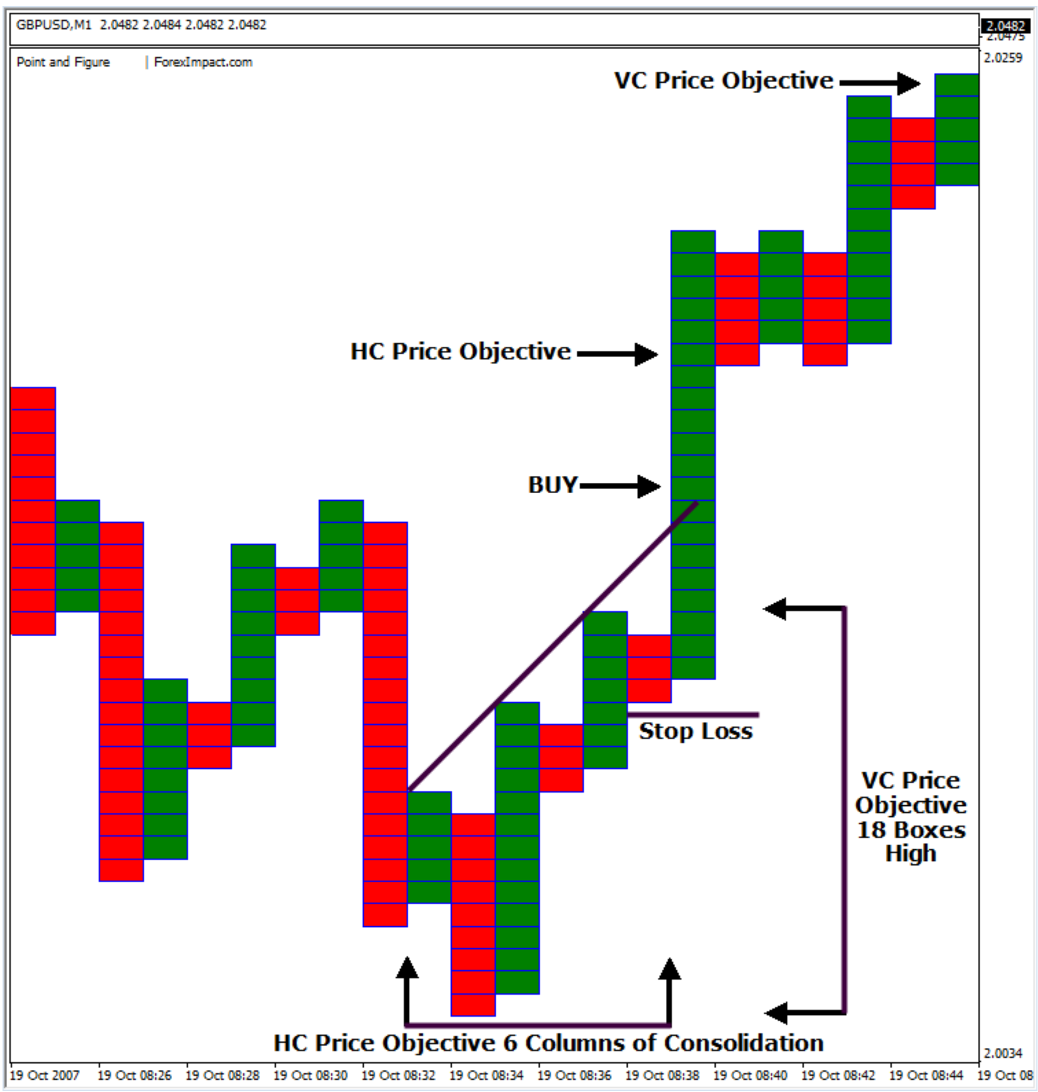
The stop loss for the Bullish Resistance Line is located one box below the low of the most resent pullback. The theory behind the placement of the stop loss is that the market has already tested this area and found support. We are going to place our stop loss one box below this support.



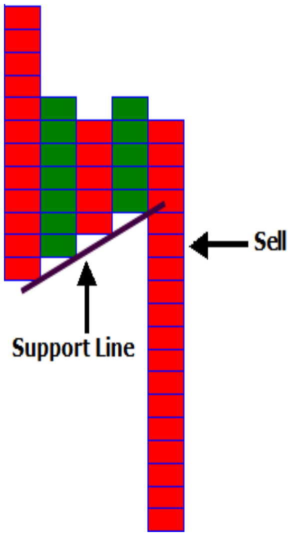
Bullish Resistance Line Price Objective:

There are two possible price objectives in the example below, the horizontal count (HC) price objective and the vertical count price objective. In this example, you would want to bring your position to breakeven when the horizontal count price objective was reached. Make sure before you bring the position to breakeven that the first price objective is beyond your reversal size. In this example our reversal size is three boxes and our price objective is six boxes, so we are good.

Then, when the vertical price objective was reach you would want to lock in profits by moving your stop loss to the horizontal count price objective.

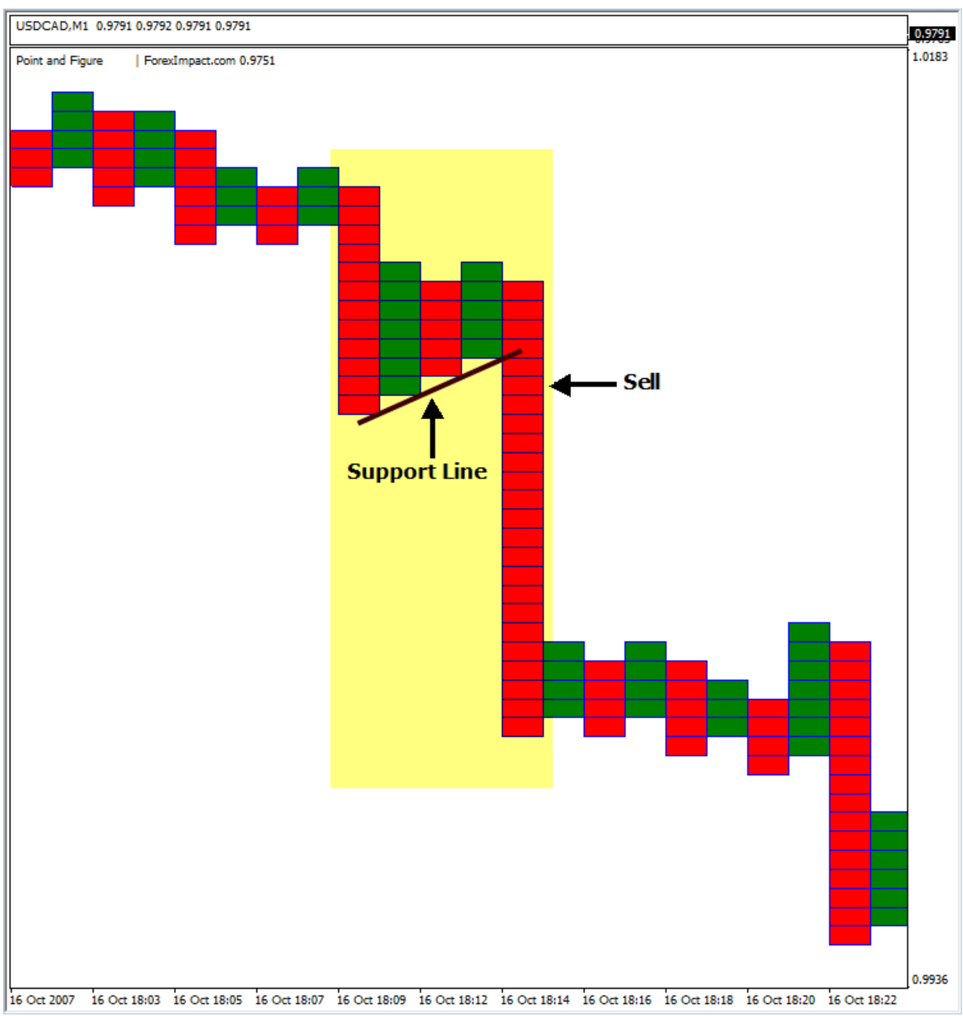


The Bullish Support Line Pattern



The Bullish Support Line pattern occurs when the market is consolidating with higher lows. This chart formation relies on the breakout of an upward trend line. A trading opportunity is created when this support is broken to the downside after being tested several times.

We are looking for the market to make several new higher lows in a row and then breakout of the trend line that was created from the new higher lows. At the break of the trend line we would look to go short.

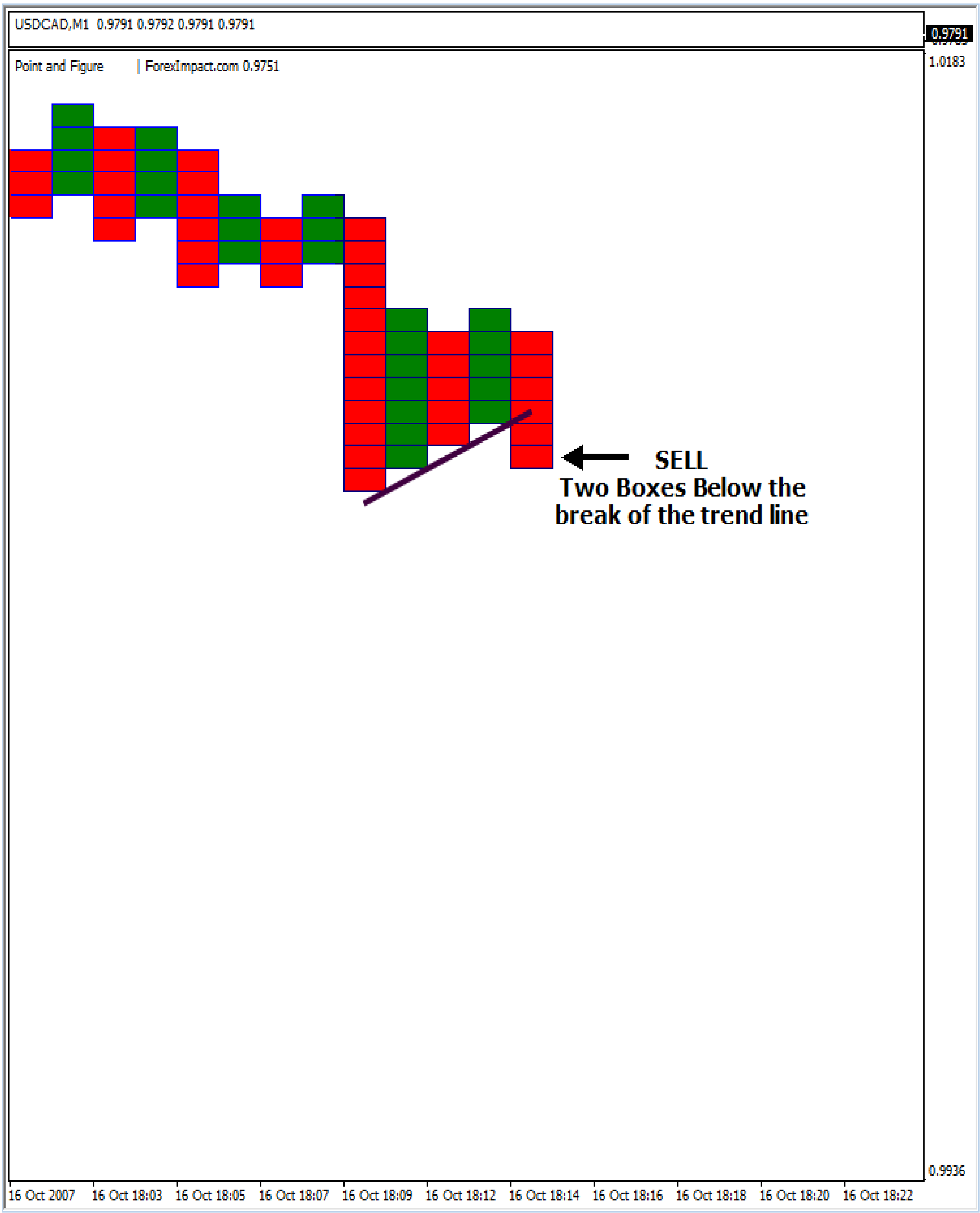


Bullish Support Line Setup:

The chart below is an example of a Bullish Support Line setup. The market makes a new higher low several times to form an area of support. We are looking for this support to be broken to signal a sell short order.

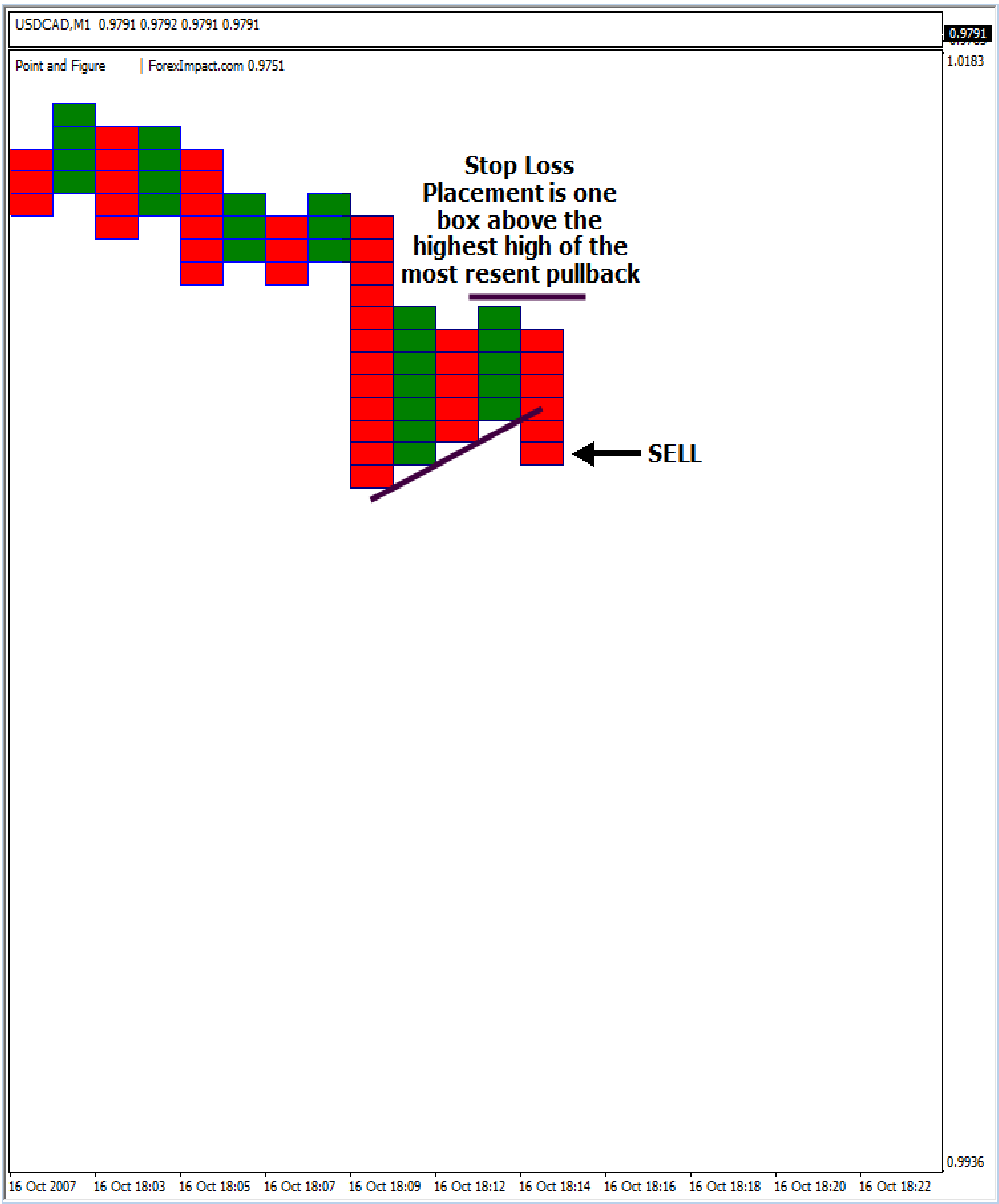
Bullish Support Line Entry:

The entry for the Bullish Support Line charting pattern is two boxes below the trend line. The trend line shows where there is support in the market. When this support is broken it signals a selling opportunity.



Bullish Support Line Stop Loss:

The stop loss for the Bullish Support Line is located two boxes above the high of the most resent pullback. The theory behind the placement of the stop loss is that the market has already tested this area and found resistance. We are going to place our stop loss two boxes above this resistance.

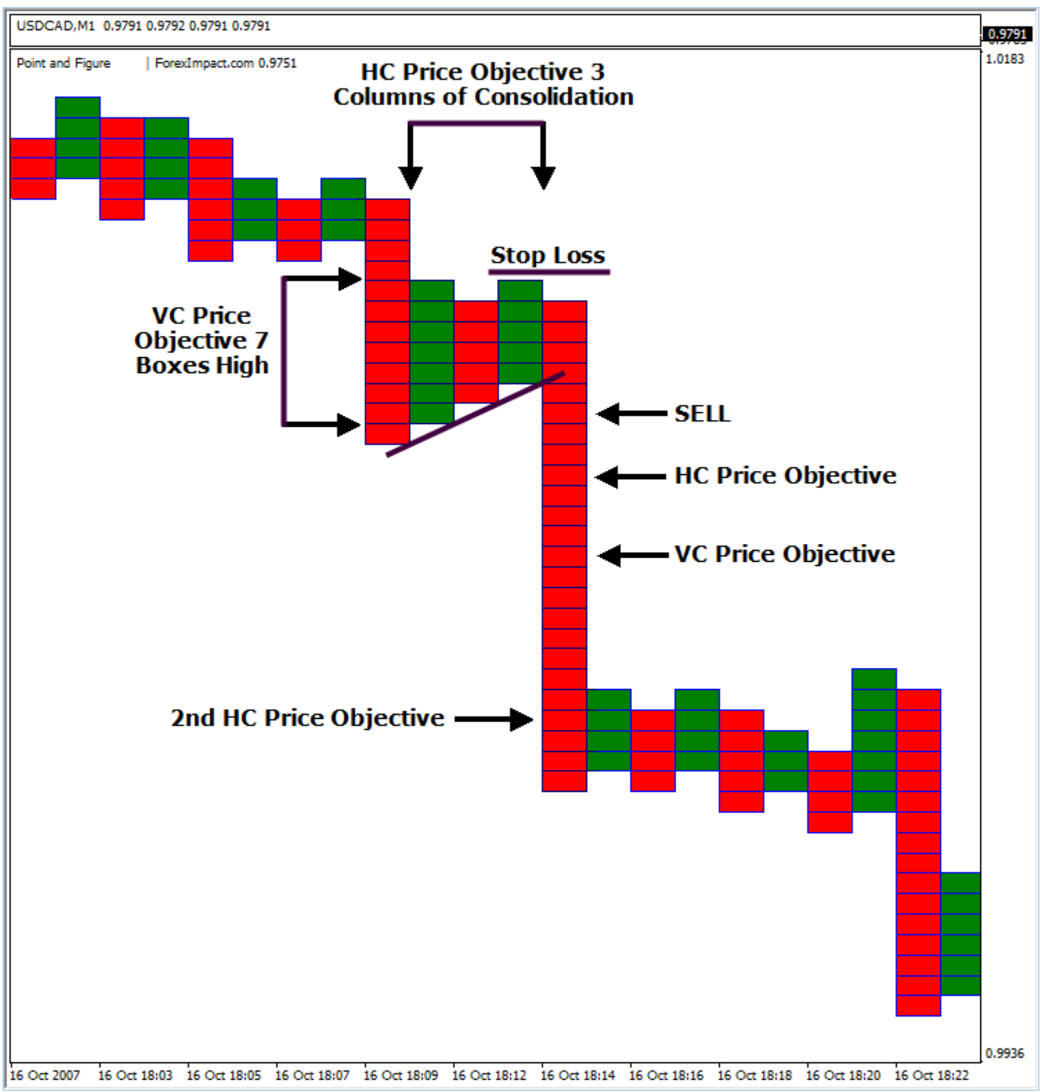


Bullish Support Line Price Objective:

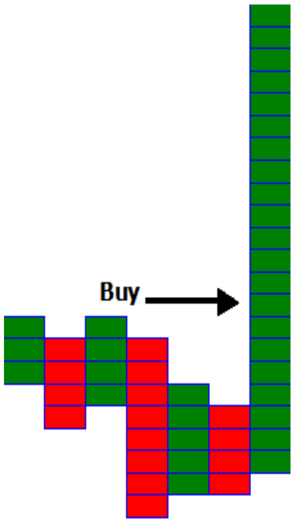
There are two possible price objectives in the example below: the horizontal count price objective and the vertical count price objective.

The horizontal count price objective is three, because we have three columns of consolidation within the Bullish Support Line chart pattern. The vertical count price objective is seven because there are seven boxes high within the Bullish Support Line chart pattern.

In the example below, we have a third price objective at the 2nd HC Price Objective. This price objective was formulated by taking the original HC Price Objective (3) multiplied by the box size (5). This gives us a 15 box 2nd HC Price Objective from the entry.

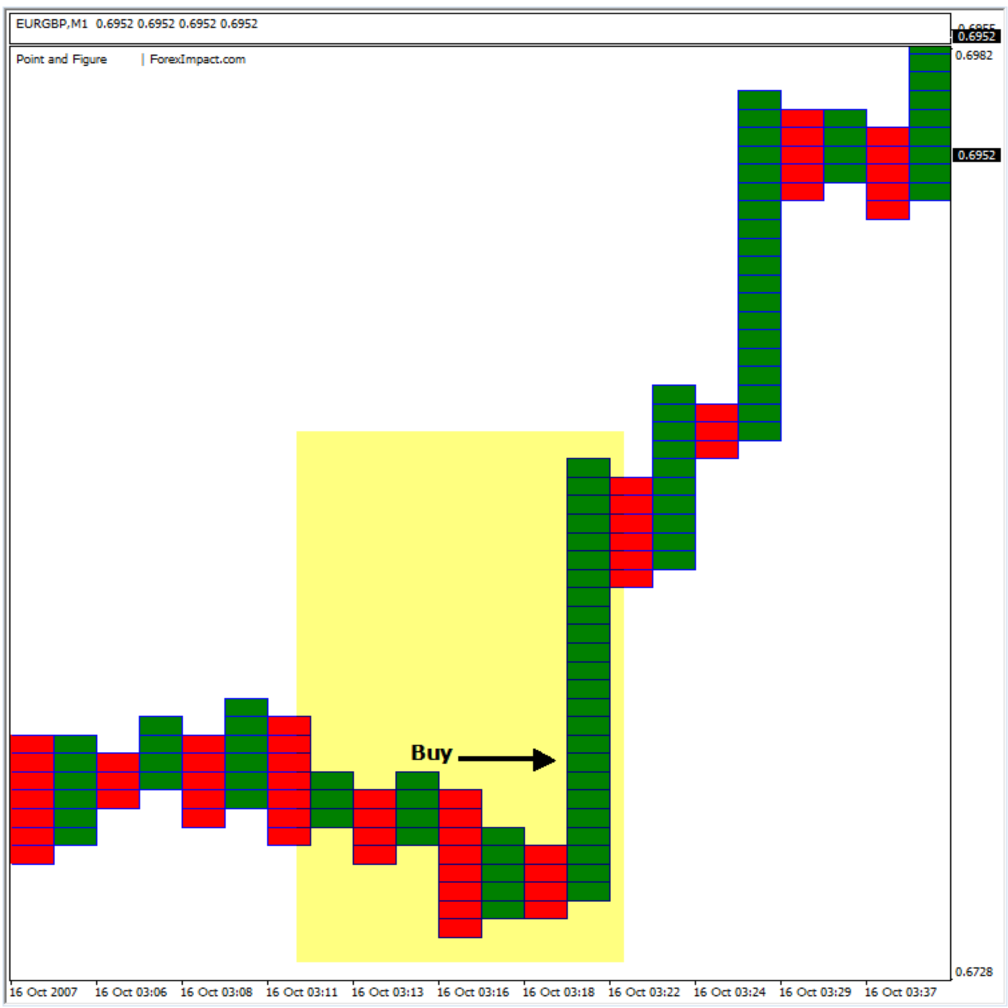


The Spread Triple Top Pattern



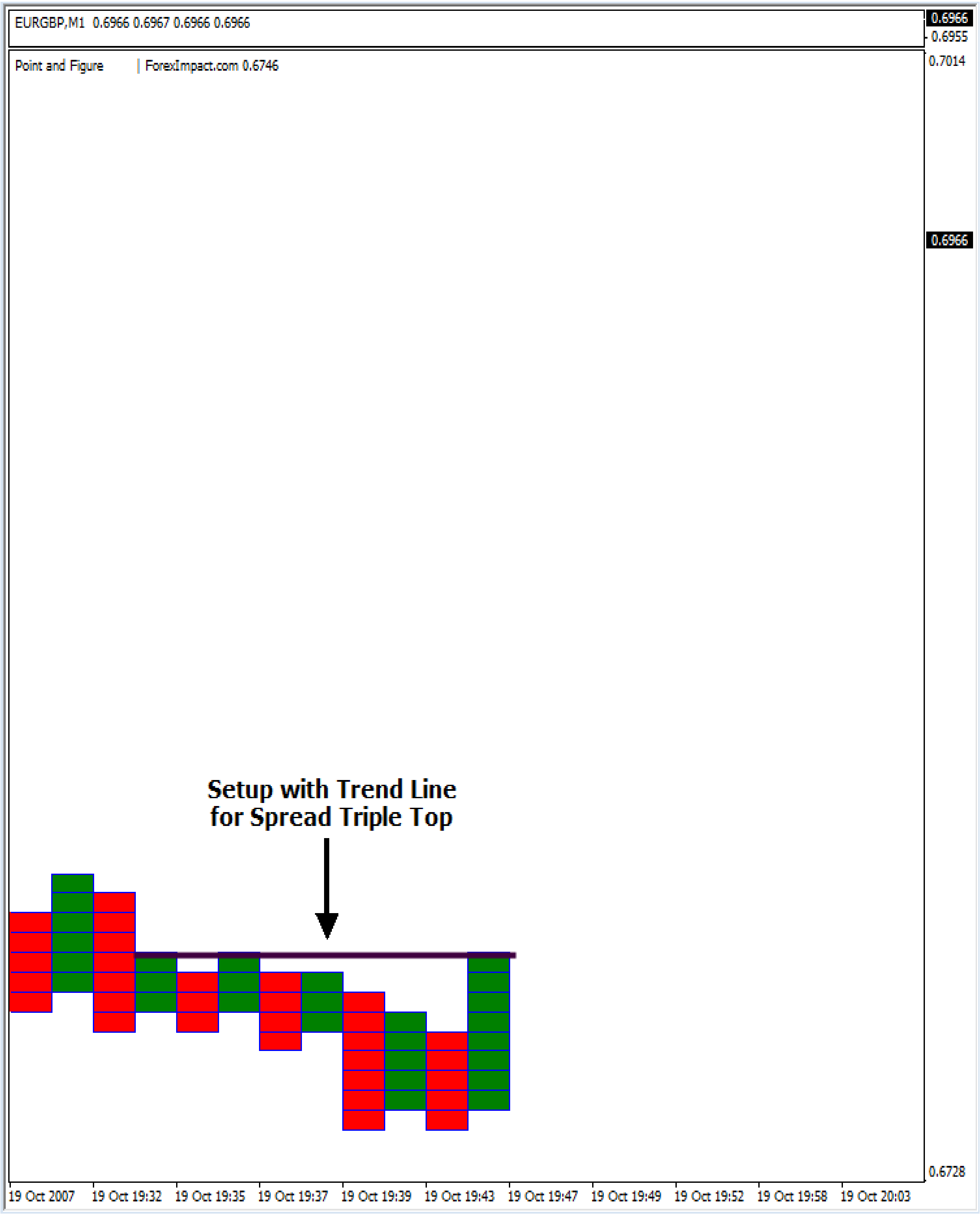
The Spread Triple Top chart formation uses the same principles as the Triple Top pattern, but before we have a breakout of the resistance line to the upside there is a brief pullback. The pullback should be short lived and the breakout should occur soon after the pullback. We are looking for the market to form a new high and then pull back, then retrace to the previous high and then pull back again over several bars until finally moving higher yet again.

This chart pattern is the fifth most common long chart pattern and the fourth most profitable.



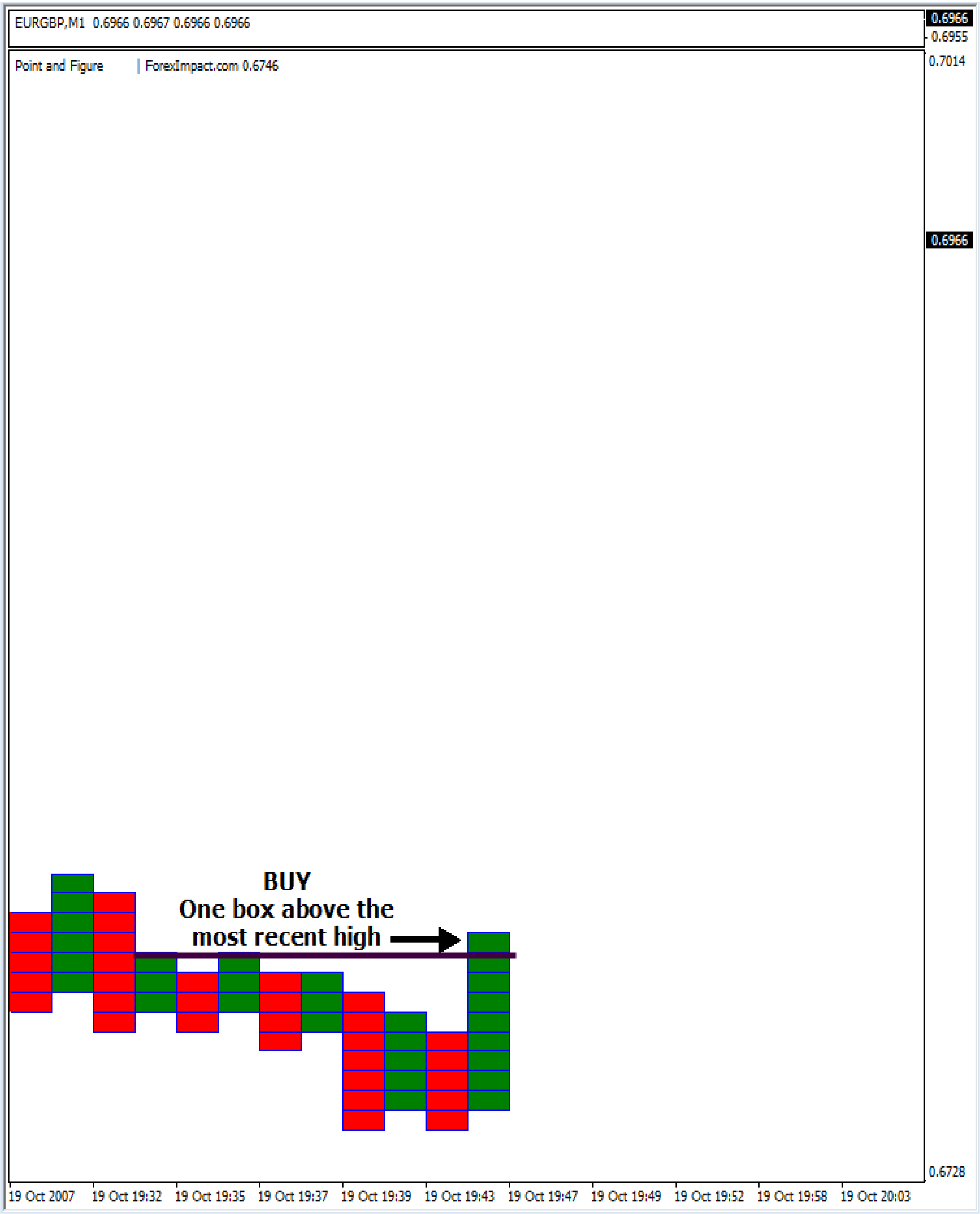
Spread Triple Top Setup:

The Spread Triple Top setup occurs when the market tests a particular high point twice and then pulls back before moving through the tested highs. This breaks the trend line that identifies were the resistance is in the market.



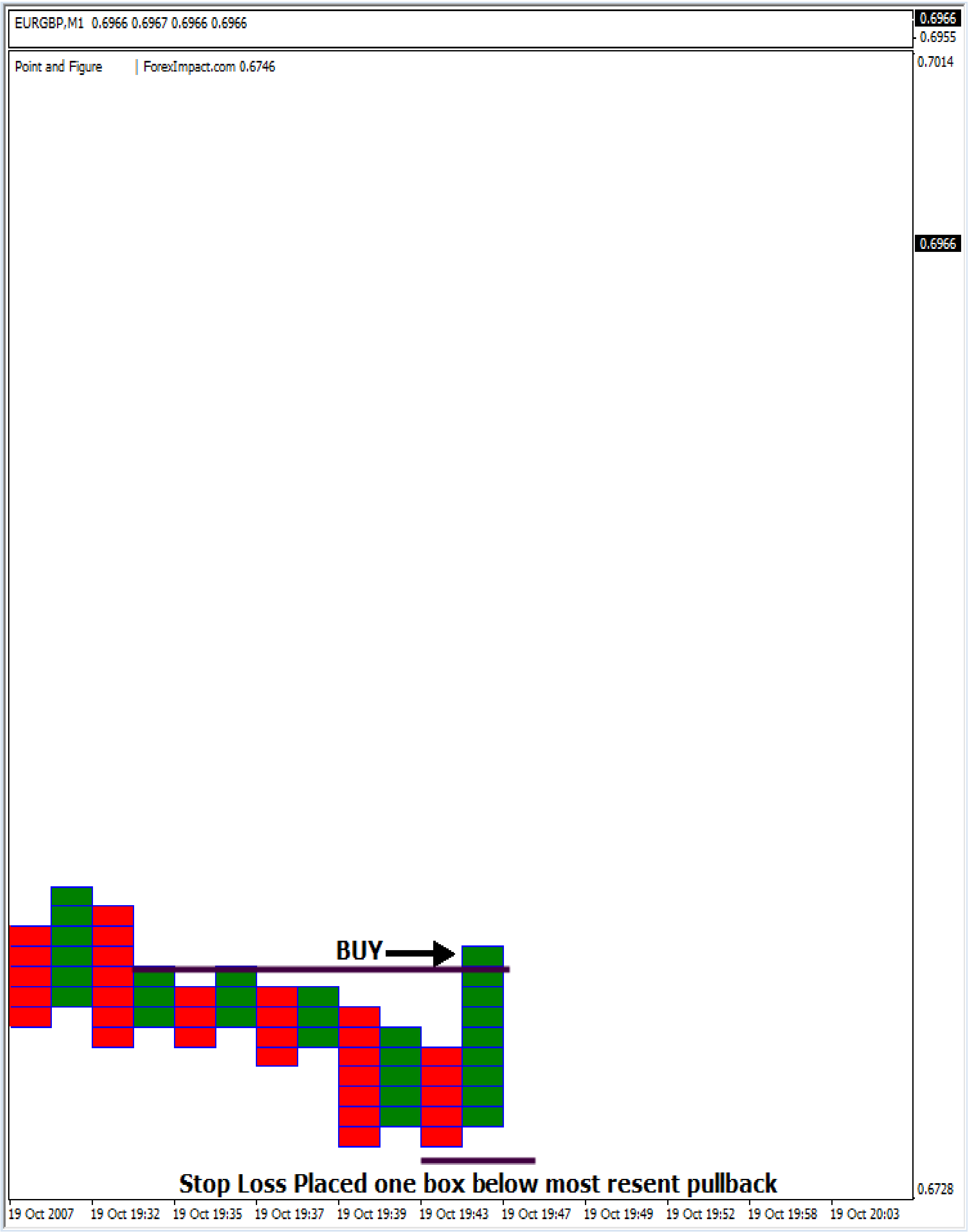
Spread Triple Top Entry:

The entry for the Spread Triple Top formations is one box above the previously tested highs. This will be one box above the resistance area and you should be able to draw a horizontal trend line to identify the level that needs to be broken for an entry to be triggered.



Spread Triple Top Stop Loss:

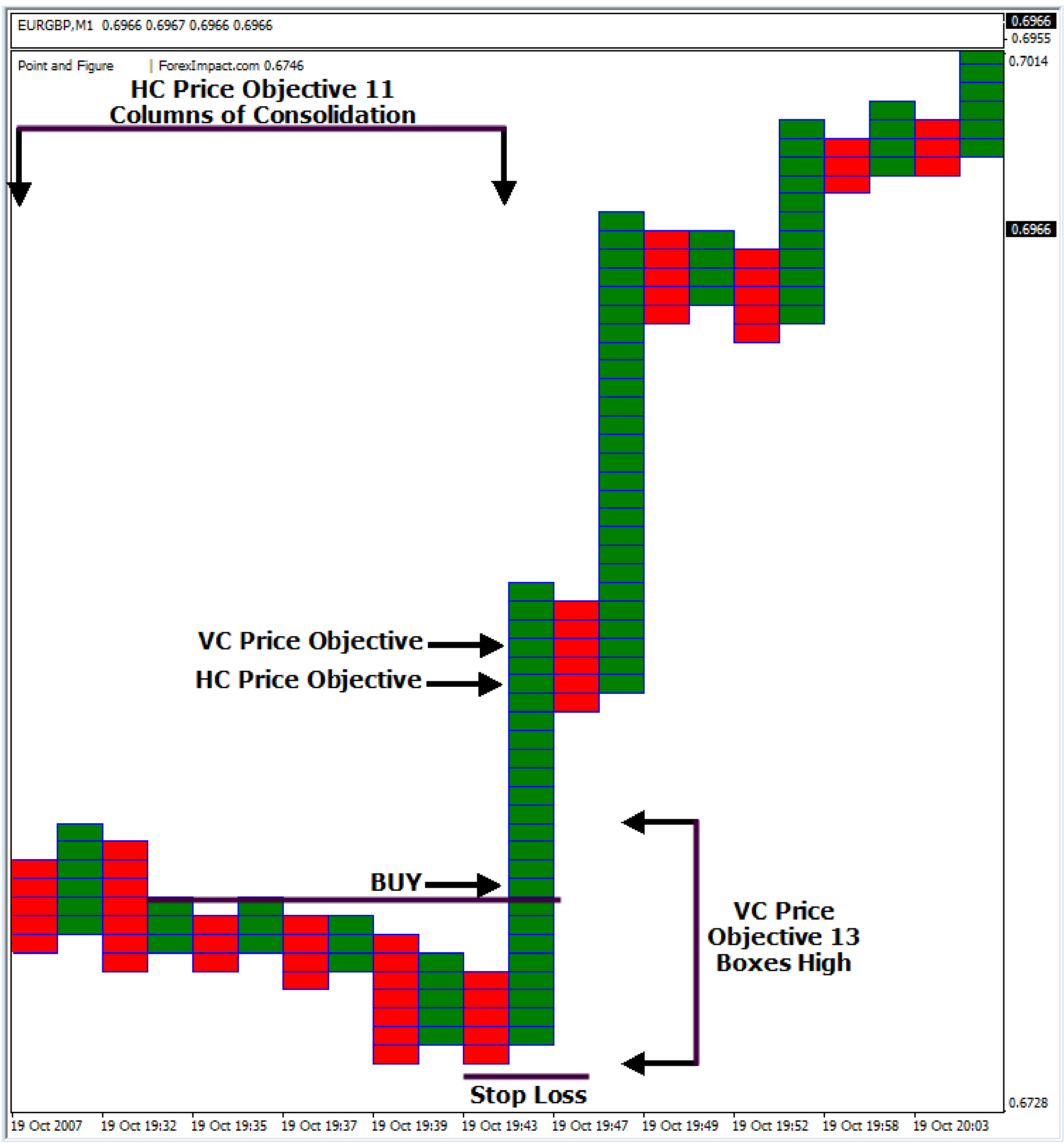
The stop loss is placed one box below the low of the previous pullback. In the example below, this support level had been tested twice before entry, so we are going to place our stop loss below this level.



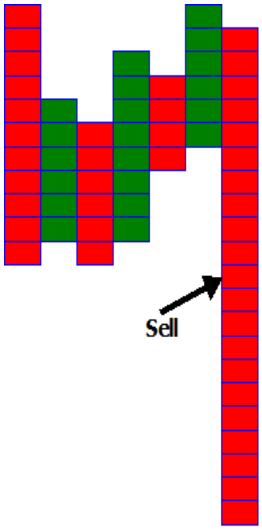
Spread Triple Top Price Objective:

In the example below, the horizontal count spread triple top price object was eleven, because there were eleven columns of consolidation before the breakout. Therefore, we add eleven boxes to the entry box to obtain our HC Price Objective.

To obtain the vertical count price objective, you need to count the number of vertical boxes in the consolidation area before the breakout. This can be done after the breakout has occurred. The VC Price Objective was 13 boxes high.



The Spread Triple Bottom Pattern



The Spread Triple Bottom chart formation uses the same principles as the Triple Bottom pattern, but before we have a breakout of the support line to the downside there is a brief pullback. The pullback should be short lived and the breakout should occur soon after the pullback.

We are looking for the market to form a new low and then pull back, then retrace to the previous low and then pull back again over several bars. Finally, we want to market to push lower and our entry will be found one box below the previous low.

This chart pattern is the fifth most common long chart pattern and the fourth most profitable.

Spread Triple Bottom Setup:

The Spread Triple Bottom setup occurs when the market tests a particular low point twice and then pulls back before moving through the tested lows. This breaks the trend line that identifies were the support is in the market.

Spread Triple Bottom Entry:

The entry for the Spread Triple Bottom formations is one box below the previously tested lows. This will be one box below the support area and you should be able to draw a horizontal trend line to identify the level that needs to be broken for an entry to be triggered.

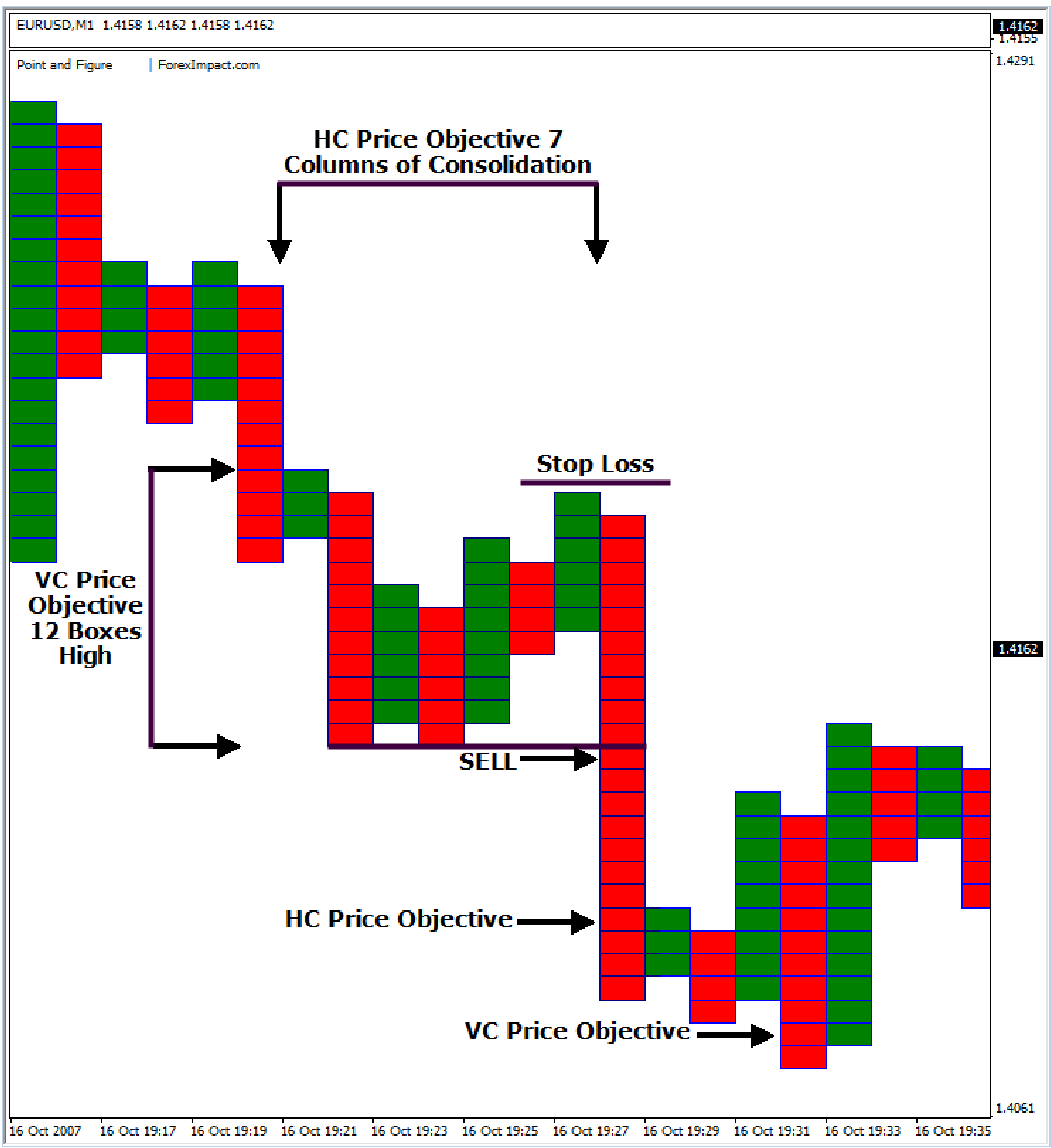
Spread Triple Bottom Stop Loss:

The stop loss is placed one box above the high of the previous pullback. In the example below, this resistance level had been tested twice before entry, so we are going to place our stop loss above this level.

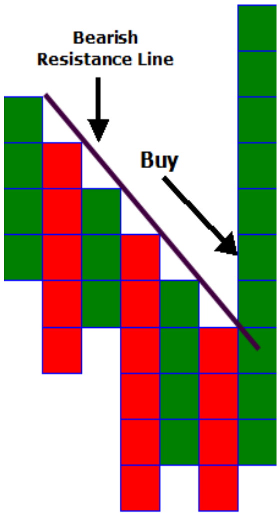
Spread Triple Bottom Price Objective:

In the example below, the horizontal count spread triple bottom price object was seven, because there were seven columns of consolidation before the breakout. Therefore, we subtracted seven boxes to the entry box to obtain our HC Price Objective.

To obtain the vertical count price objective, you need to count the number of vertical boxes in the consolidation area before the breakout. This can be done after the breakout has occurred. The VC Price Objective was 12 boxes high.



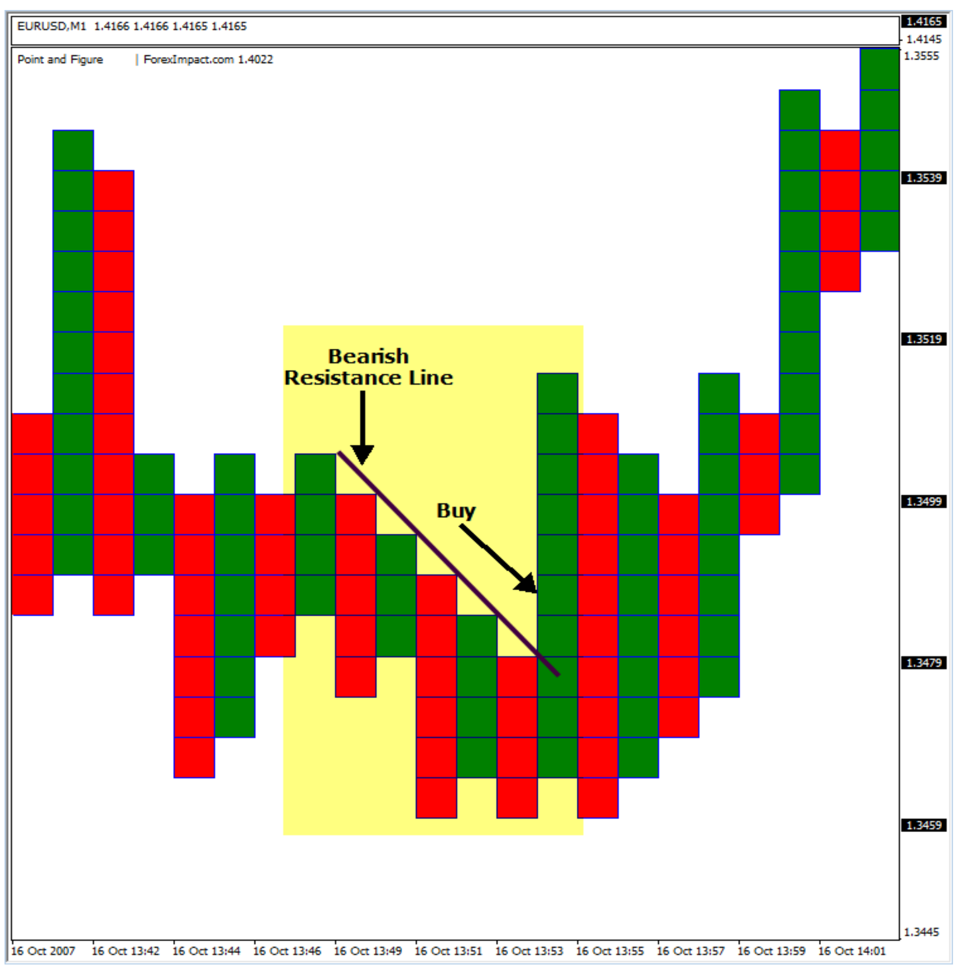
The Bearish Resistance Line Pattern



The Bearish Resistance Line chart formation identifies when the market consistently moves down over several columns to form a downward trend line that locates where resistance is in the market. A break above this resistance area (trend line) would signal a buy order.

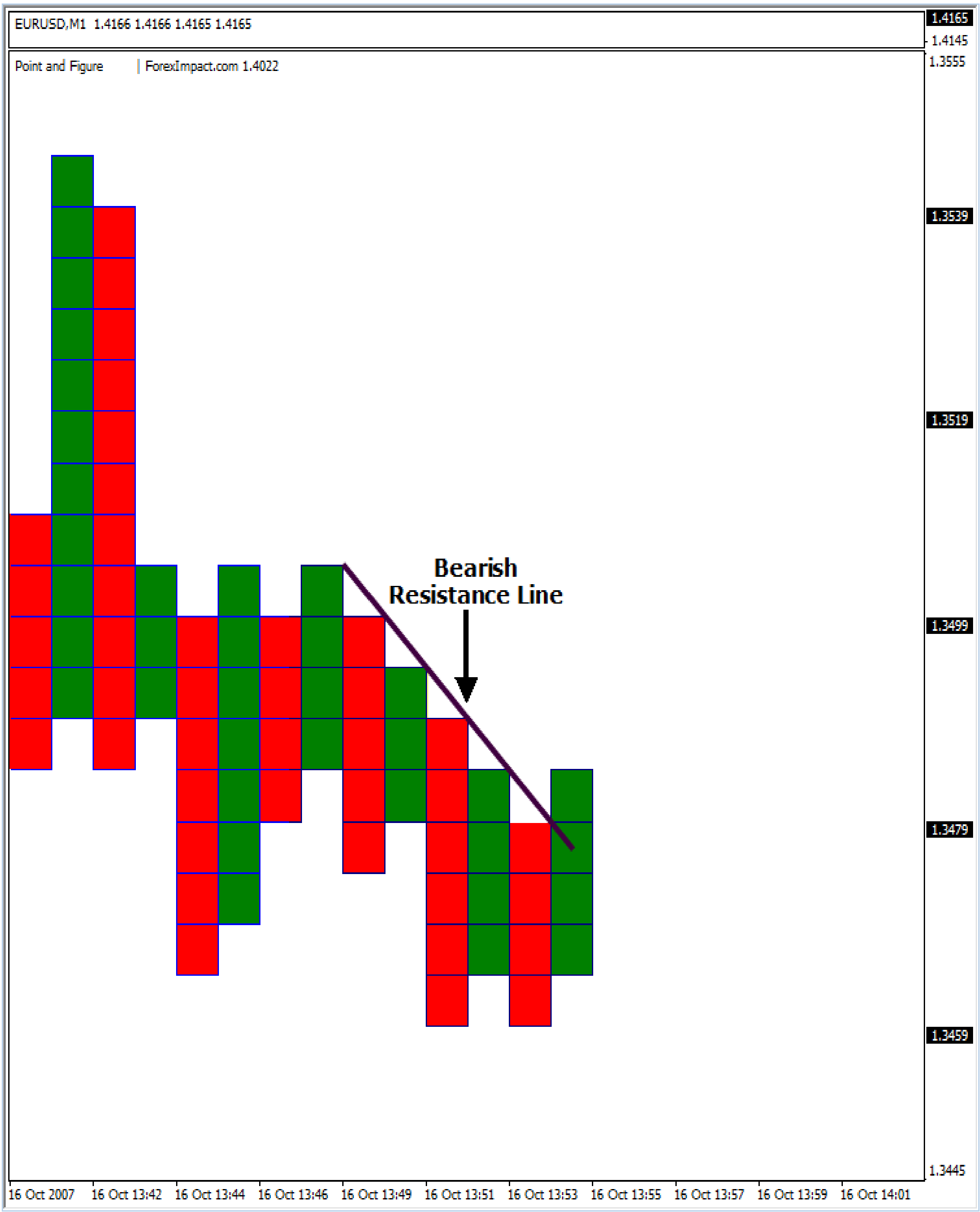
We are looking for the market to make several lower highs easily shown using a downward trend line. When this occurs we are looking to enter the market two boxes above the trend line when the market breaks out.

The Bearish Resistance Line is the fourth most common long chart formation and is the fifth most profitable.



Bearish Resistance Line Setup:

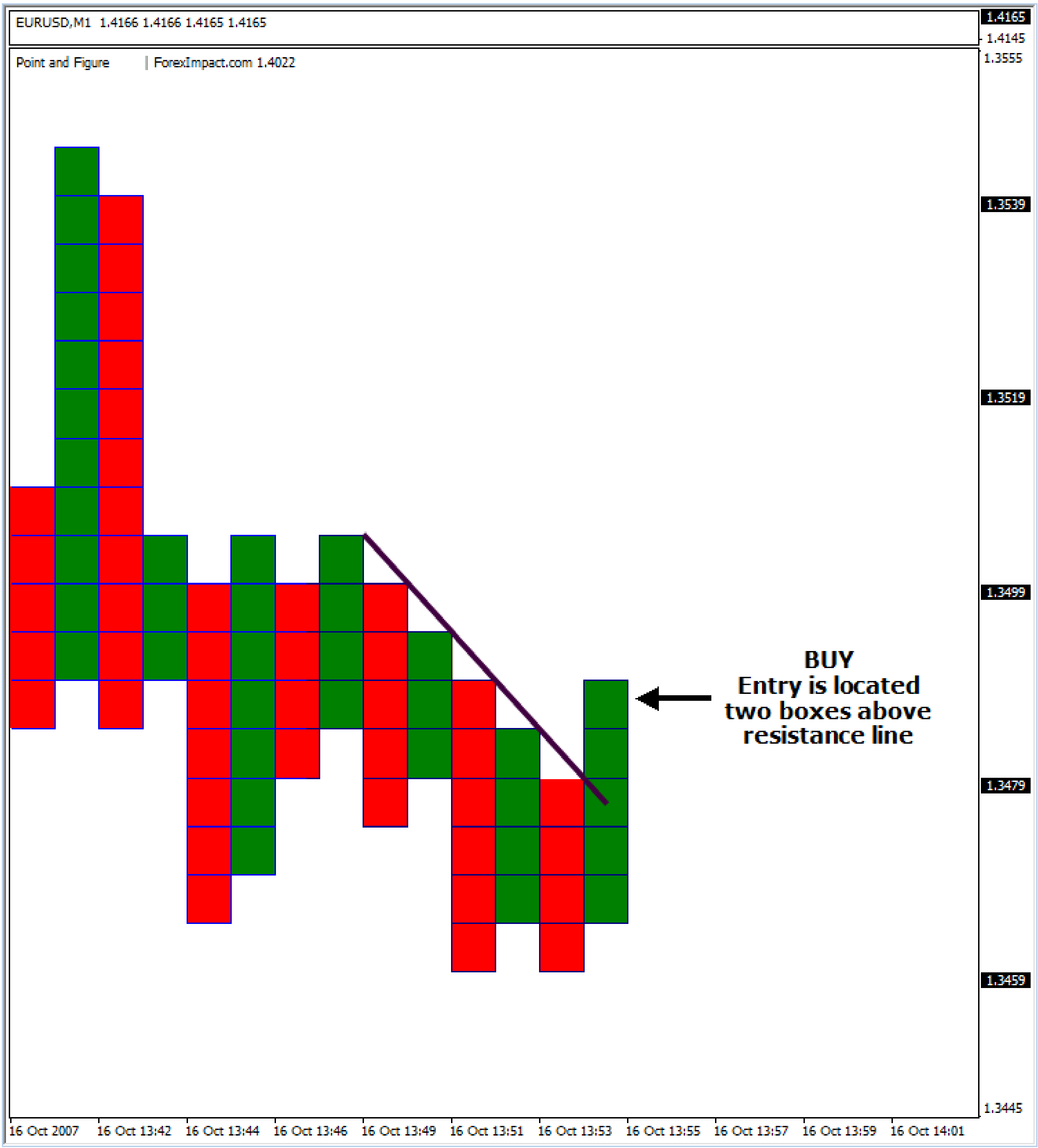
The setup for the Bearish Resistance Line chart formation occurs when the market makes several lower highs that form a resistance line or downward trend line. Then, when the market breaks resistance by one box we have our setup.



Bearish Resistance Line Entry:

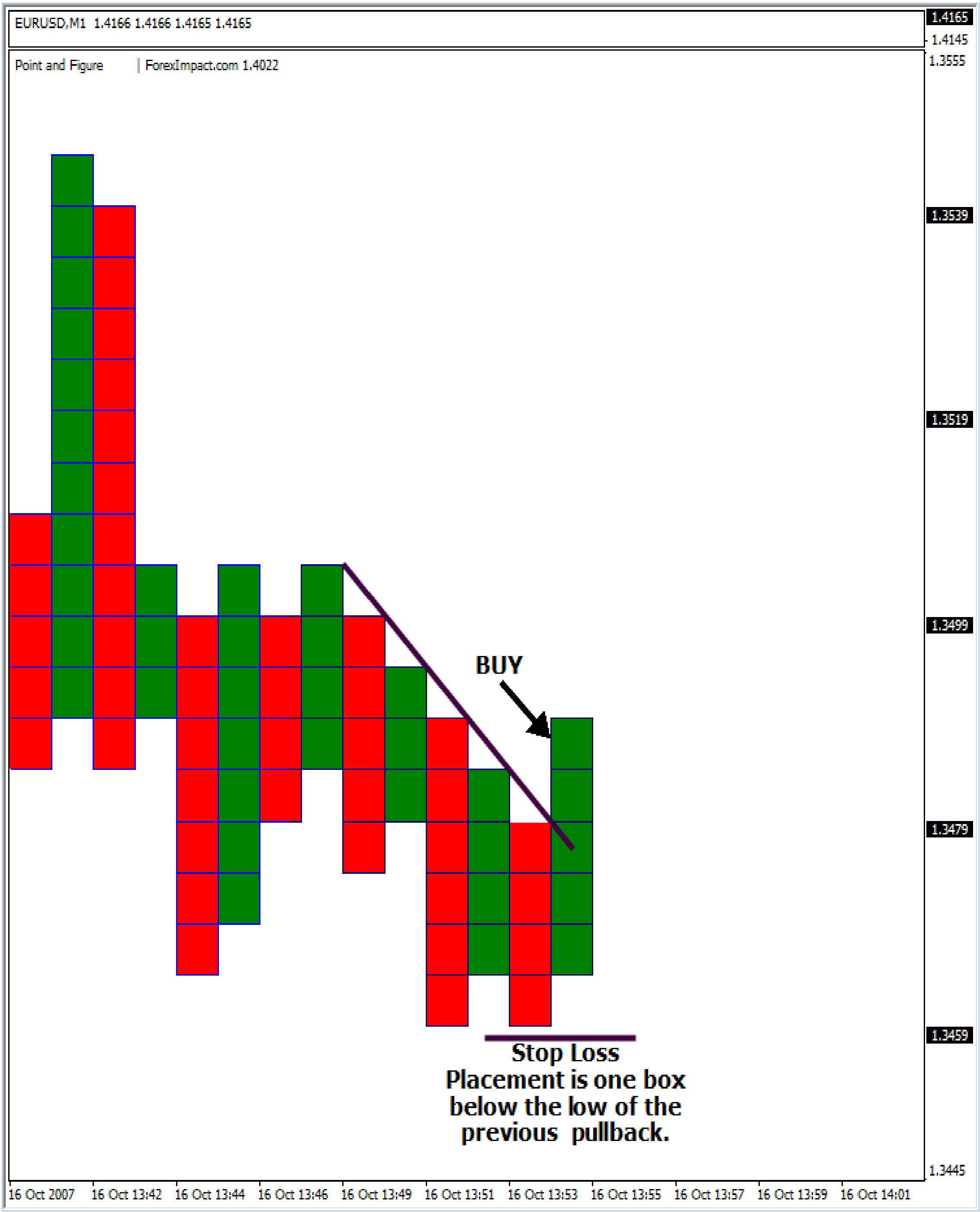
The entry for the Bearish Resistance Line chart pattern occurs when a downward resistance trend line is formed and then the resistance line is broken by two boxes. We would buy on the second box.

> **Note:** Any chart formation that is going against the previous trend will have a two box breakout before entry. The chart formations that go with the previous trend will enter after the break of a trend line on the first box.



Bearish Resistance Line Stop Loss:

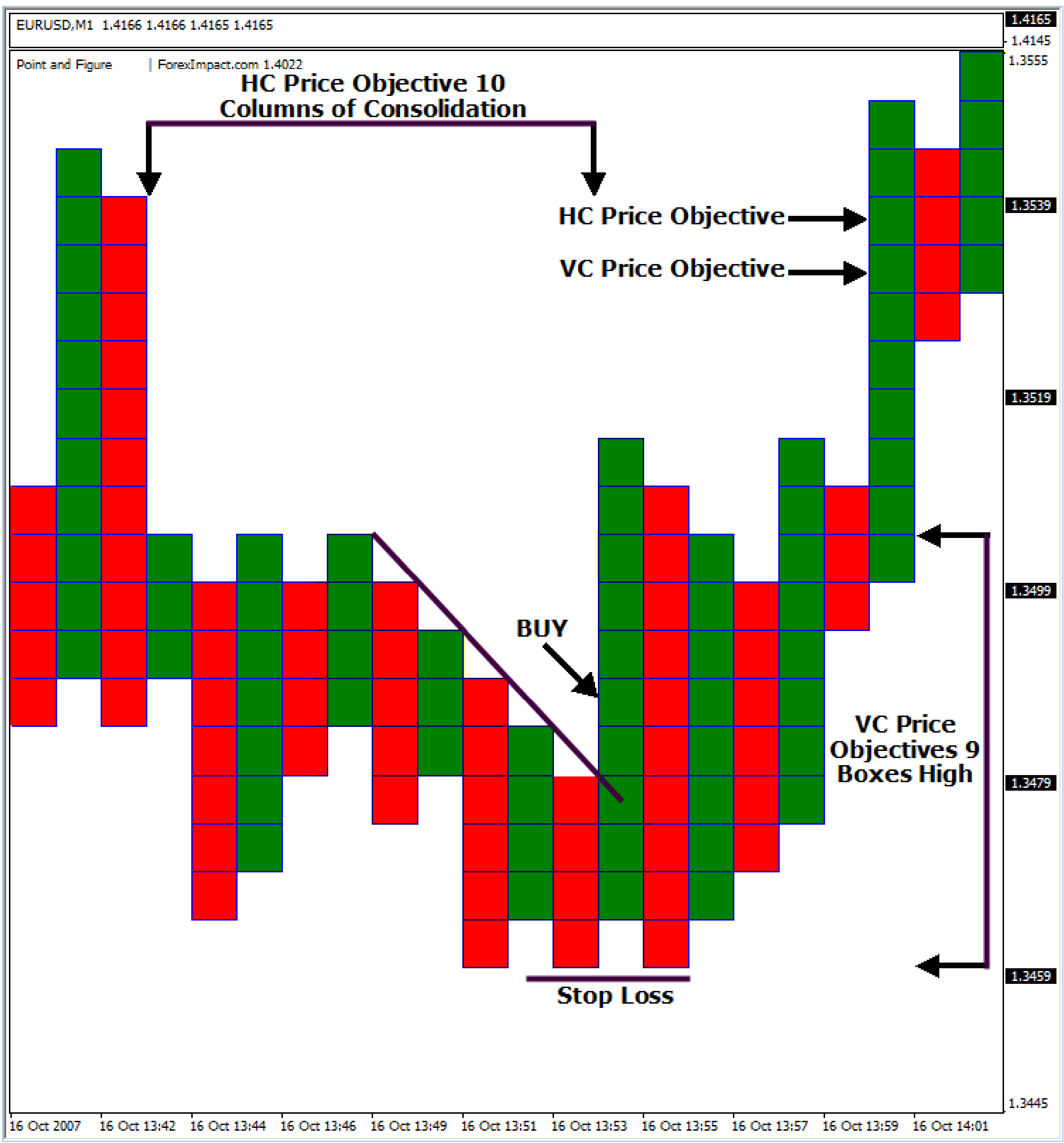
The stop loss is located one box below the previous pullback before the breakout. In the example below there is a nice support line formed by two down columns. We would want to place our stop loss below this point.



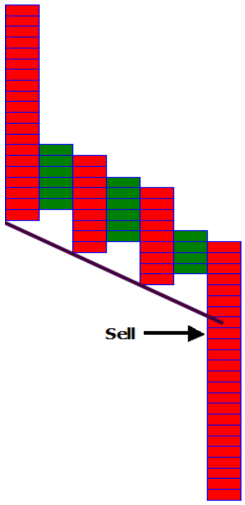
Bearish Resistance Line Price Objective:

The Horizontal Count Price Objective is ten because there are ten columns of consolidation before the breakout. So, we would add ten boxes to the entry to obtain the HC Price Objective. If we wanted to obtain a second HC Price Objective we could multiply the HC Price Objective (10) by the box size (5). This would give us a second HC Price Objective of 50 boxes.

The VC Price Objective is nine because vertically there are nine boxes within the area of consolidation before the breakout.

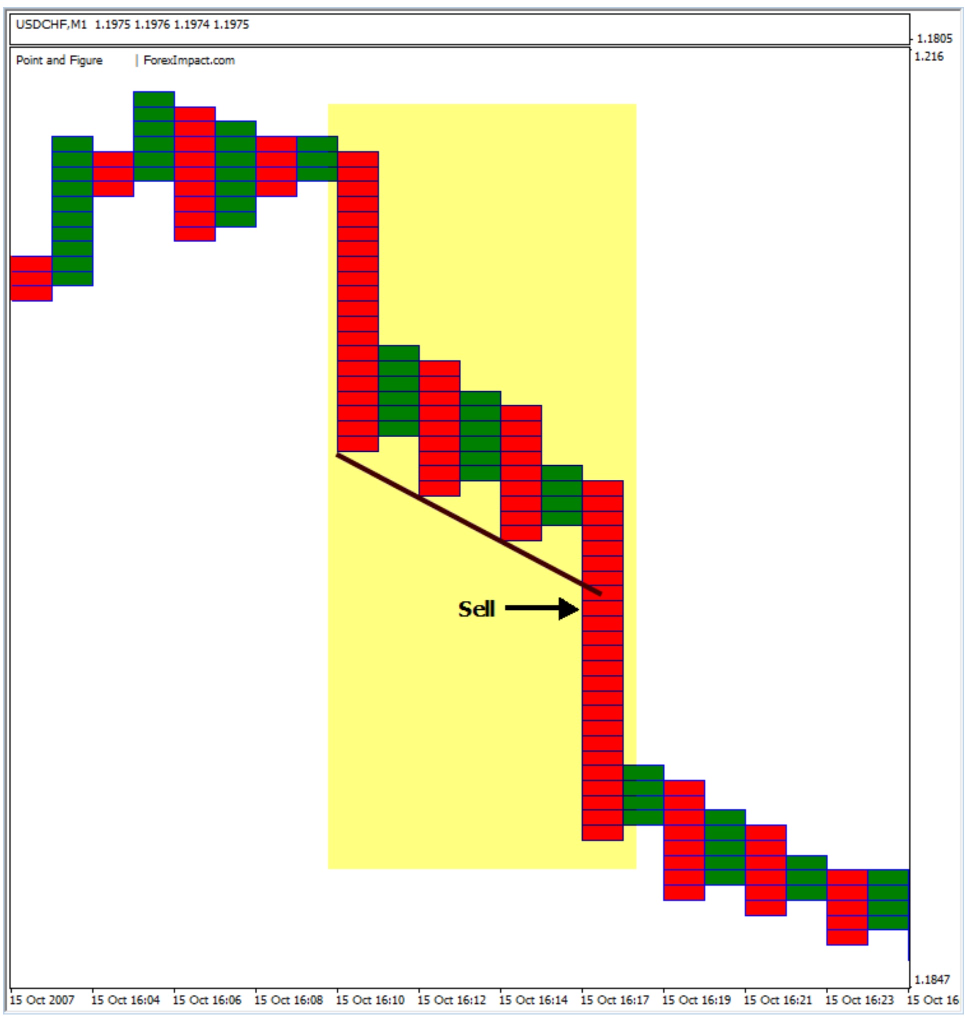


The Bearish Support Line Pattern



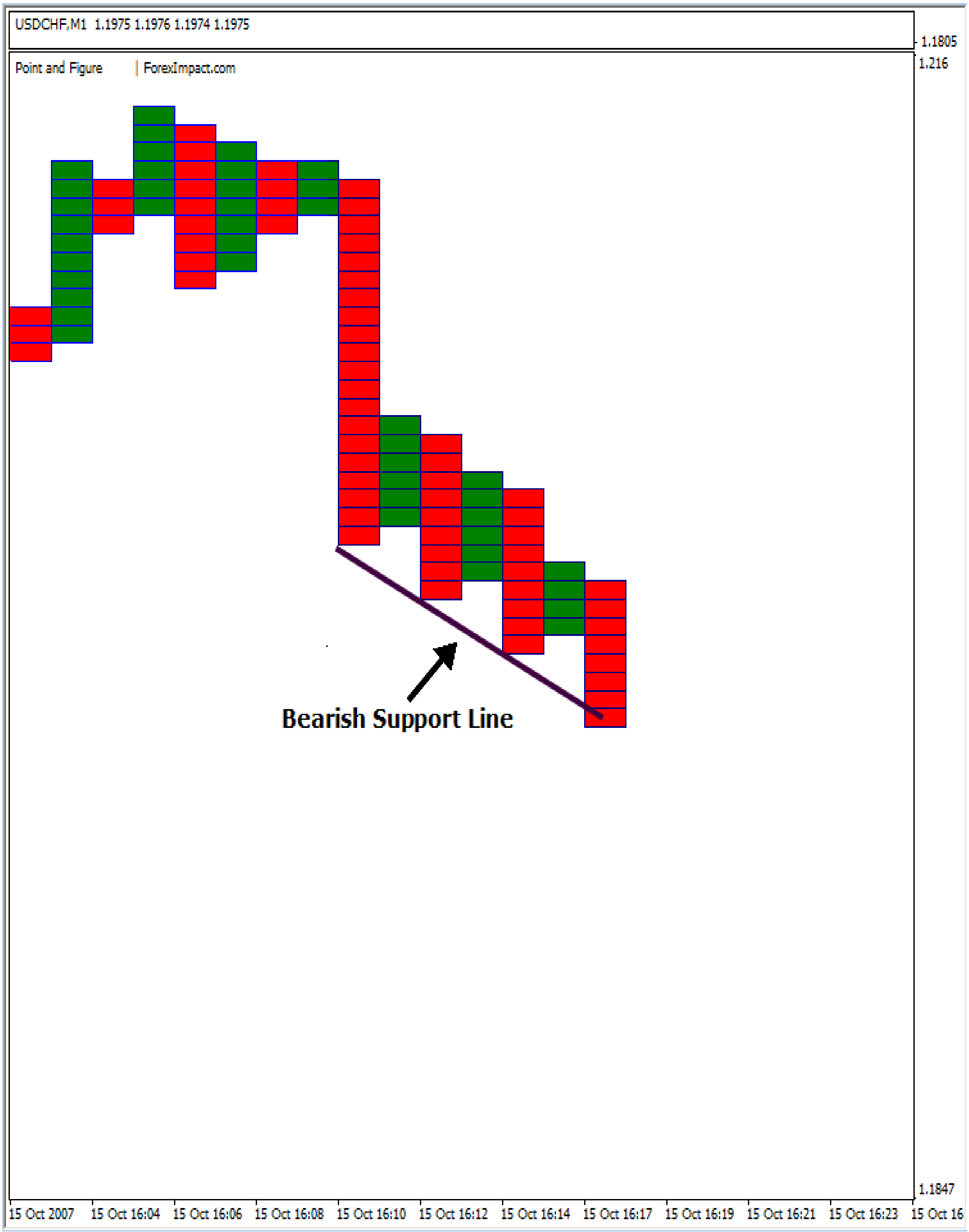
The Bearish Support Line chart formation identifies when the market consistently moves down over several columns to form a downward trend line that locates where support is in the market. A break below this support area (trend line) would signal a sell order.

We are looking for the market to make several lower lows easily shown using a downward trend line. When this occurs we are looking to enter the market one box below the trend line when the market breaks out.



Bearish Support Line Setup:

The setup for the Bearish Support Line chart formation occurs when the market makes several lower lows that form a support line or downward trend line.



Bearish Support Line Entry:

The entry for the Bearish Support Line chart pattern occurs when a downward support trend line is formed and then the support line is broken by one box.

> **Note:** Any chart formation that is going against the previous trend will have a two box breakout before entry. The chart formations that go with the previous trend will enter after the break of a trend line on the first box.

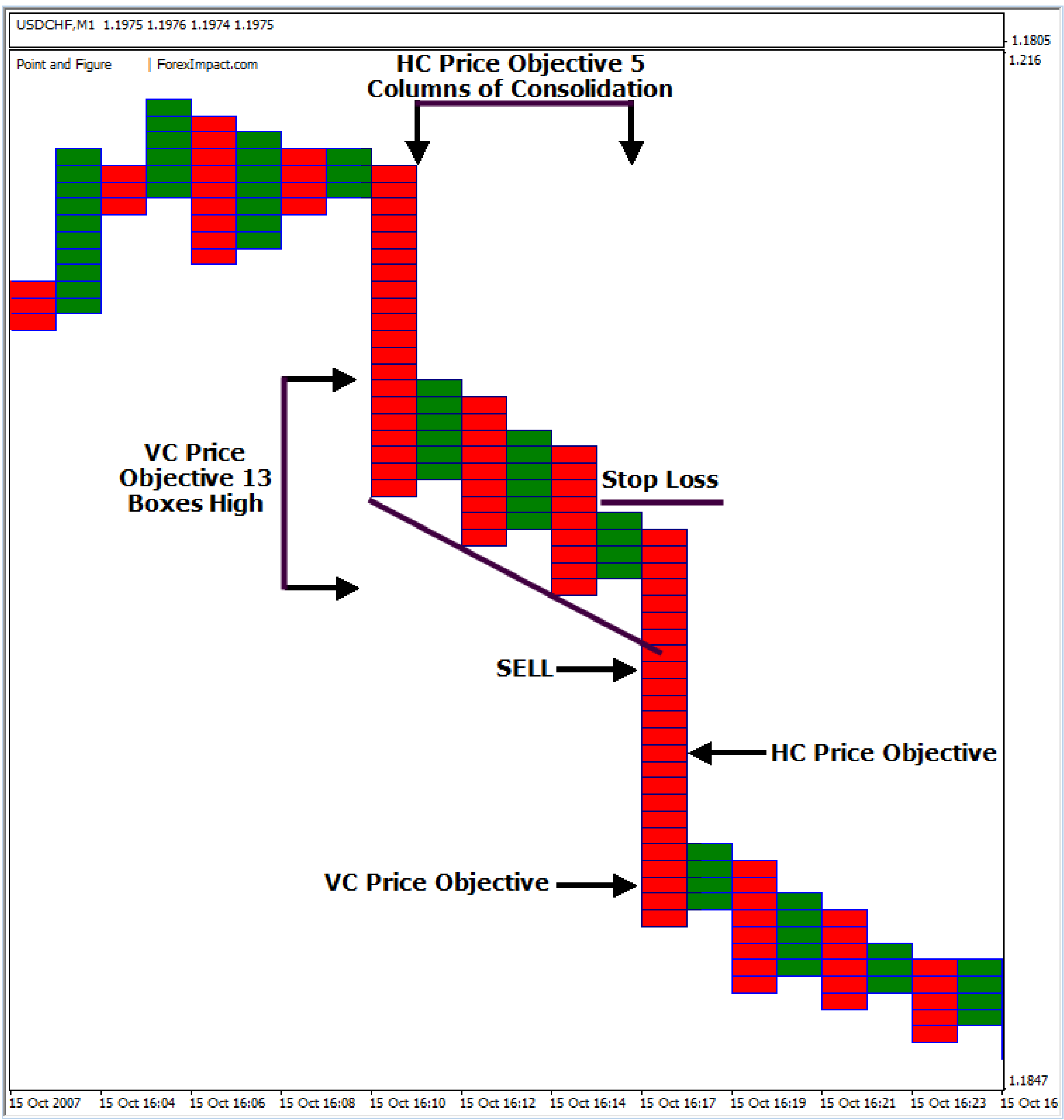
Bearish Support Line Stop Loss:

The stop loss is located one box above the previous pullback before the breakout.

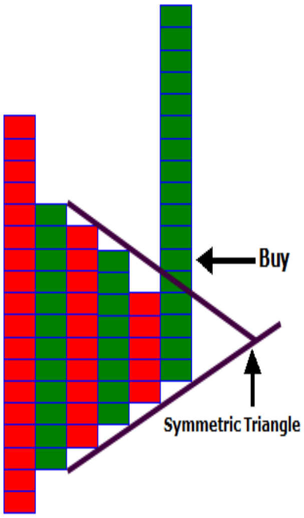
Bearish Support Line Price Objective:

The Horizontal Count Price Objective is five because there are five columns of consolidation before the breakout. So, we would subtract five boxes from the entry to obtain the HC Price Objective.

The VC Price Objective is thirteen because vertically there are thirteen boxes within the area of consolidation before the breakout. If we wanted to obtain a second VC Price Objective we could multiply the VC Price Objective (13) by the box size (5). This would give us a second VC Price Objective of 65 boxes.



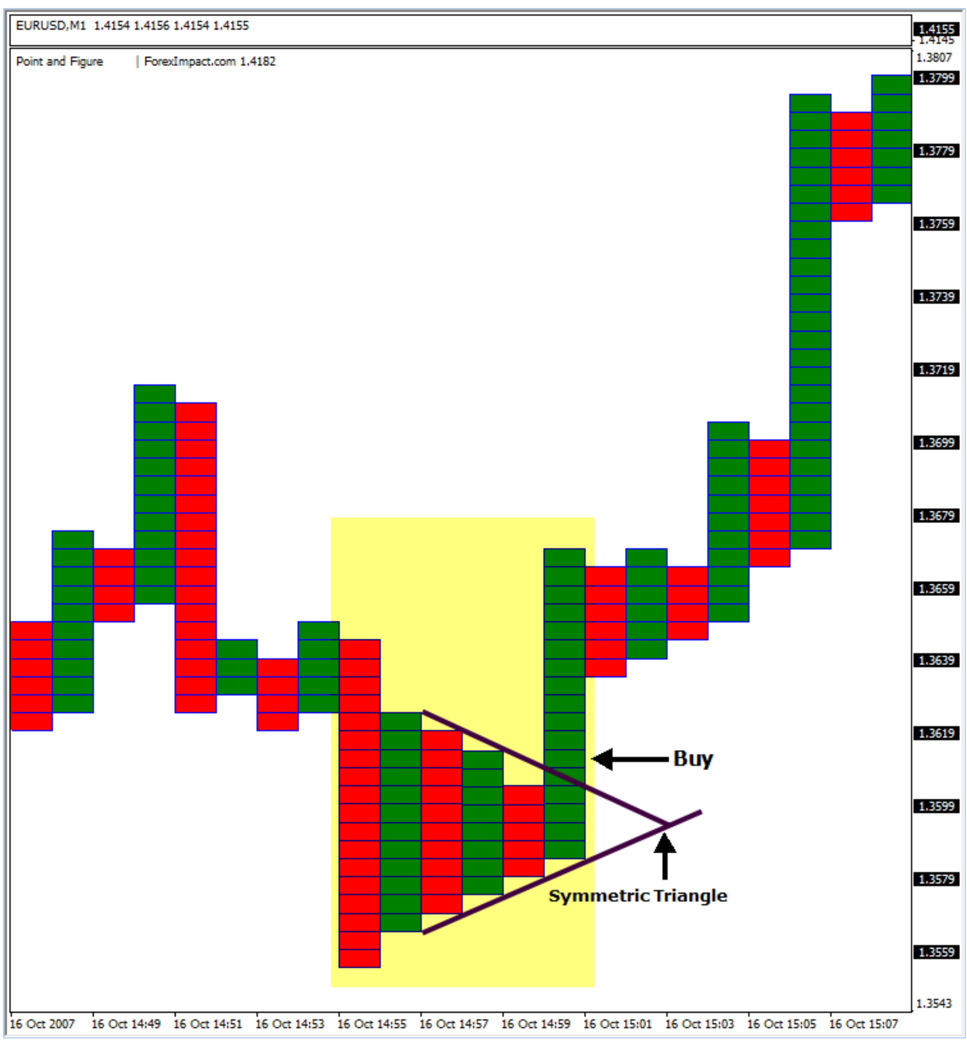
The Long Symmetric Triangle Pattern



The Long Symmetric Triangle chart formation is a representation of when the market is consolidating into lower highs and higher lows. Due to the market action, this is a good time to look for a breakout to occur.

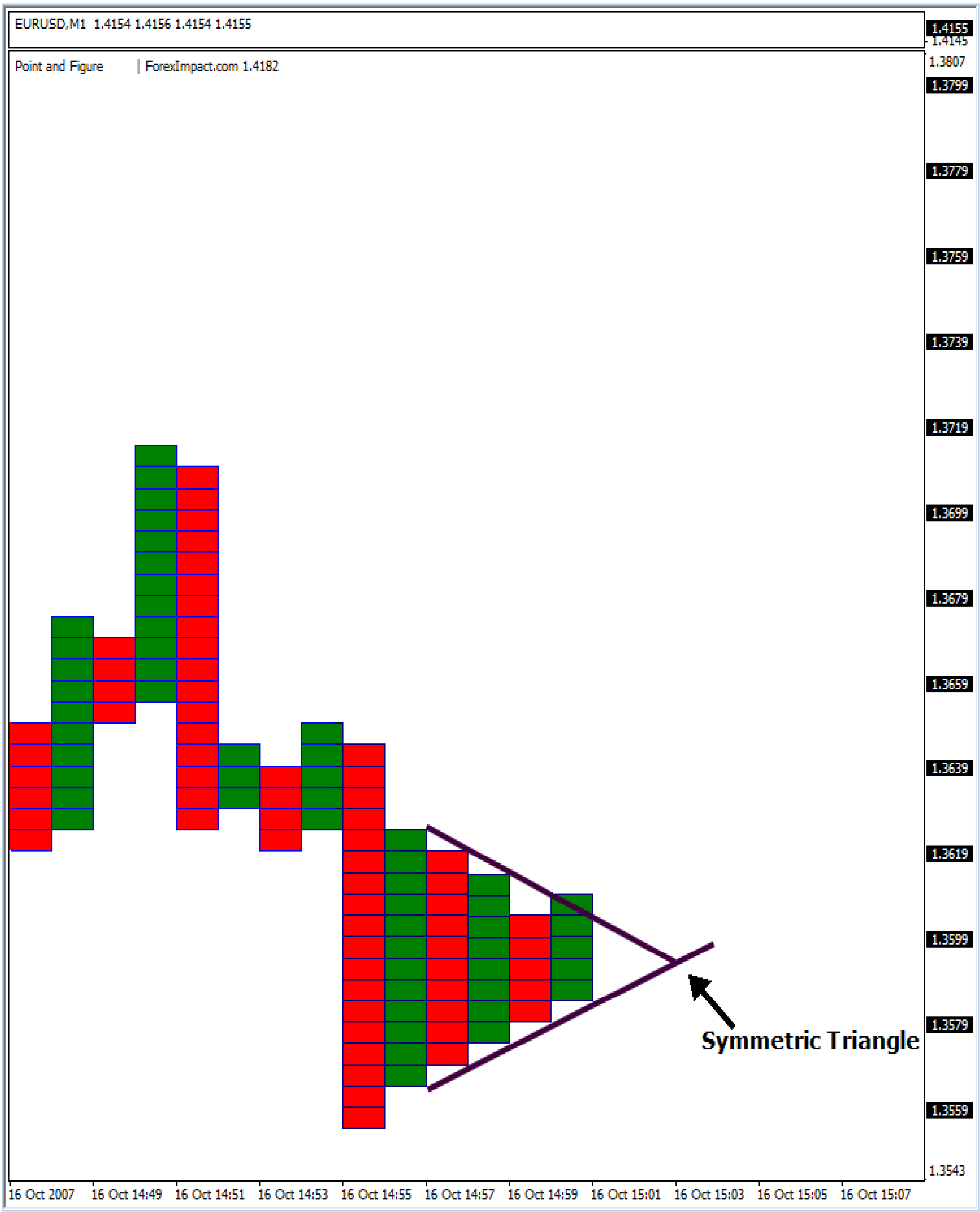
We are looking for the market to create a symmetric triangle (although the triangle will almost never be *perfectly* symmetrical) to go long one box beyond the top trend line.

This chart pattern is the seventh most common and the sixth most profitable trading formation.



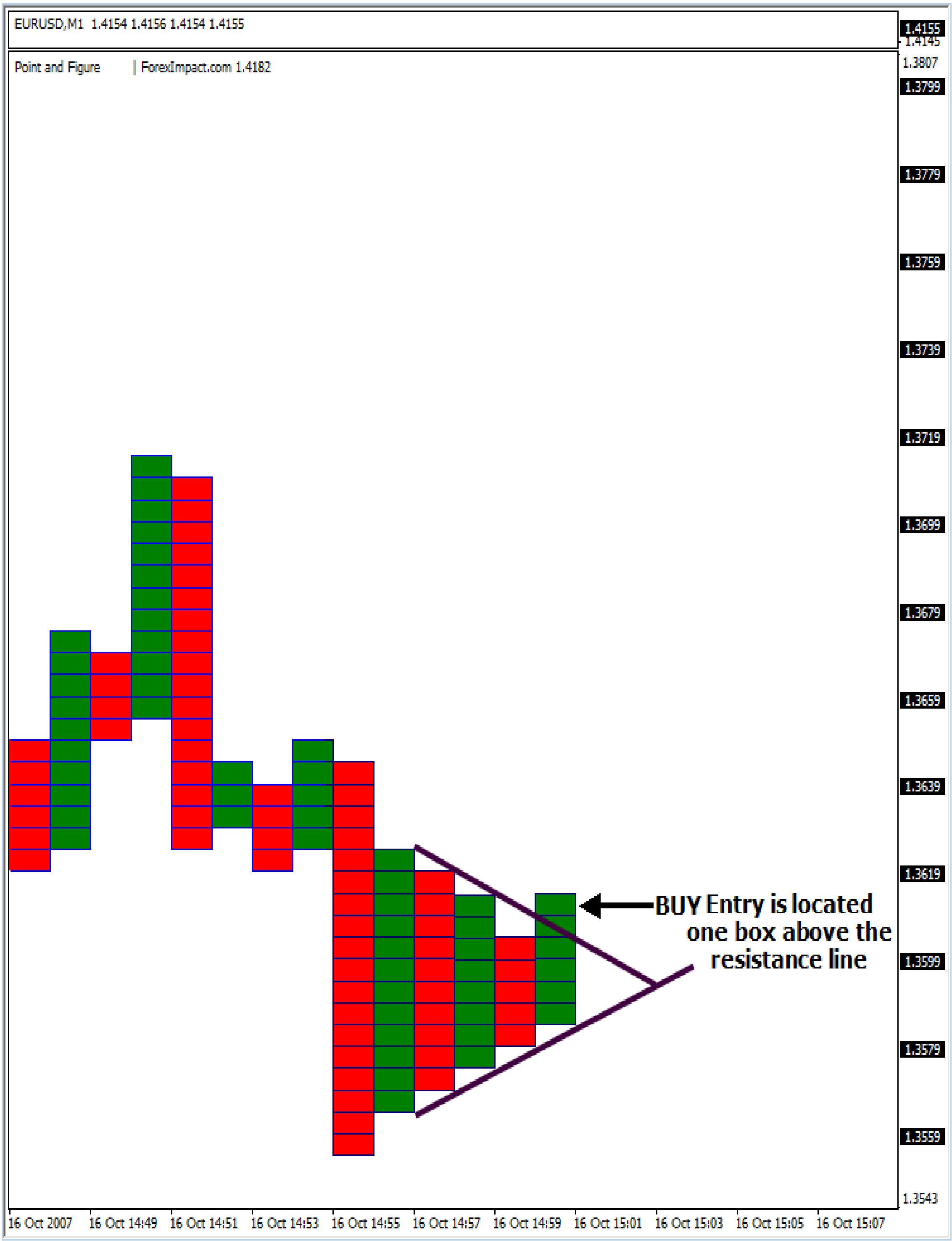
Long Symmetric Triangle Setup:

The setup for the Long Symmetric Triangle consists of having an upper trend line and a lower trend line that intersect. A symmetric triangle occurs when the market is making lower highs and higher lows, which means the market is consolidating.



Long Symmetric Triangle Entry:

The entry for the Long Symmetric Triangle is one box above the resistance trend line.



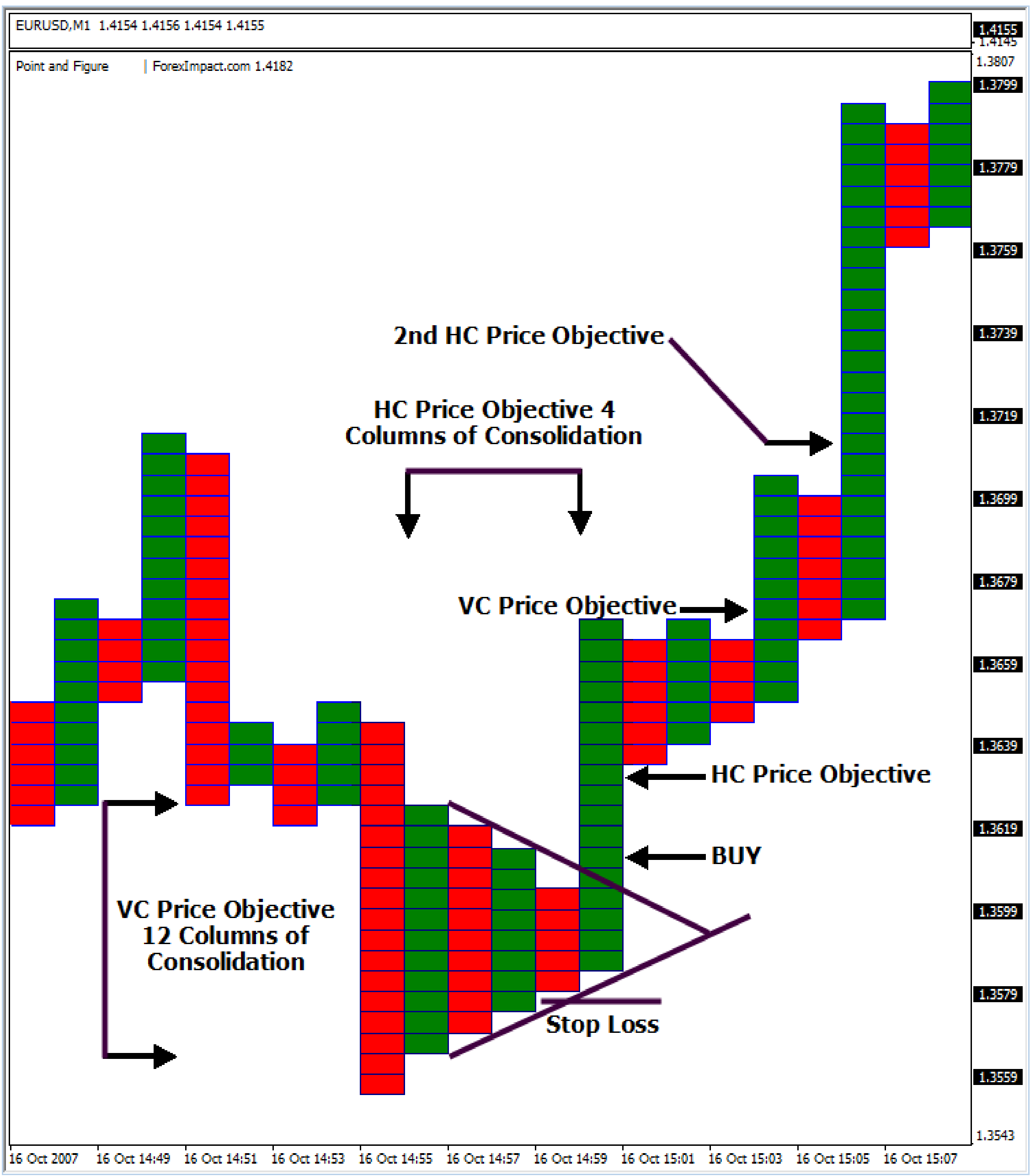
Long Symmetric Triangle Stop Loss:

The stop loss is located one box below the previous pullback's low. Another stop loss location is one box below the support trend line of the column for the breakout.

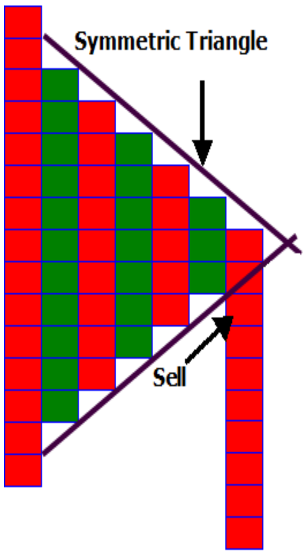
Long Symmetric Triangle Price Objective:

The horizontal count price objective had four columns of consolidation before the breakout, therefore; the HC Price Objective is four boxes above the entry. The 2nd HC Price Objective is 20 boxes above the entry, 4 Columns of Consolidation multiplied by a box size of 5.

The vertical count price objective is twelve because there are twelve vertical boxes within the consolidation area.



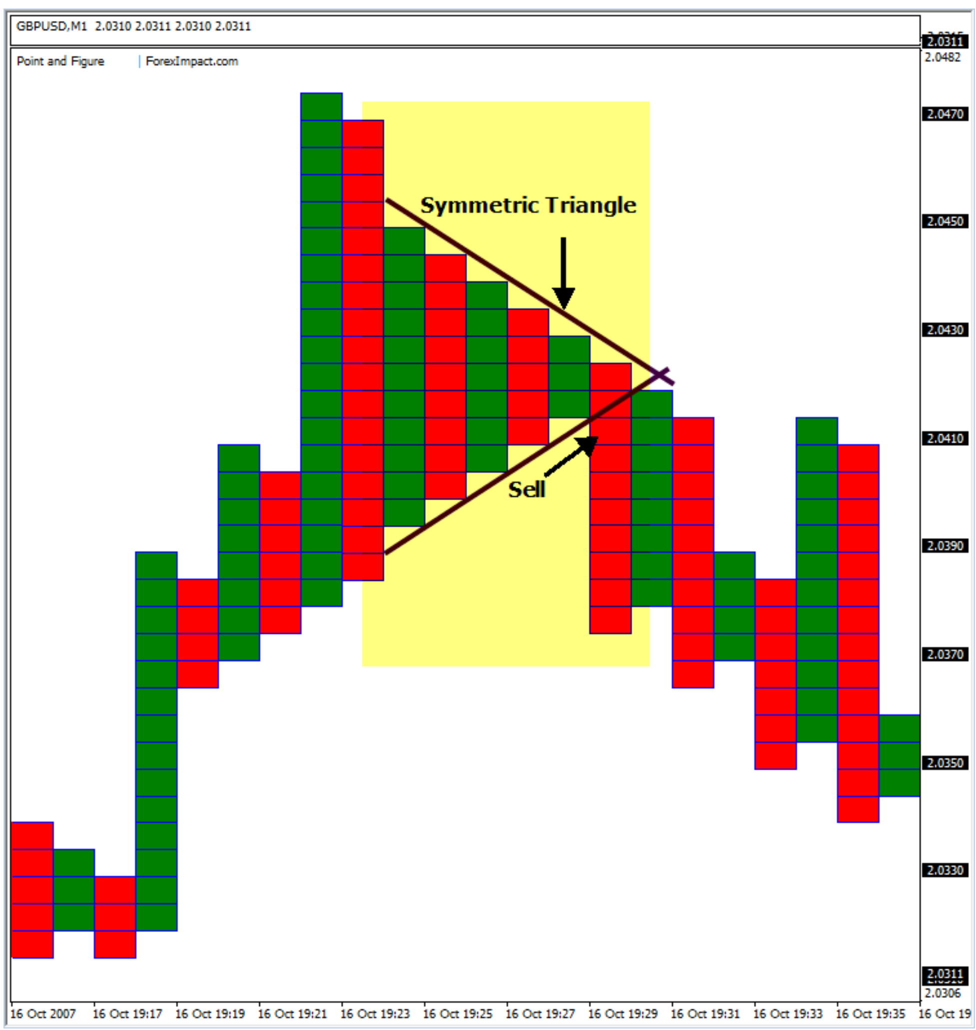
The Short Symmetric Triangle Pattern



The Short Symmetric Triangle chart formation is a representation of when the market is consolidating into lower highs and higher lows. Due to the market action, this is a good time to look for a breakout to occur.

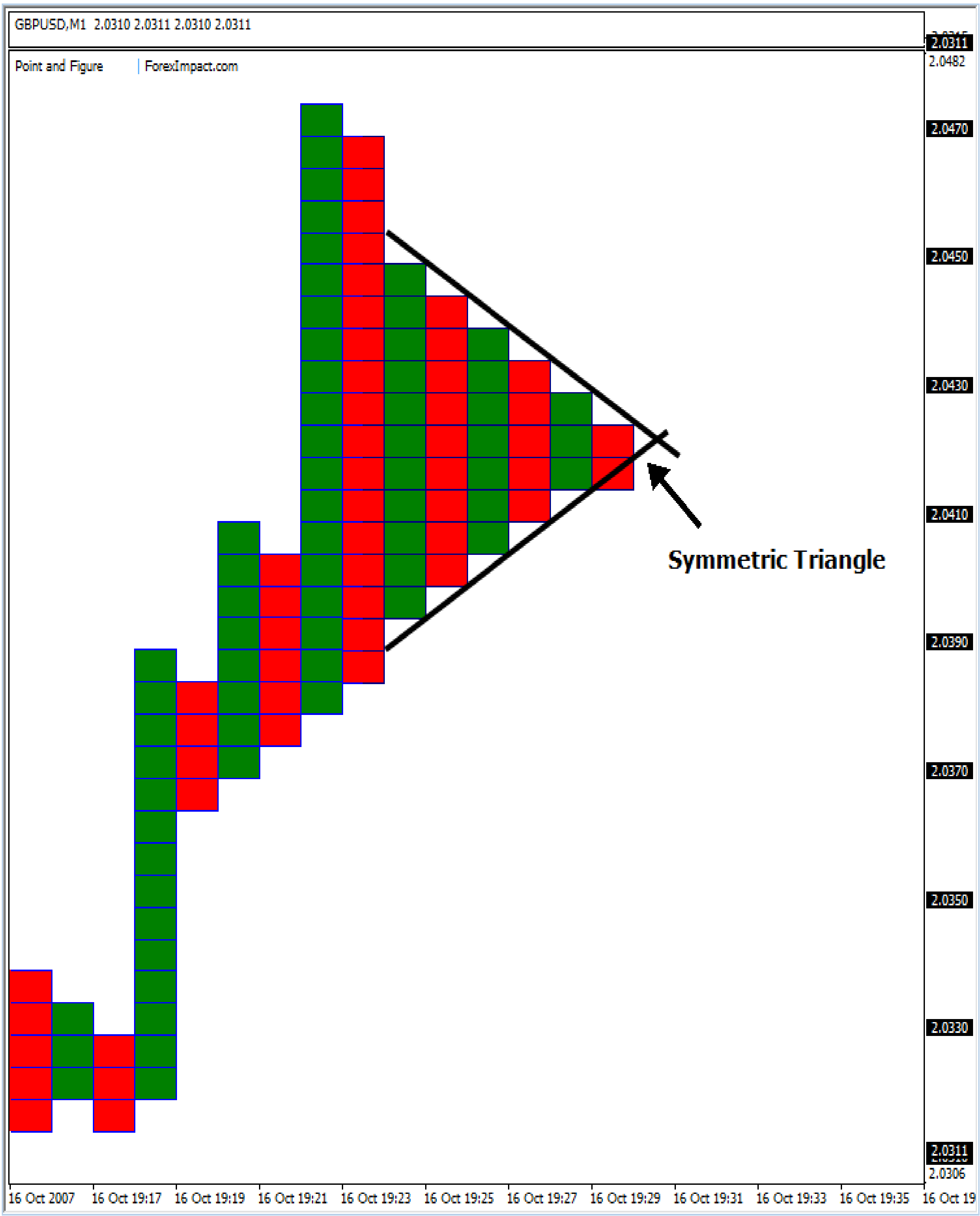
We are looking for the market to create a symmetric triangle (although the triangle will almost never be *perfectly* symmetrical) to go short one box beyond the bottom trend line.

This chart pattern is the seventh most common, but the sixth most profitable trading formation.



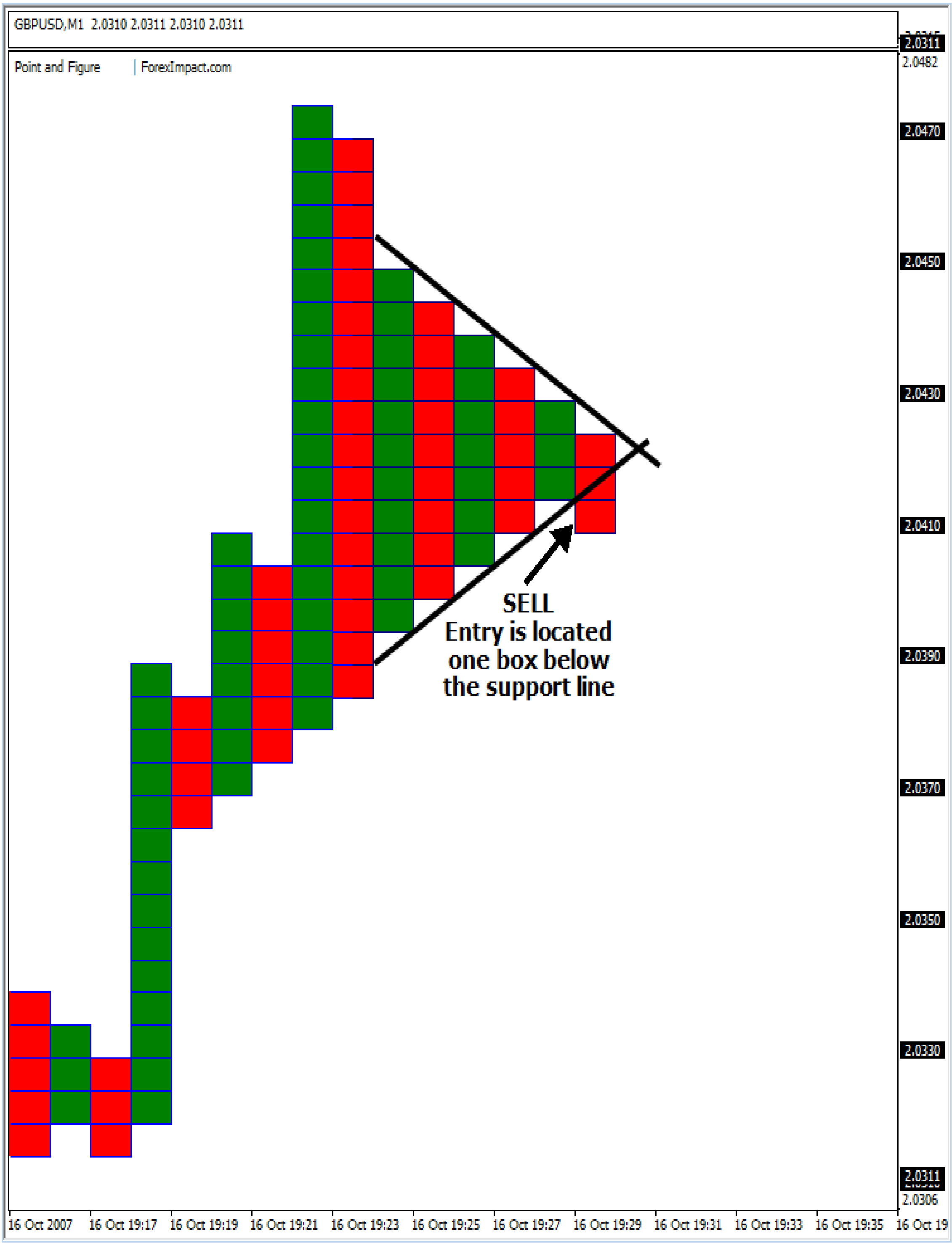
Short Symmetric Triangle Setup:

The setup for the Short Symmetric Triangle consists of having an upper trend line and a lower trend line that intersect. A symmetric triangle occurs when the market is making lower highs and higher lows, which means the market is consolidating.



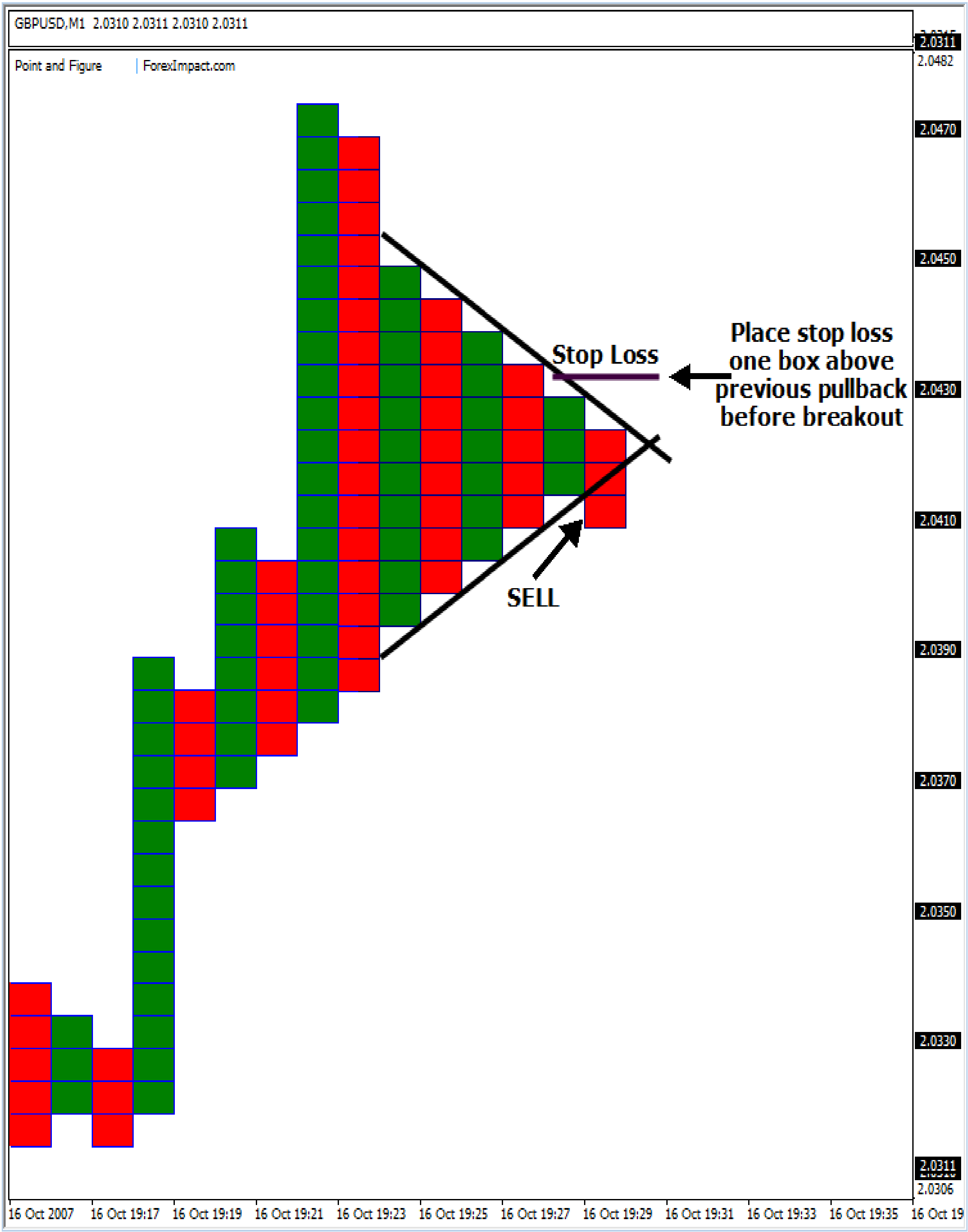
Short Symmetric Triangle Entry:

The entry for the Short Symmetric Triangle is one box below the support trend line.



Short Symmetric Triangle Stop Loss:

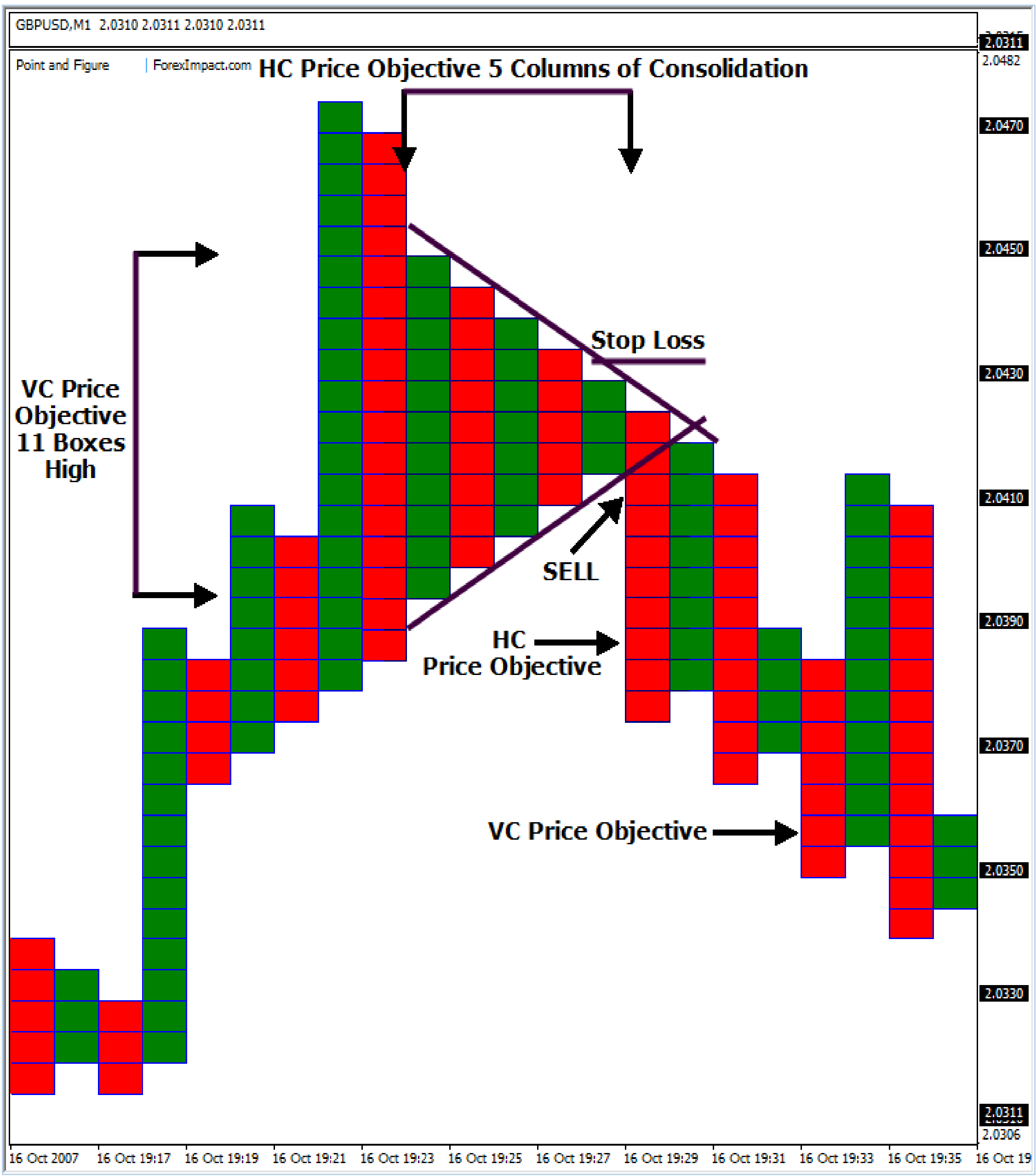
The stop loss is located one box above the previous pullback's high. Another stop loss location is one box above the resistance trend line of the column for the breakout.



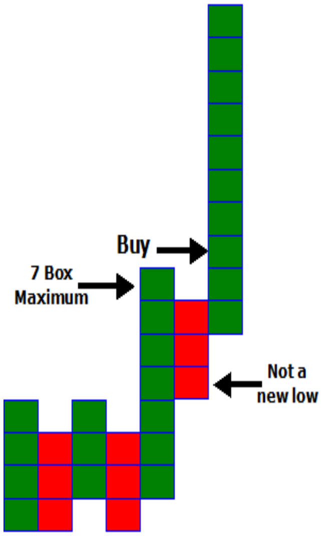
Short Symmetric Triangle Price Objective:

The horizontal count price objective had five columns of consolidation before the breakout; therefore the HC Price Objective is five boxes below the entry. The 2nd HC Price Objective is 25 boxes above the entry (5 Columns of Consolidation multiplied by a box size of 5).

The vertical count price objective is eleven because there are eleven vertical boxes within the consolidation area.



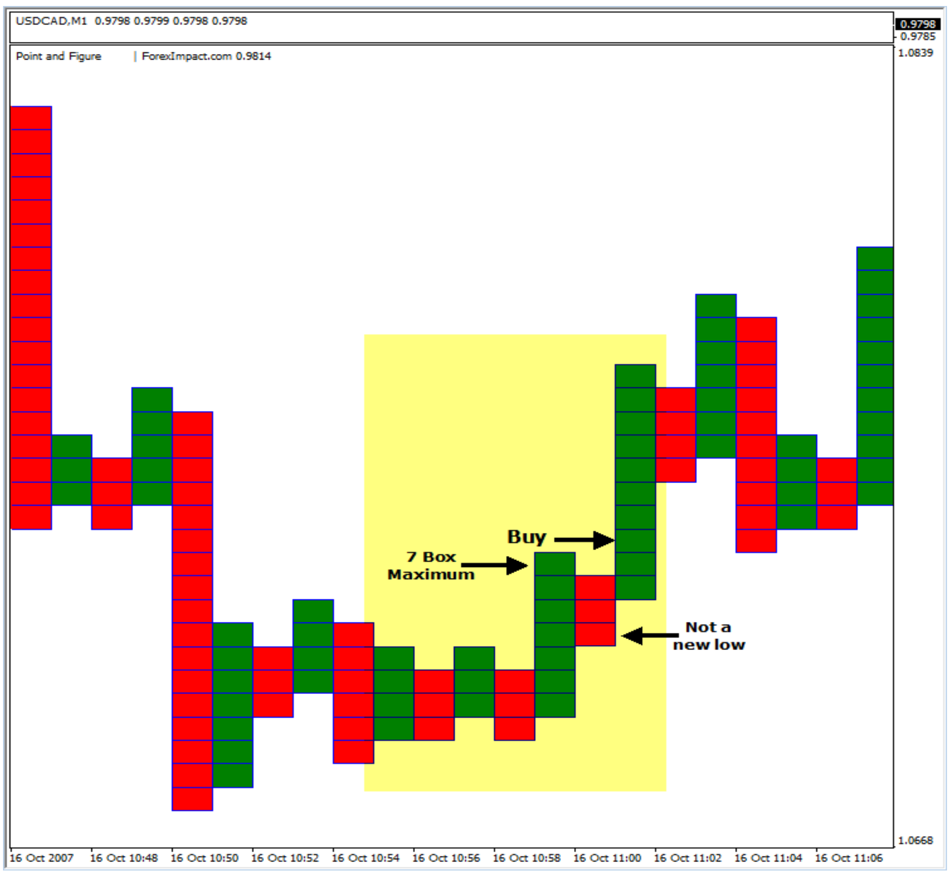
The Bullish Catapult Pattern



The Bullish Catapult chart pattern occurs when the market has had a small breakout above an area of resistance and then pulled back, but did not create a new low during the pullback. At this point if the market continues higher above the previous high the upward move should continue.

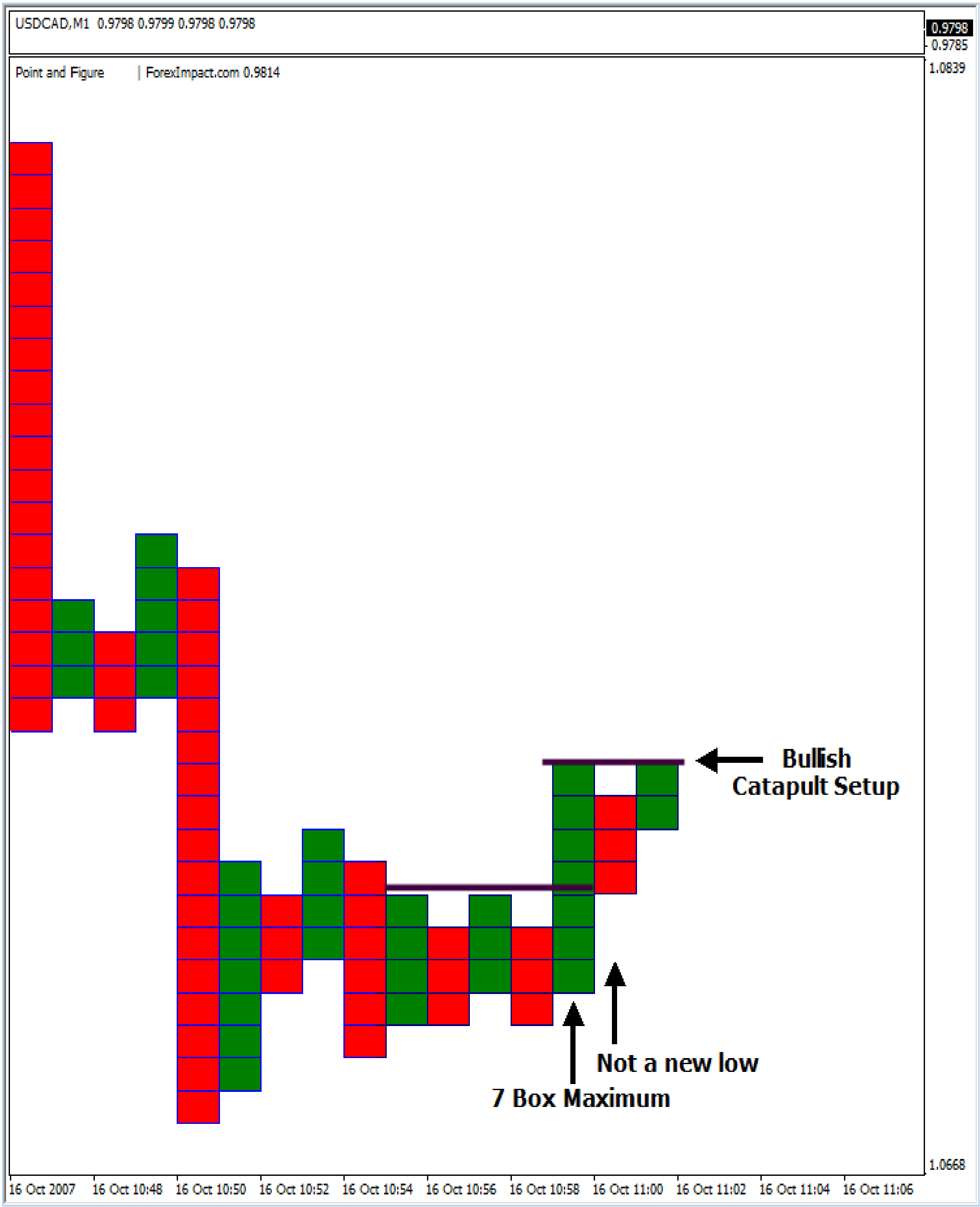
We are going to go long one box above the previous high, but the column where the previous high occurred cannot be more than seven boxes high. (This ensures that the initial breakout was a small one.) The pullback cannot create a new low as this ensures that the breakout will continue.

Our testing has shown that the Bullish Catapult is the sixth most common chart pattern and the seventh most profitable.



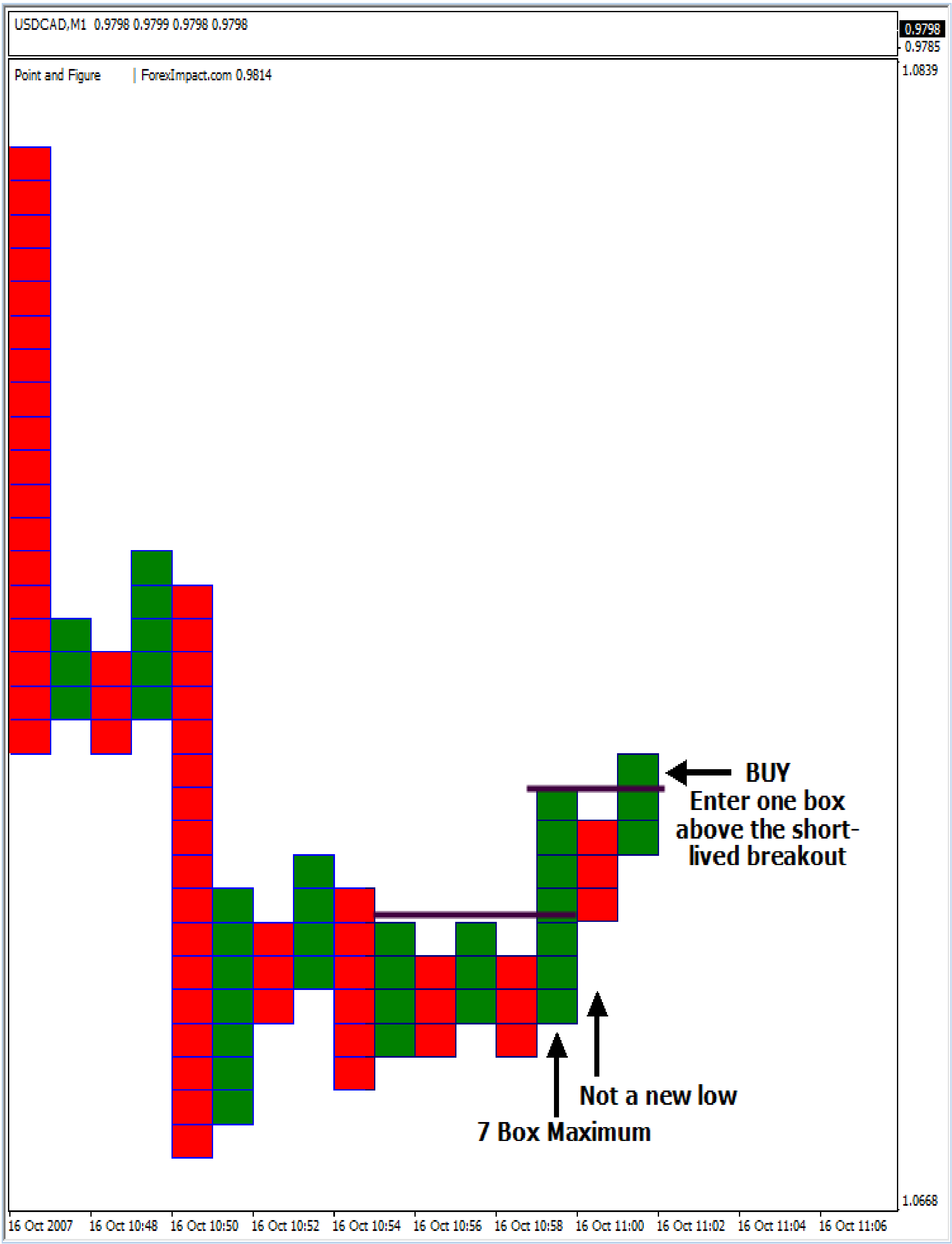
Bullish Catapult Setup:

The setup for the Bullish Catapult occurs when there is a short-lived breakout (less then 7 boxes) that is followed by a pullback that does not create a new low. Then the market moves up to the previous short-lived breakout high.



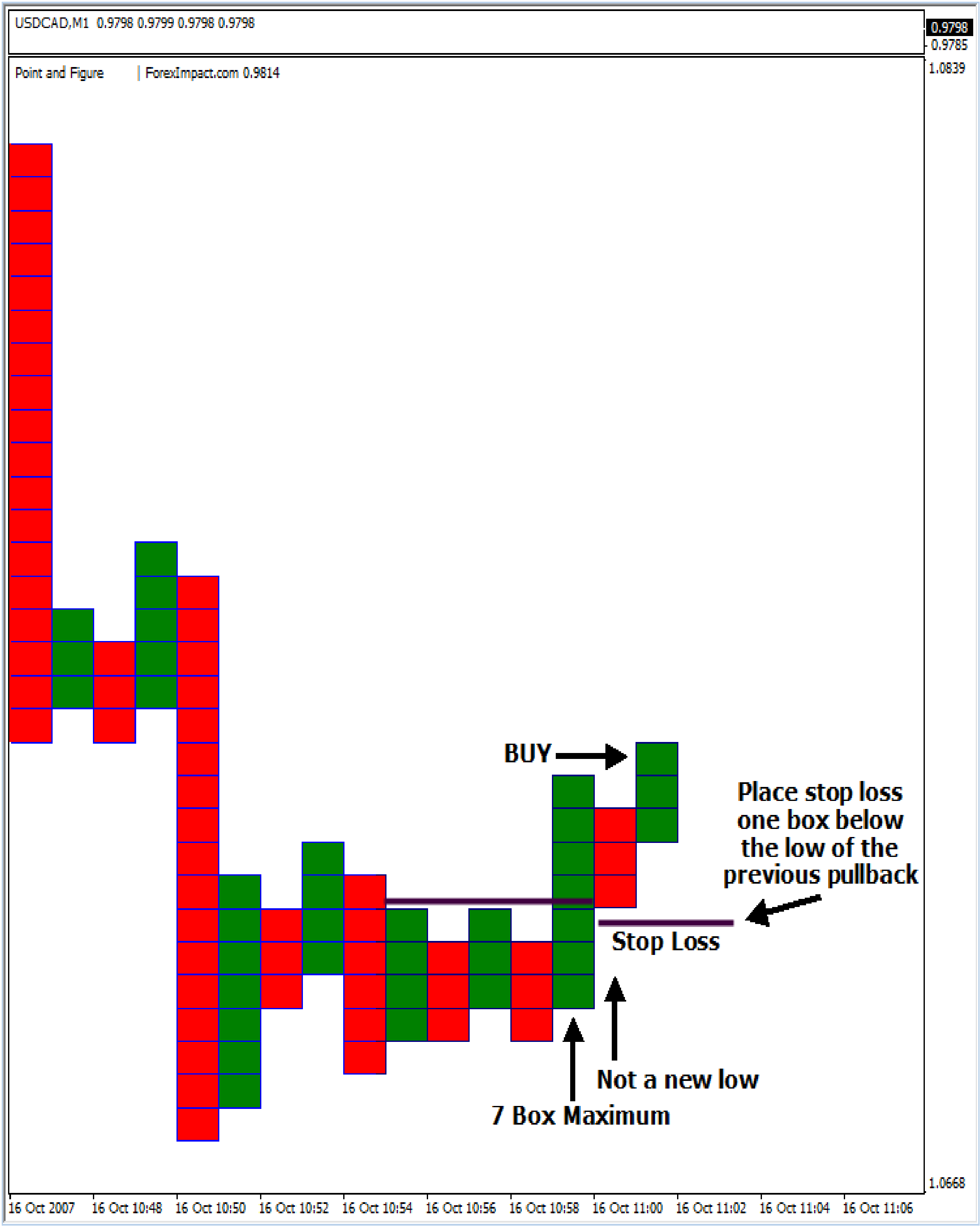
Bullish Catapult Entry:

The entry for the Bullish Catapult is one box above the high of the previous short-lived (less than 7 boxes) breakout high.



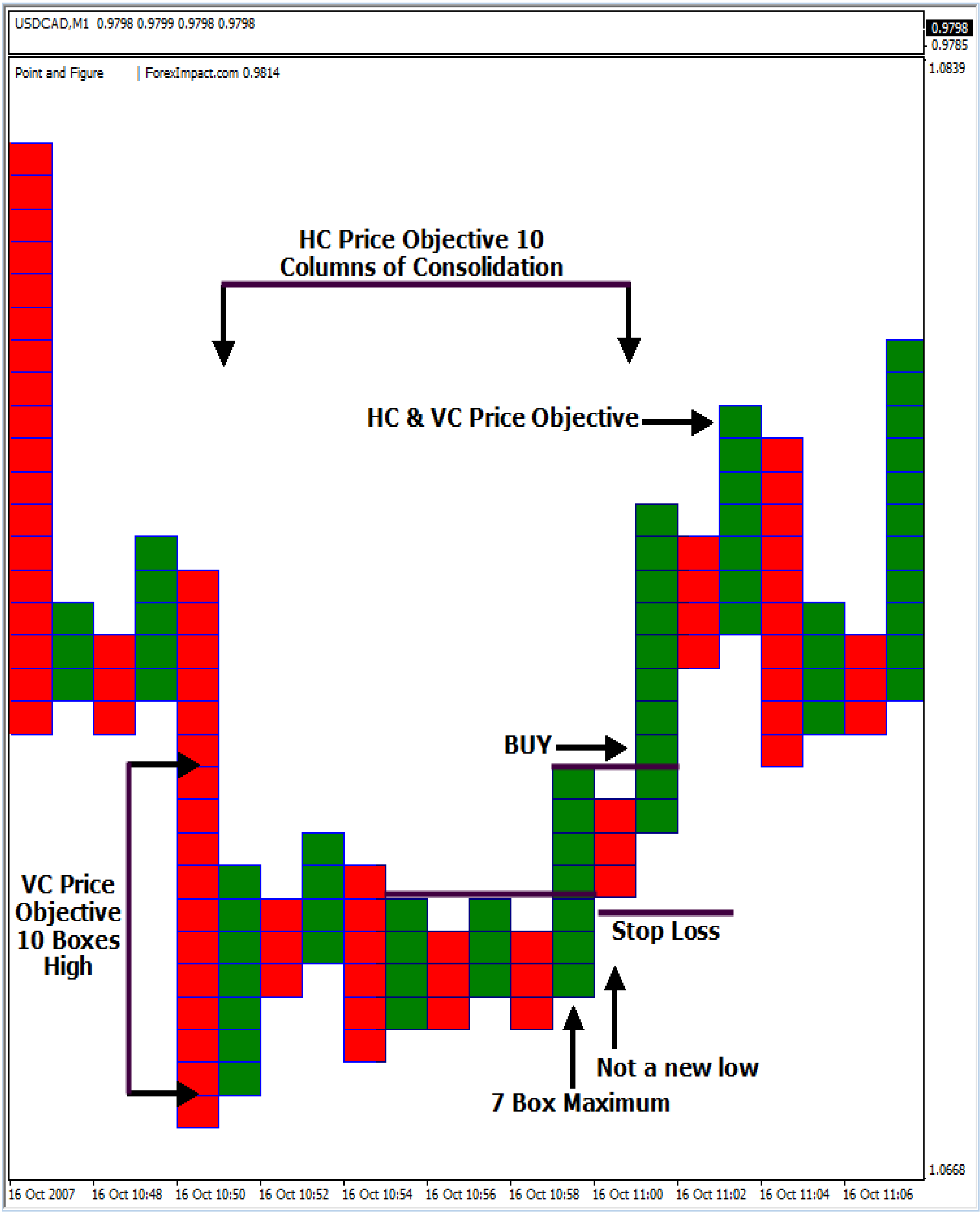
Bullish Catapult Stop Loss:

The stop loss is placed one box below the low of the previous pullback. This pullback is between the short-lived breakout and the current breakout.

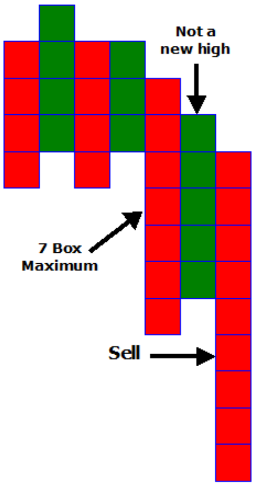


Bullish Catapult Price Objective:

In the example below, the horizontal count price objective was ten because there were ten columns of consolidation for the breakout. The vertical count price objective was also ten because there were ten boxes vertically within the consolidation area.



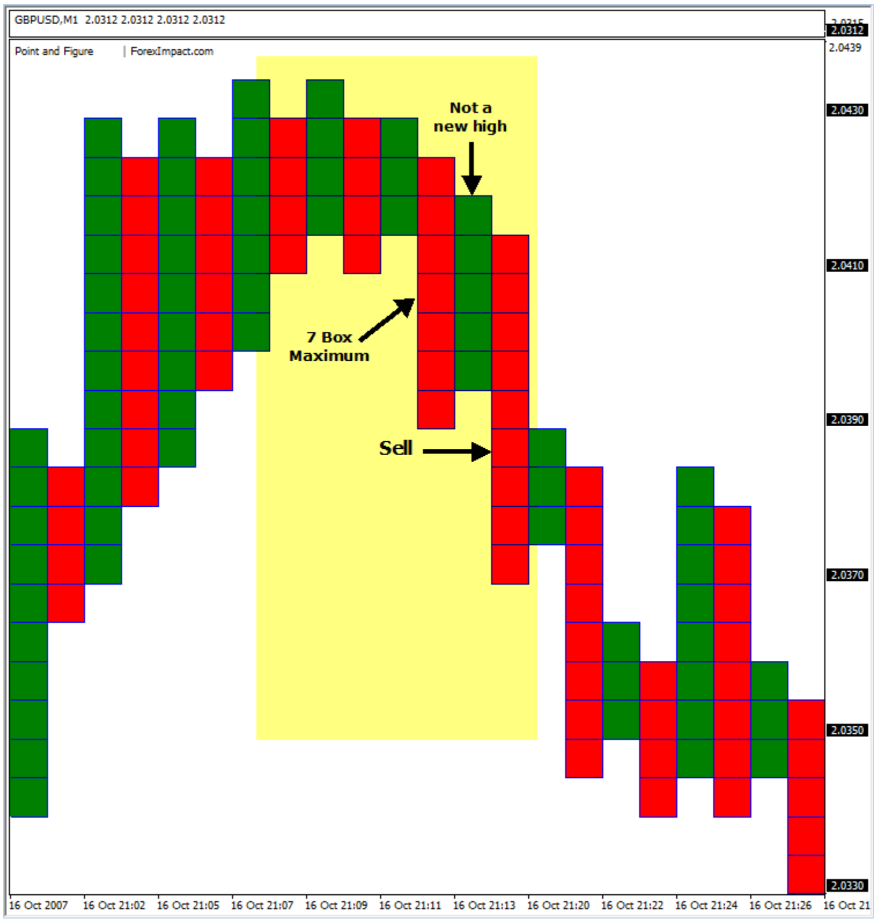
The Bearish Catapult Pattern



The Bearish Catapult chart pattern represents when the market has had a small breakout below an area of support and then pulled back, but did not create a new high during the pullback. At this point if the market continues lower below the previous low the downward move should continue.

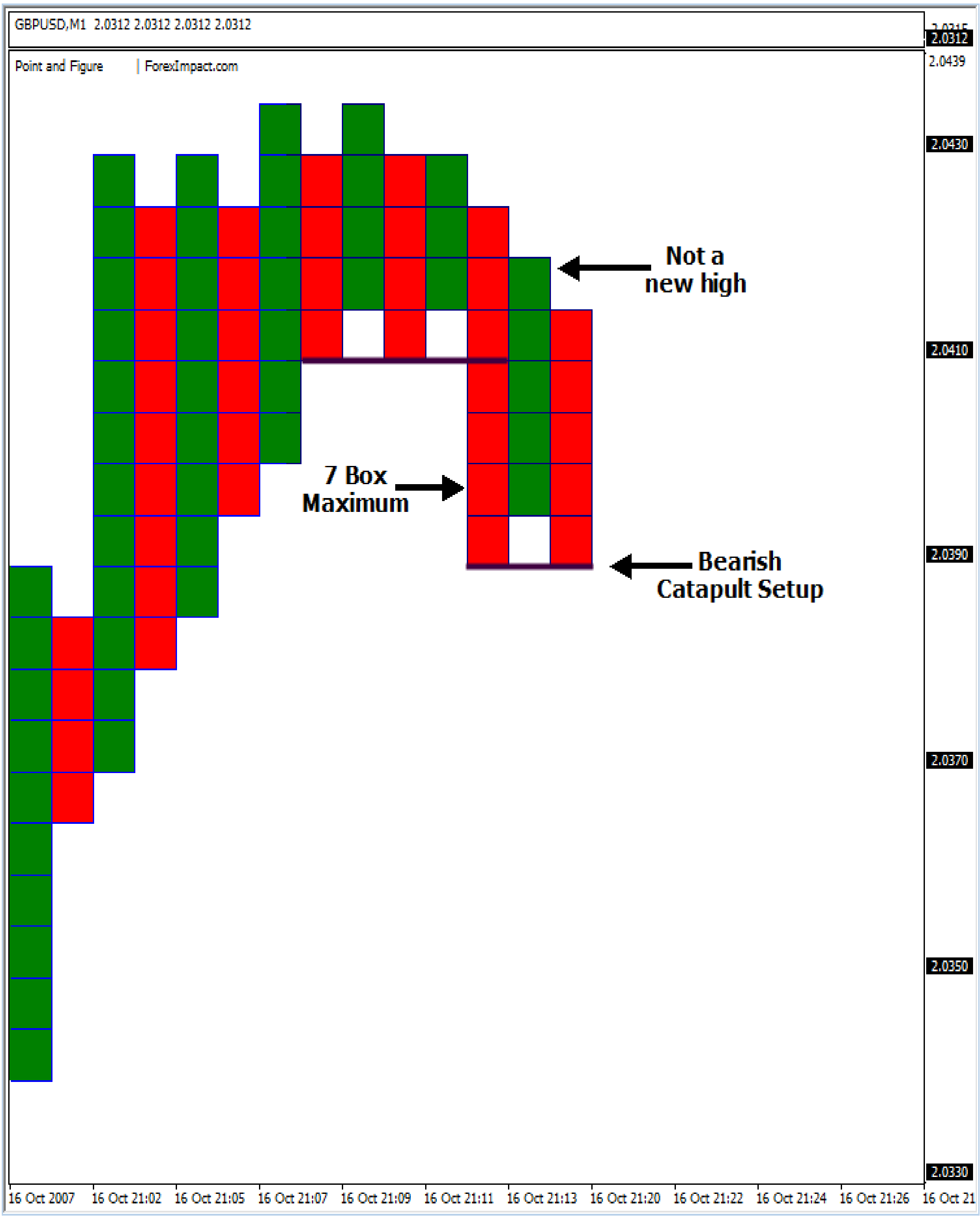
We are going to go short one box below the previous low. The column where the previous low occurred can not be more than seven boxes vertically. This will insure that the initial breakout was a small one. The pullback can not create a new high, this helps insure that the breakout will continue.

Our testing has shown that the Bearish Catapult is the sixth most common chart pattern and the seventh most profitable.



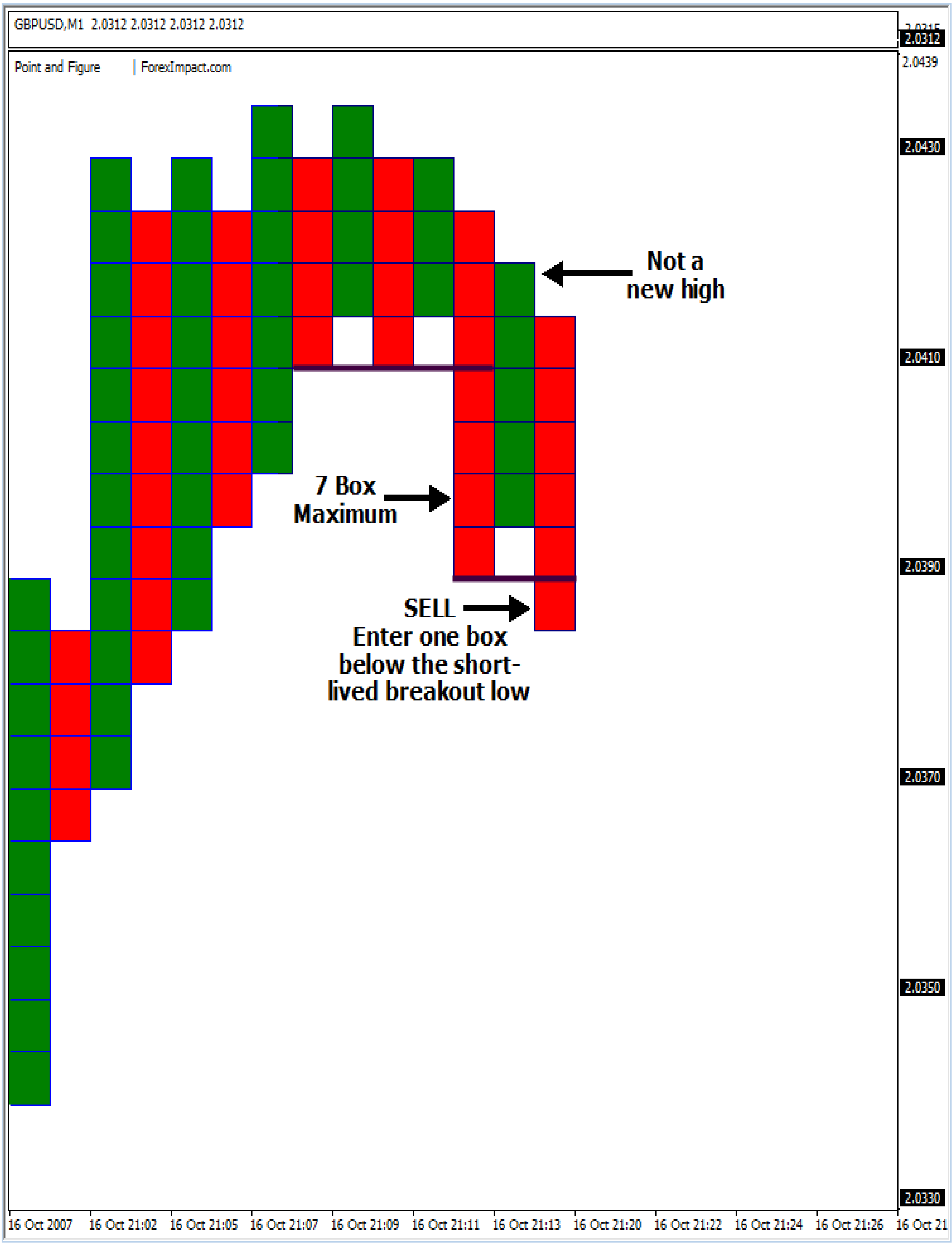
Bearish Catapult Setup:

The setup for the Bearish Catapult occurs when there is a short-lived breakout (less then 7 boxes) that is followed by a pullback that does not create a new high. The market then moves down to the previous short-lived breakout low.



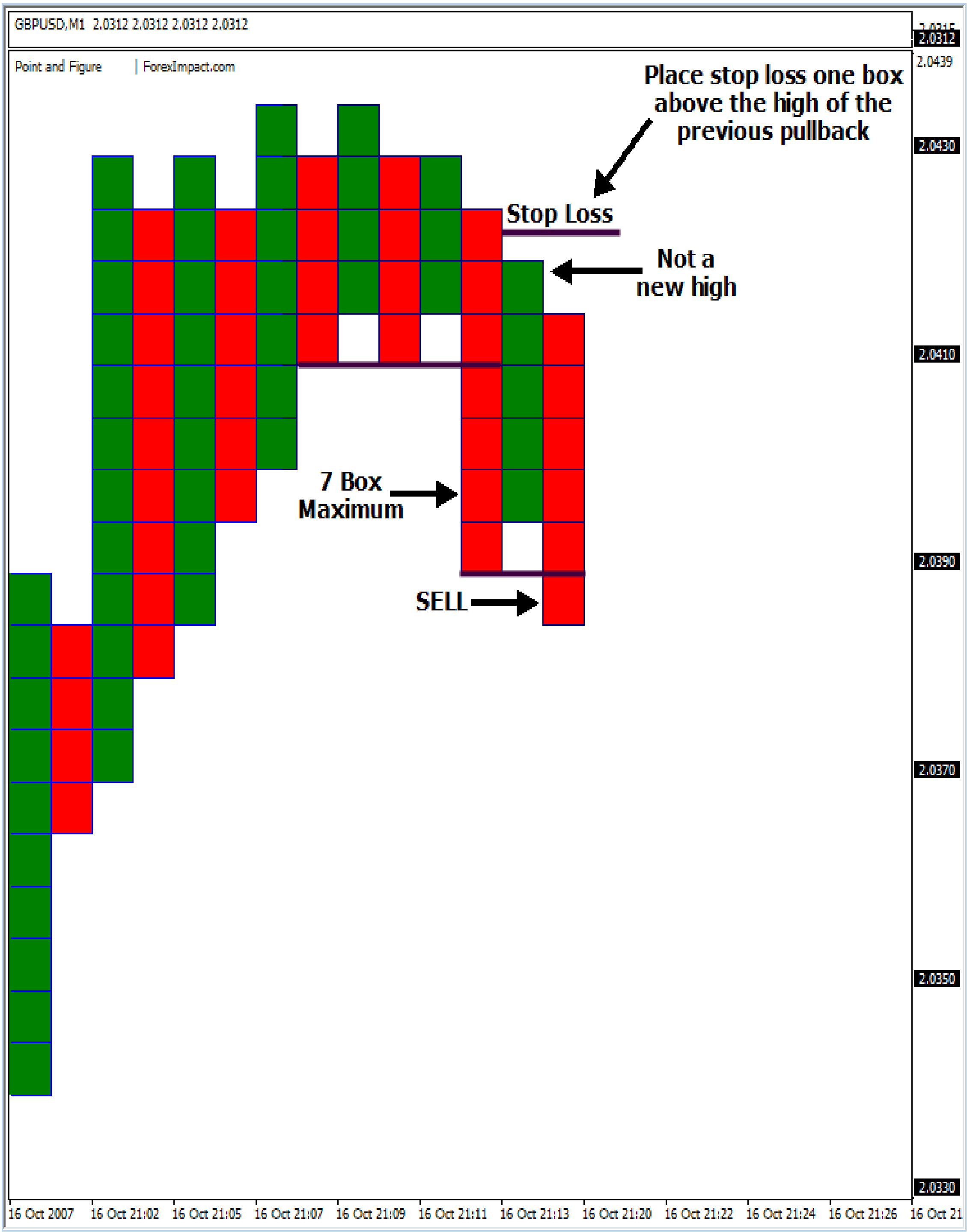
Bearish Catapult Entry:

The entry for the Bearish Catapult is one box below the low of the previous short-lived (less than 7 boxes) breakout low.



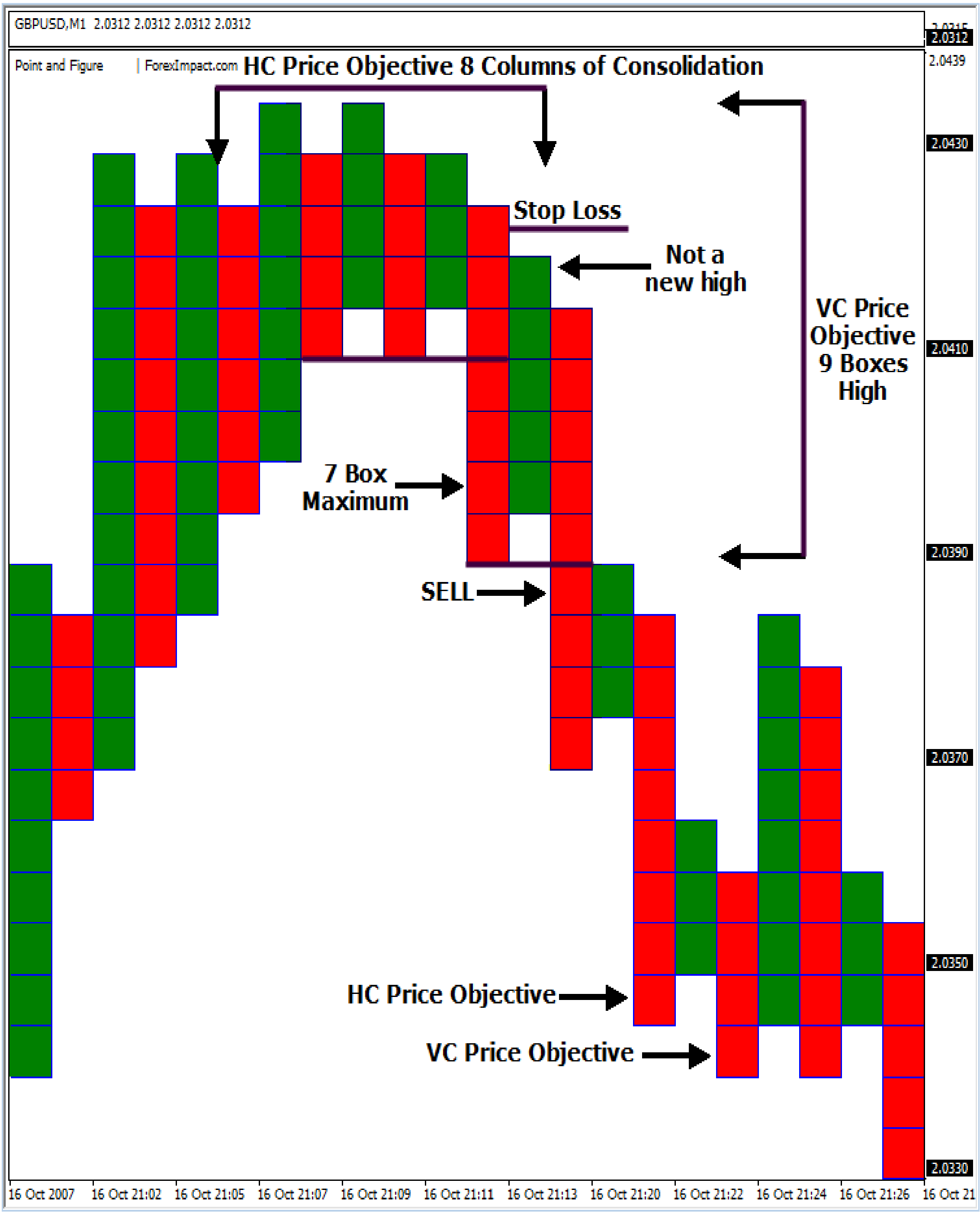
Bearish Catapult Stop Loss:

The stop loss is placed one box above the high of the previous pullback. This pullback is between the short-lived breakout and the current breakout.

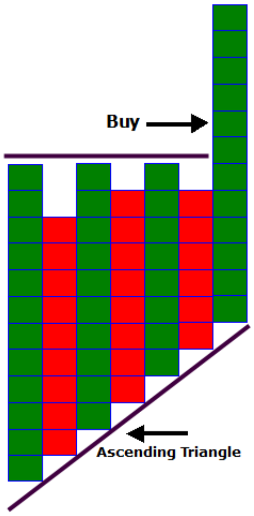


Bearish Catapult Price Objective:

In the example below, the horizontal count price objective was eight because there were eight columns of consolidation for the breakout. The vertical count price objective was nine because there were nine boxes vertically within the consolidation area.



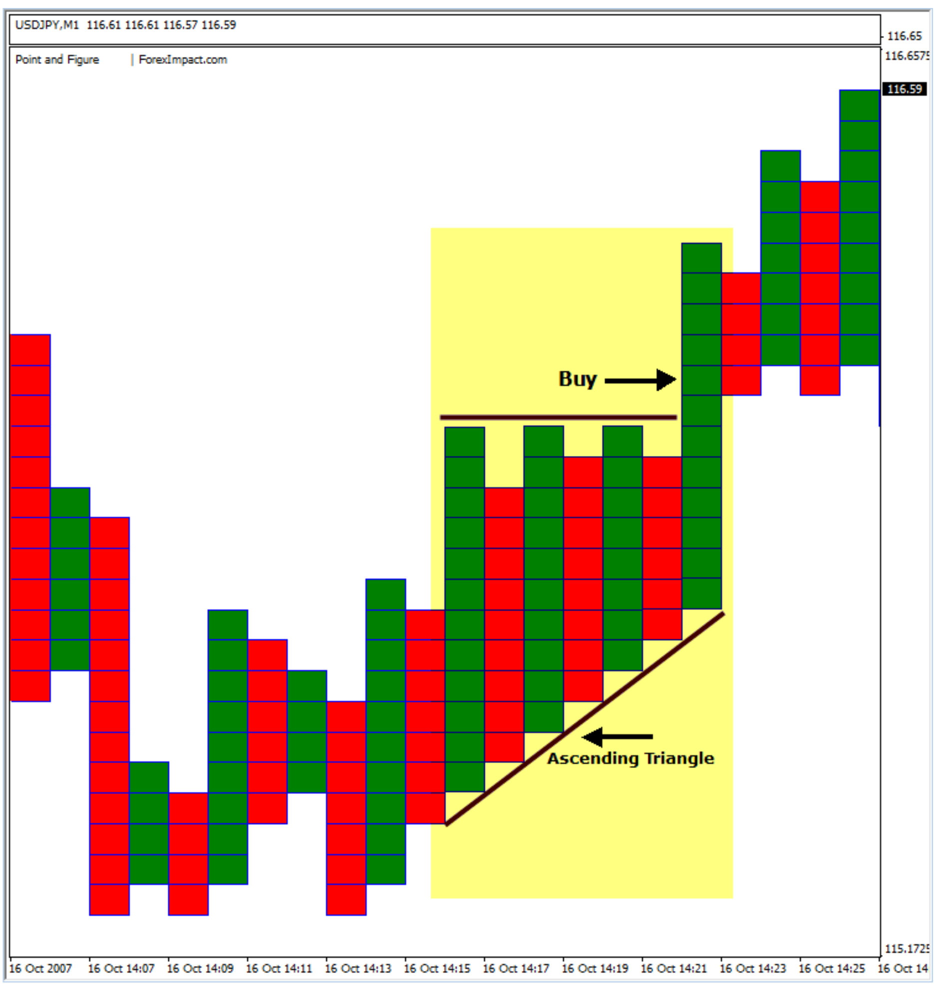
The Ascending Triangle Pattern



The Ascending Triangle chart formation occurs when the market has found a resistance level and is making higher lows to consolidate up to the resistance line. This is a good area for a breakout to occur.

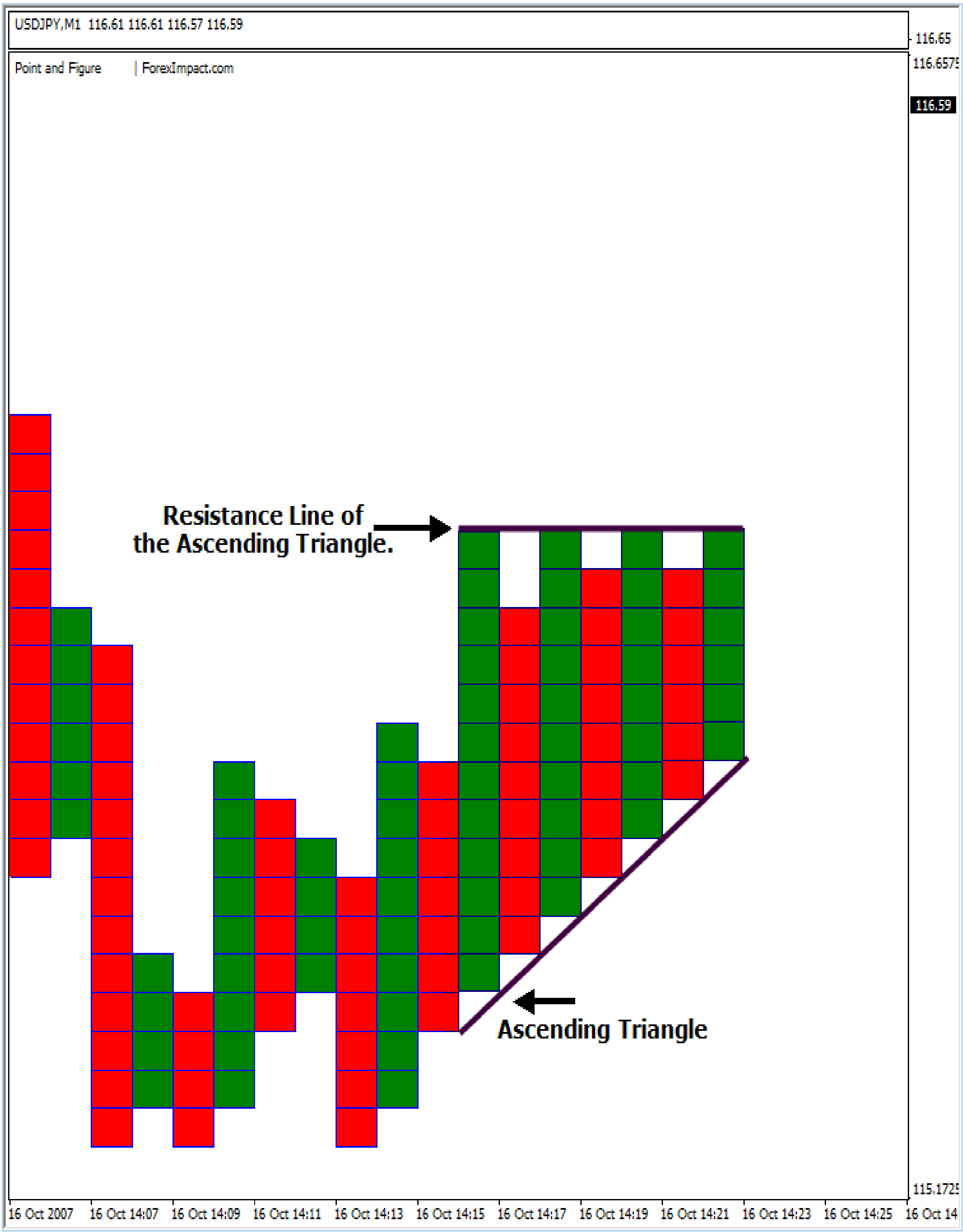
We are looking to go long two boxes above the previous high which is above the trend line.

The Ascending Triangle is the least common and least profitable charting pattern, but this is not to say that it is not profitable or that it shouldn't be traded.



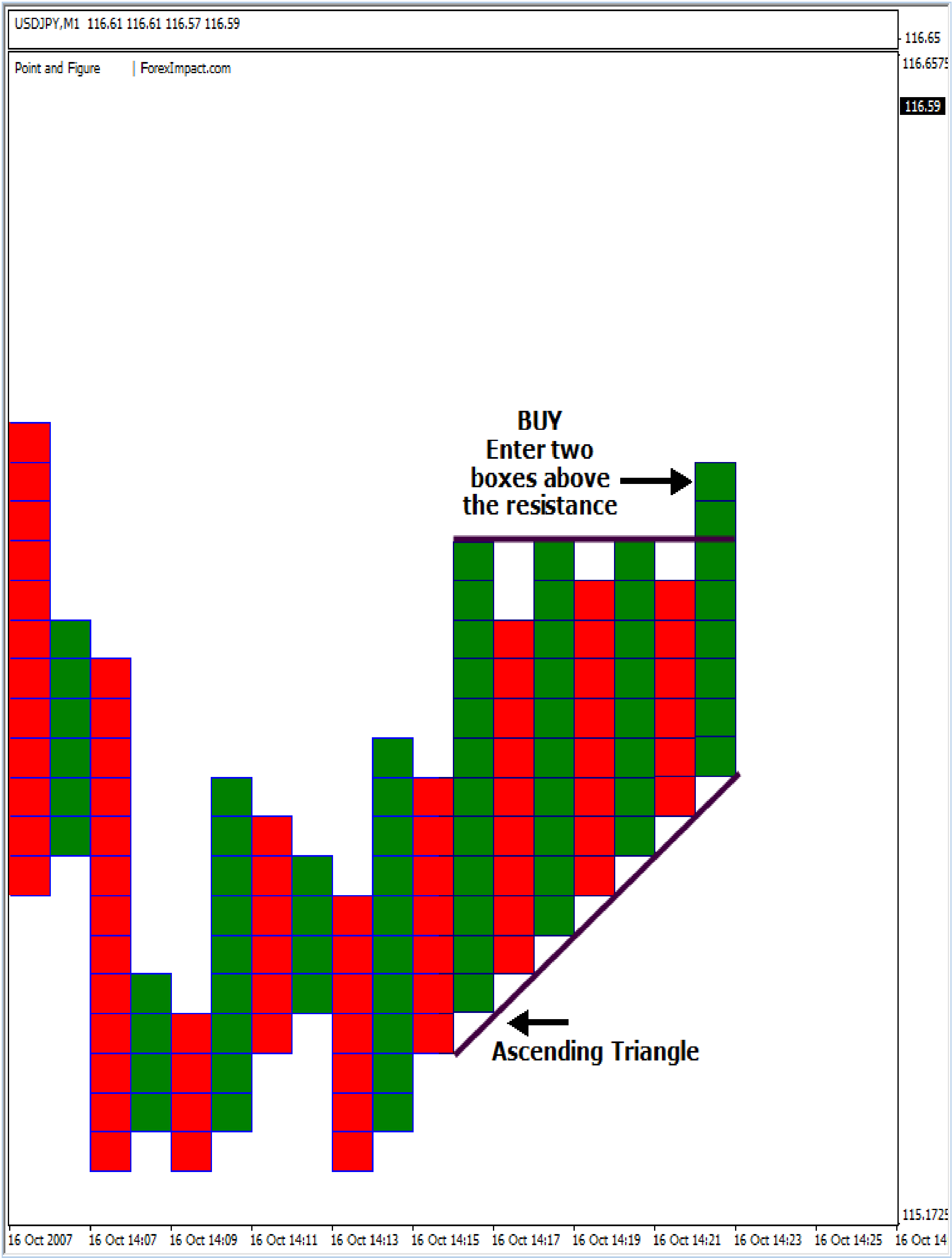
Ascending Triangle Setup:

The setup for the Ascending Triangle occurs when a resistance area forms over several columns as the high is tested over and over. Over the same area, the lows consistently become higher.



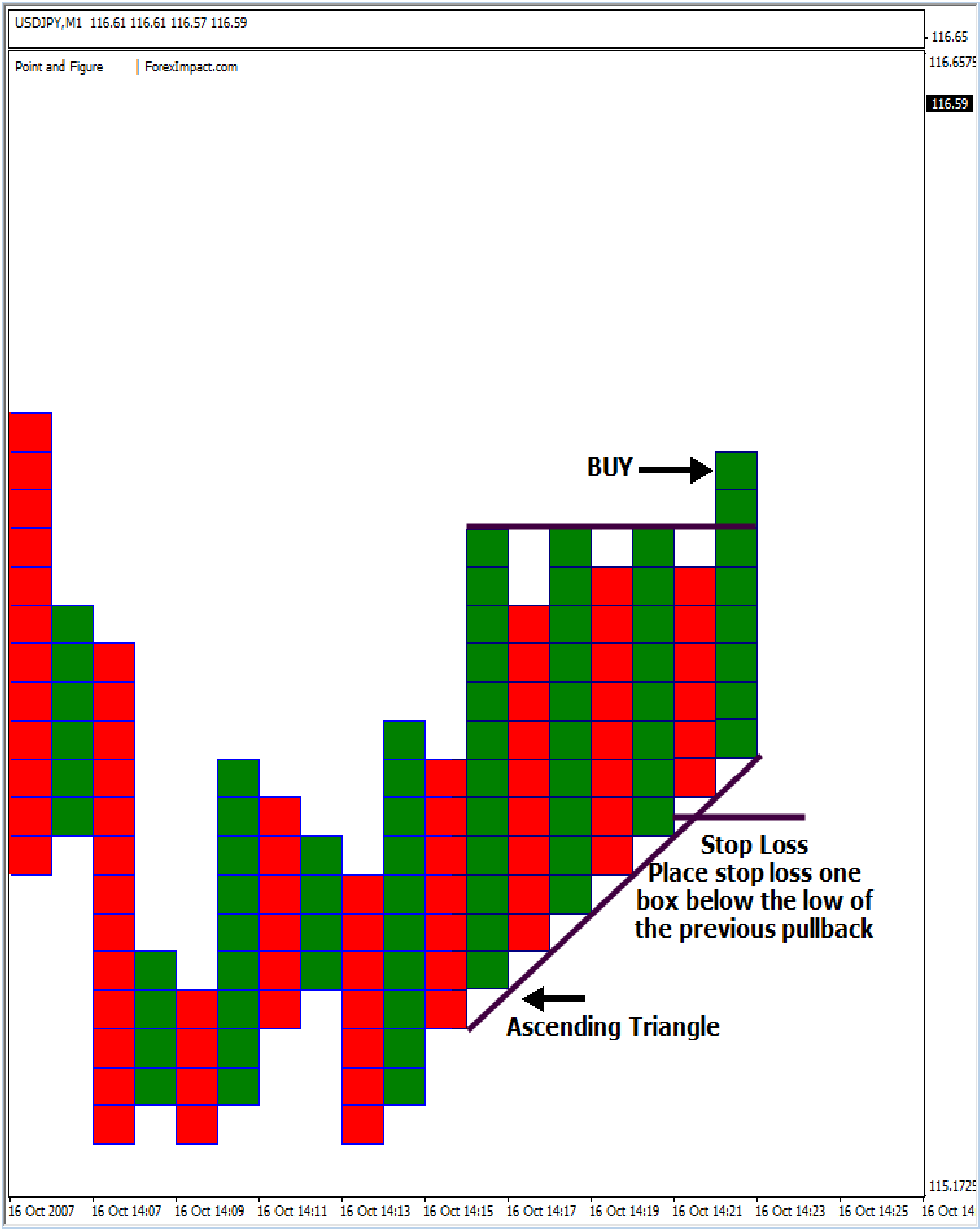
Ascending Triangle Entry:

The entry is triggered when the resistance line is broken by two boxes.



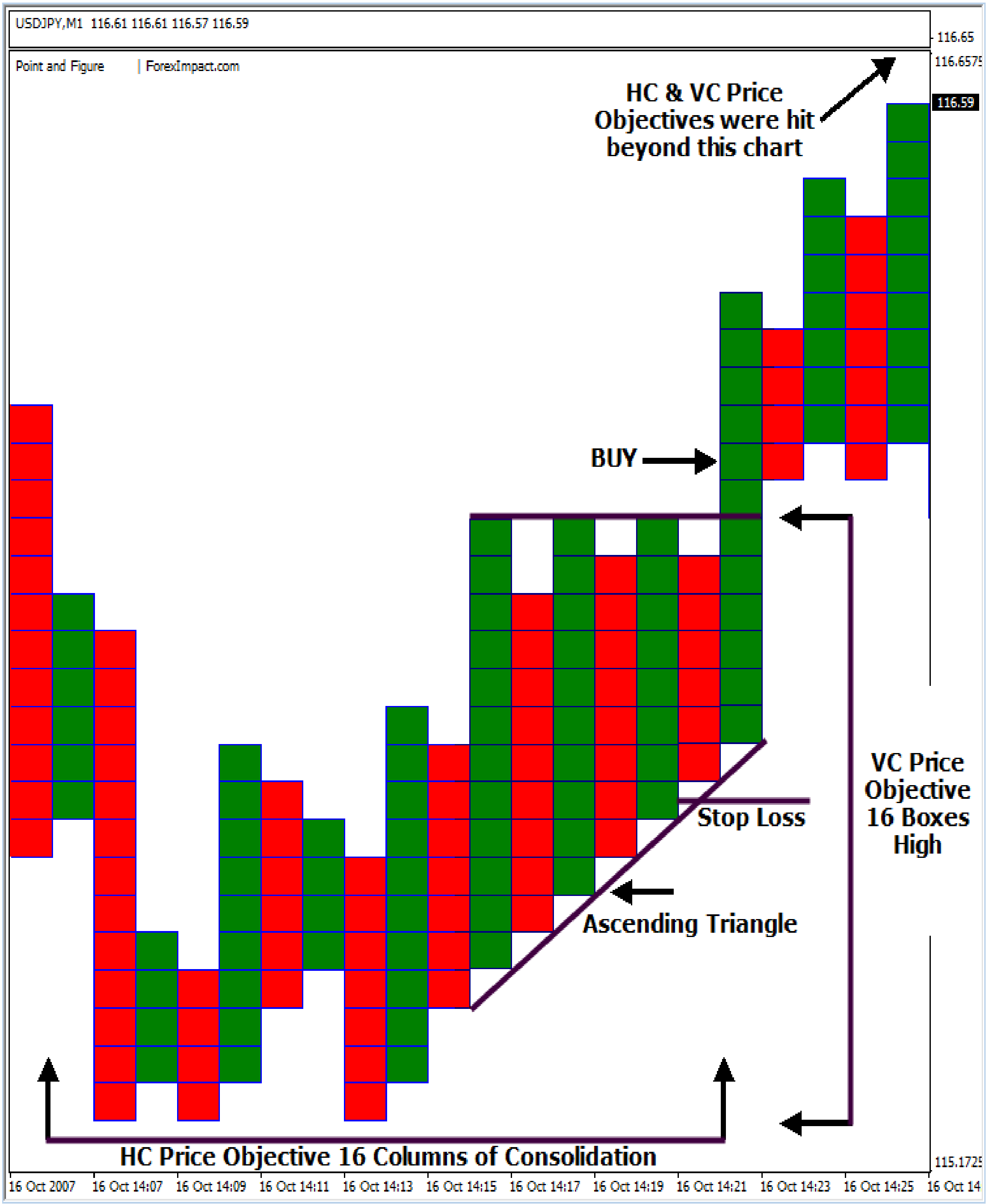
Ascending Triangle Stop Loss:

The stop loss for the Ascending Triangle is located below the low of the previous pullback. The stop loss can also be place below the ascending triangle trend line.

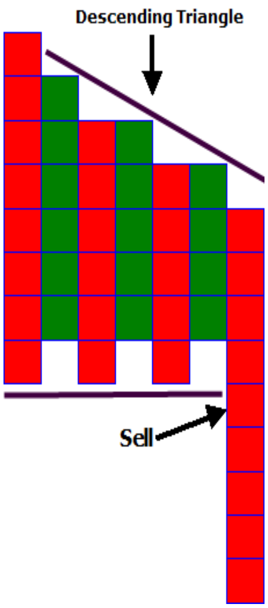


Ascending Triangle Price Objective:

Both the horizontal count price objective and the vertical count price objective were sixteen boxes. In the example below the chart does not show the price hit our objectives, but the chart does show a price objective of nine.



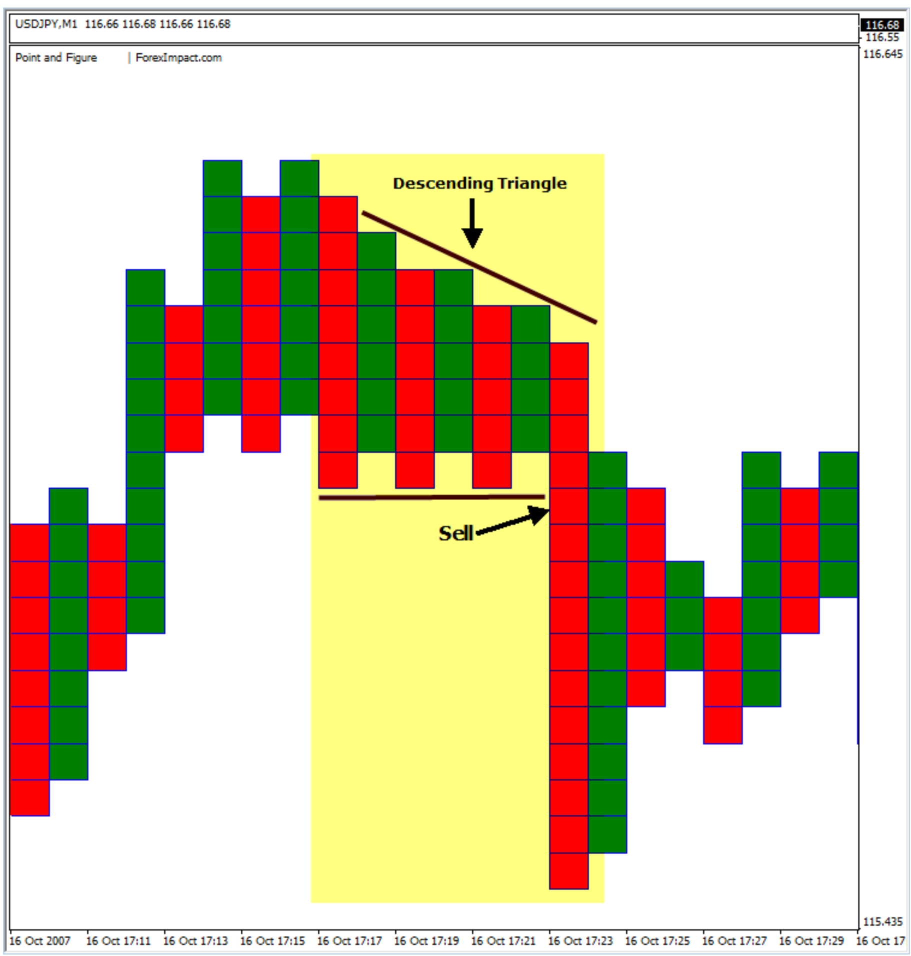
The Descending Triangle Pattern



The Descending Triangle chart formation occurs when the market has found a support level and is making lower highs to consolidate down to the support line. This is a good area for a breakout to occur.

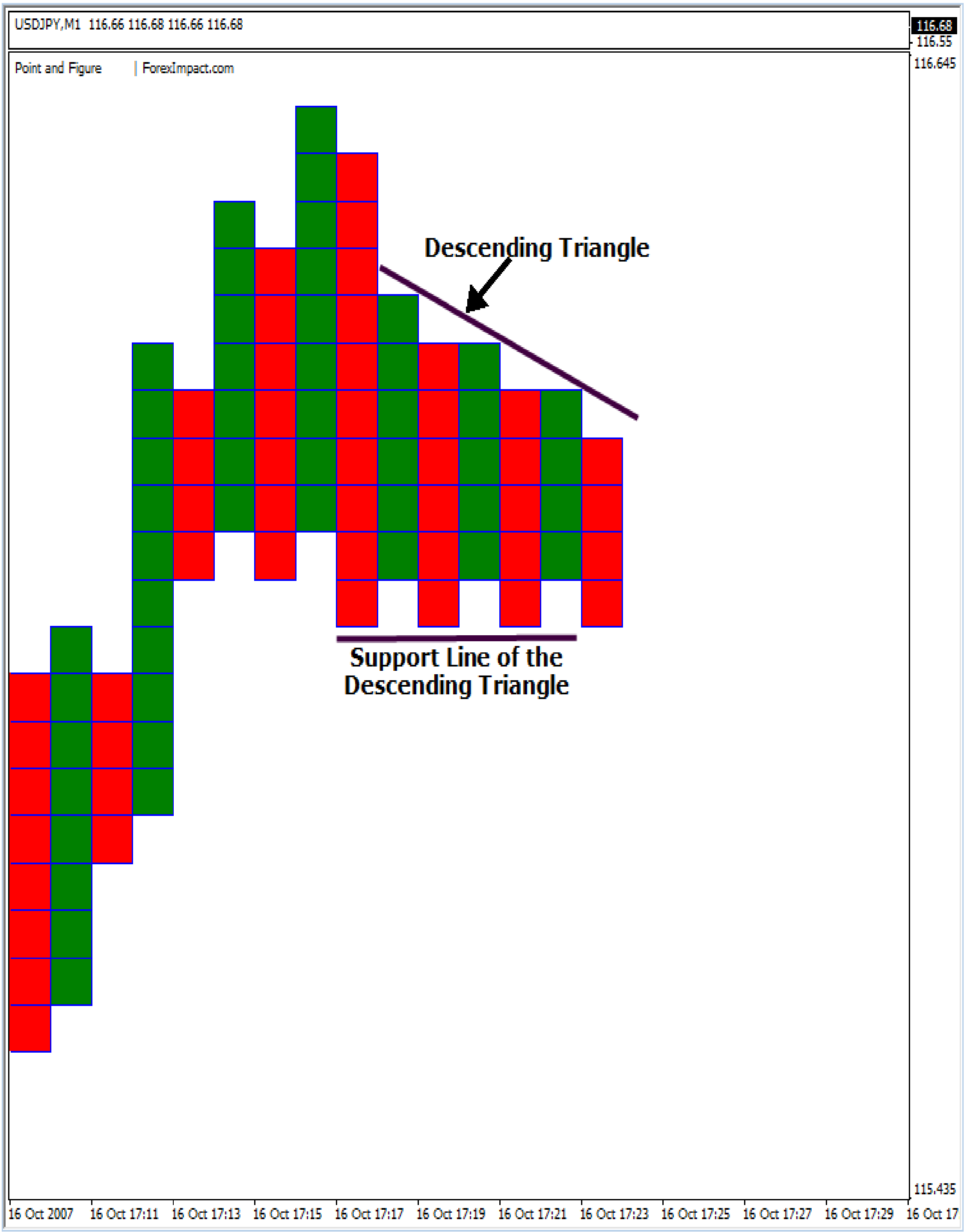
We are looking to go short two boxes below the previous low which is below the trend line.

The Descending Triangle is the least common and least profitable charting pattern, but this is not to say that it is not profitable or that it shouldn't be traded.



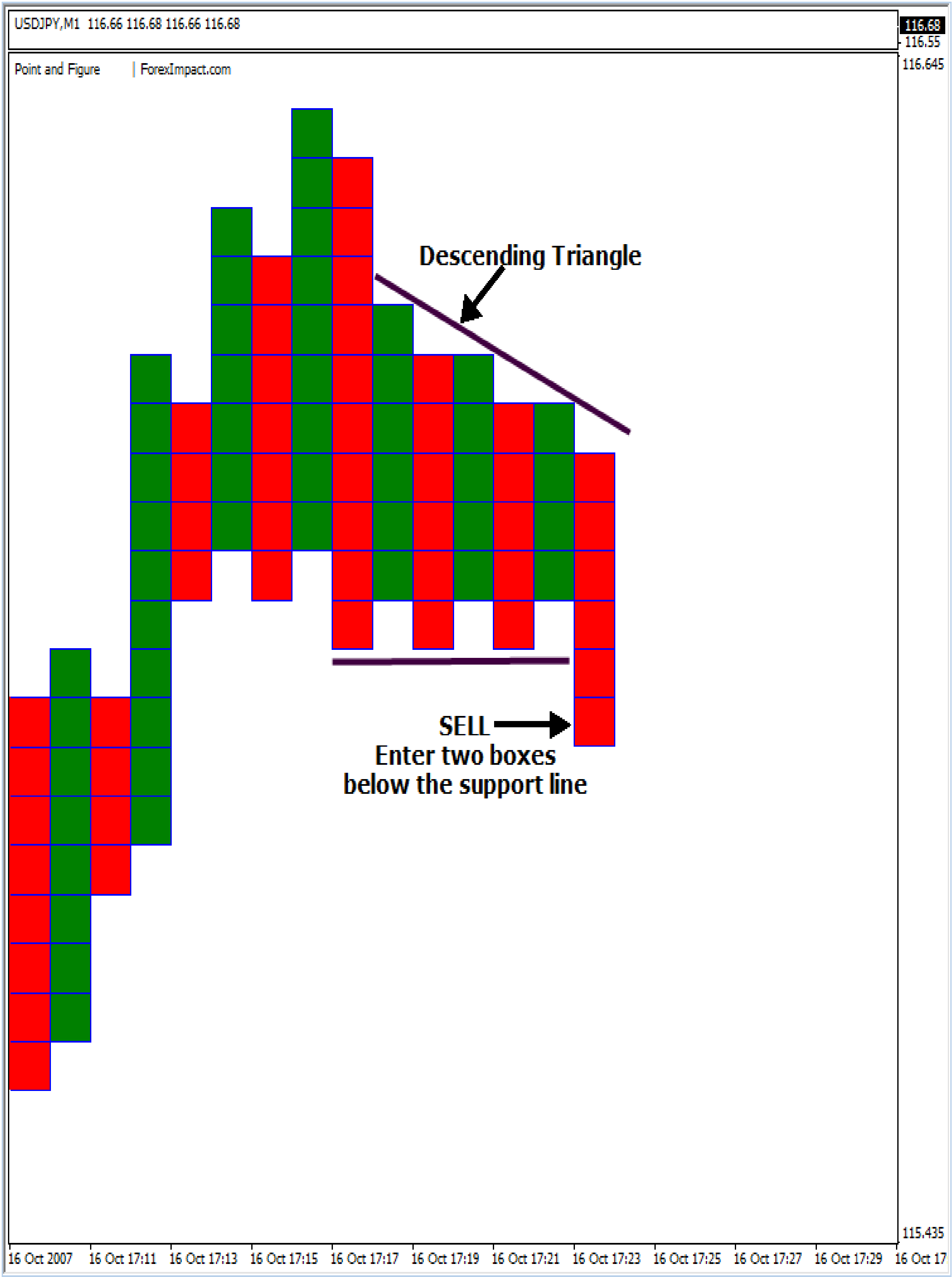
Descending Triangle Setup:

The setup for the Descending Triangle occurs when a support area forms over several columns as the low is continually tested. Over the same area, the highs consistently become lower.



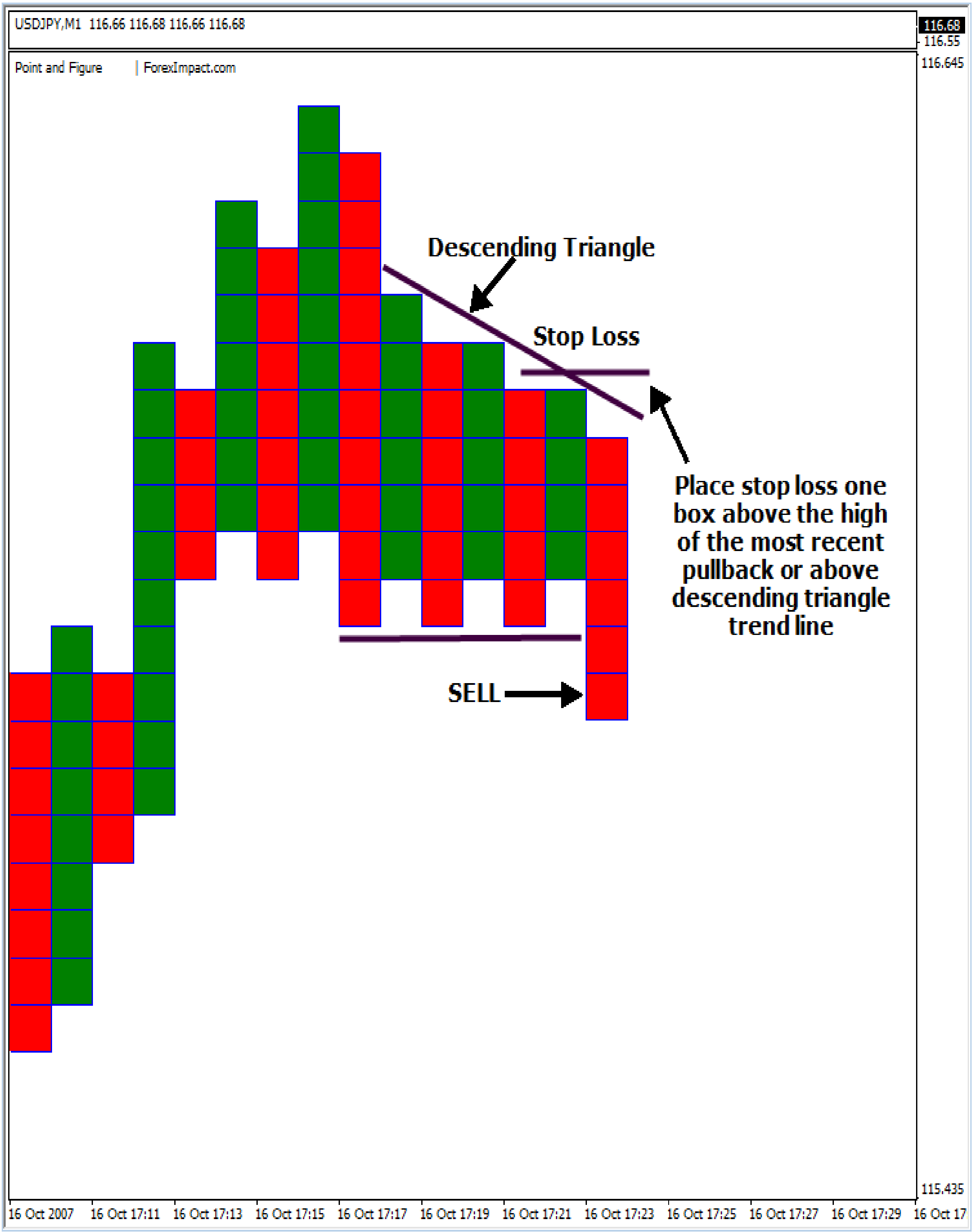
Descending Triangle Entry:

The entry is triggered when the support line is broken by two boxes.



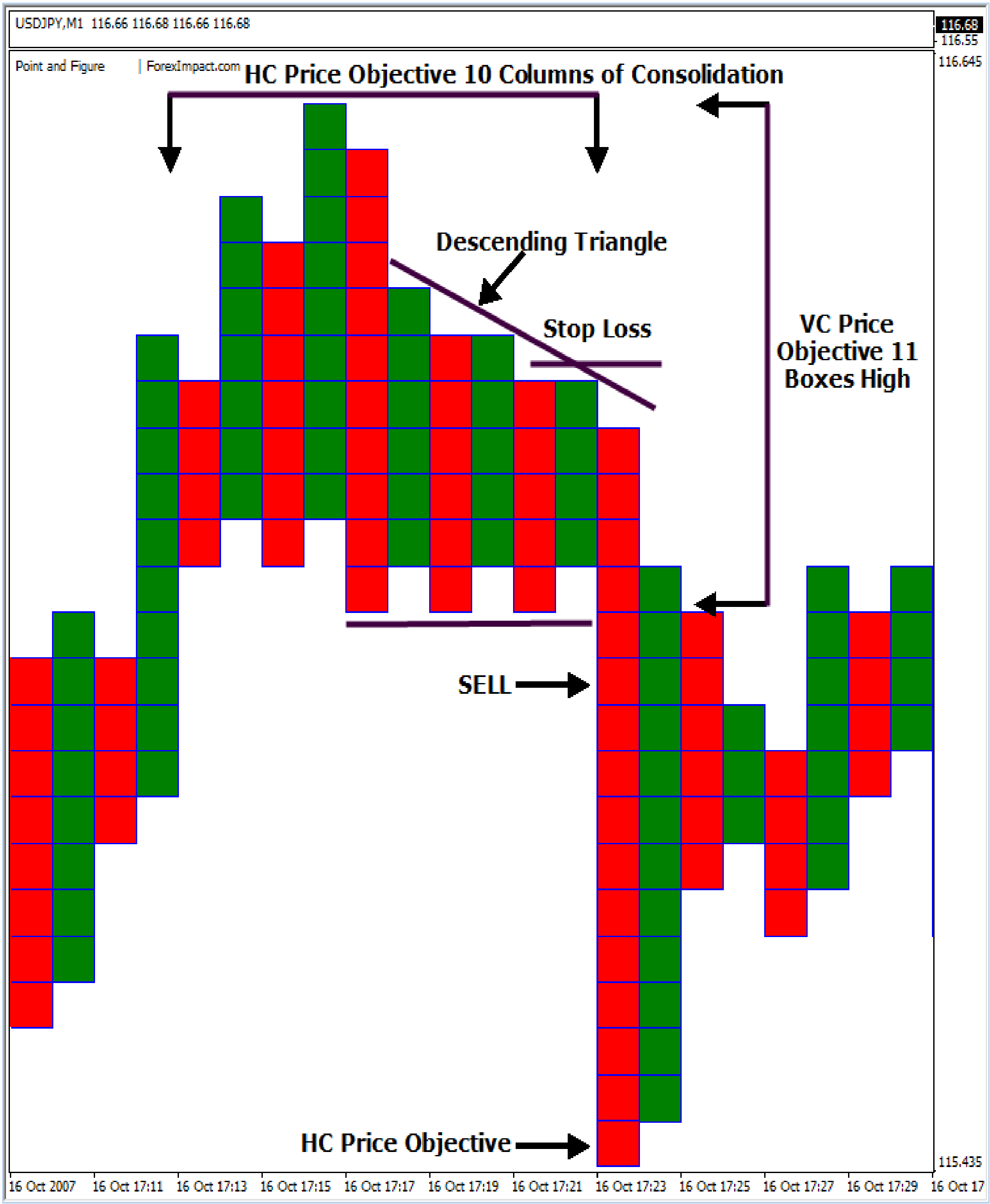
Descending Triangle Stop Loss:

The stop loss for the Descending Triangle is located above the high of the previous pullback. The stop loss can also be place above the descending triangle trend line.



Descending Triangle Price Objective:

The horizontal count price objective was ten boxes. The vertical count price objective was eleven boxes. In the example below, the chart does not show the price hit the VC Price Objective but it does show the HC Price Objective.



Final Thoughts

Point and figure charts have a long and powerful history and this history is supported by a system of trading that just flat out *works!* It first worked in the stock market. Then, it was discovered that it also worked in the futures and commodities markets. But in recent years with the advent of computers, this form of trading has largely been lost to the more colorful exciting indicators of the computer age.

Recently, the question was asked: *Does Point and figure charting work in the Forex market?* Yes, point and figure charts work in the Forex market as a trading system. In fact it works better in the Forex than in other market, because of the large swings that the Forex market provides.

There is one more advantage to trading point and figure that I want to share with you, and this is a biggie so please pay close attention…

If you are confused about where to place your stop losses or how to calculate and use the price objectives, **don't worry**! From my trading and testing I have done, all you have to do is trade every pattern when it comes along (both long and short) and you will be profitable. Yes, that's right **no stop loss or price objectives used and you will still be more profitable than your average mutual fund manager.**

So, due to the long history of success of Point & Figure charting, the dynamics of the Forex market, and the simplicity of uses, this form a trading is very robust and should enjoy longevity unlike any other system out there.

Now, I invite you to stop reading and to START DOING! And as always, I wish you…

Good trading,

Jason Fielder