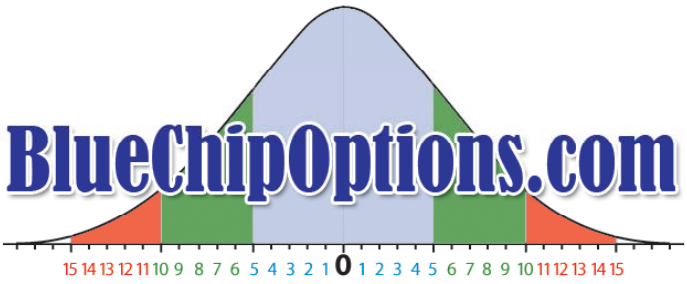


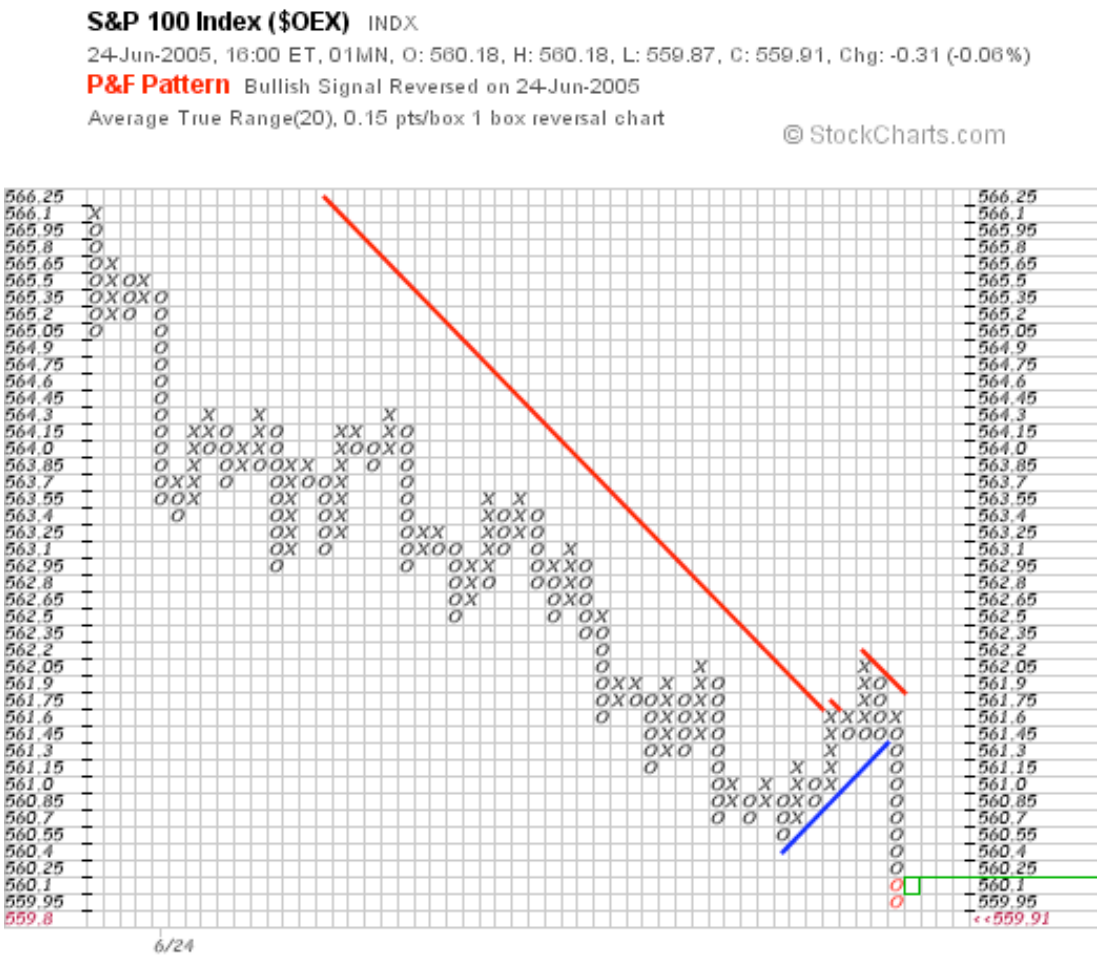
Core Point and Figure Chart Patterns

Charles Dow invented the basics of “supply and demand” charting, point and figure, in the late 1800’s. It’s been used ever since. Charts effectively show “historical perspectives” best, and chartists are always watching to see what leading indicators will predict “what’s next.”

Using point and figure as a methodology for seeing prior supply and demand also helps the chartist eliminate “noise.” “Noise” is what we call “too much information, and too many facts” that are put in front of the average investor.

Many option traders wrongly believe that the more charting and detailed information (bells and whistles) they have to trade with, the better. This is dangerously wrong.

Remember, charts provide lagging information. Point and Figure charts provide leading information, around supply and demand.



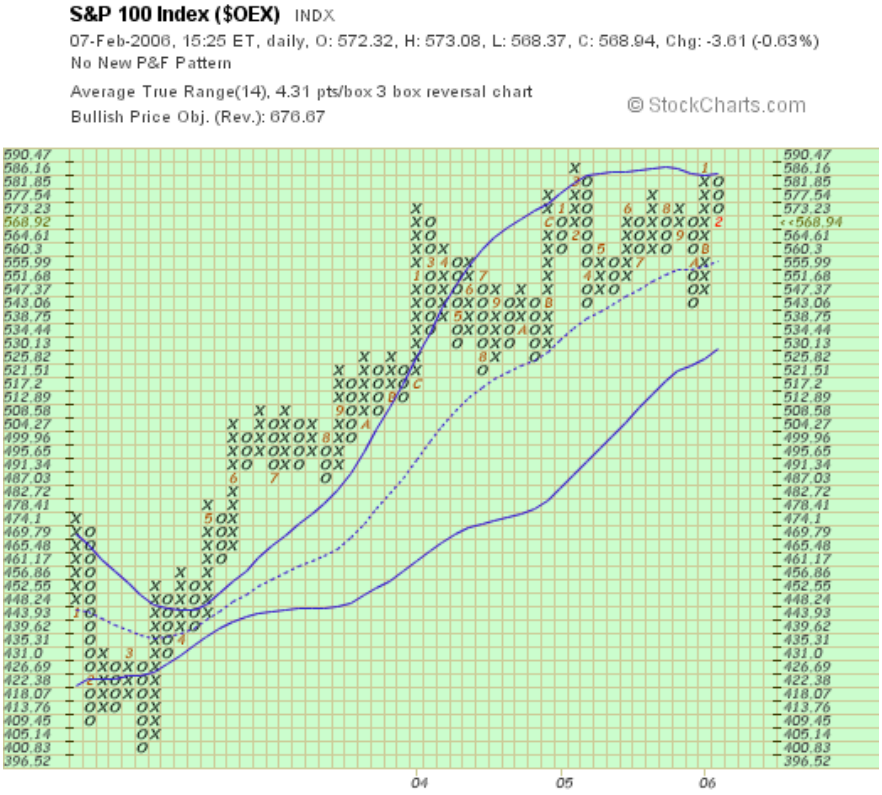
"Noise" allows for interpretation and it's typically here that option traders begin to think "they see" what will happen.

Using Point and Figure helps the trader see "the history of the supply and demand" and work with support and resistance lines to know what will happen next. Point and Figure charting is really the best "leading indicator" we have out there, as it shows what happened before around support and resistance lines. **This is where the "history of the chart" can predict future movement.**

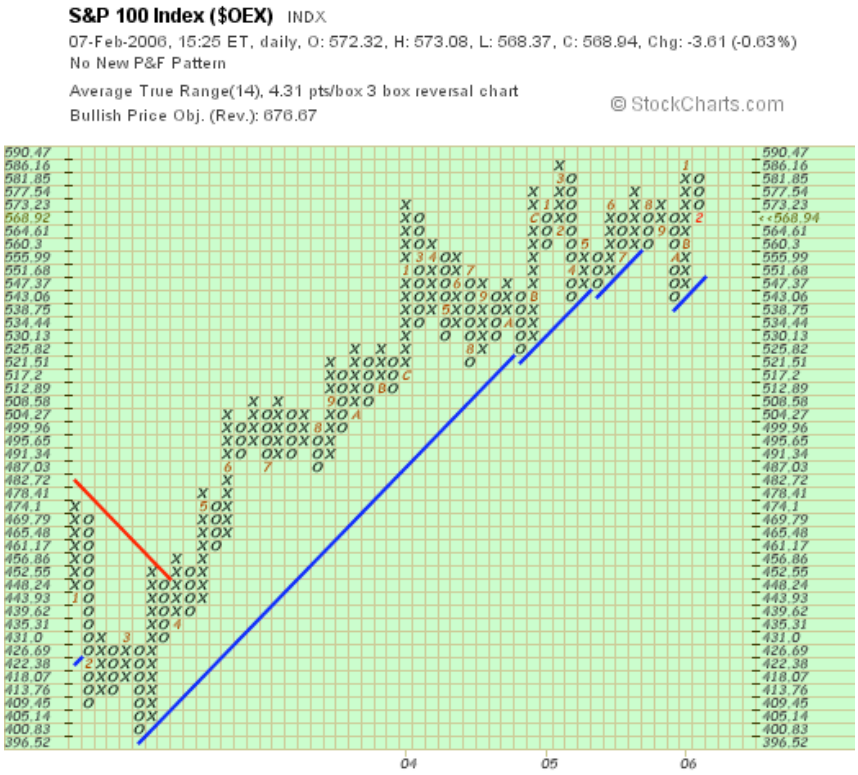
As you become well versed in Point and Figure, you'll learn the core structure that is used is a 3:1 ratio. We explore .5 and 2 pt scales and various "views" of the index.

We recommend also to learn to chart point and figure by hand. Pick a few key stocks, and the OEX and hand chart each day. You won't have to keep it up forever, but doing it manually helps not just teach the concept of supply and demand, but helps the student "see" the whole picture.

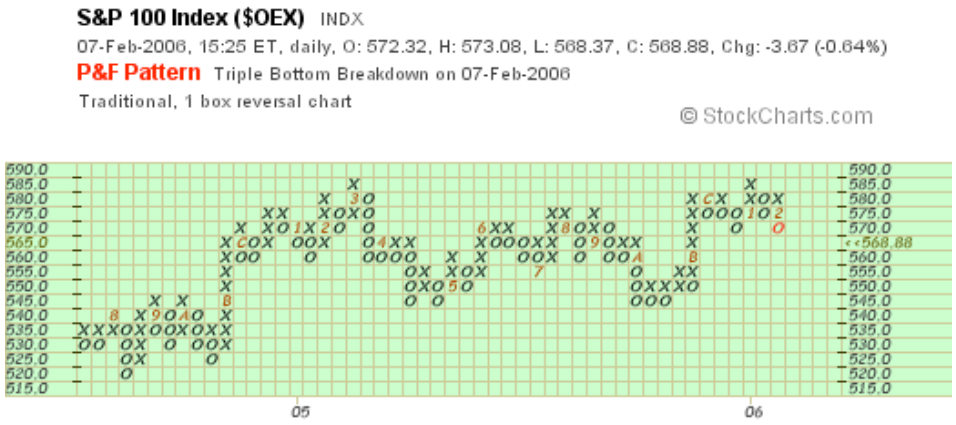
Here's an example of a 3:1 box size with an Average True Range (ATR) period of 14 days, with Bollinger Bands in the chart.



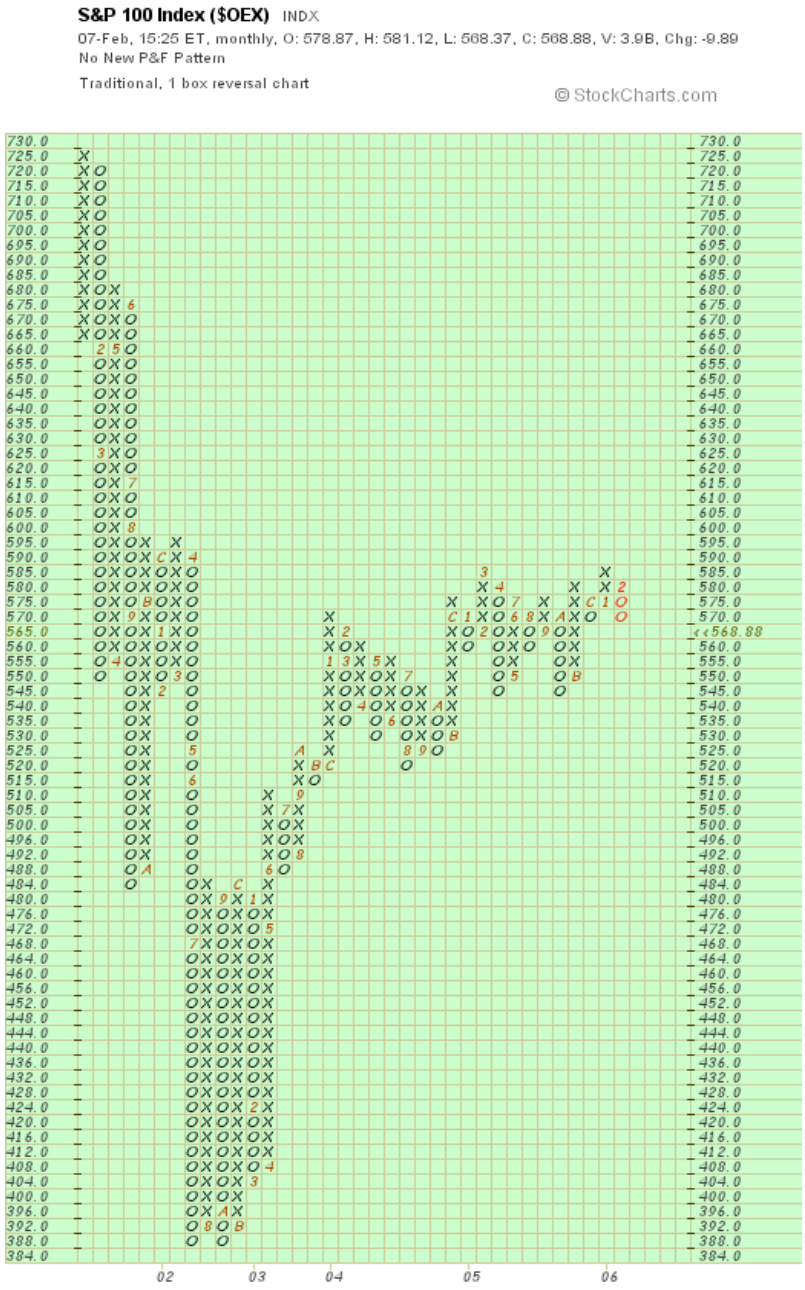
Here's a view of a 3:1 box size with trend lines:



Here's one of our more focused charts showing a 1:1 with a 1 scale and 4 decimal places, daily:



And finally, a much more complex “monthly” 1:1 ratio view:



Recognizing Classic Point and Figure Patterns

There are 11 different patterns in the Point & Figure methodology. As the chart develops, they will create a series of these patterns.

If the series is mostly of positive patterns, then demand is in control of that issue. If the series is mostly of negative patterns, then supply is in control of that issue.

Keep in mind, patterns are only one of several things we look at when evaluating any equity. For instance, when the market indicators are suggesting demand is in control of the overall market, then the bullish patterns work out better than when the main market indicators are suggesting supply is in control of the overall market.

Patterns are especially useful in determining entry points and logical stop loss points.

Double Top

An X (up) column exceeds top previous X (up) column by the signal

45						
40						
			X			
			X			
35			B			
	X		X			
	X	0	X			
	X	0	X			
	X					
30		0				

Triple Top

An X column exceeds two previous columns or levels of resistance.

45					X
					X
					X
					X
					X
40					X
					X
					X
					X
					X
35					B
	X		X		X
	X	0	X	0	X
	X	0	X	0	X
	X	0		0	
30					

Bullish Catapult

Combination of triple buy signal followed by double top buy

45							
40							X
							X
							X
							X
							B
35					X		X
	X		X		X	0	X
	X	0	X	0	X	0	X
	X	0	X	0	X	0	
	X	0		0			
30							

Shakeout

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.

45						
					X	
					X	
					X	
					X	
40					X	
	X		X		X	
	X	0	X	0	X	
	X	0	X	0	X	
	X	0	X	0	B	
35	X	0		0	X	
	X			0	X	
	X			0		
	X					
	X					
30	X					

Bullish Triangle

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

45					
					X
					X
					X
40					X
					X
	X				X
	X	0			B
	X	0	X		X
35	X	0	X	0	X
	X	0	X	0	X
	X	0	X	0	
	X	0	X		
	X	0			
30	X				

Bearish Signal

Series of lower tops and higher bottoms. Quick up and stock breaks. No accumulation.
7 columns needed

45							X
							X
							X
							X
	X						X
40	X	0					X
	X	0	X				X
		0	X	0			B
		0	X	0	X		X
		0		0	X	0	X
35				0	X	0	X
				0		0	X
						0	X
						0	X
						0	
30							

Double Bottom

An 0 (down) column triple exceeds a previous followed 0 (down) column. The simplest of all sell

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

Triple Bottom

An 0 column exceeds two previous columns or levels of support.

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

Bearish Catapult

Combination of the bottom sell signal by double bottom.

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

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		S	
35	0	X			0	
	0				0	
					0	
					0	
30						

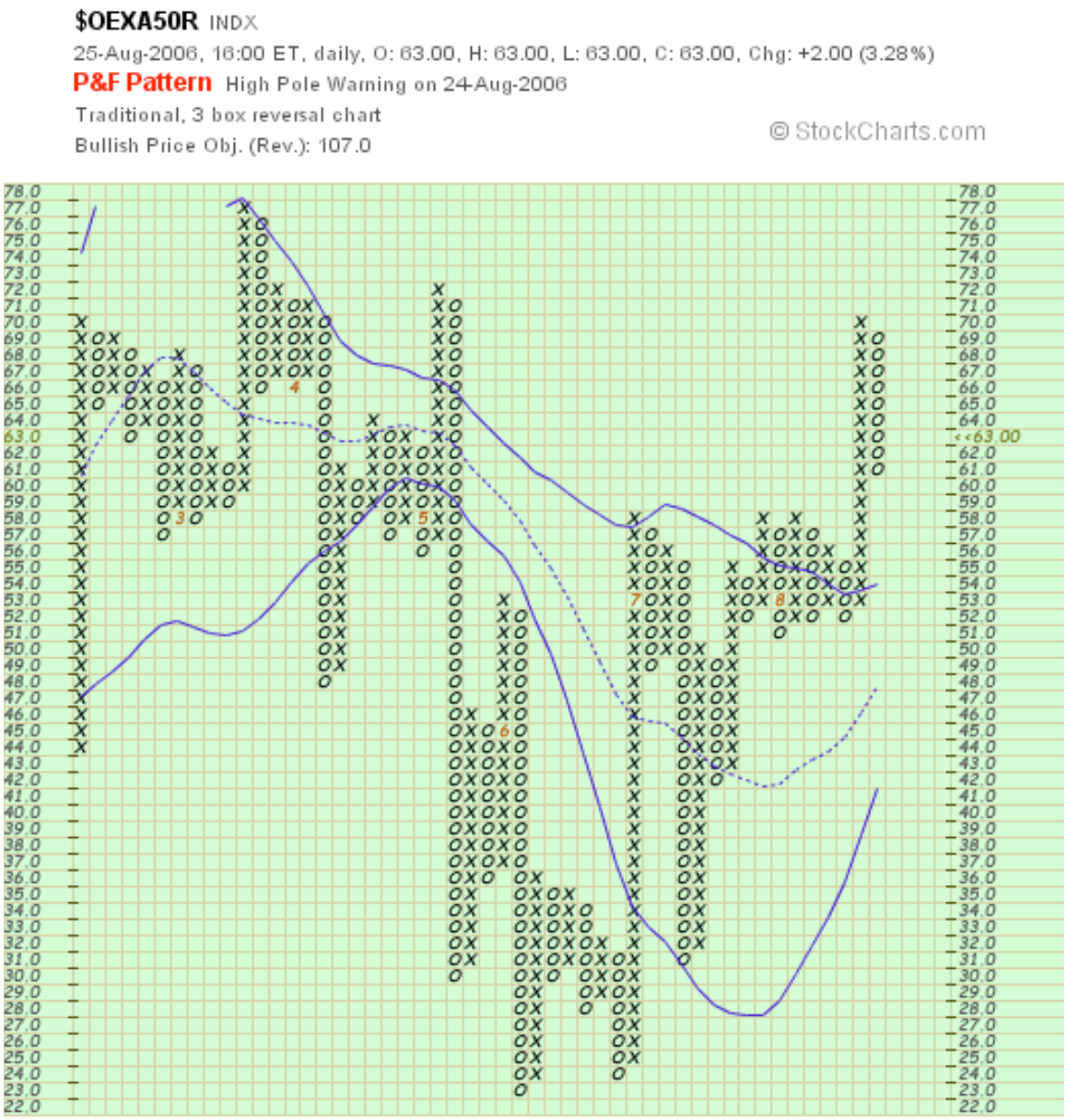
Bullish Signal Reversal

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	O	X	0	X	0
		X	O	X	0		0
35		X	O	X			S
	0	X	O				0
	0	X					0
	0						0
							0
30							

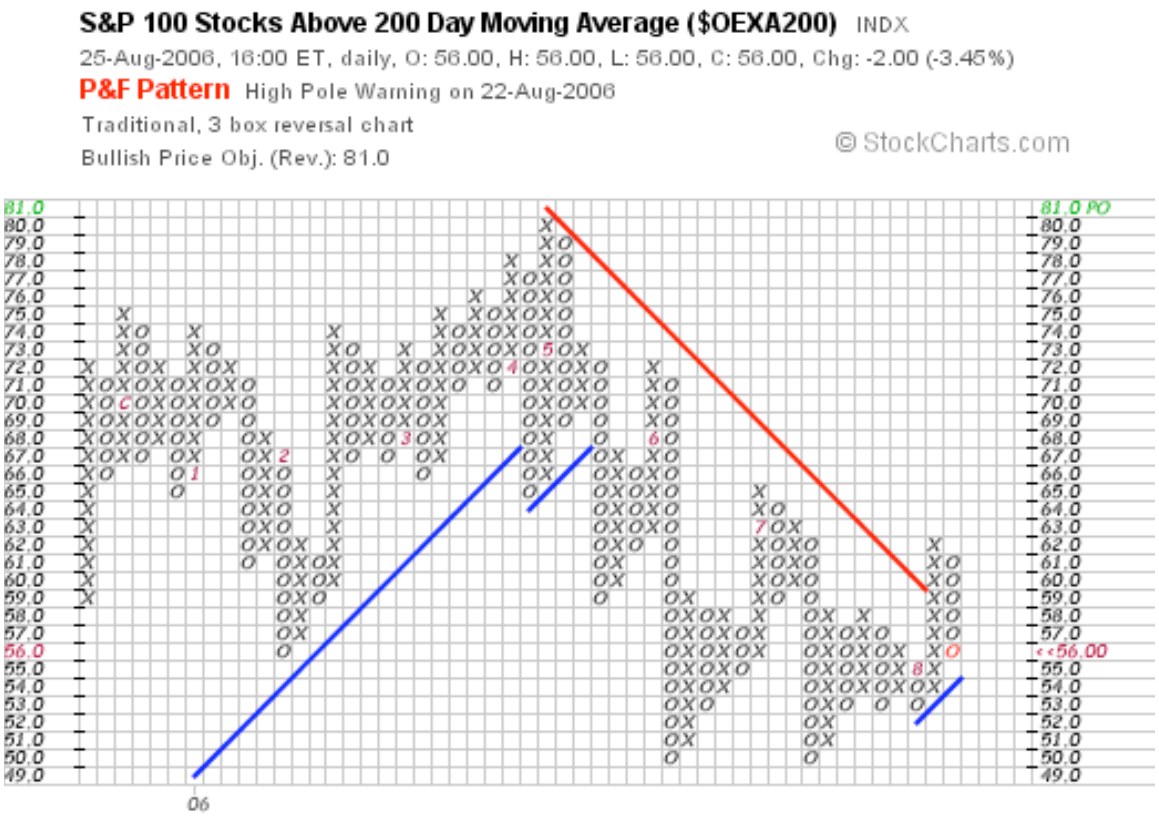
S&P 100 Stocks - 10 Day MA of Record High Percent Index

The following chart studies the 10 day moving average on the “highs” of the S and P 100. Upper, middle and lower Bollinger Bands are also identified.



S&P 100 Percent of Stocks Above 50 Day Moving Average

This chart helps the trader see the "bias" above or below the 50 day average. Always compare current "tops and bottoms" to historical one. The blue lines put the upper, middle, and lower Bollinger Bands at work in the chart.



S&P 100 Stocks Above 200 Day Moving Average

Here we show the stocks above the average, not the % of stocks, and use trend lines.

S&P 100 Stocks Above 150 Day Moving Average

Here we chart again with Bollinger Bands, but do not use % of stocks, but actual stocks above a 150 day moving average. This shows the strength of a bias.


$INDU (Dow Jones Industrial Average) INDX
©StockCharts.com
25-Aug-2006 Op 11301.22 Hi 11317.43 Lo 11260.28 Cl 11284.05 Vol 273.9M Chg -20.41 (-0.18%)
RSI(14) 56.24
$INDU (Daily) 11284.05
MA(50) 11107.75
MA(200) 11049.96
2006 Feb Mar Apr May Jun Jul Aug
Volume 273.95M, EMA(60) 401.03M
MACD(12,26,9) 64.164, 59.972, 4.192
Accum/Dist
Full STO %K(14,3) %D(3) 74.13, 79.15
ADX(14) 16.97 +DI 22.05 -DI 16.44
2006 Feb Mar Apr May Jun Jul Aug

Dow Jones Industrial Average

Here we chart using candlesticks, with RSI, Volume, MACD, Accumulation/Distribution, Full Stochastics, and ADX

This chart has a lot of information. When we chart we find ourselves "getting nervous" with too much information. Our decisions become more rash, as our emotions take over "interpreting the charts". Some traders do well seeing "all", while others actually harm their performance.

Do you see a difference in how the Point and Figure chart reads? Is it clear? Easier?

Experienced point and figure chartists rely heavily on Bollinger Bands, Volume, and classic 3:1 point and figure charts.

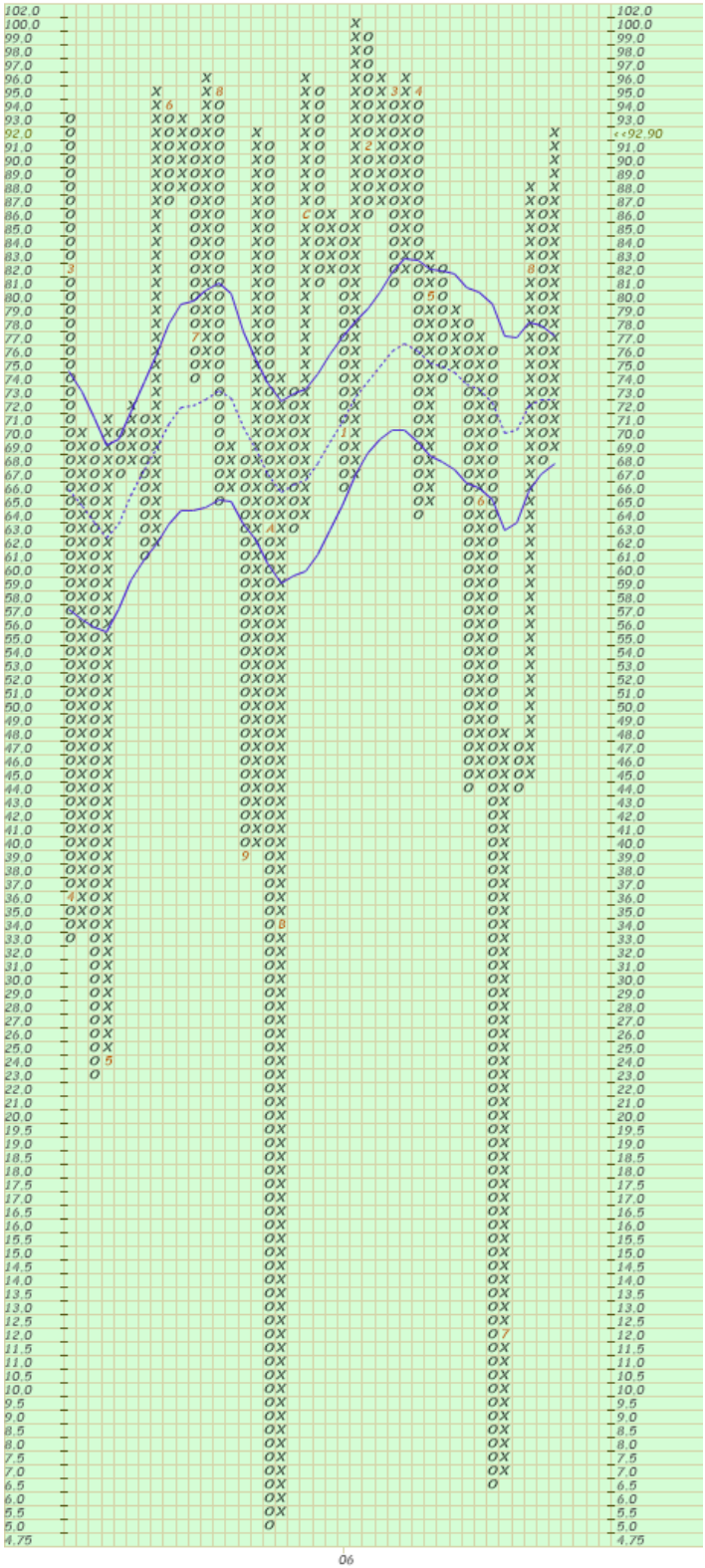
$OEXHILO INDX

25-Aug-2006, 16:00 ET, daily, O: 92.90, H: 92.90, L: 92.90, C: 92.90, Chg: 0.00 (0.00%)

P&F Pattern Long Tail Up on 24-Aug-2006

Traditional, 3 box reversal chart

Bullish Price Obj. (Rev.): 177.0



Dow Jones Industrial Average

Here we took a standard point and figure on the Dow, made it 2 pt reversal. This is how a trader begins to identify the tops and bottoms in support lines. With this chart we can see the next “first bottom” could be as low at 11,050, and that anything above 11,300 is “new ground”, and that 11,400 is another “top.”

Wyckoff Point and Figure Method

Richard D. Wyckoff lived around the turn of the 20th century. He was a bond trader who was curious about the logic behind market action. Thru conversations with successful traders of his time he arrived at his methodology which concentrated on Volume-Price, Point and Figure analysis, and a process of sifting and ranking among sectors and individual stocks or commodities within each sector (relative strength) for the best trade possible.

We use Wyckoff for index option investing to focus in on the supply and demand issues of the index, and the underlying bias, ready for “catalyst” (news, economic calendars, price of oil, etc) that next defines the short term trend of the market.

The Wyckoff method is a special type of Point & Figure chart. It uses a single box reversal instead of the more common three point reversal. It also varies from the standard Point & Figure chart because it can contain both X’s and O’s in the same column. This will occur whenever there is only a single entry made in a column.

For example if we had a single X in a column followed by 3 O’s, the O’s will be displayed in the same column as the X. In a Wyckoff chart, there must always be more than one entry in a column.

Let's take an example. The box size for these values is 1. Some traders compute high and low, and others compute using only the day close.

Date	Day	Close
10/02/98	Tue	55.00
10/03/98	Wed	57.00
10/04/98	Thu	56.00
10/05/98	Fri	57.00
10/06/98	Mon	58.00

10/07/98	Tue	59.00
10/08/98	Wed	56.00
10/09/98	Thu	57.00
10/10/98	Fri	56.00
10/11/98	Mon	57.00
10/12/98	Tue	56.00

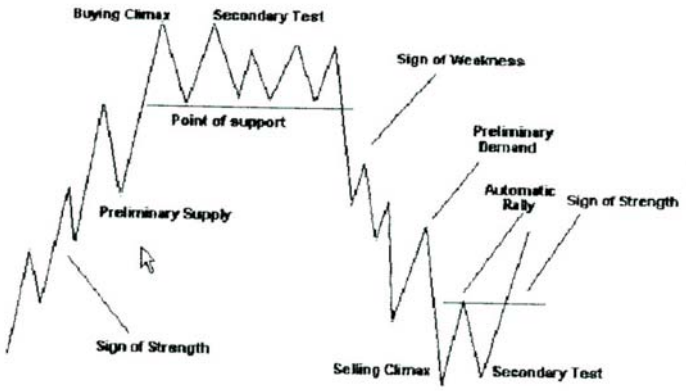
On 10/02/98, the chart rose from $55 to $57. This resulted in 3 X's being plotted in the first column. The very next day, there was a pull back of one box to $56. Because we are using a one point reversal, we move to the next column and plot the single O.

The next day the price rises again to $57. This again is a reversal, however we do not move to the next column because we have only made one entry in the current column. The upward movement continues until the chart reaches $59 on 10/07/98. Continuing to plot the data in this fashion will produce the chart below:

$60.00					
$59.00		X			
$58.00		X	O		
$57.00	X	X	O	X	X
$56.00	X	O	O	O	O
$55.00	X				

Other than the two requirements described above, the Wyckoff Point & Figure chart uses the same principals as a standard three-point reversal chart.

Richard D. Wyckoff was one of the great stock traders of the early 20th century, and although his work is not well known to many, the "Wyckoff Theory" is well known to astute floor traders.



The above chart reflects the core philosophy of the Wyckoff Wave. It's used much more with stock study, but by using a Point and Figure chart, it is also a great way to review a 6 month period of time on the OEX and watch for selling climax and renewed rally.

Point and Figure on the Web:

www.stockcharts.com- Excellent charting for Point and Figure. Premium service levels allow great variations to really study and learn Point and Figure.

All charts used in this book are www.stockcharts.com.

www.dorseywright.com- This is the book we recommend in our library, and the core book that best explains Point and Figure. Dorsey knows his stuff, and the charting services are excellent. Much of what we use is from Dorsey's methodology. Best point and figure charting service in the country.

reliable; however, the reliability cannot be guaranteed. www.bluechipoptions.comcom <http://www.bluechipoptions.com/> does not provide individual investment advice, or individually recommended purchases or sales of investments. You should consult with your investment advisor about the educational information provided, and fully understanding the inherent risk in option investing. Option buying and selling is risky and you can lose money easily. **Take Prudent Risk**

"Caveat Emptor"… Let the buyer beware.