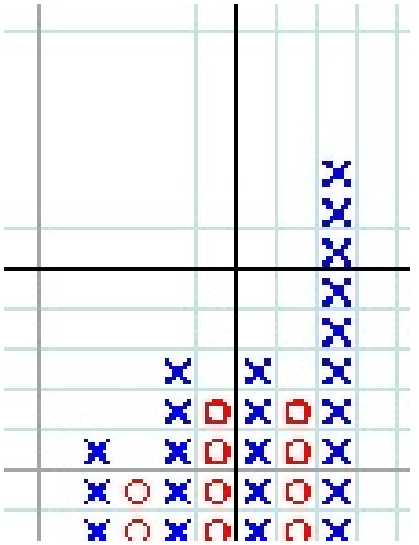
# Point & Figure Charting

## 3 Box Reversal Technique

Kazim, December 2011

# ***Must know points about PF***



- Xs represent up movements which are called “boxes”.
- Os represent down movements which are called “boxes”.
- Box size is pre-determined either as a price or a tick.
- Price action is represented by the Y-axis.
- A column of Xs or Os represent a supply/demand.

# ***Must know points about PF*** (cont)

- Reversal (plot) takes place when the price action is changed by number of boxes (3 box).
- “Sensitivity” of the chart is altered by varying the box size.
- Price changes less than the pre-selected price/tick size is ignored.
- There is no time on the horizontal axis, time is not represented with the PF.
- There is no volume representation.
- Gaps are not recorded. If the price gaps away, all the boxes are filled in.

# BUY/SELL SIGNALS WITH 3 BOX REVERSAL CHARTS

- When demand overcomes supply and the plot of Xs breaks above the previous column of Xs a “BUY” is signalled (Double/ triple top buy signal).
- Converse applies to the column of Os breaking below the previous column of Os, generating a “SELL” signal (double/triple bottom sell signal).
- Not every signal is taken.
- Catapult is defined as a break out and pull back into the pattern.

# BUY/SELL SIGNALS WITH 3 BOX REVERSAL CHARTS

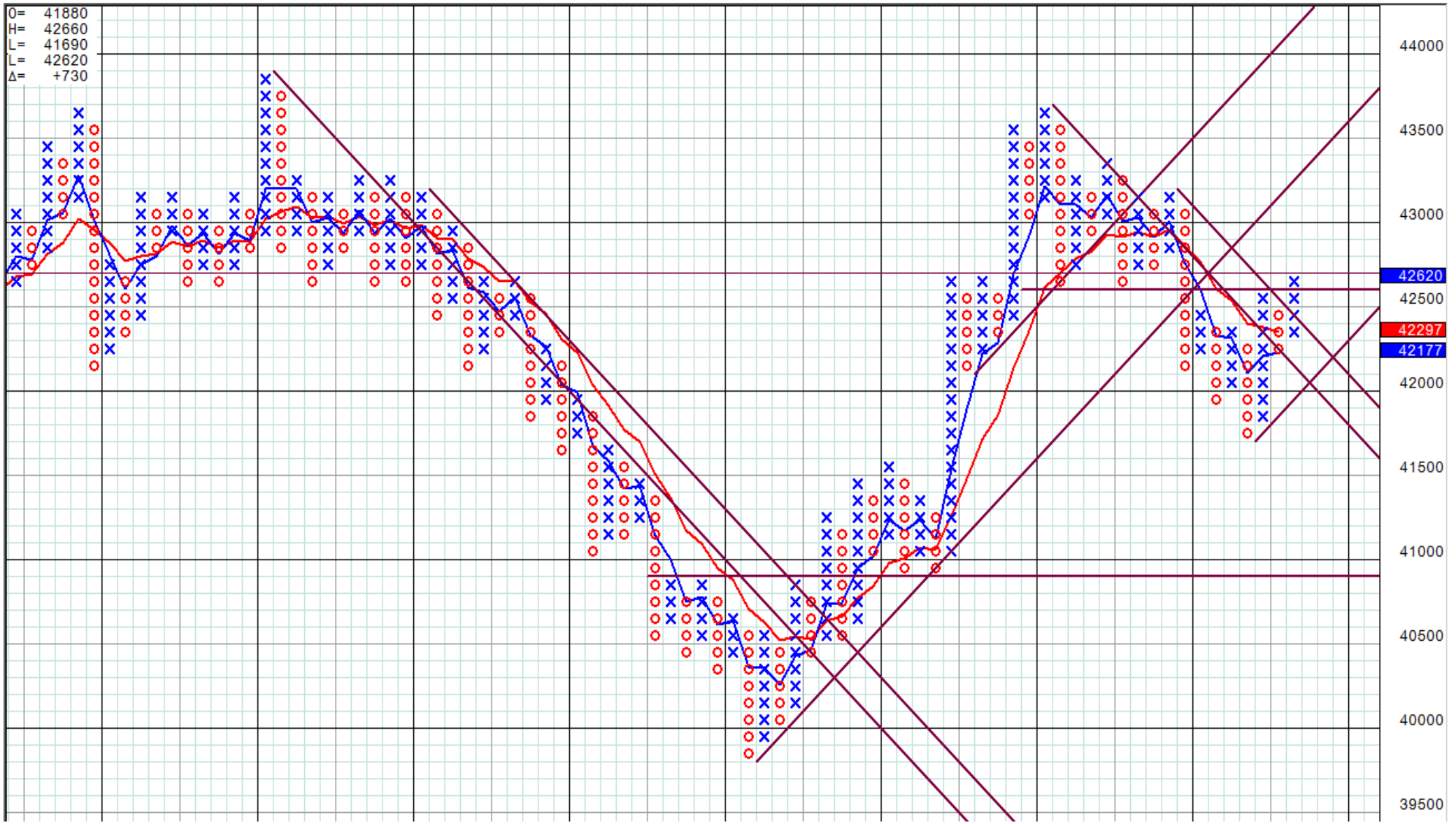
- Trendlines are vital part of 3 box reversal analysis and are drawn at a 45 degree angle as a Bullish Support (up trendline) and a Bearish Resistance (down trendline).
- These lines are drawn from an important low or high point of the chart.
- They become invalid if after being violated and a BUY/SELL signal is received above or below the trendline .

# PRICE TARGETS WITH 3 BOX REVERSAL CHARTS

- “Vertical Count” method is simply carried out from a bottom or a top or any other significant column, if the column is part of the pattern.
- It is possible to have a valid upside as well as a downside target from a single chart.

## PRICE TARGETS WITH 3 BOX REVERSAL CHARTS (cont)

- “Horizontal count” is a method which measures the width of the top or a bottom pattern and projects it to the up or the downside from the breakout column.
- Targets are potential and should be seen as a rough estimate.
- RISK/REWARD (REWARD/RISK as some say) is derived from a
  PF count(target) / STOP LOSS (PF sell/buy signal).

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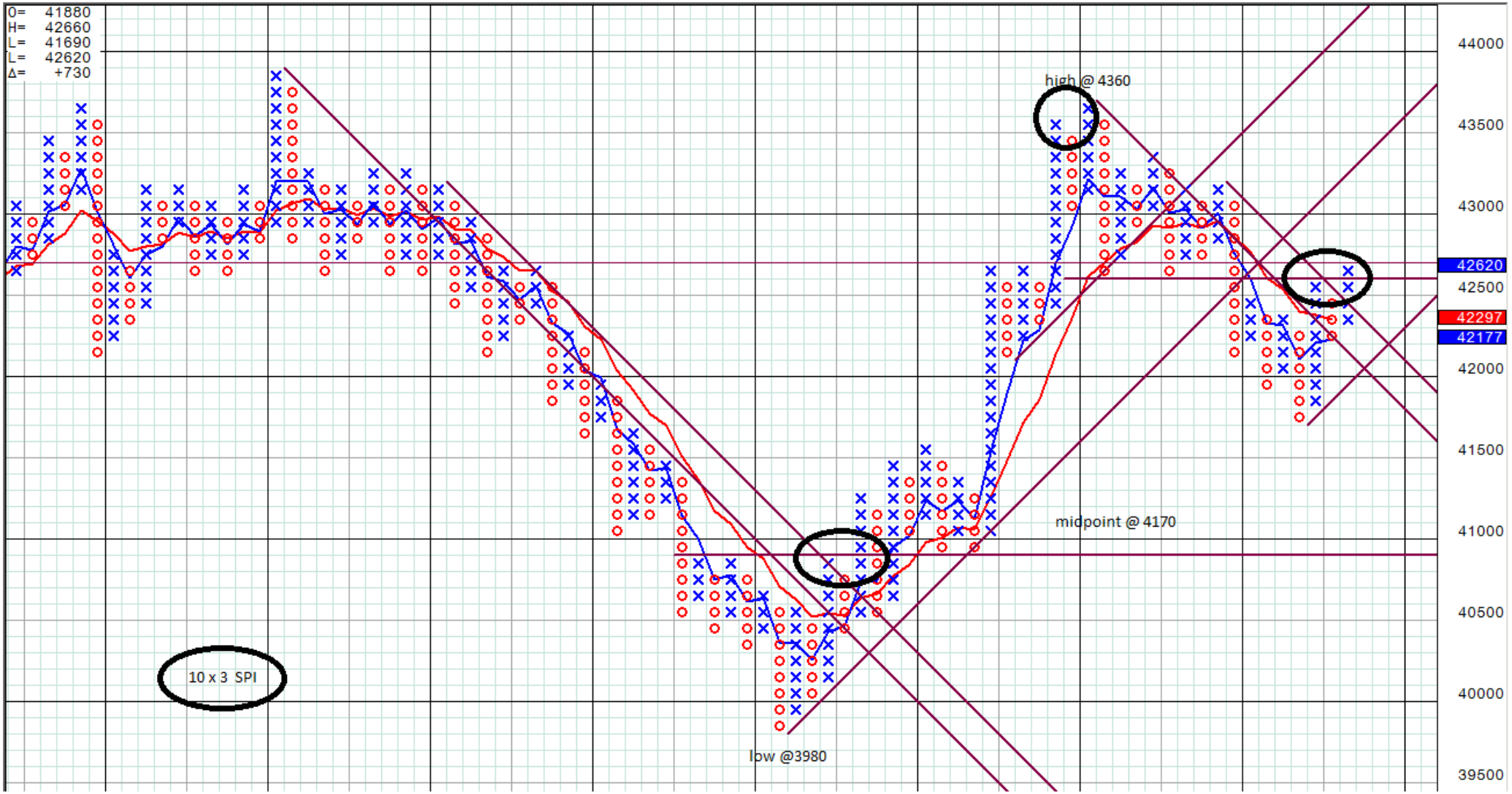


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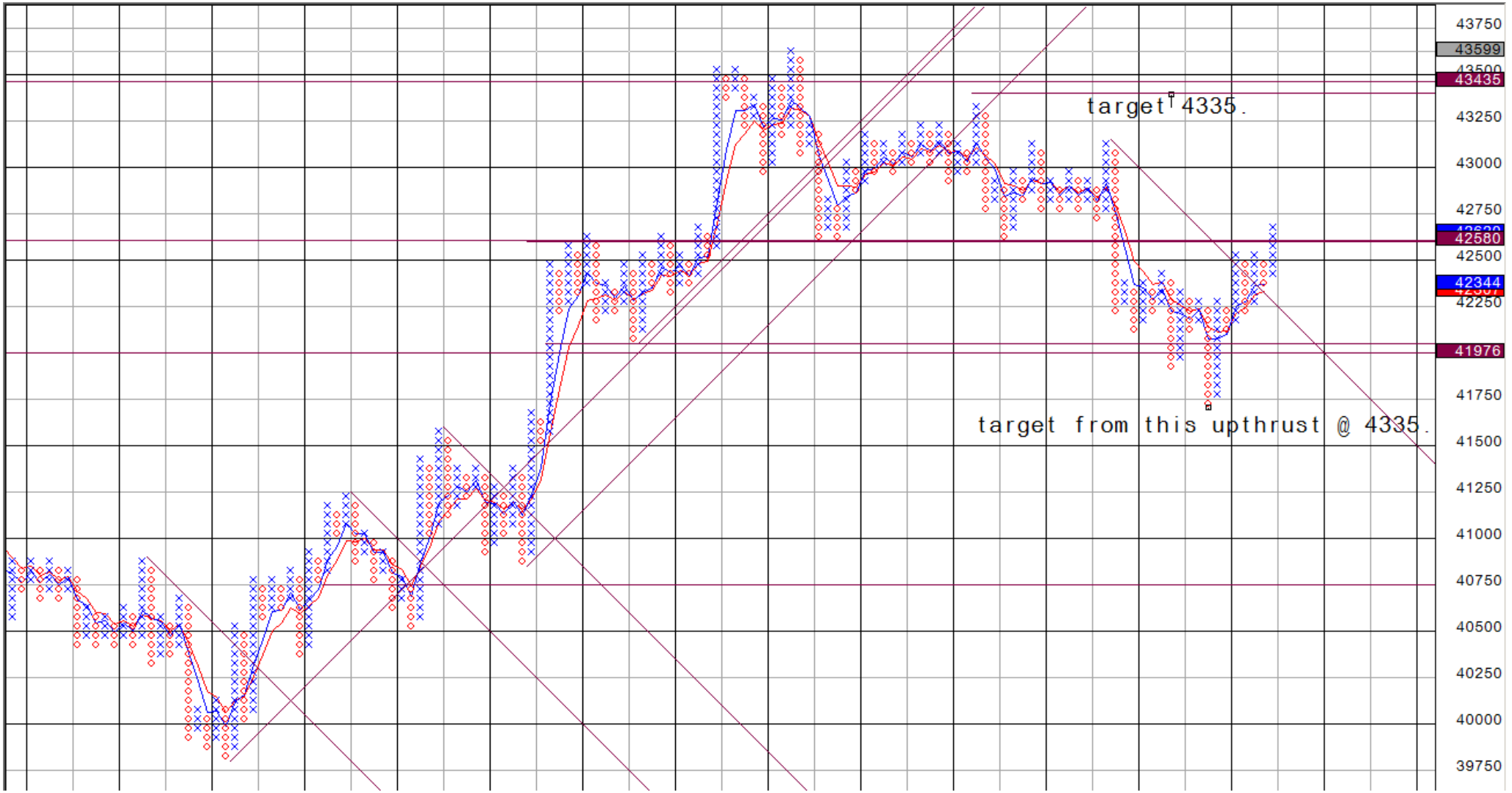


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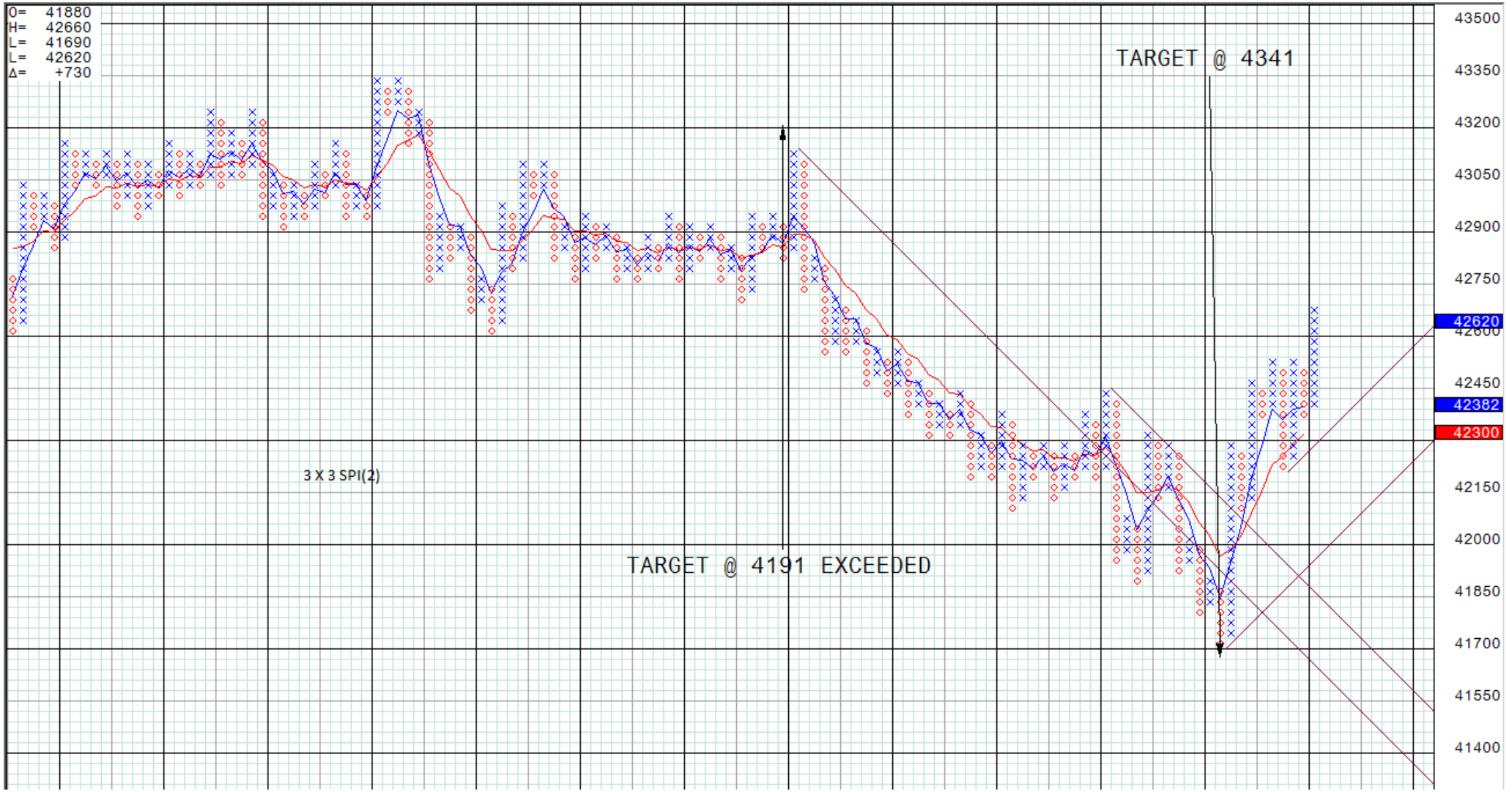


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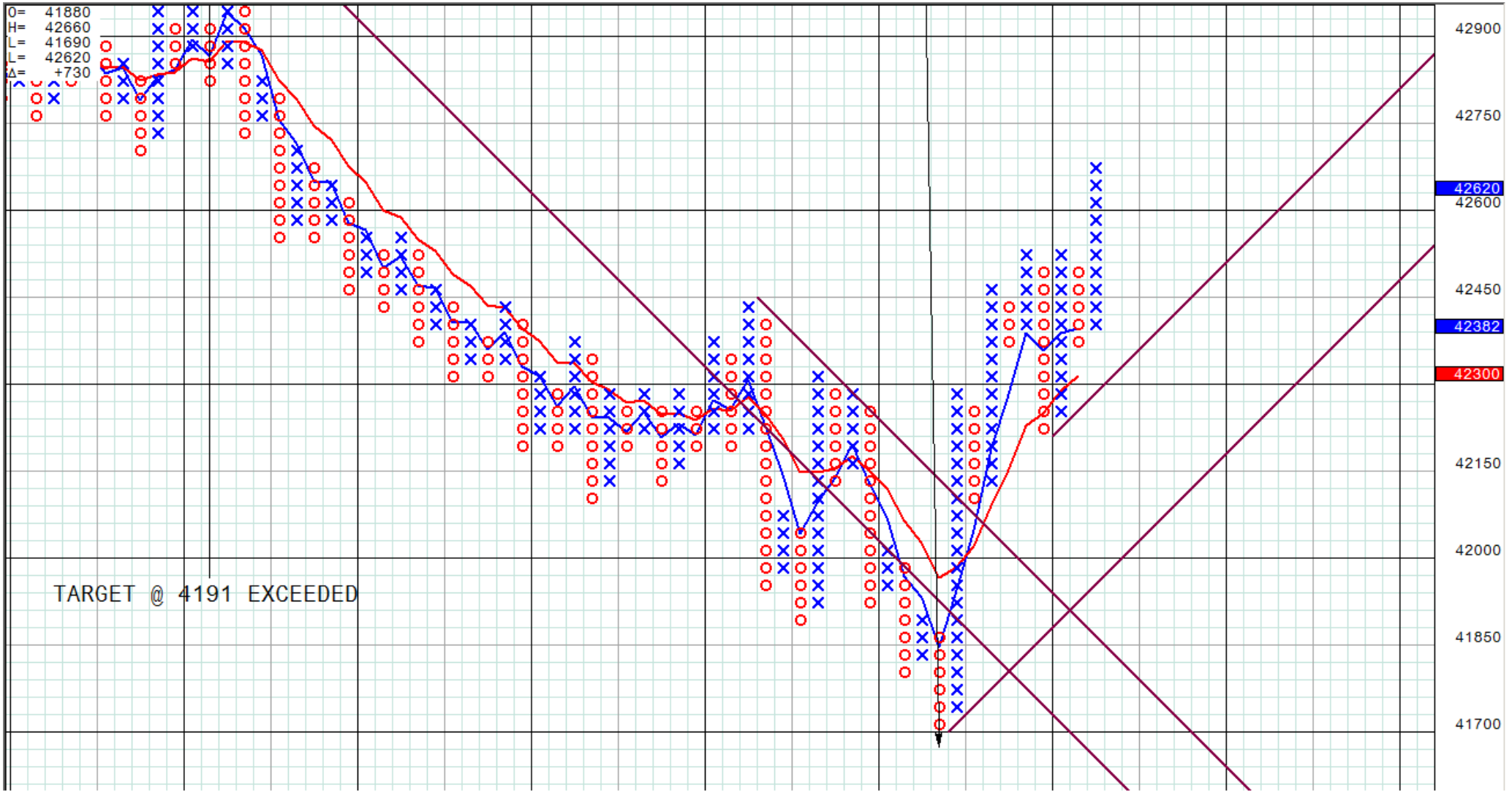


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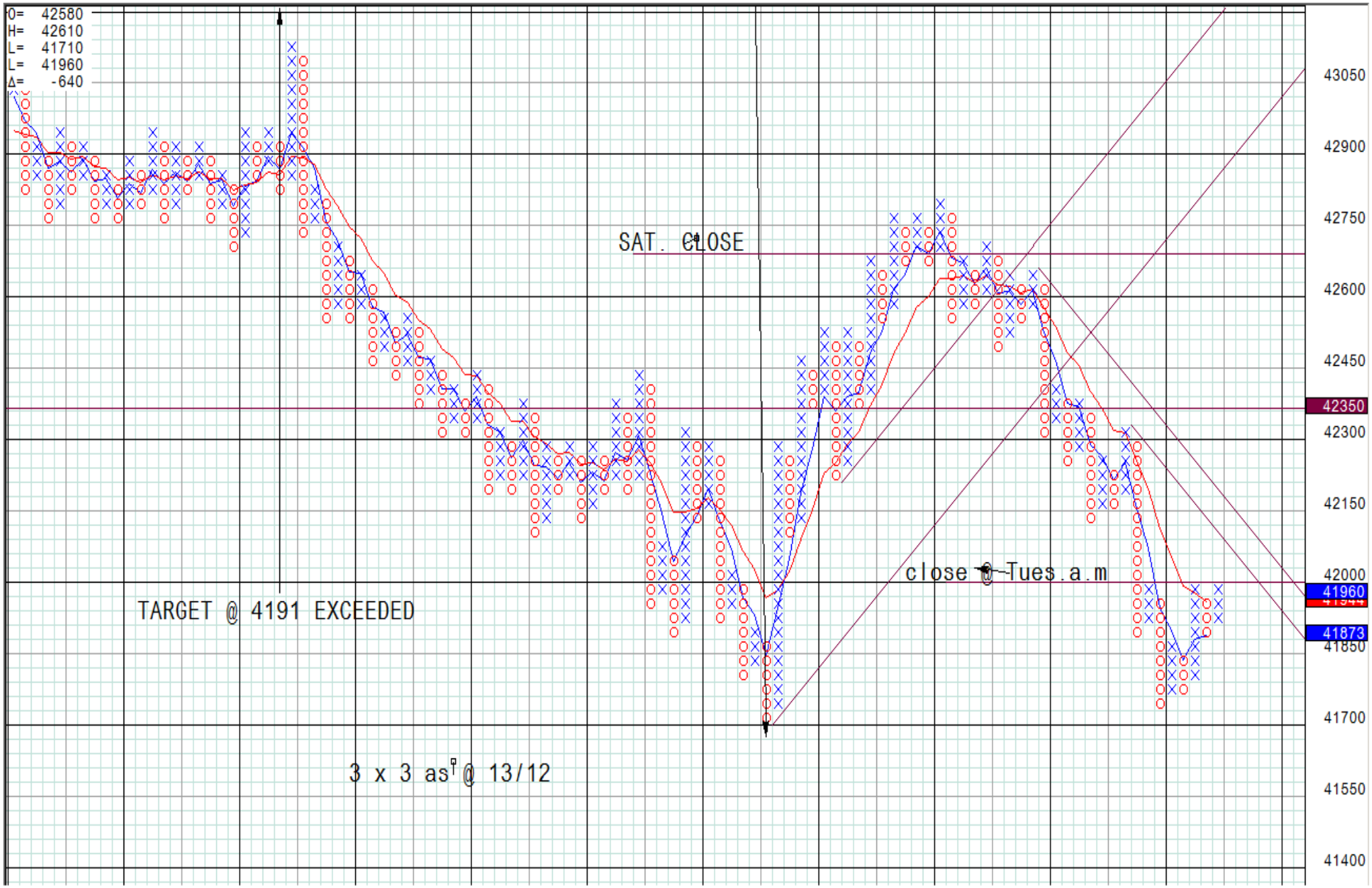


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# CONCLUSION

- The unambiguous nature of signals received from PF 3-box reversal charting combined with the unambiguous target projections and objective trend lines, makes PF my preferred charting method.
- Ability of a trader/analyst to carry out congestion area analysis by altering the box size in order to anticipate the direction of the subsequent breakout and risk/reward calculations are very useful aspects of the method.
- No doubt PF coupled with other charting methods in assisting us to better understand the instrument being traded/analysed will be a very valuable tool, which should not be overlooked.

For further reading please refer to:

The Definitive Guide to Point and Figure by Jeremy du Plessis