

## Investors Intelligence Classic Point & Figure Chart Formations

Our recent article "Using point & figure charts" aims to familiarise the investor with the basic concepts of point & figure charts and to highlight some of the benefits from using them. This article follows on to illustrate many of the classic formations that are used to generate buy and sell ideas.

### Bullish Formations

<p><b>The Double Top</b></p> <p>The most simple buy signal is the double top where a stock rises above the top of the previous up column (Xs).</p> <p>This signal is the basic ingredient for many of the actionable signs listed below. In its own right, it definitely require confirmation by the main trend (see trend lines) and positive relative strength.</p>	<pre>       X      X X     XOX     XOX      O           </pre>
<p><b>The Triple Top</b></p> <p>The triple top is similar to the double top but the area of resistance above the up columns is stronger and so takes two attempts to breakout. These signals work best when the main medium term trend is bullish and combined with positive relative strength.</p> <p>Stops are placed below the previous down column.</p>	<pre>            X           X X X          XOXOX          XOXOX           O O            Stop level           </pre>
<p><b>The Bullish Catapult</b></p> <p>This formation can be looked at as a triple top buy followed by a double top buy and is effectively a failed bull trap (see sell signals).</p> <p>The price failed to follow through on its first breakout and pulls back (the bull trap) only to reverse again to the upside.</p> <p>Place a stop below the previous down column.</p>	<pre>                 X                X X               X X XOX              XOXOXOX              XOXOXO             XO O Stop level              X           </pre>
<p><b>Bear Trap</b></p> <p>This formation comes about when a stock breaks below a triple bottom and then reverses back to an up column without dropping even one more box.</p> <p>When the triple bottom is broken, a number of stop-losses will have been touched off and the chances are good that a lot of short sales will have been initiated on the downside breakout. These bears will effectively be "trapped" and their subsequent liquidations will add to the upside momentum.</p> <p>Enter the stock on the reversal.          Stops are placed below the prior low.</p>	<pre>      X X     XOXOX     XOXOX      O OX       O       Stop level           </pre>

<p><b>The Bullish Shakeout</b></p> <p>The late great Earl Blumenthal used to say that the first sell signal in an uptrend was really a buy signal and this is a very overlooked thesis. The criteria for a shakeout formation is as follows:</p> <ol style="list-style-type: none"> <li>1. the first sell signal in a new uptrend from a double top</li> <li>2. above its bullish support line</li> <li>3. has broken its downtrend line</li> <li>4. has a bullish relative strength chart</li> </ol> <p>The stock generates a simple sell signal but fails to move more than three boxes lower and then reverses back up. One can enter the position on this reversal (before a new p&amp;f buy).</p> <p>Stops are placed below the up-column lows i.e. on another reversal down.</p>	<p>X X  XOXO  XOXOX  O OX  OX  O Stop level</p>
<p><b>Long tail down</b></p> <p>This signal goes somewhat against the market adage of “never trying to catch a falling knife” but using the following criteria it can be good for long term “bottom fishing” strategies.</p> <ol style="list-style-type: none"> <li>1. The stock has dropped into a major support area (green zone)</li> <li>2. The relative chart is also basing.</li> <li>3. The market is becoming oversold after an important downtrend and breadth indicators such as the NYSE Bullish % are low and moving to “bull alert” status.</li> <li>4. the stock has dropped by 20 boxes or more straight down</li> </ol> <p>Enter the stock on the reversal.</p> <p>Stops are placed on below the up-column i.e. on another reversal.</p>	<p>(20 boxes down)  O  O  O  O  O  O  O  O  OX  OX  OX  O Stop level</p>
<p><b>Low Pole</b></p> <p>This formation comes about when a down column extends by more than three boxes below the previous down column but then retraces by more than 50% of the down column.</p> <p>This formation is excellent for generating signals on indicators such as the advance/decline line.</p> <p>It is also very good in mutual funds to use as a buy point rather than waiting for a move above a previous top.</p>	<p>O  OX  OXO  OXO  O O  OX  OX  OX  O</p>

## Bearish formations

<p><b>The Double Bottom Breakout</b></p> <p>The most simple sell signal is the double bottom where a stock breaks below the previous down column (Os).</p> <p>This signal is the basic ingredient for many of the actionable signals listed below. In its own right, it definitely requires confirmation by the main trend (see trend lines).</p>	<pre> O OX OXO OXO O O   O           </pre>
<p><b>Triple Bottoms</b></p> <p>This is similar to the double bottom but it takes two attempts to breakout. These signals work best when the stock is below its bearish resistance line and combined with negative relative strength.</p> <p>Stops are placed above the previous up column.</p>	<pre>           Stop level         X X        OXOXO        OXOXO       O O O         O           </pre>
<p><b>The Bearish Catapult</b></p> <p>This formation can be looked at as a triple bottom sell followed by a double bottom sell.</p> <p>The price failed to follow through on its first breakout and rallies, only to reverse again to the downside (a failed bull trap).</p> <p>Place a stop above the previous up column.</p>	<pre>         X X Stop        OXOXOX        OXOXOXO       O O OXO         O O           O           </pre>
<p><b>Pullback after multiple Xs up</b></p> <p>This was an Earl Blumenthal signal and is a good time to take profits, but not to go short.</p> <p>More often than not a solid correction will happen after this takes place and in some cases it will prove to be the final top.</p>	<pre> X XO XO XO X X X X           </pre>
<p><b>Bull Trap</b></p> <p>The popularity of triple tops has brought this about. The stock breaks out through a triple top and pulls back right away without moving up one more box.</p> <p>This action effectively traps the bulls initiated by the false break, such as traders with buy-stop orders and short sellers with stop losses.</p>	<pre>           Stop level           X          X XO         OXOXO         OXOXO        O O           </pre>

<p><b>High Pole</b></p> <p>This occurs when an up column (Xs) exceeds a previous up column by at least three Xs and then moves down in the next down column (Os) by more than 50% of the last up column.</p> <p>Place the stop above the most recent column of Xs.</p>	<p><b>Stop level</b></p> <p>X        XO        XO        X XO        XOX        XOX</p>
<p><b>Broadening Top Formation</b></p> <p>This formation is particularly useful for stocks that have already had good up-moves and are close to prior highs. The pattern can be spread over more columns than in this basic example.</p> <p>Look for the following formation of columns: a high(1), a low(2), a higher high (3), a lower low (4) and finally a higher high (5).</p> <p>This formation can be traded with a percentage stop, or after a high pole.</p>	<p>5        3 X        1 X X        X XO X        XO XO X        XOXOXO X        OXOXOX X        OXO OXOX        OX OXOX        O OXO        2 OX        O        4</p>

Dominic Hawker, January 2005