

# Technically Speaking

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# 21ST CENTURY POINT AND FIGURE BY JEREMY DU PLESSIS, CMT, FSTA

REVIEWED BY MIKE CARR, CMT

Point and Figure (P&F) is one of the oldest tools of technical analysis. It's been used since at least the 1880s yet the technique works just as well today as it did 130 years ago. The basics of P&F haven't changed over time but computers and software have allowed skilled analysts to derive more information from the columns of Xs and Os that are found on P&F charts.

In this book, du Plessis demonstrates how to apply 20<sup>th</sup> century tools like Bollinger Bands®, Donchian channels and Welles Wilder's parabolic stop and reverse strategy to P&F charts.

Below are examples from the book showing how Donchian channels could be applied to P&F charts. Donchian channels were developed by Richard Donchain in the 1960s. They consisted of two lines on a price chart. One line showed the highest high over a time period, usually 20 days or 4 weeks. The second line showed the lowest low over that time frame. There are a number of possible variations such as using closing data only or a different number of days in the look back period. Buy signals are given when prices reached a new 20-day high and sells are made at new 20-day lows.

du Plessis notes

“Donchian channels are ideally suited to P&F charts because, by plotting lines across the highest X and lowest ) over a selected number of columns, they can be used to provide levels at which a change in the trend is signaled.

Since they are drawn the highest high and lowest low of columns under consideration, by definition the price can never break out of the channels, so in order to allow a price break, a number of columns must be omitted before the look back. Although omitting 1 column is enough to achieve a breakout, around 5 is more common.”

He explains that more columns can be omitted and changing the number of columns omitted can increase or decrease the number of trading signals. This means the system is easily adapted to meet individual preferences for risk and trading frequency.

The first chart below shows channels applied to the S&P 500. The red lines ignore the last 1 column. Blue lines omit the last 5 columns and black lines ignore the last 20 columns.

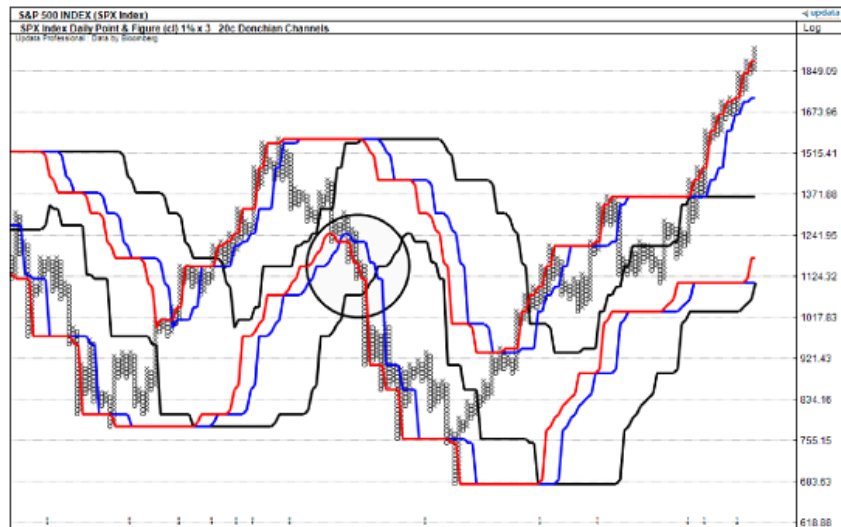


CHART 4-1: 1% X 3 OF THE S&P 500 WITH THREE 20 COLUMN DONCHIAN CHANNELS, RED IGNORING THE LAST 1 COLUMN, BLUE IGNORING THE LAST 5 COLUMNS AND BLACK IGNORING THE LAST 20 COLUMNS

The next chart, also from the book, offers a detailed look at when trade signals are given.

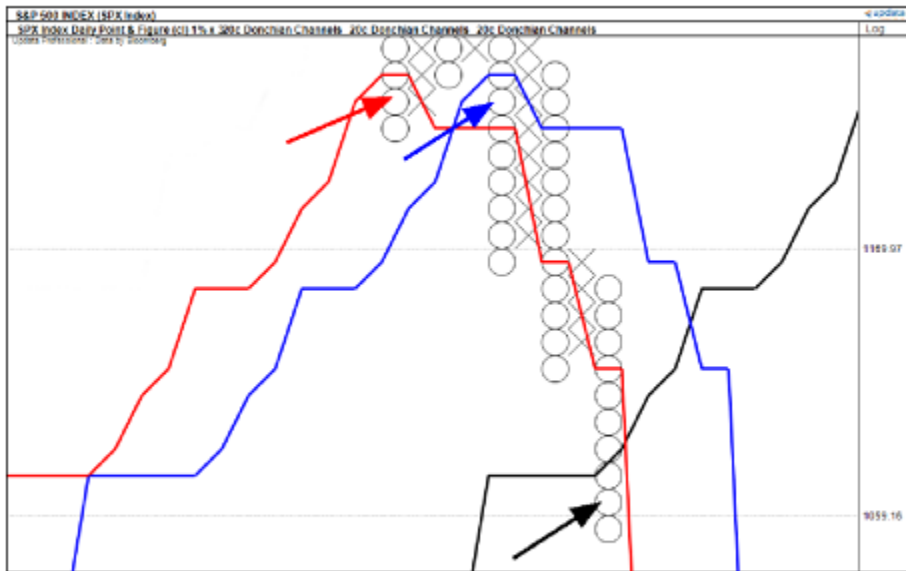


CHART 4-2: CIRCLED SECTION IN CHART 4-1 ENLARGED, SHOWING THE DIFFERENT BREAKOUT COLUMNS WHEN 1, 5 AND 20 COLUMNS ARE IGNORED

du Plessis also explains how time-based indicators such as RSI, directional movement and MACD can be used with P&F charts. Among the other new insights provided in *21st Century Point and Figure* are explanations of how column volume can be used to assess a column's strength and how volume at box level can be used to assess support and resistance areas. New P&F-based market breadth indicators are also introduced as is a new P&F-based oscillator.

This book provides a number of new tools for P&F analysts and truly does bring this technique into the modern era.

Jeremy du Plessis, CMT, FSTA, is head of technical analysis at Udata and founded Indexia Research in 1983. Jeremy is an expert on Point and Figure charts. He lectures the Point and Figure module for the STA, and sets the Point and Figure module for the International Federation of Technical Analysts. Jeremy has taught technical analysis to thousands of professional traders and investors over the past 20 years. He is a Fellow of the STA and author of the book *The Definitive Guide to Point and Figure*.



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