

# P&F Horizontal Counts

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## Introduction

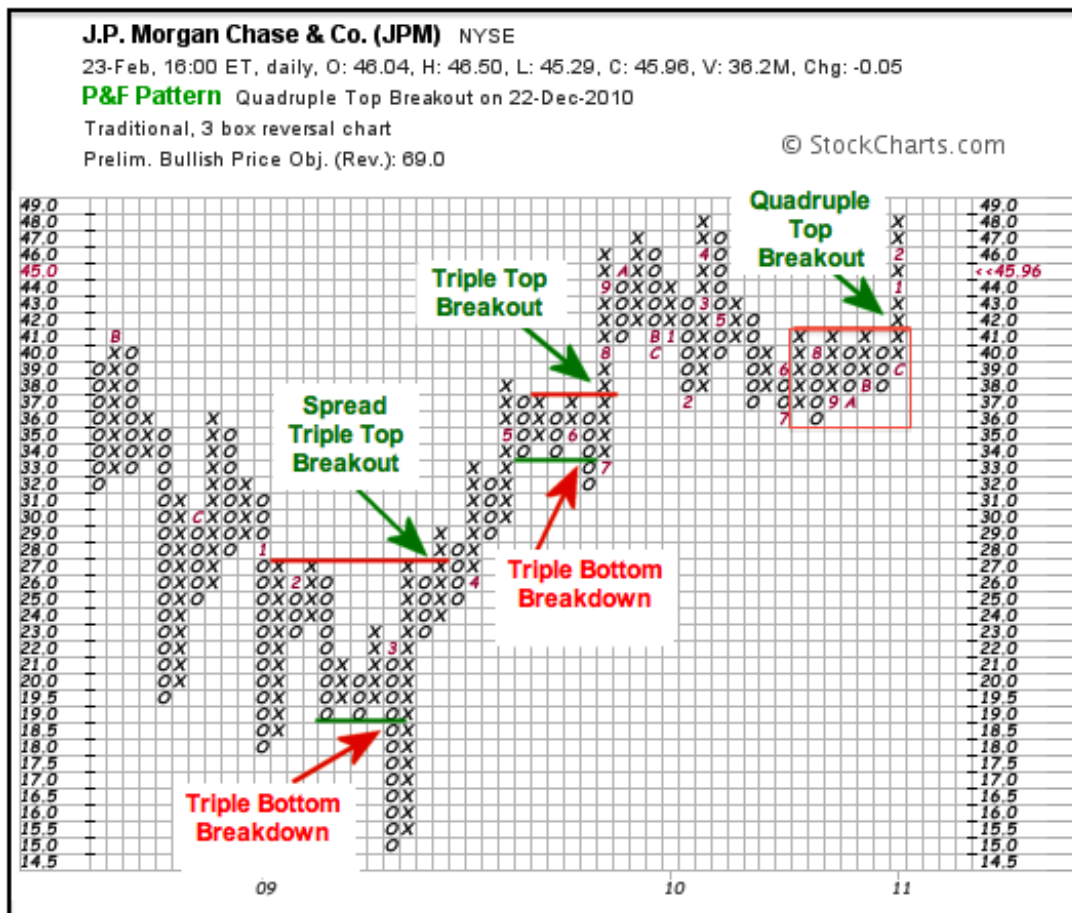
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Point & Figure price objectives can be determined using the horizontal count method with a consolidation or congestion pattern. This counting method is based on the width of the congestion pattern. The wider the congestion pattern is, the higher the price objective upon the pattern break. A congestion pattern ends with a break above the pattern high or below the pattern low. Chartists can then use a simple formula to estimate a price **Extension** and apply this extension to the consolidation high or low for a **Price Objective**. Keep in mind that these Price Objectives are rough estimates based on P&F charting techniques. There is no guarantee that prices will reach the objective.

## Congestion

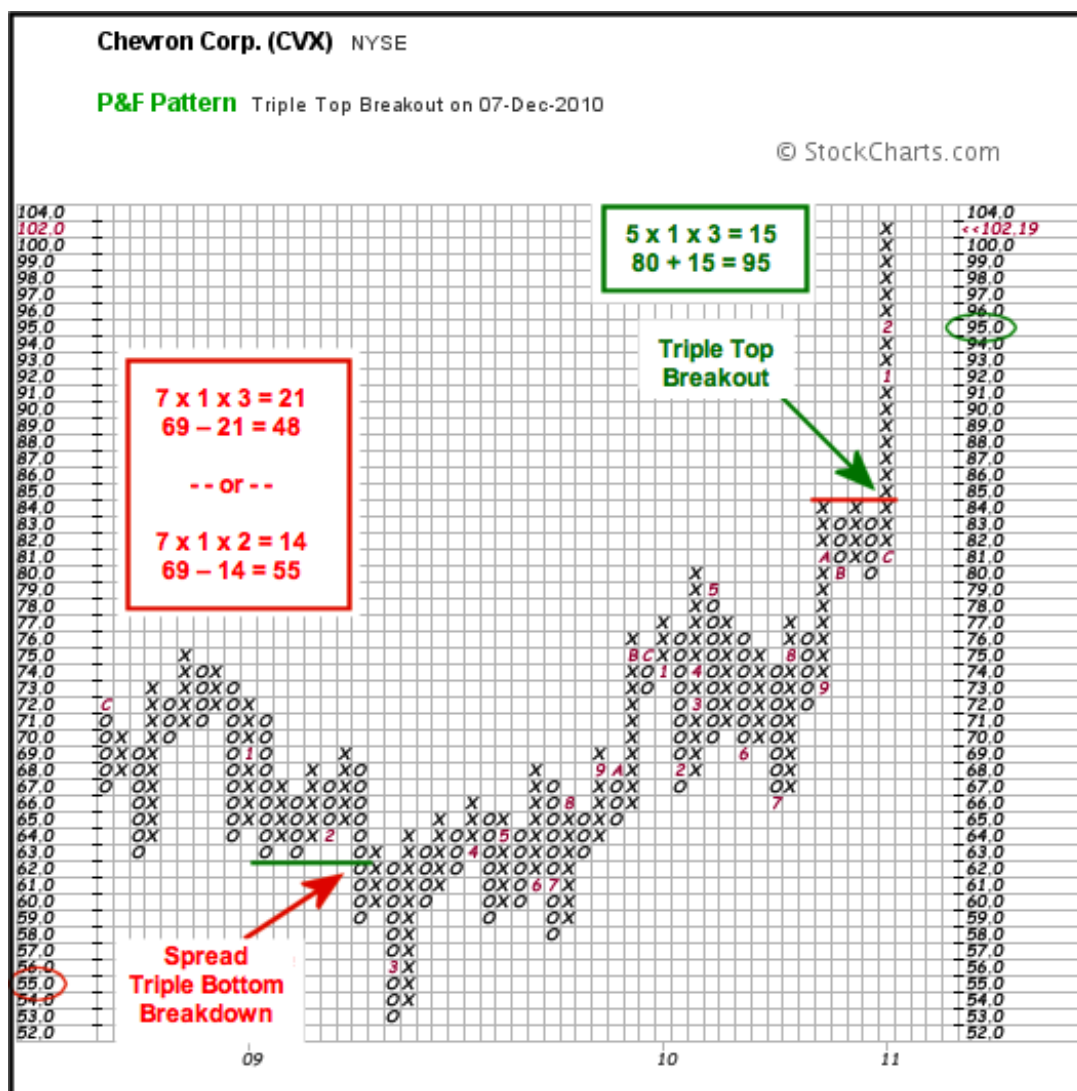
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Some sort of congestion pattern or reversal must form before chartists can consider the horizontal count. Some Point & Figure patterns qualify as congestion patterns. These include Triple Top Breakouts and Triple Bottom Breakdowns, Spread Triple Top Breakouts and Spread Triple Bottom Breakdowns as well as Quadruple Top Breakouts and Quadruple Bottom Breakdowns. These classic P&F patterns clearly mark a congestion period that ends with a subsequent support or resistance break. The chart below shows JP Morgan with a Quadruple Top Breakout in the upper right-hand corner. This Quadruple Top marked a congestion pattern as prices moved sideways from June (red 6) to December (red C). Notice that three reaction highs established a clear resistance level that was broken with the current column of X's. Some other classic congestions and breaks are shown as well.



The chart below shows Equinix (EQIX) with a pair of Spread Triple Bottom Breakdowns. This is just a Triple Bottom with a couple extra columns that spread the pattern a little wider. On the right-hand side, the red box marks the congestion pattern. Notice how the stock moved to the 93 box and then traded sideways in January-February (red 2). One month ends and the other starts with the red numbers. For example, January ends and February starts at the red number 2. EQIX broke Spread Triple Bottom support with a move below the prior two columns of O's.





As with the vertical count, some schools of thought only use 2/3 of the projected Extension for bearish Price Objectives. A.W. Cohen, a pioneer in P&F charting, advocated a 2/3 Extension for bearish counts. This probably has something to do with the bullish nature of stocks. His 1984 book, *How to Use the 3-point Reversal Method of Point & Figure*, was written with stock market trading in mind.

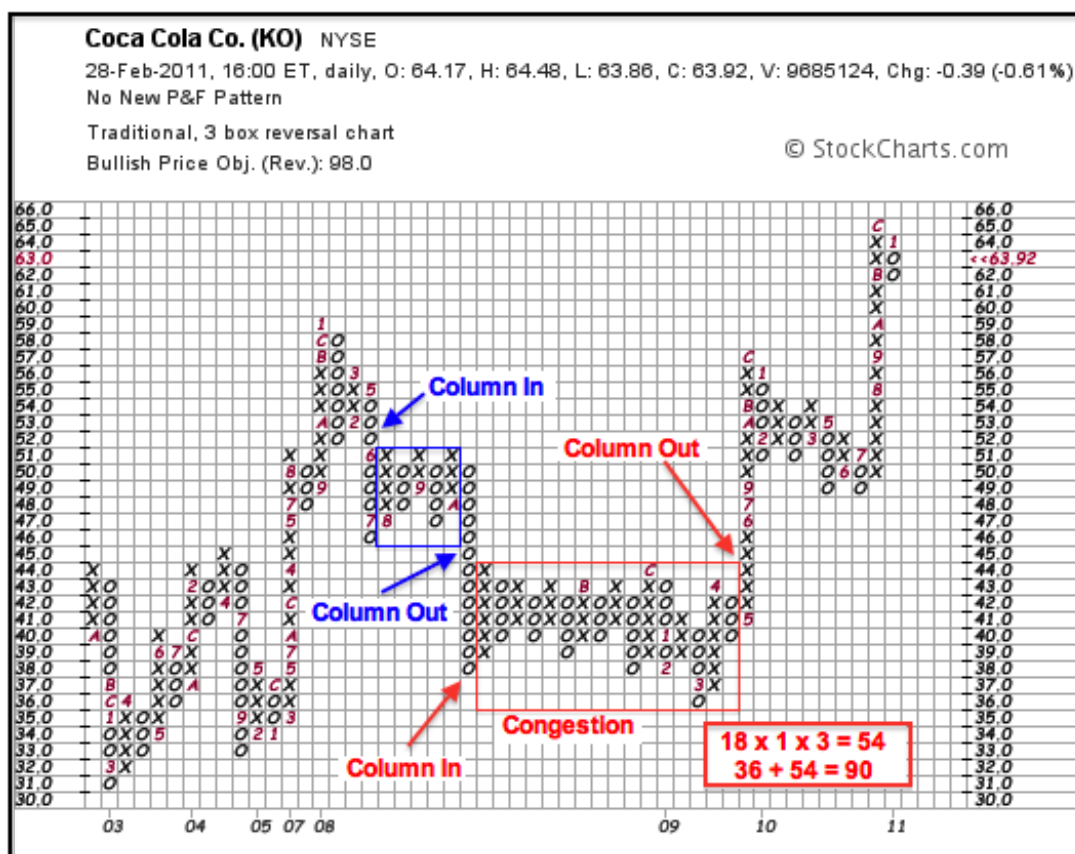
There is also a Triple Top Breakout on the Chevron chart. This pattern represents a consolidation after a sharp advance. The width of the pattern (5) is multiplied by the box size (1) and the reversal amount (3) for an Extension estimate ( $5 \times 1 \times 3 = 15$ ). This amount is then added to the low of the column for a bullish Price Objective ( $80 + 15 = 95$ ).

## Extended Congestions

While counting the width of a classic pre-defined P&F pattern is straight-forward, counting the width of an extended congestion pattern is a bit different. Counts for extended congestions include the column leading in, the actual congestion pattern and a column leading out. Also note that some P&F practitioners include the columns leading in with the classic reversal patterns shown in the prior section. This means a classic Triple Top or Bottom would have one more column added to the count, thus making the estimated Extension a little larger.

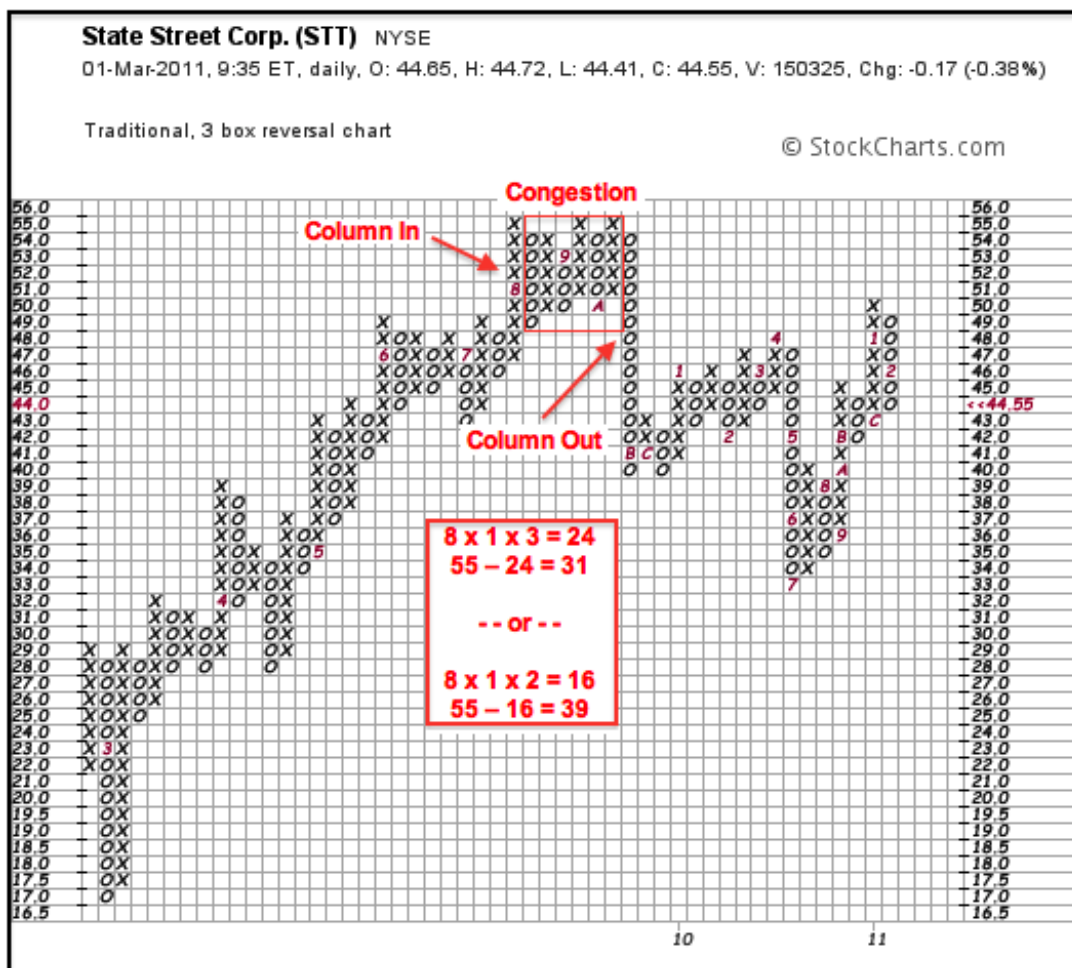
There are basically four pattern types that qualify as extended congestions. Two are reversal patterns and two are continuation patterns. First, a bullish reversal forms with a decline, congestion base, and an upside reversal breakout. Second, a bearish reversal that forms with an advance, congestion top and reversal breakdown. Third, a bullish continuation that forms with an advance, congestion pattern and continuation breakout to the upside. And finally, a bearish continuation forms with a decline, congestion pattern and continuation break to the downside.

For the two reversal patterns, the column leading into the congestion and the column leading out will be in different directions. A bullish reversal forms with a column of O's leading in (decline), a congestion base and a column of X's leading out that breaks congestion resistance. The chart below shows Coca-Cola (KO) with a bullish reversal pattern in red. The long column of O's establishes the downtrend. The congestion extends for 16 columns and the congestion ends with the breakout column leading out. All told, the width is 18 columns, which is exceptionally long. Using the formula above, the Price Objective would be 90 ( $18 \times 1 \times 3 = 54$ ,  $36 + 54 = 90$ ). Again, take these price objectives with a grain of salt and employ other aspects of technical analysis for confirmation. The KO chart also shows a bearish continuation congestion pattern (blue).



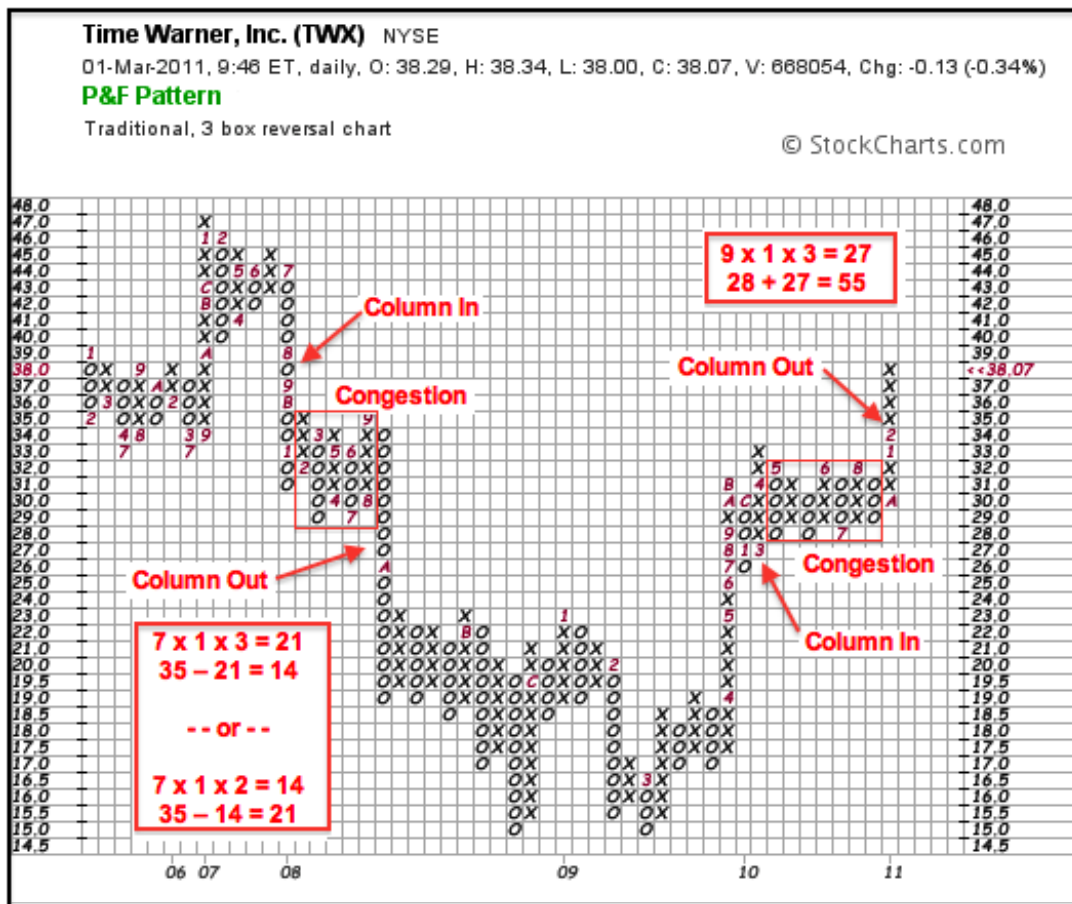
A bearish reversal forms with a column of X's leading in (advance), a congestion top and a column of O's leading out that breaks congestion support. The chart for State Street (STT) shows a column of X's leading in and forming a new high above 55. A congestion pattern then formed as the stock traded flat for six columns. Congestion support was broken when the column of O's exited the pattern to fix the width at 8 (1 column leading in, 6 for the congestion and 1 column leading out). As noted above, some practitioners use 2/3 of the reversal amount for bearish price Extensions. A full Extension targets a move to 31. A 2/3 Extension targets a move to 39.





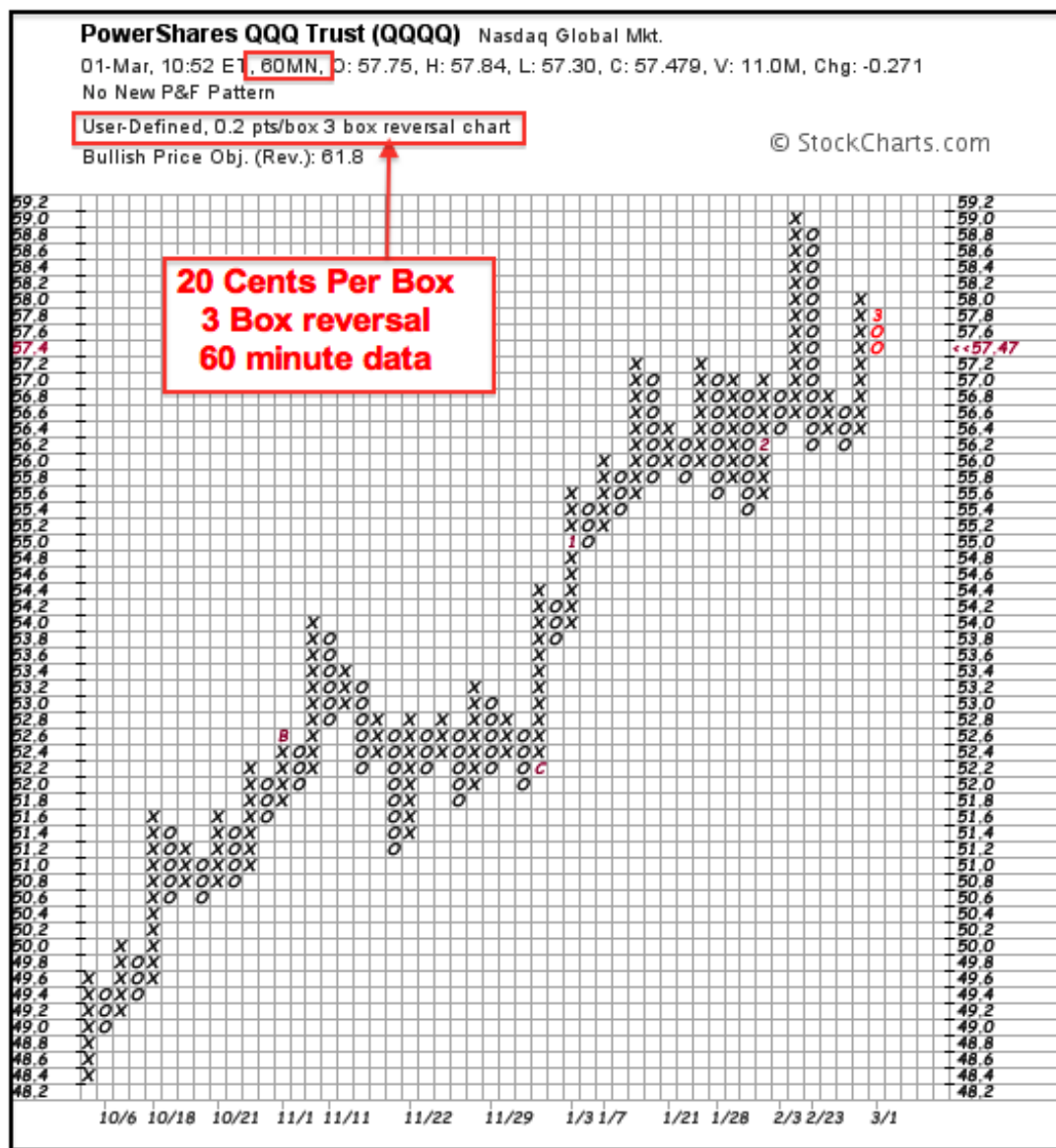
The lead-in and lead-out columns for continuation patterns are in the same direction. A bullish continuation consists of an advance with a column of X's leading in, a congestion and an upside breakout to signal a continuation of the prior advance. A bearish continuation consists of a decline with a column of O's leading in, a congestion and a continuation lower with a congestion support break.

The chart below shows TimeWarner (TWX) with a bearish continuation congestion and a bullish continuation congestion. The bearish pattern formed after a long column of O's breaking below the prior lows. The stock traded flat for five columns and then broke congestion support to signal a continuation lower. Two extensions were calculated. One based on the full extension and one based on a 2/3 extension.



## Signal Frequency

The examples shown above are based on daily price data with standard P&F box sizes. Securities priced from 5.01 to 20 have 50-cent boxes. Securities priced 20.01 to 100 have \$1 boxes. These daily P&F charts provide a fairly long-term picture as most extend back to 2009. Chartists looking for more signals should try making the box size smaller and using intraday price data, such as 60-minute data. A 20-50 cent box size with 60-minute data works pretty well for the 3-6 month timeframe.



## Assessing Risk

Establishing a Price Objective only covers the reward part of the risk-reward equation. Chartists should also study the chart to assess risk. For bullish patterns and upside price objectives, a move below support or the pattern low would clearly negate a breakout. The box just below the pattern low often marks the worst-case level for a pattern failure. Similarly, a Double Bottom Breakdown or a contradictory P&F pattern would argue for a reassessment. For bearish patterns or downside price objectives, a move above resistance or the pattern high would clearly negate a breakdown. The box just above the pattern high often marks the worst-case level for a pattern failure. Similarly, a Double Top Breakout or a contradictory P&F pattern would argue for a reassessment. There are sometimes failure clues before price hits the worst-case level. Chartists should employ other technical analysis techniques to measure risk and monitor the unfolding trend.

## Conclusions

Horizontal price objectives provide chartists with a general price target based on the width of the pattern. This makes sense. The longer a congestion pattern extends, the more energy stored up for the subsequent break. It is kind of like a smoldering volcano just



before it blows. While the breakout is the most important element for these patterns, nimble players may be able to anticipate a bullish resolution by buying near support. This would greatly improve the risk-reward ratio. From a P&F standpoint, however, the pattern is not confirmed until there is an actual breakout. Once a breakout occurs, very wide patterns can often produce unrealistic Price Objectives. While a stock can certainly go to zero, most will not even come close to zero. Therefore, horizontal counts that produce negative Price Objectives are best ignored. Similarly, a Price Objective that forecasts a 300% advance should also be taken with a grain of salt, especially if the stock is not part of the latest bubble. As with all indicator and techniques, it is important to confirm your findings with complementary technical analysis tools, such as momentum oscillators and chart patterns.

## Further Study

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Dorsey's book starts with the basics of P&F charting and then proceeds to the key patterns. Dorsey keeps his P&F analysis simple and straightforward, much like the work of P&F pioneer A.W. Cohen. As a relative strength disciple, Dorsey devotes a complete chapter to relative strength concepts using P&F charts. These concepts are tied in with market indicators and sector rotation tools to provide investors with all they need to construct a portfolio. There is also a section on using P&F charts with ETFs.

The Definitive Guide to Point and Figure by Jeremy du Plessis lives up to its title and is required reading for the Chartered Market Technician exam. Chartists can learn about 1-box P&F patterns/counts, 3-box patterns/counts and various trading strategies. du Plessis also shows how to apply P&F charting techniques to other analysis tools, such as relative strength and Fibonacci retracements. Plenty of real-world examples are provided throughout the text.