# P&F Triangles [ChartSchool]

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# P&F Triangles

## Introduction

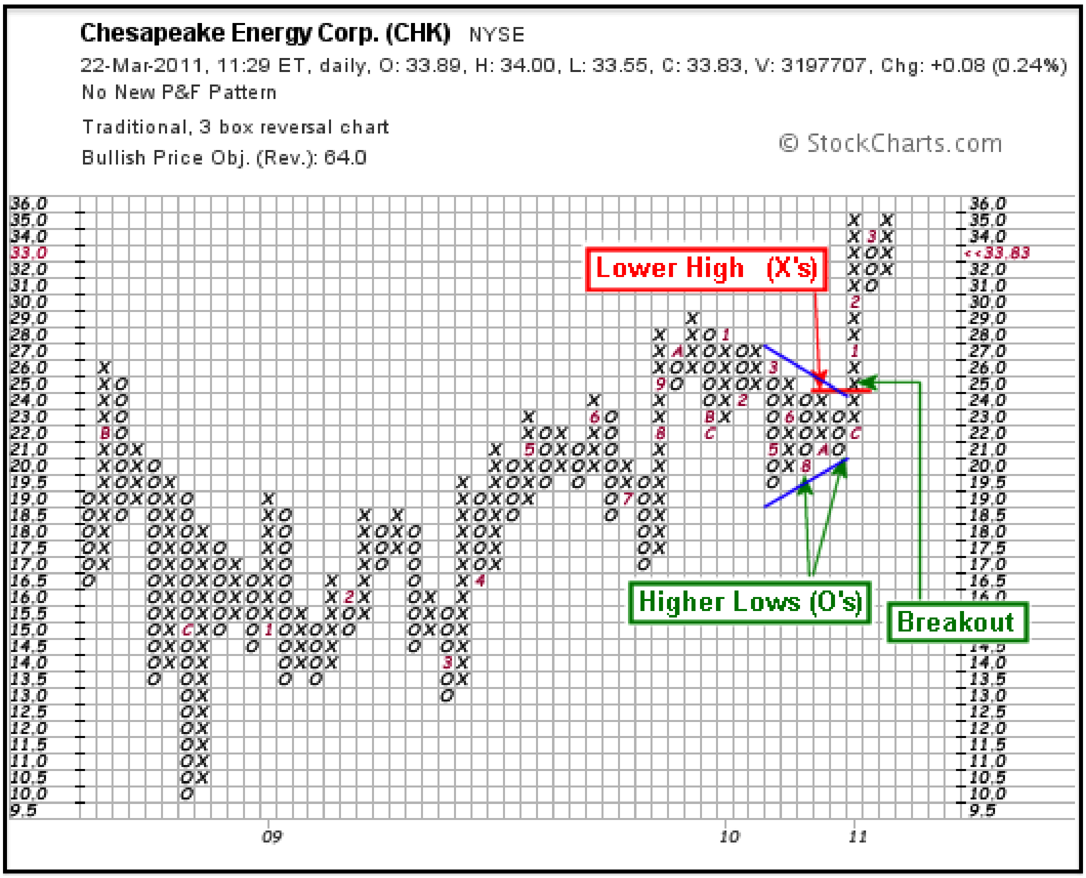
Triangles form as prices contract on a P&F chart. The X-Columns (up) form successive lower highs as the O-Columns (down) form successive higher lows. The inability of prices to break from this contracting range reflects a standoff between buying pressure and selling pressure. This standoff is resolved with the next P&F signal. A Double Top Breakout makes the triangle bullish, while a Double Bottom Breakdown makes the triangle bearish.

## Triangle Width

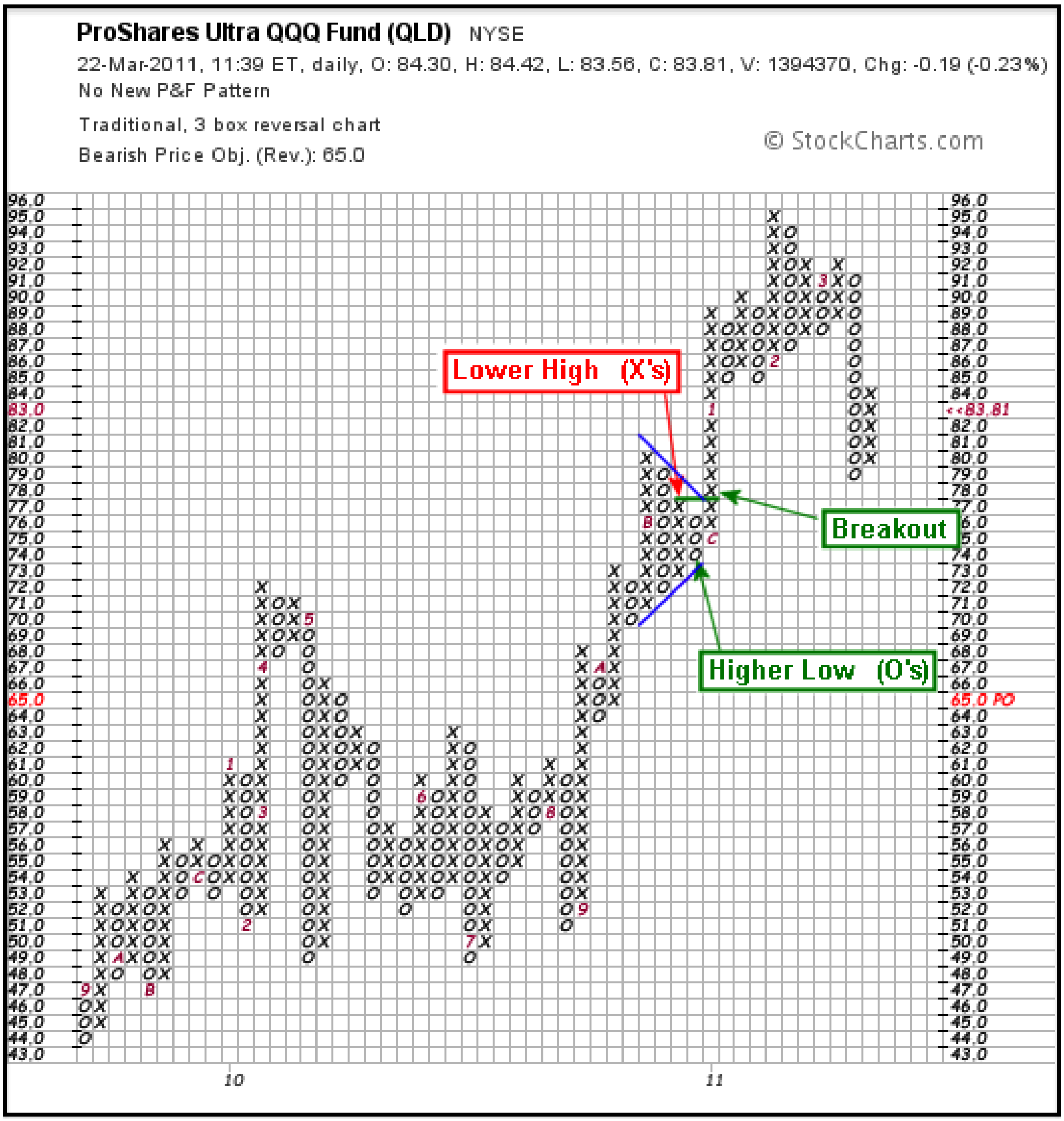
Triangles have at least five columns. The first four columns form the triangle and the fifth column marks the breakout or breakdown. There are at least two X-Columns with the second column forming a lower high. There are at least two O-Columns with the second column forming a higher low. Triangles can extend more than four columns as long as subsequent X-Columns continue forming lower highs and subsequent O-Columns form a higher low. Triangles are neutral patterns dependent on the breakout or breakdown for the signal.

## Triangle Breakout

A Double Top Breakout signals a bullish resolution to the triangle pattern. Note that a trendline break is not enough. A basic P&F buy signal, such as a Double Top Breakout, is required to complete the triangle and trigger the bullish signal.




The chart above shows Chesapeake Energy (CHK) with a triangle forming in 2010. The blue lines outline the triangle. Note that these lines do not appear on the chart. They were simply added to make the pattern more visible. There were two O-Columns with higher lows and one X-Column with a lower high. This pattern turned bullish with the Double Top Breakout at 25.

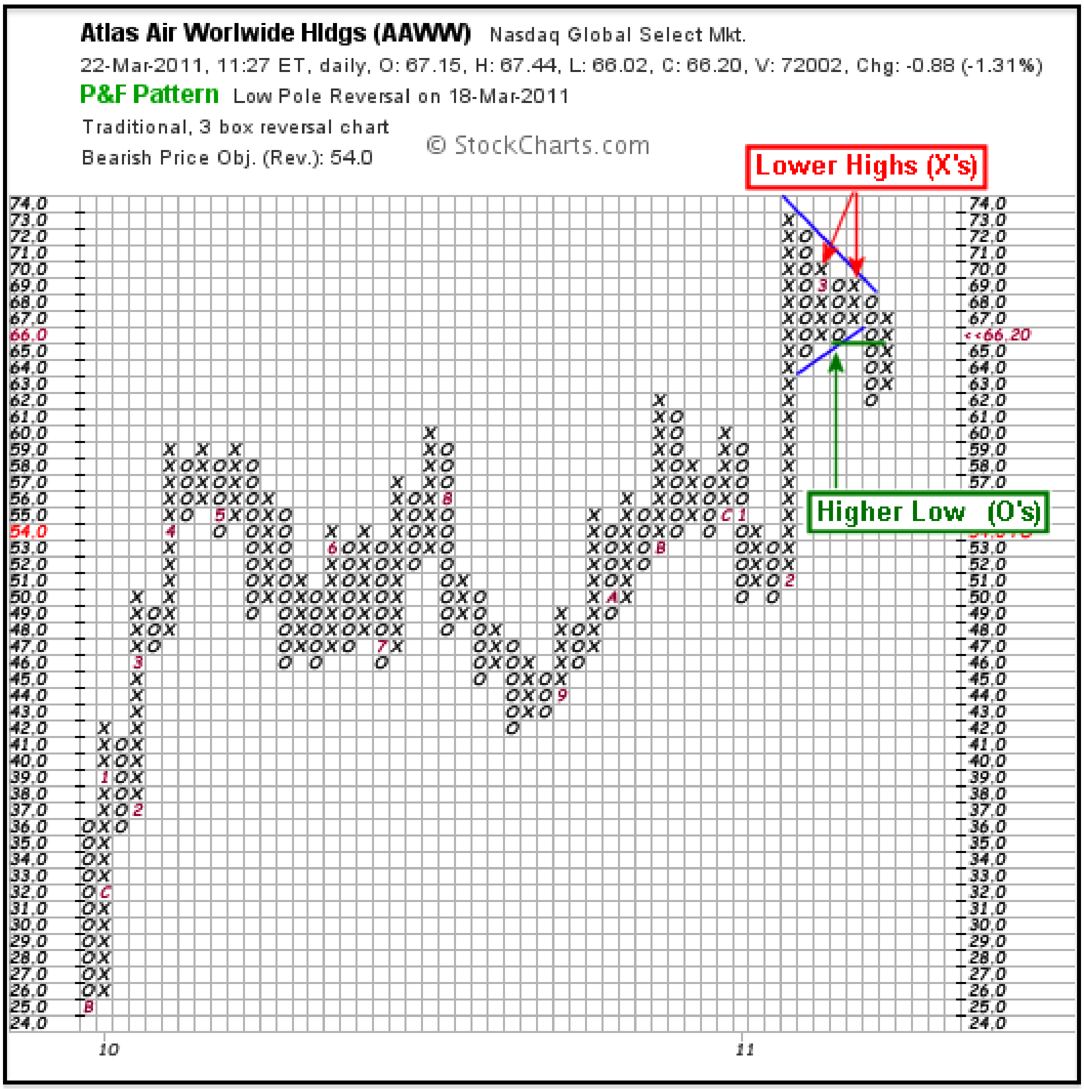



The chart above shows the ProShares Ultra QQQQ Fund (QLD) with a triangle forming after a sharp advance towards the end of 2010. This triangle represented a consolidation within an uptrend. Even though such consolidations are typically continuation patterns, they are still dependent on a breakout before turning bullish. After a lower high and higher low, the ETF forged a Double Top Breakout to confirm a Bullish Triangle.

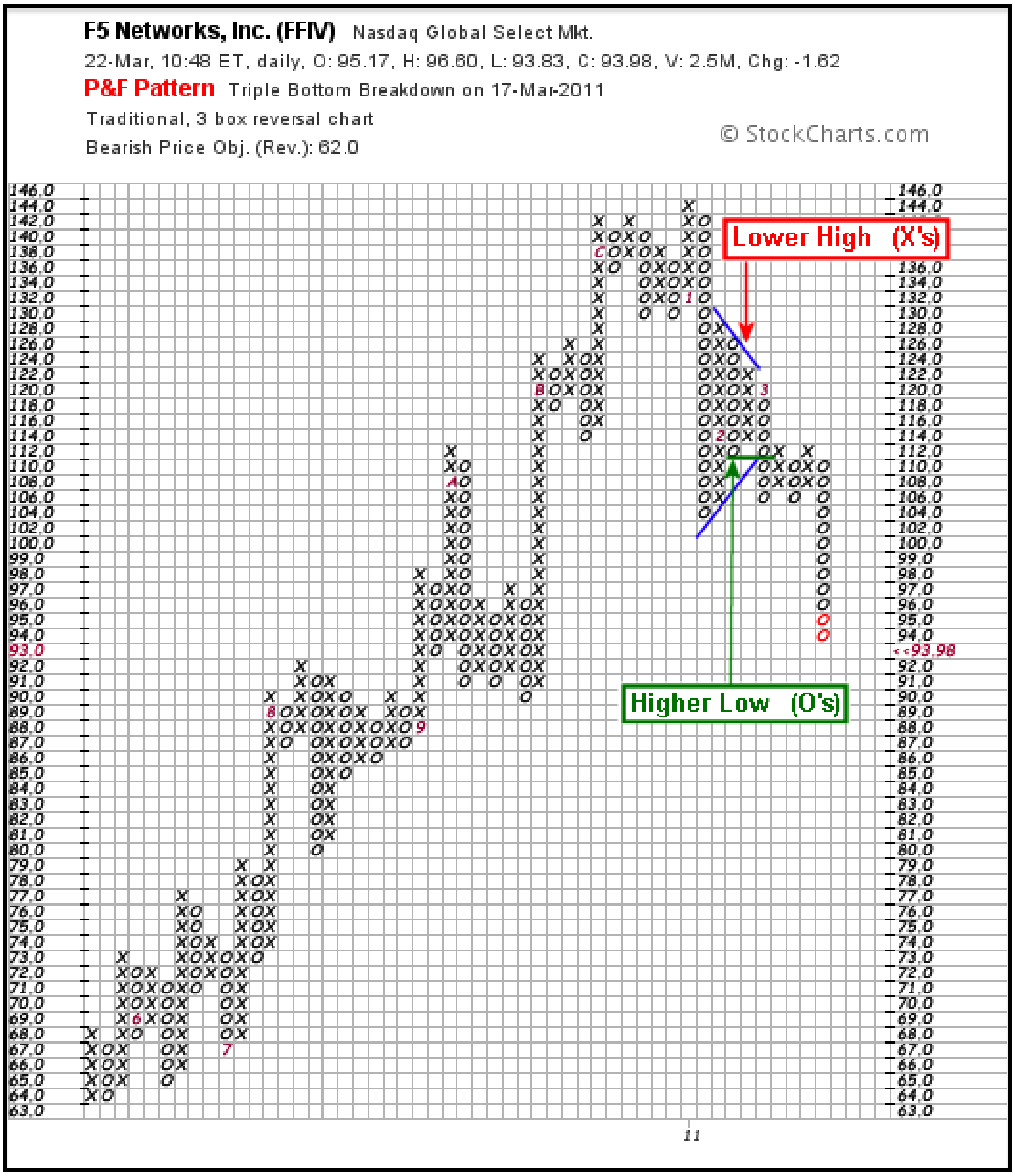
## Triangle Breakdown

A Double Bottom Breakdown signals a bearish resolution to the triangle pattern. Note that a trendline break is not enough. A basic P&F sell signal, such as a Double Bottom Breakdown, is required to complete the triangle and trigger the bearish signal.

The chart below shows Atlas Air (AWWW) with a long X-Column and then a triangle. While this pattern might be viewed as a potentially bullish continuation pattern, the triangle depends on a break for confirmation. After two lower highs and a higher low, the triangle broke to the downside with a Double Bottom Breakdown.




The chart below shows F5 Networks (FFIV) with a long O-Column that forged a Triple Top Breakdown. A consolidation formed after this long column and a triangle evolved. After a higher low and lower high, the stock continued lower with a Double Bottom Breakdown to turn the triangle bearish.




## Objectives and Risk

Chartists can use the Horizontal Count Method or the Vertical Count Method to establish Price Objectives. These are detailed in separate ChartSchool articles (click here). Price Objectives are not hard targets. Instead, they simply provide a guesstimate for an upside or downside objective.

Chartists should also study the chart to assess risk. After an upside breakout, a move below the low of the last O-Column would produce a Double Bottom Breakdown and invalidate a triangle breakout. Chartists should also employ other technical analysis techniques to measure risk and monitor the unfolding trend.

## Conclusions

Bullish and Bearish Triangles represent price consolidations that often precede a substantial move. This coiling of prices is similar to the tightening of Bollinger Bands. Volatility declines as the Bands narrow and as a Triangle coils tighter. A volatility contraction is often followed by volatility expansion, which produces the breakout or the breakdown. Short triangles (4 columns) after a sharp advance or decline are more likely to be continuation patterns. Large triangles (6+ columns) are more likely to mark a reversal. Regardless of the bias, a triangle is not confirmed until the Double Bottom Breakdown or Double Top Breakout.

## Further Study

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.