

WEALTH  BUILDERSHQ


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THINK TANK

WEALTH BUILDERSHQ

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Point and Figure

Today you will learn...

Breakout Strategies:

- ❖ The original style of charting
- ❖ Taking Time out of the equation
- ❖ Pure Price Action



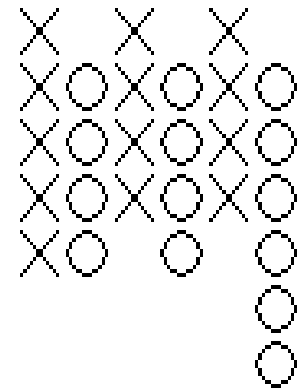
An Original



- This was the first charting technique used by western stock market traders
- Dates back to the late 1800's
 - Charles Dow references it
 - R.D. Wyckoff published many books
- Was created out of necessity
 - Traders “ticked” off prices of trades

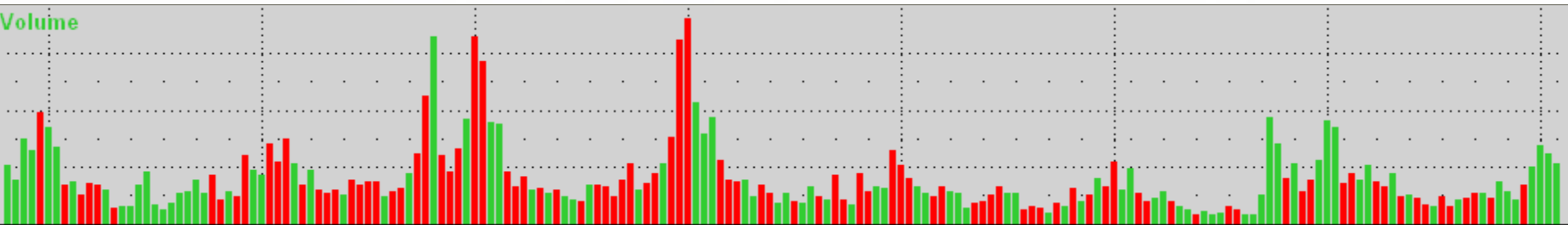
Pure Price Movement

- Bar or Candle charts have time as the X axis
 - Price action moves even without a change
- P & F charts only look at where price was trading
- Does not account for time
- If there was no price change – no notation



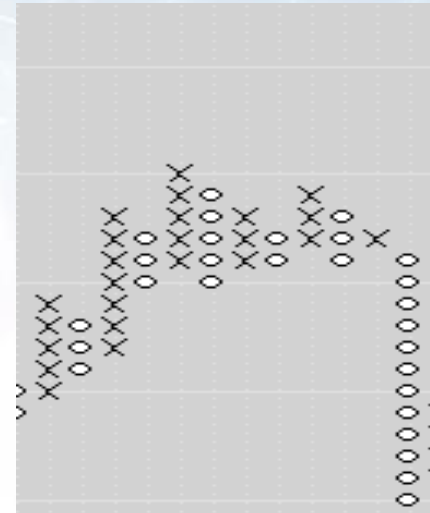
Volume

- Volume is not recorded separately like Bar or Candle charts
- Volume is reflected by the amount of price changes



Constructing a Chart

- We must determine the box size
 - \$1.00 per box
 - \$0.25 per box
 - \$50.00 per box
 - \$100.00 per box
- An X represents increasing prices
- An O represents declining prices



Constructing a Chart

- We must also determine Reversal Size
- The reversal distance is box size X reversal amount
- You can have various combinations
 - \$1 X 1
 - \$0.25 X 1



Construction of Charts

- Smaller Boxes = more sensitivity
- Smaller Reversal Size = more sensitivity
- Investors want less sensitivity
 - Able to see larger trends
 - Ignore market “noise”



Construction of Charts

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1 X 1 Chart

Day	Close Price
1	\$22
2	\$23
3	\$23
4	\$24
5	\$25
6	\$24
7	\$21

\$25	X	
\$24	X	O
\$23	X	O
\$22	X	O
\$21		O

For Larger Trends

\$27			X	X				
\$26			X	O	X	O		
\$25	X		X	O		O		
\$24	X	O	X			O		
\$23	X	O	X			O	X	
\$22	X	O	X			O	X	O
\$21		O	X			O	X	O
\$20		O				O		X
\$19							O	X
\$18							O	

1 X 1

\$27			X					
\$26			X	O				
\$25	X		X	O				
\$24	X	O	X	O				
\$23	X	O	X	O	X			
\$22	X	O	X	O	X	O		
\$21		O	X	O	X	O		
\$20		O		O		O		
\$19							O	
\$18							O	

New 1 X 3

By changing our reversal size to 3 (1 X 3 chart), we can filter out some noise

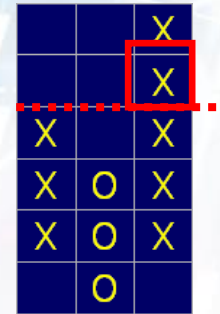
Charting the Indices

- We can chart broad market indices
 - S & P 500
 - DJIA
 - NASDAQ Composite
- Use larger box and reversal sizes
 - 2% of price level rounded down to decade or century number
 - 20 X 3
 - 50 X 3
 - 100 X 3
- You will see the larger trend better

Buy and Sell Signals

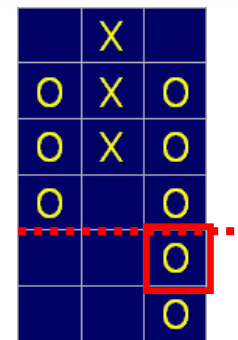
■ Simple Buy Signal

- When a column of X's rises one box above a previous column of X's
- Close Shorts
- Enter Long



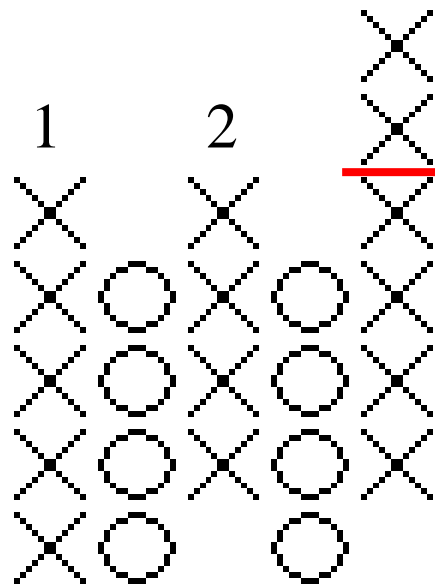
■ Simple Sell Signal

- When a column of O's drops one box below a previous column of O's
- Close Longs
- Enter Short



Patterns & Trend Reversals

Triple Top

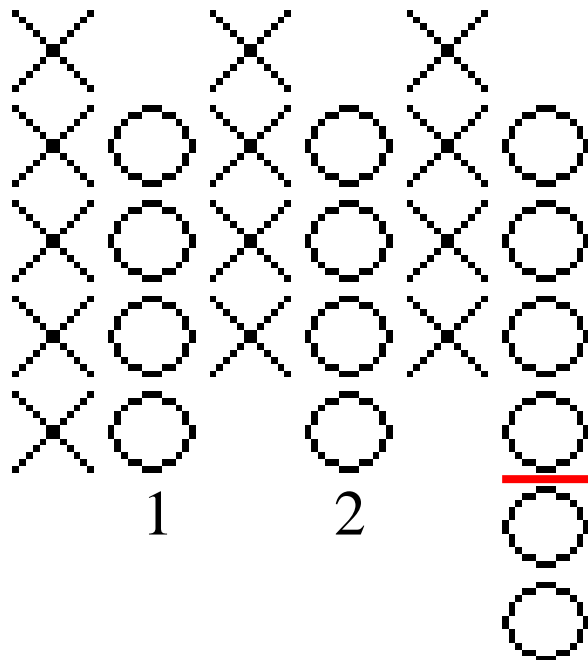


Break to upside on third top is buy signal

- Marks the reversal of a downtrend
- Or continuation of an uptrend

Patterns & Trend Reversals

Triple Bottom



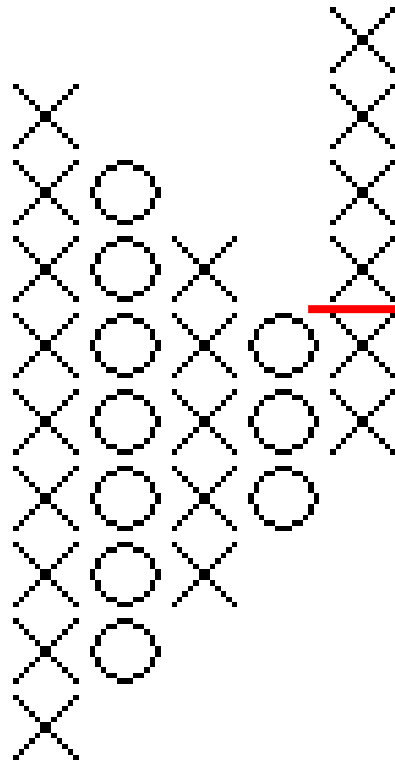
- Marks the reversal of an uptrend
- Or continuation of a downtrend

Break to downside on third bottom is sell signal

Patterns & Trend Reversals

Symmetrical Triangle

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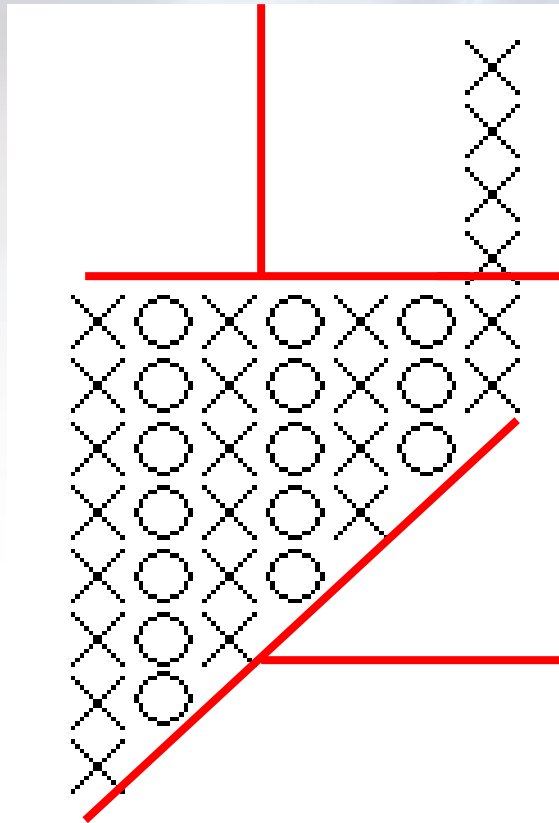
- Continuation of trend after consolidation
- Bullish or Bearish depending on previous trend and breakout direction

Break to upside is a buy signal

Patterns & Trend Reversals

Ascending Triangle

Hitting Resistance



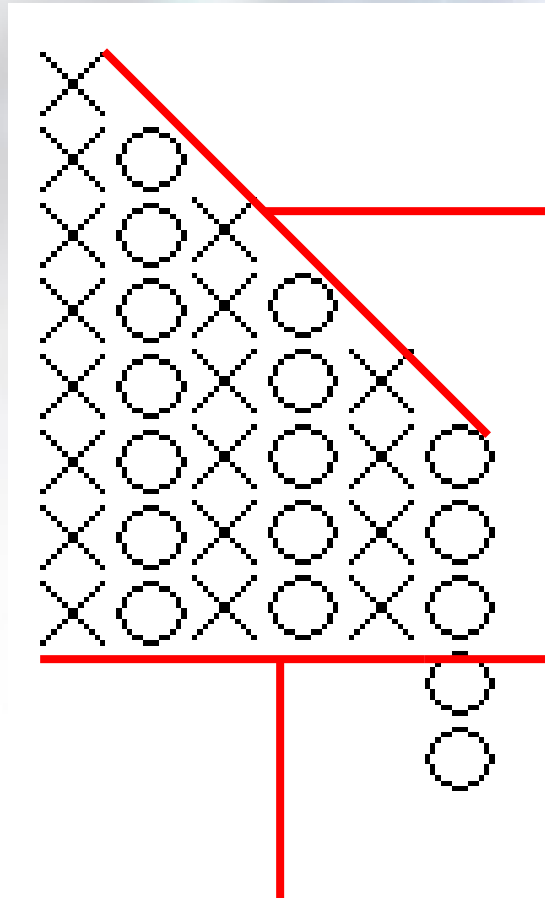
- Continuation of uptrend after consolidation

Break to upside is buy signal

Higher lows showing strength

Patterns & Trend Reversals

Descending Triangle



Lower Highs
Showing Weakness

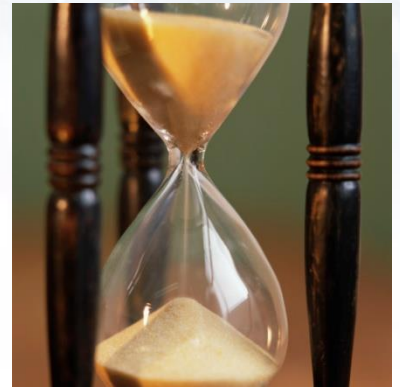
- Continuation of downtrend after consolidation

Break to downside is sell signal

Hitting Support

Horizontal Price Projections

- Price Projections do not have a timeframe
 - May take days or weeks to accomplish
- Horizontal Price Projections
 - Best for 1 box reversal charts
 - 1 X 1
 - \$0.25 X 1
 - 50 X 1
 - Also work on 2 or more box reversals
 - Needs slight modification



Horizontal Projections

1. Find an area of congestion
2. Count the number of boxes in that row (include empty boxes)
3. Add that number to that row to find your targets
4. Wait for buy or sell signal

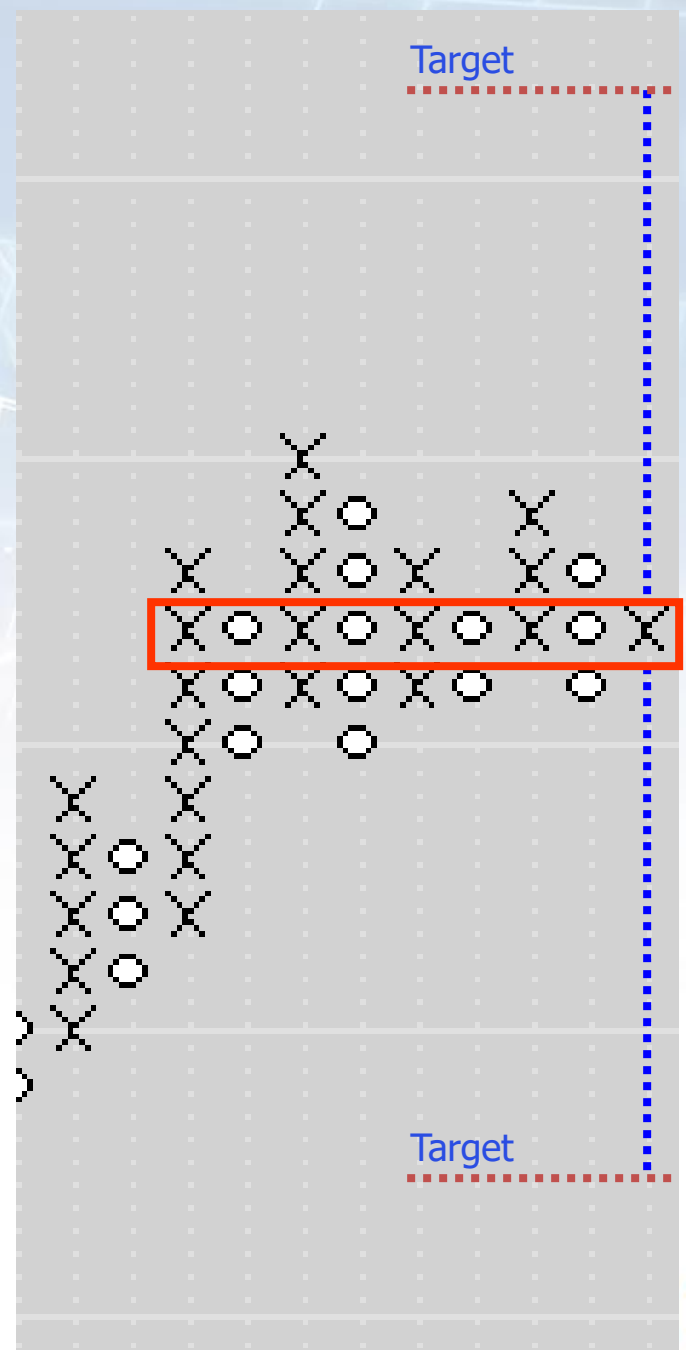
\$39

\$30

\$21

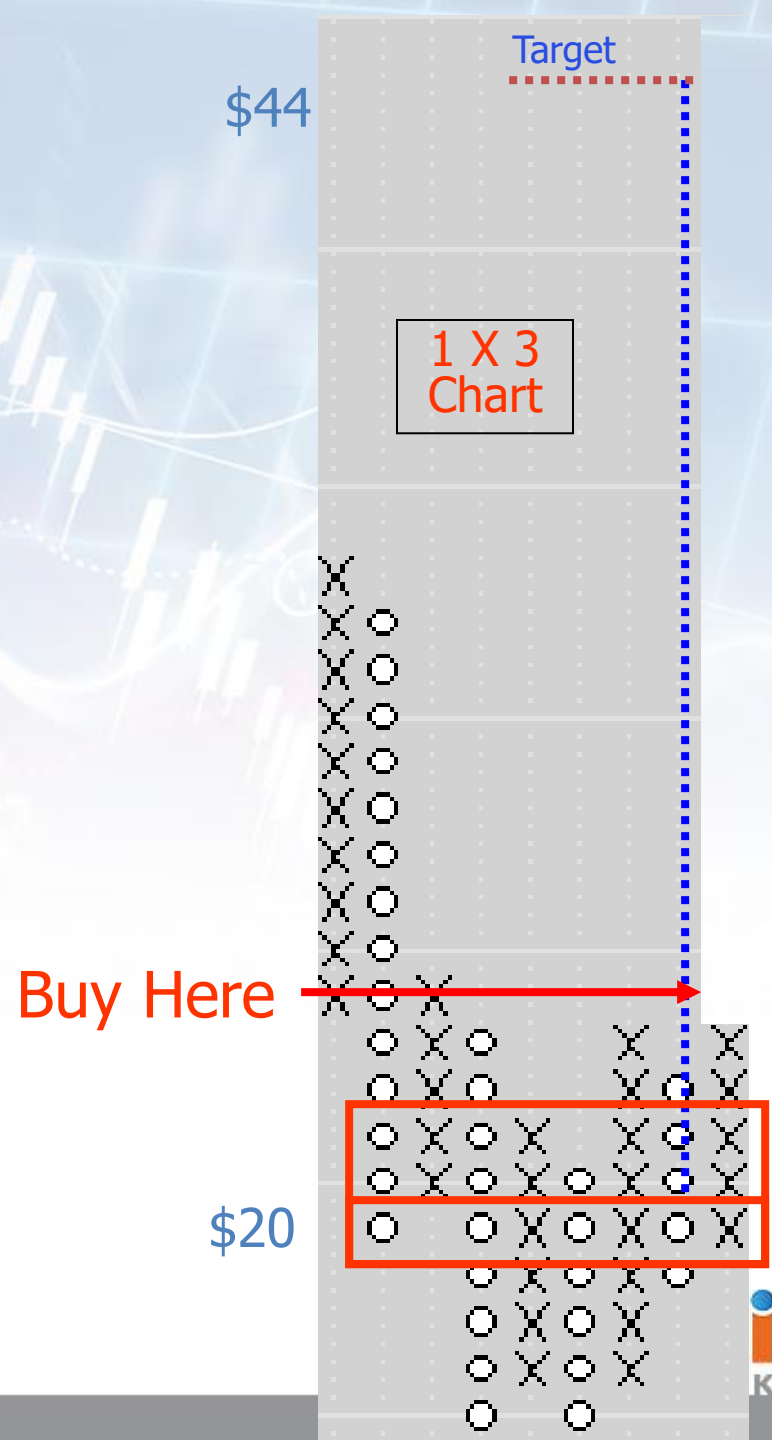
Target

Target



Other Horizontal Projections

1. Find an area of congestion
2. Count the number of boxes in the base row (include empty boxes)
3. Multiply that number by box size and reversal size and add to the base row to find your targets
4. Wait for buy or sell signal

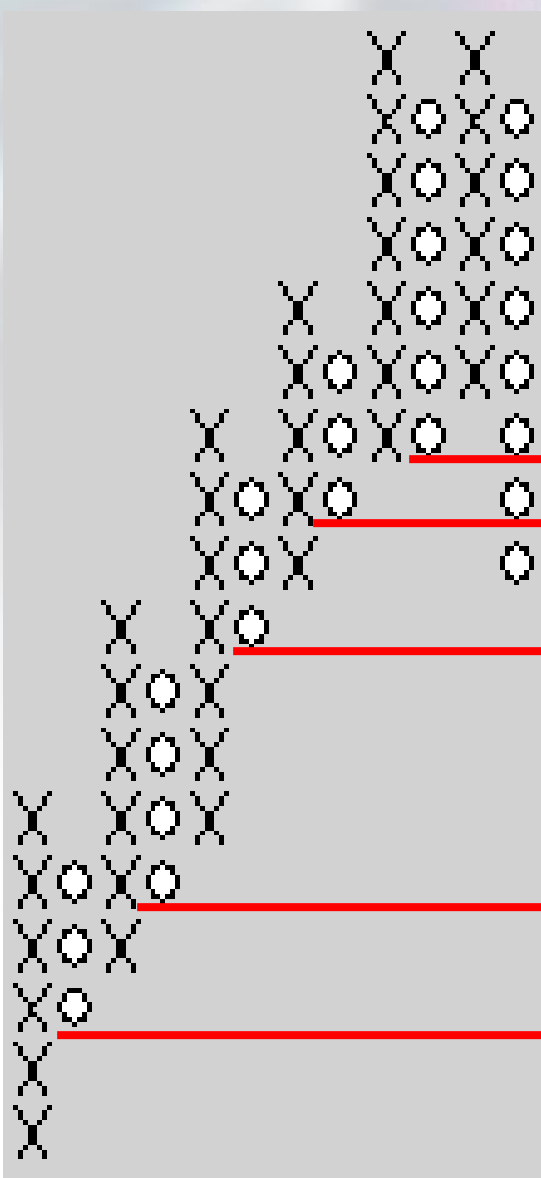


Stops



- Suggestions for Stops:
 - Place stop below last column of O's in uptrend
 - Place stop above last column of X's in downtrend
 - After a large 10 box pole move
 - Place stop where a 3 box reversal would occur
 - You can trail price this way

Stops in Uptrend



Place stop below last column of O's in uptrend

Stop moved up and we are stopped out when price breaks down

Stop moved up

Stop moved up

Stop moved up

Initial Stop placed here

Stops in Downtrend

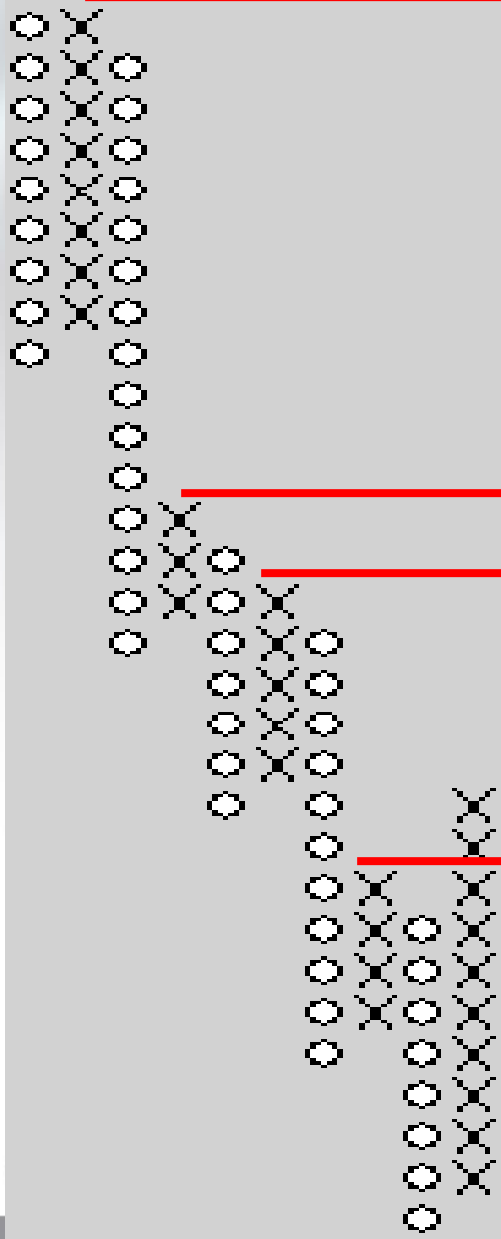
Initial Stop placed here

Place stop above last column of X's in
downtrend

Stop moved down

Stop moved down

Stop moved down and we
are stopped out when price
bounces from lows



Placing Stops

After a large 10 box pole move

10th box
Initial Stop

- Place stop where a 3 box reversal would occur
- Don't give back profits!

Break out and entry

Risk vs. Reward

- You should always maintain proper risk to reward ratios
 - 3 Reward : 1 Risk
- Knowing your entry, stop, and projected target, you can calculate risk

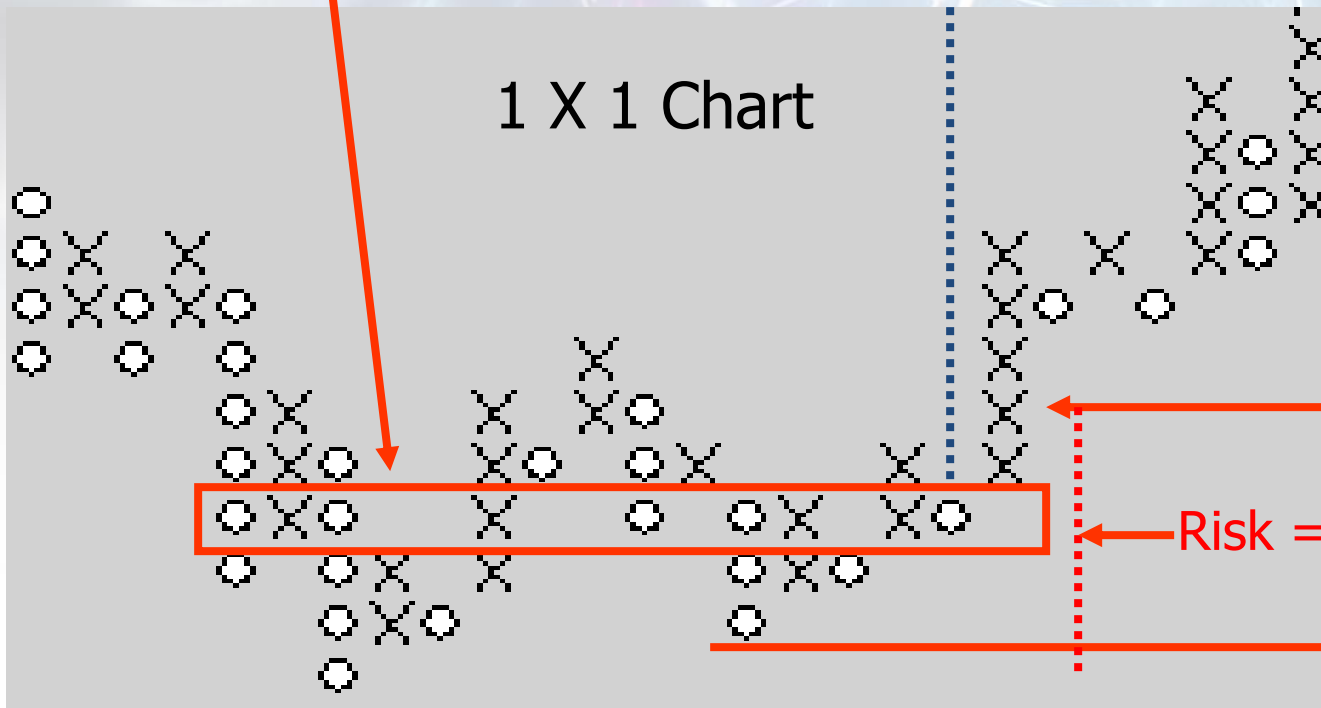


Risk vs Reward

Target/Reward is \$16

Counting Row

1 X 1 Chart



Long Entry

Risk = Entry - Stop (\$5)

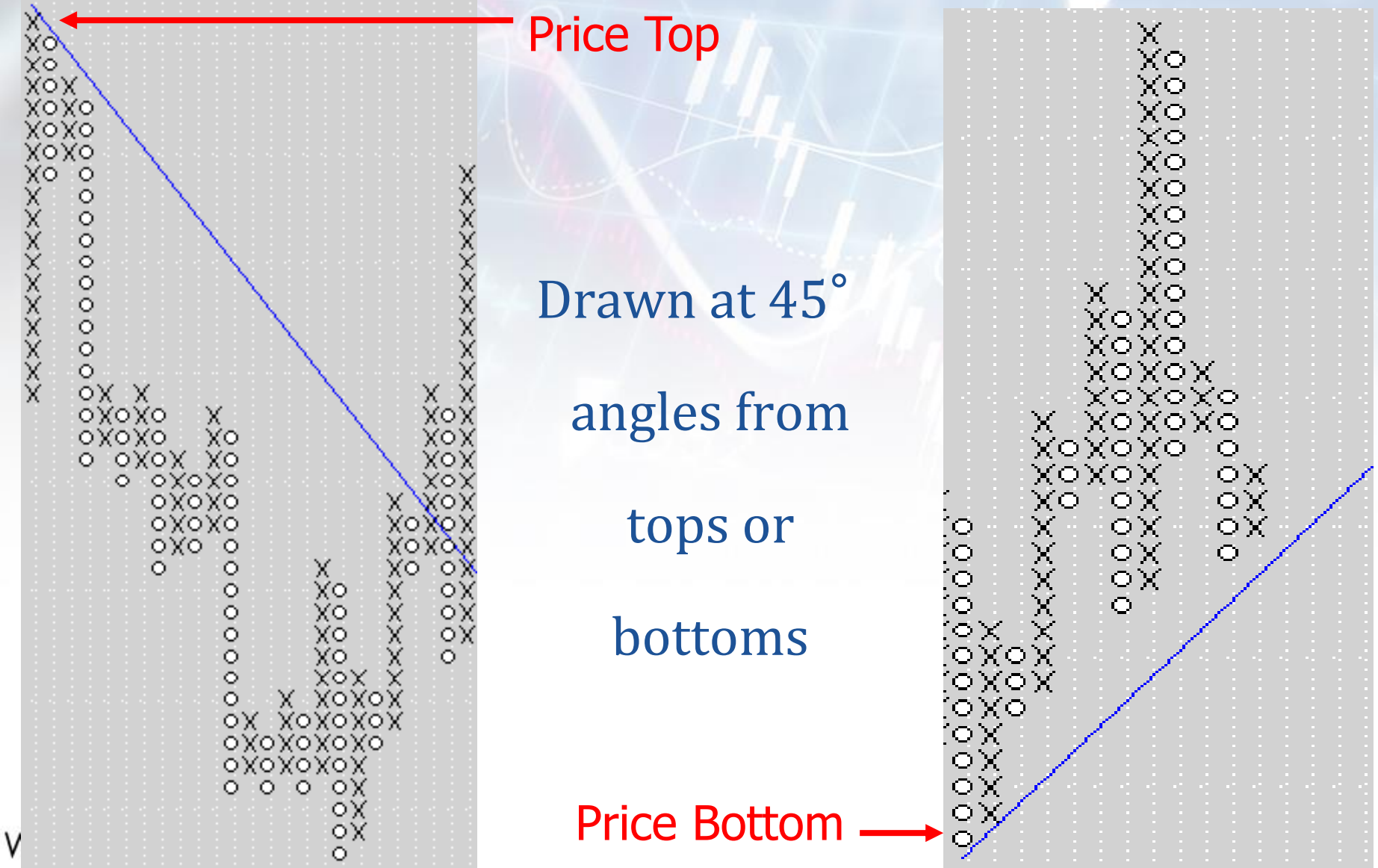
Stop

Trendlines

Price Top

Drawn at 45°
angles from
tops or
bottoms

Price Bottom



Strategies



- Permanently active in the market
 - Buy Signal – Cover shorts, Go Long
 - Sell Signal – Cover Longs, Go Short
- Reduced Risk
 - Use simple signals for exits only
 - Only open positions on complex signals

Strategies

- Trendline Filter
 - Above Trendline:
 - Buy Signals – Enter Long
 - Sell Signals – Exit Long (no shorting)
 - Below Trendline:
 - Sell Signals – Enter Short
 - Buy Signals – Exit Short (no long entries)
 - For Stop Loss
 - Stop long below last column of O's in uptrend
 - Stop short above last column of X's in downtrend



Strategies

- Many other strategies can be employed
 - Buying or Shorting after 1st three box reversal after breakout
 - Buying 3 box reversal in direction of original breakout
- **Always set a Stop Loss!**
- Maintain your 3:1 Reward

