

Understanding Point & Figure Breakouts

User of the Investors Intelligence services will be familiar with the daily breakouts – automatically produced technical signals that highlight trend reversals in stocks, indices and other instruments. Breakouts are released after the market close and can be found on the

www.investorsintelligence.com website under signals/daily breakouts or in the Daily Market Statistics website.

To understand the nature of P&F breakouts, consider that classic P&F analysis considers all charts to be either in uptrend or downtrends. The definition of a P&F uptrend is a chart that displays a rising column of "X"s that pushes above the previous column. The chart of Travelers Companies Inc (TRV) shows a nice steady sequence of these. This stock first moved to a bull trend in June 2009 when the price moved to \$43 dollars.

In order to move to a bear trend, the chart would need to reverse down to post a “lower low”, dropping below the January low at \$52. At that point the stock would be flagged as a “Bear Breakout”.

Calculating stops & targets

When a breakout is posted for a stock, we calculate estimated stops and targets. You can find these in the Daily Market Statistics email or listed in the "Signals" section of each chart page (lower left hand side of the page)

II's P&F stops and targets are technically based – more volatile stocks will show more extreme targets and more distant . To determine the vertical count for a buy the low point, multiply by the box size and multiply by 3.

For example, in “Bull” breakout” example opposite, the stock generated a triple top buy at \$56 but the low point was the first column of Os down to \$51. We therefore count the column of Xs next to this column i.e. 4 boxes, multiplied by the box size (\$1) multiplied by 3 = \$12

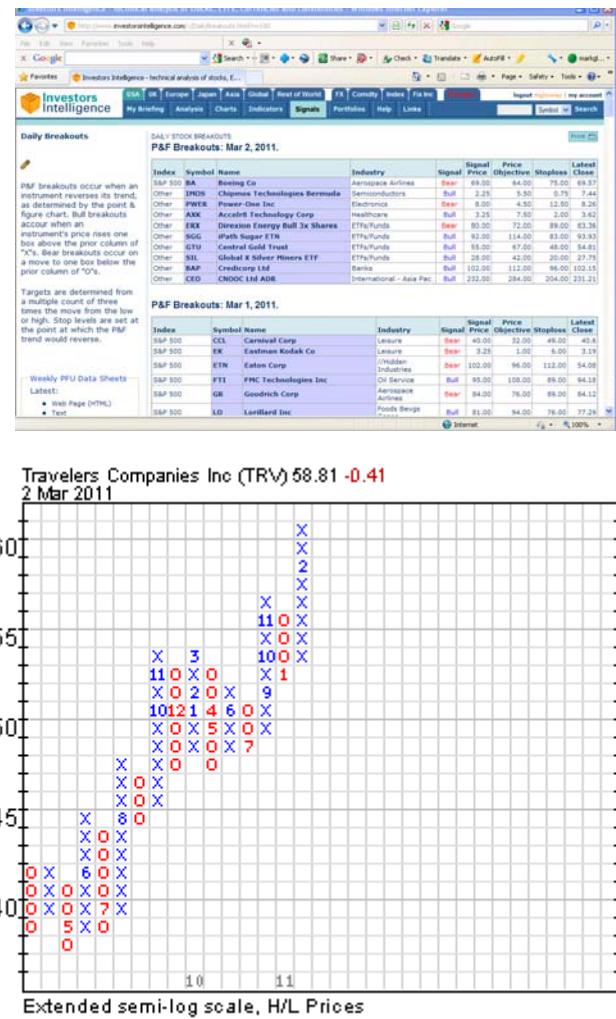
To get the price objective, we add \$12 to the low point i.e. $\$51 + \$12 = \$63$

Stop levels are placed below the prior lows. Should the stock post a "higher low" in due course, the P&F stop level will be automatically adjusted upwards.

Uses of P&F breakouts

Please note, all automated signals should be treated as a potential trading opportunity – but should not be followed blindly. False signals may be triggered by events such as poor or inaccurate price data, corporate actions and other events. Stops and signals may not take into account nearby technical or value based levels. Many traders use P&F signals as a “front end filter”, and review each signal before trading, taking into account long-term trends, nearby support and resistance and other technical factors such as index and industry trend and breadth strength.

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