Market Dynamics

Volume 9, Issue I132

March 26, 2010

Point And Figure Charting Is So Old-fashioned As To Be Useless

Performance Management System

Portfolios heavy with under-performing stocks almost never outperform the market.

Ignat's Law

It is better to assume, as investors used to, that all stocks are being manipulated, more or less all the time. Recent legal action suggests that the use of inside information is still alive and well on Wall Street. The long-term P&F charts evolved to help investors avoid being victimized by these techniques.

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I often hear the opinion that point and figure charting is so old-fashioned as to be passé. This is a common and widely held belief. Does it stand up in the real world?

It is a matter of the record that point and figure charting has been used by investors since the time of World War I, if not before. I have used point and figure charting for many years to considerable success for myself and my clients.

The three box of point and figure charting allowed many investors to keep charts from the quote pages of a good daily newspaper. The investor became more acquainted with the ups and downs of the price trends and the charts were up to date and did not suffer from the time lags of a subscription to a mailed chart service.

The three box method followed a very important methodology that had the unintended consequence of removing the noise from the price data. The long-term trends that accumulated from the random short-term fluctuations in the stock price proved to be very useful to investors.

Major trends stood out on these charts but more importantly, reversals in trend could also be identified as they were being recorded. The reversals that appeared in the trends on these charts provided action signals for the investor to change his position.

In the early days of the twentieth century a stock's price was often under promotion or outright manipulation by the big operators and those "in the know" on Wall Street. The P&F charting technique allowed outside investors to keep track of the activities of the investment pools and the other schemes of stock market manipulation.

Manipulation was outlawed in the 1930's, but the charts continued to work much as they always had. During the post WW II bull market the fads and crowd following bullish trend moves continued to be observed on the long-term charts. This is true even down to the present time as shown by the experience with these charts during the Internet Bubble.

There is little doubt that in this modern world of high speed computers and instantaneous news distribution that investors have come to believe that by moving faster they can achieve an advantage in the market. This belief is probably unfounded but very short-term methods of trading are now highly popular on Wall Street. It is interesting to note that a short-term trading orientation places individual traders in competition with the most skilled and best informed players in the market. An outside trader who believes he can consistently beat the trading desks of Wall Street at their own game is deluding himself.

The long-term investor using long-term methods is a rare commodity on Wall Street these days. The volatility of price movements has increased as a result of this short-term trading orientation. However, the long-term P&F charts still perform a remarkable job of removing this short-term noise from the price data and the long-term trends still show through much as they always have. The increased volatility in the stock market has actually produced the unintended consequence that short-term trading has probably never been more difficult. The inner circle on Wall Street still utilizes its position to take advantage of individual traders but the investor is still being protected by the long-term trends on the P&F charts.

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