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Figure Charts, Counts and Counting

An important part of the Wyckoff approach is the use of figure charts. Figure charts are a tool that Wyckoff traders can use to compress the action of the market or an individual issue to provide a perspective that may not be effectively provided by a bar chart. They provide an insight as to the future level of the market or future price of an individual issue. They can be effectively used as a supplement to the study of price and volume action and they can be grossly misused by traders who are caught up in wishing and hoping for things that have little chance of ever being realized.

Figure charts come in a wide range of shapes and sizes. In order to be a effective tool in a market operation, a trader must learn how to select the type of figure chart that it best suited for the chosen type of market operation. To some extent this has to be a trial and error exercise. However, there are some general guide lines that can prove helpful. The most important of these is to match the time frame of the figure chart that is used to the time frame of the market operation. If a Wyckoff trader is focusing on a short term market operation, he is likely looking for moves in individual issues of ten to fifteen percent in a four to six week time frame. This type of operation requires a more sensitive figure chart. For moderately priced issues that normally means a one point figure chart. However, for low price issues, a half point figure chart may be selected to provide the sensitivity needed to measure the smaller moves that these issues usually make. For very low priced issues, a Wyckoff trader may even choose to use a quarter point figure chart. If a trader is operating in an intermediate time frame focusing on twenty-five to forty percent moves over three to six months, the one point figure chart may still be acceptable for most moderately priced issues. In this type of operation, a trader might also want to use the one point figure chart for lower priced issues as well to reduce the sensitivity of the chart allowing the trader to focus on the more important developments. In a similar manner, the intermediate trader might choose to use a two point modified or five point modified figure chart for high priced issues or those that have a history of being especially volatile. The longer term investor looking for moves of fifty percent or more perhaps lasting as long as a year should focus on the modified variety of figure chart so as not to be distracted by shorter term developments.

A figure chart will not help a Wyckoff trader assess the quality of the price and volume action of an issue or a market. Its purpose is to provide a projection of future value. It does this with the development of a count. A count is a vertical projection based on the horizontal development on the figure chart produced by the price movement from day to day and in some cases even intra-day. The count taken at a particular price level includes all of the horizontal divisions on the chart at that level whether there is a positing in the division or it is blank. As long as the price trades at or around the level being counted, the count provides a measure of the amount of potential being built for the advance or decline that will follow. When the price leaves the area in which the count level is located, the count is actually taken and the target of the anticipated move is indicated.

The manner in which a Wyckoff trader selects the level at which the potential is measured and at which the count is taken depends on whether an advance or a decline is anticipated based on the character of the price and volume action. If the trader is anticipating an advance, a sign of strength and the last point of support that follows the sign of strength are identified. A sign of strength may be a spring position and the response to the spring. It could be a jump across the creek. It might also be a rally within a trading range accomplished on widening price spreads and increased volumes. In the case of the spring and response, the last point of support is the test of the spring. For a jump across the creek, the last point of support is the low point of the back up. If the sign of strength was an aggressive rally within the trading range, the last point of support will be the low point of the correction that follows the sign of strength. In each case, the potential is measured and the projection of future value is made from the last point of support.

If a Wyckoff trader is anticipating a decline, a sign of weakness and a last point of supply must be identified to determined at what level the potential should be measured and the count taken. Signs of weakness include an up thrust and response, a fall through the ice and a reaction within a trading range that unfolds on widening spread and increased volume. The last point of supply following an up thrust and response is the test of the up thrust. The rally back to the ice is the last point of supply following a fall through the ice. The last point of supply following an aggressive reaction within a trading range is the high point of the corrective rally that follows the reaction.

If a spring position or an up thrust position makes a small penetration of the support level or resistance level being penetrated and if the level of volume on the penetration is a small percentage of the average volume, the indication of strength or weakness and the last point of support or supply will be represented by the spring or up thrust. In these cases, there may not be a clearly defined test. Therefore, the trader is justified in measuring the potential and taking the count from the low point of the spring or the high point of the up thrust. Even if a test is anticipated, a trader may want to take a count from the spring or up thrust so as to get a more conservative indication of potential an objective. Wyckoff teaches that the most conservative count should always be taken first and that the decision to trade or not to trade should be based on the projection of the most conservative count.

Many times, counts can be broken into phases. Within a trading range, the price may rally and react several times before the last point of support or supply is reached and the price is ready to leave the range. If an up count is being taken, the low point of each reaction in the trading range represents the end of a phase. If a down count is being taken, the high point of each rally in the trading range represents the end of a phase. In addition to indicating the objective of the entire count, a Wyckoff trader should identify the objective as each phase is added. This is done because the reaching of each of these interim objectives is potentially the end of the move. As each objective is reached, the trader needs to focus on the character of the price and volume action looking for indications of continuing bullish or bearish action or for a change in the character of the action. If there is no change in the character of the action, the trader can look to the next indicated objective. If there is a change in the character of the action, the trader needs to be more defensive in the management of that position even to the point of closing out the position even if the maximum objective is much higher or lower.

Frequently as larger long term moves unfold, the price will move into short term trading ranges along the way to rest following a thrust. Often, these resting spells occur in and around the objectives of phases in a larger count. These trading ranges build short term potentials resulting in short term counts that may confirm the objective of the next phase of a larger count. If so, they are called stepping stone confirming counts. They provide an indication that the move will be continuing and not ending.

Counts on a figure chart should never be considered to be more than an indication only. Once set in place, they do not guarantee that the price will reach the indicated objective. Above all else is the character of the price and volume action. In the final analysis, it determines what is possible and likely. If a position is held in an issue where the indicated objective is higher or lower than the current price but there is a change in the character of the action in that issue, the trader needs to respond to that change in character. The response may be to increase the level of protection. The response may be to close the trade. Opting to do nothing in response frequently results in ending up with less than was possible and much less than was anticipated.