ABE COFNAS is the forex trading columnist for Futures magazine since 2001 and has written over 100 columns on forex trading strategies and tactics. He is also the author of two Wiley titles, The Forex Trading Course and The Forex Options Course. He has, for over two decades, provided fundamental and technical analysis on trading strategies in currencies and inter-markets. He is the founder of learnedFX.com, which provides private coaching and seminars on currency trading. In 2008, he formed FXDimensions Inc., a third-party trading system and signal development company that has pioneered the concept of Trading Avatars. He is the founder of learn4x.com, which provides private coaching and semi-private coaching, and has lectured in London and Dubai (with appearances on CNBC Arabia) and continues to work and signal development company that has pioneered the concept of Trading Avatars. He is the founder of learn4x.com, which provides private coaching and semi-

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SENTIMENT INDICATORS
Renko, Price Break, Kagi, Point and Figure
This book builds upon the knowledge gained from working with my students all over the world. Through them, I gained a deeper understanding of the role of emotions in markets and analysis.

A special note is due to my wife, Paula, whose support during the research and writing of this book was indispensable.
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Introduction

The purpose of this book is to give beginning and more experienced traders a fresh look at the principles and applications of alternative charting types. These charts share one significant attribute: they display information independent of time. These types include price break; Kagi; Renko; point and figure, and cycle charts. These charts are important because when the trader applies them correctly, they provide different views of the shape of market sentiment as well as the shape of trends. The hoped-for result is that they will give the trader an enhanced ability to detect changes in price action. The use of these charts can have a significant impact on trader fitness levels, which most traders are looking to improve. (There are very few traders that cannot improve their performance.) There are even fewer that are consistent. A huge trader training industry supplies a seemingly unending stream of content and tutorials, in seminars and on the Web, with the goal of assisting traders. The search for new tools and techniques is all-consuming, but the ability to improve trading does not rest on a new technique. Rather, it centers on the trader’s own behavior.

In over a decade of trader training, I have found that trader inconsistency and trading losses often arise from the central error of participating in counter-trend trading, as well as timing errors. While there are many other sources of strategic and tactical trading errors, this book focuses on the critical area of measuring sentiment changes. When all is said and done about trading, all prices reflect sentiment. Being able to visualize sentiment more accurately can have a huge impact on the trader’s ability to achieve a professional level of fitness. To use an
Introduction

evolutionary metaphor, if traders were a species, to survive they would need to replicate successful trades, select entries and exits, and adapt new strategies to changing markets. These are all skills essential to evolving into an accomplished trader.

This book evaluates and applies price break charts, Kagi charts, Renko charts, and point and figure charts because they all provide alternative and often superior visualizations of price action. They convey an enhanced ability to measure sentiment. These alternative charts all have something else in common: they originated before the computer. Additionally, they commonly remove time as an input variable. As a result, the patterns and forms they generate act as “landmarks” and “maps” of market sentiment. Our goals are to uncover paths in these “maps” for trading strategies and tactics, and to show readers how to use these charts for their own trading.

The question arises: Why now? Why revive an understanding of chart types that have become obscure? Aren’t candlesticks the accepted form and shape with which traders analyze markets? Don’t candlestick patterns encode market emotion effectively? Do alternative chart types really improve projections and predictions? The short answer is that market sentiment contains within its concept many dimensions that candlesticks do not efficiently represent. When sentiment is represented only by a candlestick shape, or a cluster of candlestick patterns, the understanding of market conditions is arbitrarily confined to the shape of the candlestick. Candlesticks capture open, high, low, and close data, but they also include a great deal of “noise.”

In response to candlestick noise, traders have used technical indicators to smooth out the price data and filter out the noise. Additionally, as global markets have become increasingly interconnected, extracting better understanding of market sentiment is more important than ever before. In the current globalized markets, the ability to compare different market information effectively can positively affect profits. Hence, the value-added potential of applying alternative charting to price data and also to the important area of consumer and business surveys is more important than ever before. Being able to detect a change in price action or project a key area of resistance or support not otherwise detected provides an edge to the trader. By using these alternative charts to project key landmarks, locations of resistance or support, or reversal points in the price action, the trader gains confidence in shaping trading
strategies and tactics. The resulting directional decision and trade entry should improve. Price break charts, Kagi charts, Renko charts, and point and figure charts all provide different degrees of enhanced confirmation about the direction and strength of a trend. Used correctly, these charts will reduce traders’ reliance on subjective opinion about trends and trend detection. Too much of technical analysis is not quantifiable or evidence based. We hope that the approaches in this book provide new ways to evaluate trends.

It is also our hope that this book will also promote research into new forms of constructing alternative charting with innovative features. There is great potential for embedding these charts with new features that will move us toward a “smart” chart era. Charts that track intermarket patterns, charts that detect cycle troughs and peaks, and even charts that track trader performance are on the horizon. This book is also written to stimulate new forms of technical analysis of sentiment. Charting analysis focuses on price action, without measuring the forces that move the prices. We know that words of key policy makers, central bankers, and experts influence the market. It is now possible to analyze word patterns directly, and we will show how current advances in programming can convert “words” into technical indicators of sentiment.

Ultimately, improving trading performance requires trading audits. Therefore, this book also adds a unique application to the use of price break charts, Kagi charts, point and figure charts, and Renko charts: *their use in performance analytics*. We show how traders can conduct and improve their own audits of their performance. They can gain unprecedented capability to detect trading weaknesses by comparing the path of their trades with what these charts showed about price action during that trading period.

**The Decision Path of the Trader**

Since this book is about improving trading strategies and tactics, a good place to begin is with a brief review of trading as a decision process. What we are referring to here is the path of choices taken by a trader leading from selection through entry, management, and exit of a trade. What we mean by *decision path* is the set of logical steps a trader follows in order to initiate a trade. First, the trader has to perform a scan of the market conditions. The decision process in trading any market should