Renko Chart Analysis

Part I

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Prashant Shah is one of the few professionals with number of coveted and renowned designations in the industry. He has been awarded Chartered Market Technician (CMT) and a Certified Financial Technician (CFTe) by Market Technicians Association (MTA) and International Federation of Technical Analysts (IFTA) respectively. He is also a holder of the right to the Master of Financial Technical Analysis® certification designation by IFTA for the original research conducted by him on Line Break charts swing trading techniques.

Prashant is founder member of Definedge Solutions and he has been practicing advanced form of Technical analysis for number of years. He is passionate about Designing systems, Training and Writing on Technical Analysis and Noiseless Charts in particular.
Renko Chart Analysis - Part I

Introduction

Renko charts have their origins in Japan and were used during the 19th century. It was introduced to the rest of the world by Steven Nison who discussed this methodology in his book, “Beyond Candlesticks”.

Similar to the Point and Figure charts, the Renko charts too ignore time and volume. Same is the case with Kagi & Line-Break charts. These time-independent charts plot only price action that is significant. The user has to decide the quantum of price move that is significant enough to be captured in the chart.

Hence, these charts eliminate noise and lends themselves to easily readable chart patterns. Simplicity and objectivity are major advantages of these charts.

Usual charts that we see such as bar or candlestick have got two dimensions - price and time. Price is plotted on Y axis and the time on X axis. Charts move when the time passes by, irrespective of the price trend.

Renko charts do not plot time and volume, they capture price action that is “significant”. It filters insignificant price moves or noise and focuses on what price is doing. Renko in Japanese means brick, that is why these charts are also known as Brick charts.

Construction

The method of plotting Renko charts is slightly different compared to the traditional candle or bar charts. Renko charts are constructed or plotted by connecting two prices.

Below is the image showing a simple line chart that is drawn by connecting closing prices. Price dots at 100 and 105 are connected by the line.
Instead of connecting lines, Renko chart connects both the prices by drawing a box as shown in the image below.

The box drawn by connecting both the prices is called a brick, hence the chart name - Renko. So every brick would represent two prices - hence a brick has a high price and a low price. In the above example, low price of the brick is 100 and high price is 105.

Brick shown above is bullish because price is going up, hence 105 which is the high price is the current price. Typically, bullish bricks are drawn hollow while bearish bricks are filled with colour. Charting software may use customized color coding for the bricks, which is fine as long as difference between bullish and bearish brick is easily identifiable. In this book, hollow bricks represent bullish price action and colored or filled bricks means bearish price action.

In the same example, if price goes higher further to 110, another brick is drawn diagonal to previous brick starting from its top right corner.

In the new brick which is also bullish, low price is 105 and high is 110. Note that 105 is high price of previous brick, and we drew current brick starting from that price.
Another bullish brick will be drawn in the similar manner if price advances further, see below image.

Low price of recent brick is 110 and high price (recent price) is 115. Bricks will be formed in the similar manner if price keeps moving up. But if price moves down and falls below low price of the previous brick, we need to draw the bearish brick. In the example shown above, current price is 115 and low price of the brick is 110. To call it a reversal, price has to move below 105 which is the low price of the previous brick.

Below is the image showing bearish brick if price falls below 105.
Bearish brick is drawn diagonal to the bottom right corner of the previous brick. It is normally filled with colour such as black or red so that we can easily distinguish between bullish and bearish bricks. In the above example, if price falls more and goes below 100 then another bearish brick will be drawn starting from the bottom right corner of current bearish brick. If price moves up above 115, bullish brick will get plotted from top right corner of current brick.

**Brick value**

The Renko charts are helpful in removing noise from the data. This is achieved by defining the “Brick Value. In the above example, notice the difference of 5 points, which is the Brick Value used in this case.

By defining the Brick Value, the user can decide the price action that is significant enough to be captured in the chart. In our example, a brick will be plotted only when price has travelled by at least 5 points which is the chosen Brick Value.

So if price moves from 100 to 105, a bullish brick is formed. Brick will not be formed if price is even one tick below 105. So if price is at 104, the Renko charts will not move. Hence by defining the brick value, we decide the frequency of bricks and the noise that we want to eliminate.

Above chart can also be drawn by using other brick values but the principle remains same. We will discuss how to decide the brick value. Before that, notice in the last example that because it is a 5 brick value chart, the next bearish brick will be plotted if price goes to 100 and a bullish brick will be plotted if price goes to 115.

So rules for forming the bullish or bearish bricks are clear and objective. Objectivity and noiselessness are two most important advantages of Renko charts, besides their visual appeal.

For clarification, if next bullish brick is to be plotted at 115, we'll plot it also if price touches 115 or exactly at the same price. If bearish brick has to be plotted at 105, we'll plot it also if price touches 105.

**Exercise**

Let's do an exercise to build a Renko chart to be comfortable with basics. Below is a price table to plot 10 brick value Renko chart. I recommend serious readers to try it first on the table given below it. Explanation to plotting of every price is followed thereafter.
# Renko Chart Analysis - Part I

<table>
<thead>
<tr>
<th>S. No</th>
<th>Price</th>
<th>S. No</th>
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<td>14</td>
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The method we adopt to plot Renko chart is that we define the scale as per brick value chosen to keep it a round number for better readability. If we choose the brick value as 10, the scale used will be 100, 110, 120 and so on.

Let's begin with the first price. We cannot plot first price simply because we don't know whether we need to start with bullish brick or bearish brick. Because it is a 10 brick value chart, if price goes up by 10 points we'll begin with bullish brick and if it goes lower by 10 points, we'll start with bearish brick. Renko chart cannot be plotted with just one price, hence we'll wait for another price.

Second price is 110.20, meaning that is going up. Hence we begin with the bullish brick and draw it as shown in the image below.

Number '2' written above the brick is a price series number for the reference.

<table>
<thead>
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<tr>
<td>2</td>
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</table>

Next brick will be plotted if price goes to 120 or fall below 90 (low price of previous brick), any price that occurs between these two is insignificant and considered as noise for this brick value Renko chart.

Third and fourth price remains between the two levels and doesn't allow plotting. Fifth price has gone above 120 hence bullish brick needs to be plotted. Sixth and Seventh price doesn't allow plotting before eight price that falls below requirement of bearish brick price level.
Ninth price allows reversal from bearish to bullish brick when price moves back above 120. Next bullish brick level is 130 and bearish brick level is 100. Eleventh and twelth price remain between the band. Thirteenth price allow bullish brick when moved above 140. Fourteenth price doesn't allow plotting. Below is the status of plotting so far.

<table>
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<tr>
<td>8</td>
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</table>
If you can follow the plotting so far, the rest of the sequence should be easy to comprehend. As an exercise in learning to plot Renko chart, please use the data given in the table below and plot the remaining price action and check with the chart displayed below.
<table>
<thead>
<tr>
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The chart above illustrates the Renko brick formations based on the given data.
The chart shown above is real time daily closing prices of Hindalco between 2013 and 2014. Below is the chart showing the same.

High - Low Renko chart

We plotted Renko chart with closing price in the method shown above. As observed earlier, Renko charts can be plotted with only one price.

A.W. cohen did remarkable job in the field of Point & Figure charts when he devised the high-low method of plotting them in his brilliant work during late 1950s. Same method can be implemented for plotting Renko charts as well. Instead of closing price, High and low prices of a particular period can be utilised for plotting the chart. To plot Renko charts with this method either high price or low price of a particular period needs to be considered. The rules are as follows:

- If price forms new high and qualifies for next bullish brick, the low price is to be ignored and bullish brick is to be plotted connecting the high prices
- After forming a bullish brick, if price doesn't form new high price to qualify the bullish brick, then consider the low price of that period to check whether criteria for formation of bearish brick is fulfilled, if yes, plot bearish brick. if no, move on.
- If price forms new low price and qualifies for bearish brick, consider low price of the next period first to check whether another bearish brick can be formed. If yes, form a bearish brick. If no, check high price of the period to check whether reversal criteria is fulfilled.
Hence, with this method, we consider high price first if last brick was bullish and low price first if last brick was bearish.

Below is a price table and chart showing brick wise explanation of construction of High-low Renko chart.

<table>
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</tr>
<tr>
<td>10</td>
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<td>Bullish brick</td>
</tr>
</tbody>
</table>

High-low Renko charts are more dynamic and more aggressive.
One key difference between Renko and P&F chart is that we don’t have to define the reversal method /value in Renko chart. We only need to define Brick value to plot the Renko chart which makes decision making quite simple.

**Log brick-value**

We discussed formation of Renko chart using absolute values such as 5 or 10. Renko chart can be plotted with any such number. But often a chart moves in a wide range which makes defining the brick value difficult. A chart like Aban offshore, that was at 5000 at some point in time and it went to 200 from there as well. If I am using a brick value of 50 at 5000, it becomes 1% of that price but what if I am using the same brick value and price falls all the way till 200?!!

The brick value here is no longer 1% but 25% of the price! This is the major issue with looking at larger duration Renko chart with absolute numbers.

Technology comes as a saviour to deal with this issue. We can use log-scale and log-brick values to plot Renko chart. So if we use 1% log scale, a bullish brick will get formed if price moves higher by 1%. Same way next brick when price moves 1% higher again. Bearish brick will get formed if price goes below the low of previous brick. Bullish brick from bearish will get formed if price moves higher than high of the previous brick. The principle remains same, but log brick value is utilised instead of absolute value.

Below is the Renko chart of Hindalco with 1% brick value.

Below is the chart of Bhel plotted with 5 brick size Renko.
Bhel was trading around 300 during Feb 2015 and it traded below 100 during March 2016. Chart looks good but difficult to trade in the later stage because of brick size issue. In simple words, 5 brick size when it was trading at 300 becomes 1.66% of price, and when it is trading at 100 becomes 5% of the price. So the same brick size cannot be followed and it needs to be altered with the changes in price which is normally a very difficult task. So, a longer-term chart would be difficult to analyse with an absolute brick size.

Log bricks are of great advantage. Below is the Renko chart of Bhel plotted with 5% brick size for the same period.
Brick size changes as per the price level due to the log scale which is accurate and practically possible to be followed. Notice the chart shown above where bricks are large because price level was high and they become smaller as price fell to lower levels.

This allows user to plot consistent chart and most importantly, make them practically tradeable. Below is the Bhel chart plotted with 1.5% brick size for the same period. Compare it with the figure 1 and notice the difference in the latter part when stock started falling.
Great advantage of Log Brick charts is that they lend themselves to scanning for opportunities across an universe or group of stocks. A brick size for a stock trading at 1000 and for the one trading at 100 is different hence scanning is impossible with absolute brick size. But 1% across the chart remain 1% of the price irrespective of the price level that a stock is trading at.

We can therefore run a scanner for a strategy across a group of Renko charts with using log brick value.

Defining it with log scale brings compatibility and facilitates system testing. You can run screeners around the group of stocks and it makes the chart analysis more simpler and logical. Hence log Renko charts are preferable over other methods.

**ATR Brick value**

Lot of people and software use 14 day Average true range (ATR) as default brick value for Renko. Logic is that it considers volatility and shows the chart accordingly. The problem with this kind of method is that brick value keeps changing along with the ATR. So if you enter based on previous ATR based Renko chart, how to deal with it when ATR changes, resulting in a change in the brick value and chart structure. Hence log brick values are preferred over dynamic methods of determining brick values.
Time frame

In traditional candlestick/bar chart, we can plot higher time frame charts by using monthly, weekly, yearly etc time-frames. We can achieve the same in Renko charts by adjusting the brick value instead of using weekly, monthly or yearly prices.

Instead of plotting charts using weekly or monthly price data, we recommend plotting higher brick value charts using the daily price data in order to analyse the larger degree picture.

Hence, for short term analysis, you can use a 0.50% brick value based on daily chart. Use 1% brick value daily chart to get a medium term picture and 3% or 5% brick value to get a much larger degree picture.

Below is a Renko chart of Tvs Motors plotted with 0.50% brick value.

Same chart plotted with 1% brick shown below.
You can notice that brick values are compressed and noise is reduced.

Below is a chart of TVS Motor plotted with 5% brick value to look at the larger picture.
You can see size of the brick increasing with the price. This is the advantage of log charts and hence trend lines and other analysis becomes more logical on these charts.

Same way, for intraday time intervals, I recommend one minute time frame to plot the charts. One can use 0.25% brick value for stocks. I recommend 10 and 25 absolute brick value for Nifty and Bank Nifty charts on one minute timeframe. One can adjust these brick-values as per the trading style and preferences. An aggressive trader, looking for more number of trades, can opt for a lower brick value. A momentum trader on the other hand can increase the brick-value in order to ride the trend.

I can assure that whatever your style may be, following these simple charts will certainly help you in filtering unnecessary trades and dealing with emotional issues and over trading.

**Brick Reversal**

A logical question after this introductory text is: Can one trade when color of the brick changes? In other words, can we buy when filled brick (bearish) flips to a hollow (bullish) brick and vice versa? Simple answer is yes, but unfortunately, it is very difficult to follow this simple looking strategy.

This change of brick from bearish to bullish or bullish to bearish is called brick reversal pattern. A Bullish brick reversal pattern happens when a bearish brick changes to a bullish brick. Similarly, a Bearish brick reversal pattern is formed when bullish brick changes to bearish. See image below.

Brick reversal formations shows that price has changed the trend. How significant that reversal event is something that requires more investigation.

Brick reversal formations in higher brick-values chart are obviously more meaningful. Let’s address this when discussion on Renko pattern analysis is completed.
Let's begin our discussion on Renko chart analysis with conventional methods and patterns

**Traditional Theories**

I am avoiding detailed explanation on popular theories of analysis because there is so much of literature already available.

In the forthcoming section, all Renko charts have been plotted with 1% brick value on daily chart and they represent medium term price action. However, the concepts discussed will be applicable on all brick values and timeframes unless otherwise specified.

**Support - Resistance**

The term support and resistance needs no explanation for those initiated into technical analysis. In simple terms, support is a level where demand is expected to overcome supply and Resistance is a price level where supply is expected to overcome demand.

All tools and methods of identifying support and resistance on usual charts are also applicable in Renko charts. You'll observe that analysis becomes simpler on these charts due to distinct feature of Renko charts of removing insignificant data to show clear picture.

**A. Support - Resistance line**

Previous peaks and bottoms are treated as significant support and resistance price levels. We can plot horizontal line form those pivotal levels to draw support and resistance line.

Refer Ajanta pharma Renko chart below showing support and resistance lines.
Due to clarity in the trends that Renko chart captures, it is a visual treat to read them. In the chart shown above, horizontal lines are drawn from important tops and bottoms that acted as support and resistance.

The concept of polarity principle where previous support when broken become resistance and vice versa, is also clearly visible in the above chart. The arrows marked in the above chart highlights the polarity principle.

**B. Renko support - Resistance setup**

Double top and Double bottom are popular chart formations used in traditional price charts. Double top is a bearish reversal pattern that gets marked when two tops are formed at similar level and price falls below neckline (lowest point between two). Similarly, when price forms two lows in the same zone and goes above neckline (highest point between two lows) of the pattern, it's a bullish reversal double bottom pattern. See image below.
The double top and double bottom patterns explained above can be identified on Renko charts as well. Have a look at the examples featured in the chart below.

A double bottom pattern in Renko chart is characterised by two bearish bricks appearing at a similar level and a breakout above the neckline of the pattern.

Similarly, price going below neckline after brick forming peaks at similar level is Double top pattern in Renko charts. If you notice, identification of such patterns are simple and objective with Renko charts.

Double bottom is a bullish pattern that shows price has taken support at the previous pivotal point. Similarly, double top is a bearish pattern that shows price has seen resistance at previous peak point. Besides neckline, brick reversal formation provides opportunity to trade patterns. Brick reversal after forming support or resistance at previous brick is a first
indication that price is respecting the level. If this formation is traded, it gives early entry but with lesser stop. See the image below for examples.

Renko double bottom support pattern can be identified when a bullish brick appears after two bricks formed at similar level indicating support. Pattern gets negated if price goes below support brick.

Renko double top resistance pattern gets formed when bearish brick occurs after two bullish bricks are formed at similar level. It's a bearish pattern that gets failed if another brick is formed above resistance brick.

Here is the chart of Gail showing Renko support and resistance setups.
A reversal brick provides confirmation of the support and resistance level and it makes it an effective setup.

One can also chose to wait for the neckline break for confirmation but I recommend lower brick value charts in that case. More about this, in the later part of the book.

Brick reversal filters out frequently appearing formations and other methods of analysis helps in identifying better trading opportunities.

Multiple top or bottom patterns such as triple top - triple bottom formations can also be identified in a similar manner. See the chart of Reliance capital below for example.

Note that in case of triple top, double top also remains active because the top brick is not broken by the price.

There could be a question about targets and exit rules. I am restricting the discussion here to patterns and analysis. Trading setups will be explained in detail in the later chapters along with objective rules.
Below is a recent chart of Reliance capital showing Renko triple top and triple bottoms.

Pattern A is triple top confirmed by bearish brick reversal. Pattern B is not a triple bottom because brick did not reverse immediately, though it did eventually. Pattern C is where brick did not turn bearish hence not a triple top formation, in fact it is a resistance breakout pattern.

Below is a chart of SBI showing Renko support and resistance patterns.
Journey from 150 to 150 has few Renko support - resistance patterns in between for you to observe.

**Higher low - Lower high**

When price forms a low higher than the previous low, it is known as higher low or rising bottom pattern which is a first indication of bullish trend reversal formation. Same way, lower high is marked when price form a high point lower than the previous high, it's a first signal of potential top and significant trait of down trend. Brick reversal formations helps in identifying these patterns. See chart of Ambuja Cement featured below.

![Ambuja Cement Chart with Higher Low and Triple Top Formation](image)

Triple top formation shown in the above chart is followed by a significant downtrend. Price formed higher low formation at the bottom signalling impending reversal.

**C. Support - Resistance line**

Horizontal trend line is another popular technique where a line drawn connecting multiple peaks and bottoms to identify demand and supply zone.

Below is a chart of Axis bank showing horizontal support - resistance lines on Renko chart.
Renko double bottom setup at support line, and when price took support at previous resistance line are visible. Trade can be identified by using these concepts together.

D. Fibonacci

The Fibonacci sequence is named after Italian Mathematician Leonardo Pisa, known as Fibonacci. He introduced the sequence to western world in the 12th century. It is said that this sequence has been described earlier as Virahanka numbers in Indian mathematics.

Fibonacci sequence is series of numbers as shown below

0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377 ....

Each number in the sequence is simply the sum of the two numbers before it. For example, 2 is found by adding two numbers before it (1 + 1). Same way, 3 is found by adding two numbers before it (2 + 1).. and so on.

Fibonacci numbers are treated as nature’s number because it is said that they appear in every nature, from the leaf arrangement in plants to pattern of florets of a flower etc. There are many natural things where this ratio is not found, and even if it does - it is not necessary that it would be applicable to markets. I am mentioning it only to be aware that it is not a magical ratio. However, setups can be designed using it.
If one number of the series is divided by the number that follows it, the ratio will be 61.8% - which is also referred as Golden ratio. If one number in the series is divided by the number after the next one in the sequence, the ratio we get is 38.20%. Same way, every number in the sequence is 23.60% of the number after the next two numbers in the sequence.

Fib retracements and extension is a widely followed tool to identify support, resistance and targets. Traders who seek to trade when price correct, found Fibonacci ratios useful to calculate the retracement to trends in the price charts. Generally, 23.60%, 38.20%, 50%, 61.80% and 78.60% are treated as Fibonacci ratios. Actually 50% level has nothing to do with Fibonacci sequence but traders use this level because of tendency of price to reverse after retracing half of the previous move.

It can be applied on Renko charts also. When these ratios are applied on a chart from any swing move, we don't know which ratio will get respect from the price. Brick reversal can act as a tool of confirmation on Renko charts.

See Renko chart of Grasim shown below with 23.60%, 38.20%, 50% and 61.80% Fib retracement applied on it.

Price did not take support at 23.6% retracement and reversed from 38.20% ratio level, trading it with brick reversal becomes better business.

Below is a chart of Grasim during late 2016.
Price retraced from 50% ratio level of earlier down swing move and formed Renko resistance setup.

Other Fib techniques such as extensions or Fib clusters can be applied in similar manner on Renko charts.

**Trend lines**

Trend line is another basic and popular tool used in technical analysis. They are drawn on the chart mainly to identify trend. They are also useful tool to analyse support, resistance and breakouts. A bullish rising trend line is drawn by connecting minimum two low prices and bearish falling trend line is drawn by connecting minimum two peak points.

Trend lines can be drawn in the similar manner on Renko charts. Connect bottom of minimum two bricks to draw rising bullish line; or top price of minimum two bricks to draw falling bearish line.
Below is a Renko chart of AIA engineering showing different trend lines.

Trend line A is a bullish rising line that connects the lows of bearish bricks. Trend line B is a bearish falling line connecting top points of bullish bricks. Trend line C is a horizontal line drawn by connecting peak points, it shows resistance that price cleared eventually, resulting in a breakout. Trend line D is relatively steep bullish line drawn by connecting bottoms.

Below is a Renko chart of Reliance infra showing trend line breakouts.

Point A and B shows downside breakout from bullish trend lines. Point C is a resistance trend line breakout after price forming a double bottom formation.
Channel lines

Channel lines are plotted on a chart by drawing a parallel line to the trend line. The Image featured below shows rising, falling and horizontal channel lines.

A rising line drawn parallel to a bullish trend line shows rising channel lines. Similarly, a falling channel line is drawn by plotting a parallel line to the bearish trend line. Horizontal channel lines are plotted by drawing parallel line to a horizontal trend line.

Below is a Renko chart of Abirlanuvo showing falling and rising channel lines.

![Renko Chart Analysis - Part I](image-url)
Patterns with trend lines

Traditional chart patterns such as Head & shoulders, Cup-handle, Rounding top bottoms, Triangles etc can be seen on Renko charts as well. Attractive visual appearance and noise filtration methods makes technical analysis much simpler and effective on Renko charts.

Have a look at Renko chart of Tata steel shown below

Swing move B within swing move A. And Swing move C within swing move B. Move D finally breaks out. It is a triangular converging formation where trend lines helped in identifying breakout.

Below is a chart of Adani enterprises that shows chart patterns along with trend lines.
Cup and handle formation at point A and B were effective on the chart of Adani enterprises shown above. Apart from them, support resistance and trend line breach formations are shown on the chart.

Below is a Renko chart of TCS that shows trend lines and Support resistance patterns.

The chart featured below of Aurobindo pharma is another example of support resistance and trend line breakout patterns on Renko chart.
Below is a Renko chart of Tata Motors capturing the concepts discussed in this chapter.

A few more charts are displayed below to illustrate the studies we have discussed so far.

Below is a Renko chart of Dr Reddy for your observation.
Pattern A is inverted Head and Shoulder and Pattern B is Head and shoulder pattern in the Dr Reddy chart shown above. Larger H&S formation is also at play but not shown in the chart to avoid confusion. These traditional patterns are easier to identify on Renko charts.

Below is a chart of Hero Motocorp showing Renko support and resistance formations. Rising bottom formation followed by horizontal trend line break is shown in the chart.

Below is Renko chart of BEML showing trend lines and converging formation.
Higher brick-value charts

Larger degree picture can be analysed by using high brick values. It helps us in gauging larger degree trend and price formation.

Below is a Renko chart of Jswsteel plotted with 5% brick-value.
Below is a chart of Jublfood plotted with 5% brick value.
You will notice smaller bricks at lower levels and higher at higher price level due to logarithmic brick calculation. It is very important to view log bricks while analysing long-term charts.

Below is a chart of Reliance industries showing difficult phase.

Price was in a long convergence formation for about 9 years. Renko support-resistance patterns during this period are shown on the chart.

**Nifty & Bank Nifty**

All charts discussed so far are stock charts. Let us look at Renko charts of Nifty and Bank Nifty.

As stated earlier, for short-term trading on these charts, one minute time interval charts are recommended. A 10-point brick value for Nifty and 25-points for Bank Nifty is recommended.

Brick value can be adjusted as per one’s trading style. Aggressive traders can also use high-low Renko charts on this timeframe.

Below is a 10-point brick Renko chart of Nifty on one minute time frame.
Trend lines shows converging formation that finally witnessed a breakout. Vertical lines shown in the chart above are day separating lines, price action between two vertical lines are of one day. Notice that not many bricks are formed during the day and clear picture of price behavior can be identified. These factors certainly help in dealing with the major issue of overtrading.

You may find below image quite interesting. It shows few of the days from the above chart in separate boxes.
Types of days are mentioned below each box determined as per the behaviour of the Renko charts.

Don't focus too much on the number of trades on any given day, as we are yet to discuss those aspects. You can count number of bricks on each type of day. There are more bricks when there is action and there is hardly any plotting when price is not moving. By this way, we let market guide us and we avoid imposing our opinions on it. We'll carry forward ‘types of days’ discussion and strategy design in the next part of the book.

Below is a 10 brick chart of Nifty futures plotted using High-low method.
There are more bricks in this chart compared to chart plotted with closing price method. Double bottom formations are marked on the chart. You can observe rising lows, and resistance breakout formations.

Below is 25 brick chart of Bank Nifty futures plotted using High-low method.

Resistance breakout, polarity principle and trend line is shown on the chart for your observation.
Renko charts show us the trend in the best possible manner. Observe strong trending moves in the chart shown above, wherein there are very few corrective bricks in between. Riding a profitable position is arguably the most difficult thing to do. But remember that the ability to ride the trends is essential to make significant returns in trading.

So far, you have understood how Renko charts are drawn and how traditional methods of analysis can be applied on it. This is how most of the traders use Renko charts. Every other method of analysis is also applicable on Renko charts. To begin with, you can open a Renko chart as per your brick value and look for patterns such as support - resistance, higher-high, lower-low formations and draw trendlines. This will help you get your accustomed with this Renko charts and you can gain confidence and proficiency in the method.

Truly speaking, Renko analysis begins from here. I am planning to share all my work on Renko chart analysis in four parts. There are specific Renko patterns and setups that can help in trading our analysis, and to design Renko systems. There are methods of defining market phase using Renko bricks. Indicator analysis on Renko needs different set of parameters. Next part of book will include all these plus back-testing and much more.

Before I sign off, below is an image for your observation.
I'll take this forward in next part.

For any query or feedback, you can write me at prashant.shah@definedge.com
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