Playing Gold Using Technical Analysis by Market Review

Article published on February 9th 2012 | Investing

One of the investments that people look for in periods of boom gloom and doom is gold. Gold has always throughout the recorded history played important role in all the civilizations throughout the world. Being one of the rarest mineral available is it prized in accordance. Since year 2005 it has been on a dream run, being the perfect hedge for inflation and other economic troubles, gold has at last attained the price that could only be just thought of prior to that. What was the best part about this escalation was that unlike the tulip bubble and similar mad chases recorded in history this time it was out of fear or, may be result of necessity, that world saw this escalation.

US economic crisis followed by European crisis that made fear creep into the minds of people who in wake of safeguarding themselves and to have a reasonable store of their wealth opted to buy gold.

Now that chase has come to a halt and has revered. That was inevitable and there is a very thorough explanation to the extent to which the prices can see a correction.

A chart pattern called bump and run reversal which has been proposed by Thomas Bulkowski in his books seems to be the best explanation of the price movement of gold.

According to Thomas Bulkowski, the Bump-and-Run Reversal Top pattern consists of three main phases:

1. A lead-in phase in which a lead-in trend line connecting the lows has a slope angle of about 30 degrees. Prices move in an orderly manner and the range of price oscillation defines the lead-in height between the lead-in trend line and the warning line which is parallel to the lead-in trend line.

2. A bump phase where, after prices cross above the warning line, excessive speculation kicks in and the bump phase starts with fast rising prices following a sharp trend line slope with 45 degrees or more until prices reach a bump height with at least twice the lead-in height. Once the second parallel line gets crossed over, it serves as a sell line.

3. A run phase in which prices break support from the lead-in trend line in a downhill run.

A Look at the Future for Gold

The seven-year weekly chart below for gold offers a cautious early view regarding the long term trend of gold. Gold has been in the bump phase of the Bump-and-Run Reversal Top pattern since late 2009 after almost three years in the lead-in phase.

As can be seen in the chart below the major decline over the past few days has dragged the price of gold sharply below the sell line which suggests the formation of a long-term Bump-and-Run Reversal Top for gold.

How to predict the future movement of gold.

To know the extent to which the gold can fall or in other words what will be levels the gold can be expected to fall. To know the levels just as we draw the lead-in line, warning line and sell signal line, we are required to extend these three towards right and at times draw similar lines parallel to these previously drown lines. These lines will be the junctures where the prices will rest before moving on.

The notable point or the only notable point over here is that this pattern works only and only if the escalation is greater than or equal to 45 degree.

If prices keep staying in the territory under the sell line, gold could get into a bear market going forward into 2012 with downside price targets as follows:

1. $1,600 for support from the trend line of last three years.

2. $1,400 for support from the warning line.

3. $1,000 for support from the lead-in trend line.

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Market Review - About Author:
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Article Keywords:
CapitalStars, Stock tips, equity tips, stock trading tips, stock market tips

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