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TRADING!

Pitchfork helps keep tabs on 'clear-air' gold

TECHNICAL ANALYSIS
ROD MYER



THE gold price has been in a steady uptrend since late 2008, with new highs reached recently as investors look for a refuge from the political unrest in North Africa and the Middle East. So this week Alan Clement, of the Australian Technical Analysts Association, looks at what the gold chart is showing us about where the market is likely to go.

Mr Clement begins by asking where the next resistance point for the yellow metal is likely to be. Generally in charting, lines of resistance are drawn

horizontally. But, he observes, "this becomes tricky when price is making new all-time highs and is effectively pushing into 'clear air'".

So today Mr Clement uses a technical analysis tool known as Andrew's Pitchfork, which allows analysts to project forward rising lines of support and resistance. Obviously the pitchfork formation is represented by the three parallel lines from the middle of the chart.

The three points used to create the pitchfork are the October 2006 low at \$US560 an ounce, the March 2008 swing high at \$US1000 and the October 2008 swing low at \$US700. The three lines then projected forward represent support (lower line), equilibrium (centre line) and resistance (upper

GOLD



line). "Once the lines are in place, we can expect price to react to all three when at or near each of them," Mr Clement says.

A look at the chart shows the gold price initially found resistance at the centre line in early 2009 and consolidated for a few months before moving higher once again. And after

breaking above the centre line it then returned there to find support in mid-2010.

Recently the price has been moving towards the upper line of resistance, which at the moment is at \$US1475. "If and when price reaches the upper line, we should expect to see a reaction from it, which could result in either a significant

retracement or a period of sideways consolidation," Mr Clement says.

If the gold price were to retrace previous gains then "we can look to the centre and lower lines to provide support, currently at \$US1300 and \$US1100 respectively", Mr Clement says. "Overall, we would continue to be bullish on gold as long as price remains above the lower pitchfork line."

So as the world continues to throw up unforeseen events and "gold continues to progress into new highs, Andrew's Pitchfork provides us with a road map for the gold market and the price levels to watch", Mr Clement says.

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