DOLLAR INDEX WEAKNESS

By Daryl Guppy

One of the weakest patterns in technical analysis is the equilateral or symmetrical triangle pattern. It's weak because unlike the other types of triangle patterns, the symmetrical triangle pattern does not give a clear advance indication of the direction of the breakout. It is above all a pattern of indecision.

The pattern is seen on the weekly Dollar index chart. The upper trend line A is validly poisoned as a downtrend line. The lower trend line B is validly placed as an uptrend line. This shows that the bull and the bears are about evenly balanced. Lacking any other features, the symmetrical triangle shows market indecision where neither the bulls nor the bears can gain dominance. However, once the breakout starts the move is often very quick.

Like all triangle patterns, the vertical base of the triangle is measured and this value is used to set the upside and downside targets. For the dollar index this suggests a downside target near 0.885. The potential upside target is near 1.02. These targets are calculated from the apex of the triangle. This is a weekly chart and the apex of the triangle develops around the end of January 2016. Thus suggests a significant breakout move will develop before the end of January 2016.

There are two dips below the uptrend line and this suggests a bearish bias to the pattern so traders are more closely positioned to take advantage of a short trade to 0.885.

This type of chart analysis on an FX chart carries one important caveat. When chart patterns are the product of trading in a single equity the reliability of the pattern and its projected targets is very high. This is because these equity patterns reflect the psychology of a well-defined group of buyers and sellers.

When similar patterns appear in FX charts the results are applied with more caution because the FX market includes a significant number of players who are forced to take the opposite side of their client positions. Every Amazon purchase forces a foreign bank to take the opposite side of their customer's trade irrespective of the banks preferred position on the dollar. This component of forced market participation dilutes the psychology of the FX market and so reduces the reliability of pattern analysis.

However, chart pattern analysis provides a good strategic understanding of the market but traders wait for confirmation activity prior to taking a position. On balance, the pressure on the dollar index chart is bearish so traders are ready to go short with a weekly close below trend line B.