

RANGE TRADING THE DOW

By Daryl Guppy

Between March and May 2015 the DOW hit resistance near 18,290. It developed a shallow rounding top pattern before plummeting in August 2015. The retreat reached the rounding top pattern target near 16,000 and established in this area. The rally in October 2015 reached 18,000 before retreating and retesting the support level near 16,000.

This rally and retreat behavior has created a broad trading band between 16,000 and 18,290. This trading band sets up three different development scenarios for the DOW.

The first scenario is a continuation of the rally and retreat behavior within the trading band. The rallies are easily defined with a trend line so a close below the uptrend line is a signal to go short. A reaction away from the upper resistance level near 18,290 is also a signal to go short.

In a similar fashion, a rebound from support near 16,000 is a signal to go long. These are simple trading strategies that delivered consistent and reliable results.



The second scenario is based on a bullish breakout above 18,290. A breakout is signaled when the weekly candle closes above 18,290. A breakout is confirmed when the index retreats and uses the 18,290 level as a rebound support level. The target for this type of breakout is calculated by measuring the width of

the trading band and projecting the value upwards. This gives an upside breakout target near 20,500. This is a long term target. It took the DOW 13 months to first move from 16,000 to 18,290 and a similar time frame may apply to a move towards the trading band target of 20,500.

The third scenario is bearish, and is triggered by a close below 16,000 on the weekly chart. This gives a measured downside target near 13,600. As with all falling markets, this target can be achieved more quickly than the bullish targets.

The problem with the current chart behaviour is that there is no tip in the balance of opportunity outcomes. There is no chart pattern which suggests either a developing bullish breakout, or a developing bearish breakout. Investors remain alert for these patterns, particularly as the index moves towards 18,290 resistance. We continue to use the [ANTSYSS](#) trade method to extract good returns from these range bound index movements. Until these patterns develop, traders will continue to pursue the rally and retreat trading opportunities within the trading band.