

DOW UPTREND CONSOLIDATION

By Daryl Guppy

A little less than three months ago we suggested the DOW had an upside target of 17000. This target was achieved this week. This is a continuation of an exceptional uptrend but the chart analysis suggests this upwards momentum may slow and consolidation develop around the value of the uptrend line.

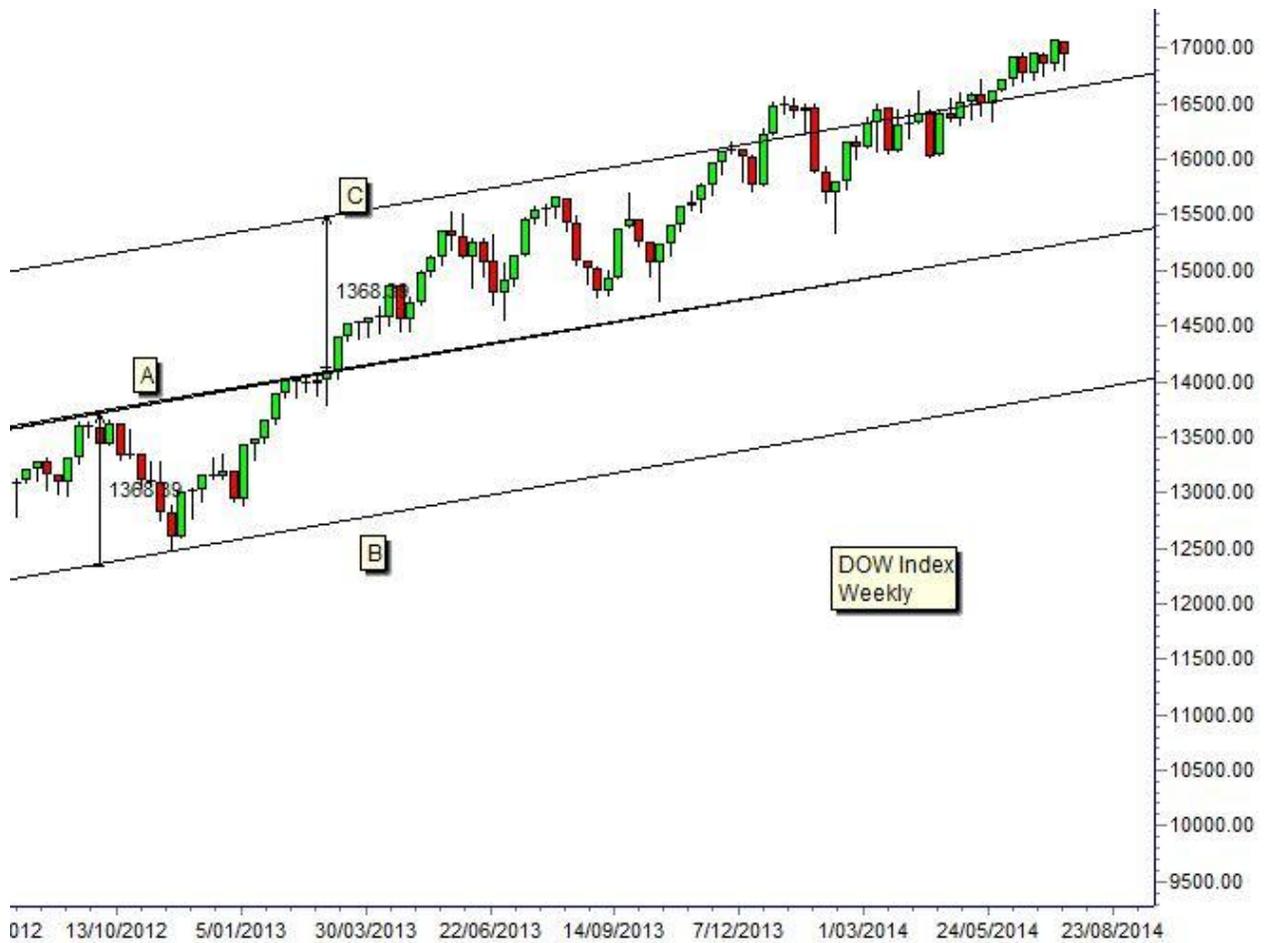
There are two defining trend features on the DOW chat.

The strategic trend and the significant feature of the Dow is the up sloping trading channel defined by three trend lines. The upper trend line is trend line C and this will provide support for the DOW as it retreats from 17000. Trend line A which forms the middle core of the pattern, it is also the most well defined trend line. This trend line starts in February 2011. This acted as a resistance level in July 2011, and again in April and September 2012. The DOW broke out above this resistance level in February 2013.

Starting February 2013 trend line A has acted as a support level. The general market environment has been bullish with the DOW staying above trend line A. The breakout above trend line C in January 2014 was an unsustainable rally.

The lower edge of the trading band is shown with trend line B. This trend line was confirmed in June and November 2012. The width of this trading band was used to calculate the potential height of the resistance breakout in February 2013 and the position of trend line C. Trend line C defines the upper limits of the trading channel. The current breakout above trend line C is bullish but it is unsustainable. There is a high probability the DOW will retreat and use trend line C as a support level.

This series of trend lines provides the analysis framework for the retreat, rebound and up trend continuation. The longer term DOW upside targets are defined by the resistance level created by trend line C. This has a projected value of around 17,000 in 2014 December. Investors watch for trend line C to act as a support level with the DOW clustering around this line. Clustering behavior includes dips below the line as occurred in 2014 February and April. Clustering includes limited moves above the line as occurred in 2014 May and June.



There is a low probability of a strong rally developing above trend line C. The DOW does not show any chart patterns which signal an end to the up trend. These patterns include a head and shoulder pattern, rounding tops and blow-off tops or steeples made on high volume. None of these patterns are seen in the Dow and nor is there any evidence they are developing.