

# **GOLD RALLY TESTS DOWNTREND FAN PATTERN**

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The gold price has been wallowing around \$1050 to \$1180 since 2013 June. This price activity has sent many confusing signals as gold built a very broad consolidation base. The recent rally in gold has the potential to develop into a breakout from the consolidation base and become a new uptrend.

However the strength and sustainability of the gold rally remains unclear. The first step in analysis is to put the rally activity into context using a weekly chart. The downtrend is well defined by the Guppy Multiple Moving Average indicator. The long term group of averages are well separated and have not developed any compression in response to the recent rally.



Gold has a very strong resistance band between \$1150 and \$1180. Any new trend breakout requires a sustained move above \$1180 and a compression in the long term GMA averages to show that investors have become buyers. These are the two conditions investors watch for. Until these conditions are established then the price movement remains a rally and traders are ready to go short.

The weekly gold chart shows a series of fan downtrend lines. This is a very long term trend reversal pattern. The four downtrend lines have a common starting point from the high in 2012 October. These are not Fibonacci fan lines. These are a series of downtrend lines with a common starting point. The pattern usually contains between four and five downtrend lines. The fan pattern is further defined by an extended consolidation support base.

From 2013 June until 2015 August it appeared the \$1150 level would provide the support base. However the price fell to near \$1050 and developed a new support base. This means the fan pattern is not a perfect example of the fan pattern.

However it has been a dominant feature on the gold chart since 2013 so the pattern cannot be ignored. This is a long term trend reversal pattern. It was seen

on the Dollar Yen chart prior to the very powerful breakout in 2012 November. This pattern often preceded a very fast and strong breakout.

Traders trade the current price activity is a short term rally. We use the [ANTSSYS](#) method to trade both the rally and the reaction away from resistance. Traders are ready to switch to short trading as the market reacts away from resistance near \$1200. This price activity may help to establish a fifth downtrend line in the fan pattern.

Investors wait for proof that the price can move above and stay above \$1200. This will signal a new sustainable uptrend. A breakout above the fifth downtrend line in the fan pattern is a strong buy signal.