TRADING

Trading strategies to ride the gold trajectory

TECHNICAL ANALYSIS
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GOLD has been on investors' minds for the past year as the world economy stumbles through seemingly endless crises with European debt. The last time this column looked at gold, in November, the yellow metal was trading at about $US1346 an ounce and we predicted a price rise.

That eventuated, despite some weakness early this year, with gold closing at a record $US1557.10 an ounce on May 2. This week Mark Umansky, a certified financial technician and councillor with the Australian Technical Analysts Association, looks at gold's trajectory and comes up with possible trading strategies for those keen to be part of gold's ride.

Umansky says that following gold's strong run-up from a January low of $US1319.80 to its May 2 peak, economic uncertainty sent the price down, with the metal losing almost 5 per cent in four trading sessions to settle at about $US1481 an ounce.

That proved the beginning of a period, with gold still caught in a tight trading range of about $US75.70 an ounce (represented by the middle parallel lines on the chart). In this tight trading range, buyers are accumulating around lows of $US1481.40 while sellers push it back down whenever the price nears its record high.

Traders, Umansky says, could use several strategies. First, they could trade the existing range, buying gold futures contracts when the price is about $US1481 and selling near the record high, protecting their downside positions with stop losses just below the bottom of the range.

Conversely, those interested in short selling could sell contracts when the metal reaches the top of the range, protecting positions with a buy order slightly above the sell price, then waiting for it to hit the bottom and buying in to cover the previous sale.

Another strategy would see traders capitalising on any breakout from the tight trading range. Bullish traders could buy just above $US1557.10 if there is an upside breakout, protect their position with a stop loss just below $US1557 and take partial or full profits if gold strikes $US1632.80. Bearish traders could sell contracts if gold falls below $US1481 with tight stop losses in place at just above $US1481.40. They should then take full or partial profits, buying contracts when gold hits about $US1405.70 an ounce.

"Astute traders," Umansky says, "may wish to combine both strategies simultaneously to obtain maximum position and capital growth."

Neither Mark Umansky nor BusinessDay gives financial advice. Anyone wishing to enter the market should do homework and seek professional counsel.

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