101 Charts for Trading Success

by Zak Mir

SAMPLE:

COMMODITIES CORNER: THE START OF THE SUPERCYCLE IN GOLD

71. Gold 1999-2002

Although it may appear that cover in commodities is not strictly on topic as far as a guide to stock market success is concerned, I would argue that one of the best ways of trading alterations in the likes of gold and oil is via exploration companies in the respective areas. For instance, the gearing effect can really kick in as far as the relationship between the underlying commodity and stocks in the sector. If Gold rallies from $1,000 an ounce to $1,400 an ounce, a rise of 40%, a basket of Gold stocks might double or triple over this period. Of course, a similar fall in Gold would see stocks in the relevant sector decline by a half or a third – so you need to get your timing right as the magical effect of operational gearing is a two edged sword.

The Set Up

The charting seeds of the great bull run in Gold that we are currently experiencing were sown right at the end of the millennium in 1999. While it may be wrong to suggest that this was an easy situation to get in on at the ground floor, it was not obvious enough to the then Chancellor of the Exchequer Gordon Brown to prevent him selling the bulk of the UK's gold reserves over the next three years. What we see on a daily chart of the metal are lower price lows was the metal starting in June 1999 contrasting sharply with higher highs in the RSI window – an extended bullish divergence oscillator buy signal.

This would normally be a reason to get involved, if only on a short-term basis. However, the break above the 50 day moving average and subsequently the 200 day moving average then at $274 suggested that we should maintain a keen interest in this market. This is over and above the fact that there was a near vertical move for Gold in September and October. While there was still some months and consolidation either side of the time of the 200 day moving average to endure, the technical splash of early autumn 1999 really did smack of the smart money getting into position.

Outcome

It is a sad fact of the financial markets that most government intervention to support or defend levels delays psychological or otherwise, or work betting against. George Soros illustrated this in shorting Sterling on a massive basis as the UK attempted to remain in the ERM in 1992, and Japan attempting to weaken the yen in order to defend the cause of its exporters remains an ongoing cue to buy the Japanese currency on dips. But the big prize goes to Gordon Brown in providing such a brilliant, unwitting buy signal, albeit one that was based on the hubris of the time that inflation was dead along with the boom/bust cycles of the economy.

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