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Gold still holds its shine, but don't be dazzled

TECHNICAL ANALYSIS
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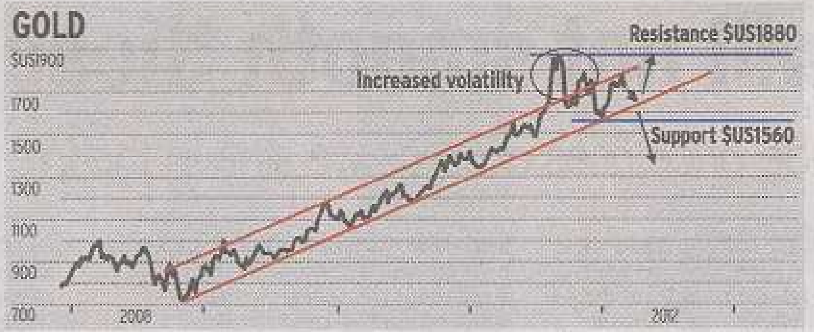
EVER since the first phase of the global financial crisis hit in earnest late in 2008, the gold market has been the place to be.

While sharemarkets crashed, bonds and currencies gyrated and some property became, for a time, almost untradeable, the yellow metal pushed ever higher, driven by the panic investors felt about the economic times.

This week's chart, produced by Alan Clement, an international futures trader and member of the Australian Technical Analysts Association, shows gold has risen from about $US725 an ounce, just after Lehman Brothers collapsed in 2008, to a high of $US1880 mid-last year. Since then gold has retreated to $US1560, a level Clement sees as a lower support level, and has since recovered to around $US1750.

Bringing the technical analyst's eye to gold's recent performance, Clement says mid-last year volatility in the gold market increased and the price spiked above the top red line on the chart, which meant it went above the trend of its trading range. That, says Clement, is a phenomenon that can indicate the end of an uptrend, at least in the short term.



It signals that latecomers who had been watching the price advance are coming in and jumping on a rising price, and effectively disturbing what has been the relative equilibrium between buyers and sellers.

That sharp increase in price was followed last year by a mini price collapse. But the return of buyers at the lower support level, which pushed the price back towards the upper level of its trading channel, indicates the uptrend may not be over, Clement says.

"Gold now finds itself at a crossroads, with well-defined support at $US1560 and resistance at the 2011 high of $US1880," he says.

Buyers should pay close attention to the market in coming months. If there is another fall through the lower red channel line, then there could be a quick selloff and the price could fall back through $US1560, Clement says.

On the other hand, to maintain the uptrend, the price will have to climb back through the $US1880 level, he says.

Investors can gain exposure to the gold market using futures, exchange-traded funds and contracts for difference.

For those who like to feel the real thing, investment-sized gold bars can also be bought.

This column is not financial advice. Those wishing to invest should seek professional counsel and do some homework.