



Price Patterns in Gold's Bull Market

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This article takes a look at the price patterns of all corrections in gold's bull market since 2000/2001 lows as this information may be useful when one tries to forecast the future price behavior in this market. The history shows a pattern that repeats itself many times and though this does not mean it will continue to repeat in the future, it can give us a clue of what the gold market is likely to do next.



The bull market in gold started in late 2000/early 2001 and since then gold has been posting gains every single year. Like all other bull markets gold has not moved up in a straight line. There have been many corrections (or pullbacks) all the way up. The intriguing thing though is that most of the corrections in gold's uptrend have unfolded in very similar price patterns. This article takes a look at the price patterns of all corrections in gold's bull market since 2000/2001 lows as this information may be useful when one tries to forecast the future price behavior in this market.

The uptrend in gold since late 2000/early 2001 lows till mid-2005: almost all pullbacks developed into Contracting Triangles.



Source: MetaTrader

The chart above shows the uptrend in gold since the start of the current bull market (in late 2000/early 2001) till mid-2005. You can see there are five pullbacks (consolidations) during this time frame. And four out of these five consolidations have developed into Contracting Triangles. There is only one exception on the chart above – this is the pullback from late 2003 to early 2004 where the sideways consolidation has not developed into a Triangle. The chart also shows the readings of a few weekly oscillators: MACD, RSI and Stochastics – it is upto the reader to find any tradable signals from them as this is not the topic that I am discussing today.

Let's now see how the bull market in gold has developed further:



The uptrend in gold since 2004 till early 2010: pullbacks contain either Contracting or Expanding Triangles



Source: MetaTrader

Again, you can see from the second chart that gold “likes” the triangular formations. There were two contracting triangles (one after another) in 2006 and early part of 2007. Then, the serious pullback in 2008 developed into an Expanding Triangle. This decline was followed by a strong rally that did not post new all-time highs and then the market spent several months in 2009 basing in another Contracting Triangle before it broke up strongly in early September 2009.

Combining the two charts above, there were 8 significant periods of consolidation during gold’s bull market since late 2000/early 2001: one in 2001, one in 2002, one in 2003, one in 2004, one in 2005, one from early 2006 till mid-2007, one from early 2008 to late 2009, and finally the current one from the Dec 2009 top that is still in place. With one exception, all of these corrections have either developed as Contracting Triangles or have terminated with a Contracting Triangle (the one that terminated with a Contracting Triangle started with Expanding Triangle).

What causes these repeatable price patterns in gold? – The answer of this question is, of course, not clear. The psychology that is associated with Contracting Triangles is that they start with initial sharp move that is usually a result of a previous overextended price advance. Then, the initial low becomes a solid support and because the Long-Term uptrend is very strong, the buyers quickly step in and do not allow lower lows to be made (in most cases). Thus, the correction develops as a Contracting Triangle: the Contracting Triangle’s psychology is obviously the one that best fits with the sentiment on gold market.



What can we expect for the current pullback from the Dec 2009 top? Based on the past examples, the history favors the current correction to either develop as a Contracting Triangle or to start with a different pattern and then to end with a Contracting Triangle. Thus, my expectations are the next strong bull market in gold is not likely to start before the fall of this year.

Can the current correction in gold develop in other way? Of course, it can. The markets can do whatever they decide to. Any price pattern is possible for the current and all future corrections in gold market. But the history strongly favors the occurrence of a Contracting Triangle within the gold's pullbacks and this is something one can have in mind when trying to forecast this particular market.



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