

## research note

### Trading Gold using the RSI

I've been using an RSI (set to 9) to assist me on *trend endings* in the gold (YG). As you can see on the chart below, the RSI helped identify the end of the rally today, that began at \$579ish. I waited for the RSI to CLOSE lower than the previous bar and made sure that the previous bar was in overbought territory (75+)

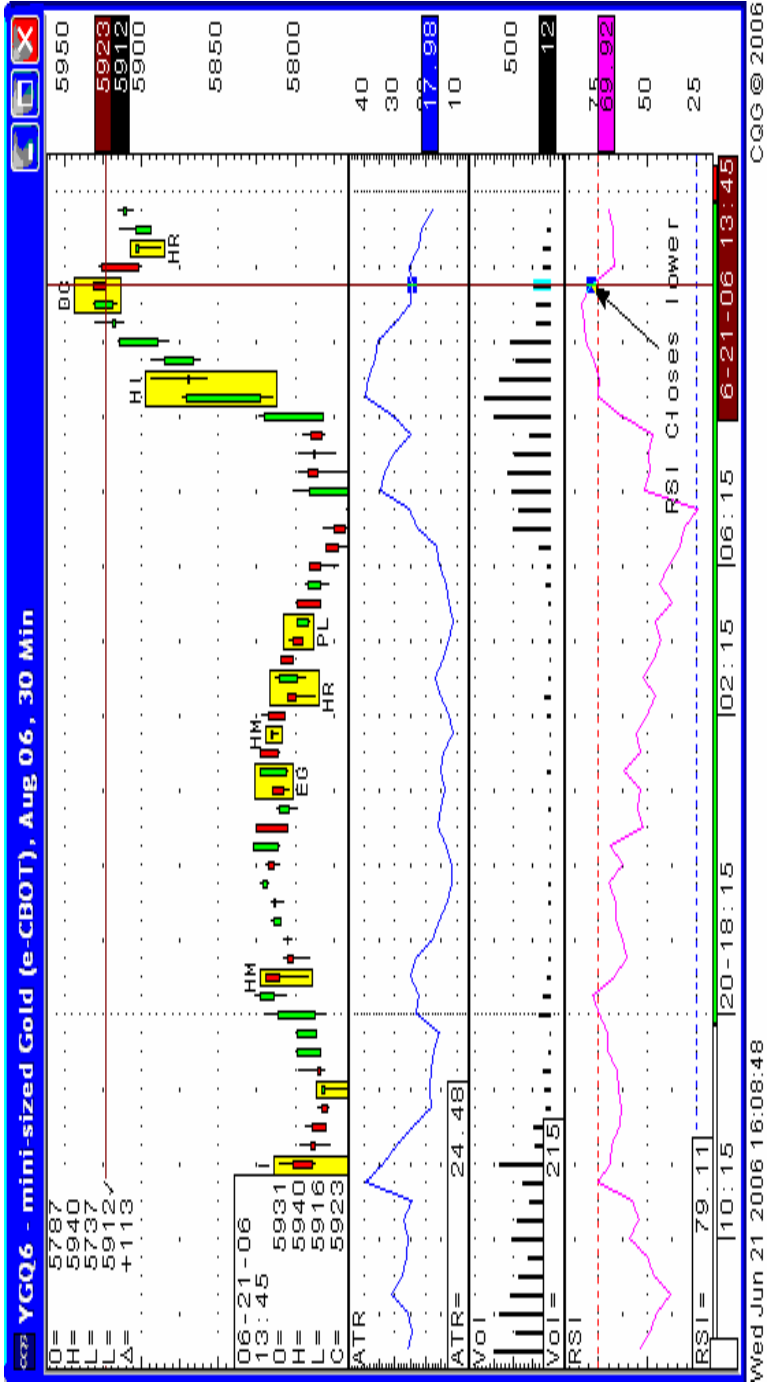
That was my signal, stating that I could enter.

The next question is WHERE?

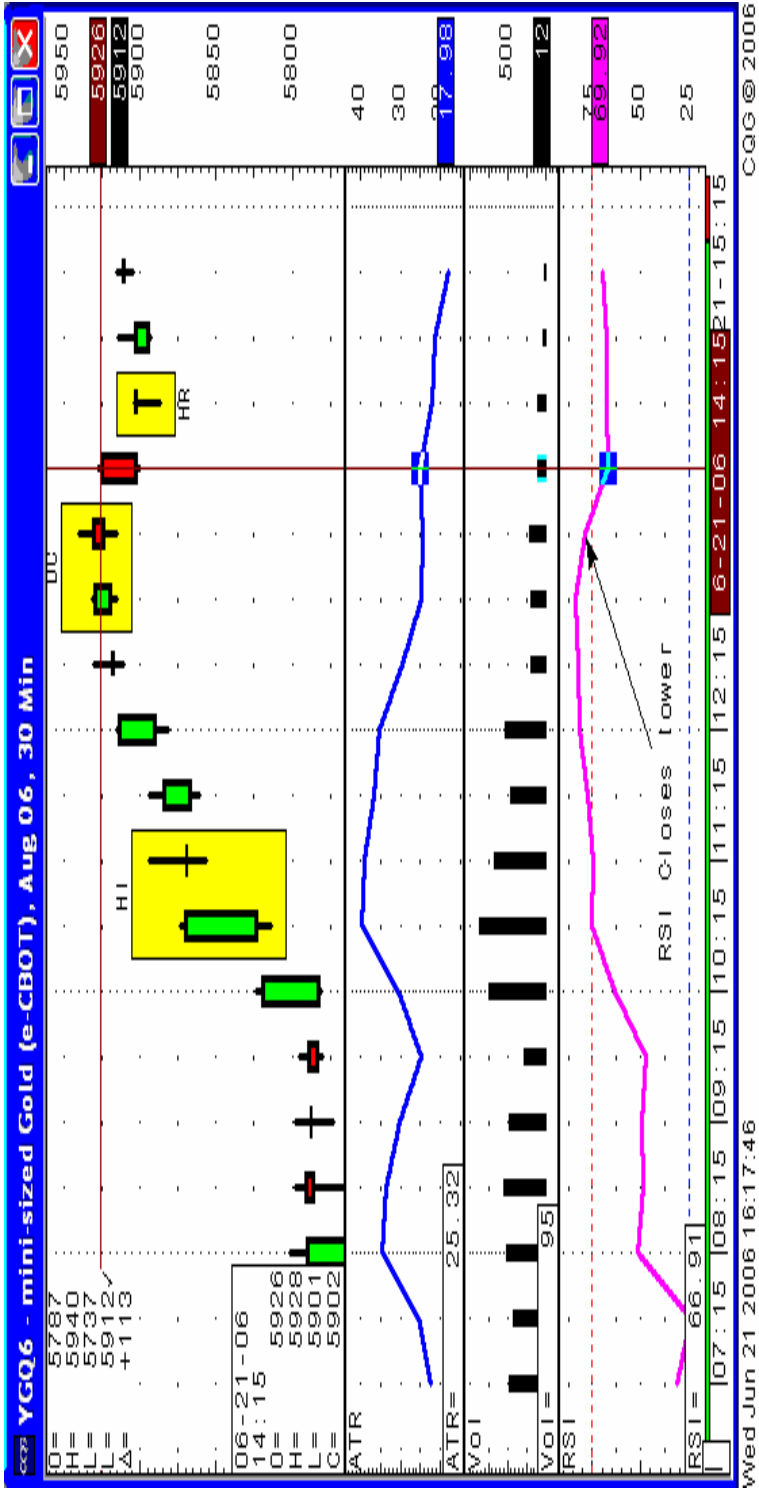
I always answer 4 questions on a trade:

1. Why am I getting in? (signal)
2. Where am I getting in? (entry)
3. Where's my profit target?
4. Where's my stop loss?

Question #1 is answered: I'm getting in because the RSI is overbought and closed lower than the previous bar.  
(not to mention that I was dying to sell them!)



Question #2: Where am I getting in?  
 The next bar on the open (592.60)



Question #3: Where's my profit target?

Wish I could tell you something fancy but it's a no-brainer. Every trader will get out where they can tolerate getting out. I felt good about the trade because S&Ps were struggling and so was the EURUSD. So, I looked for a \$1 profit. Maybe more if I could tolerate it.

Question #4: Where's my stop?

I use the ATR (average true range), set to 10, on a 5 minute chart for my stops. At the time of this trade the ATR was .90 cents.

So, that was my stop; 593.50 (592.60 + .90)

So what really happened with the trade?

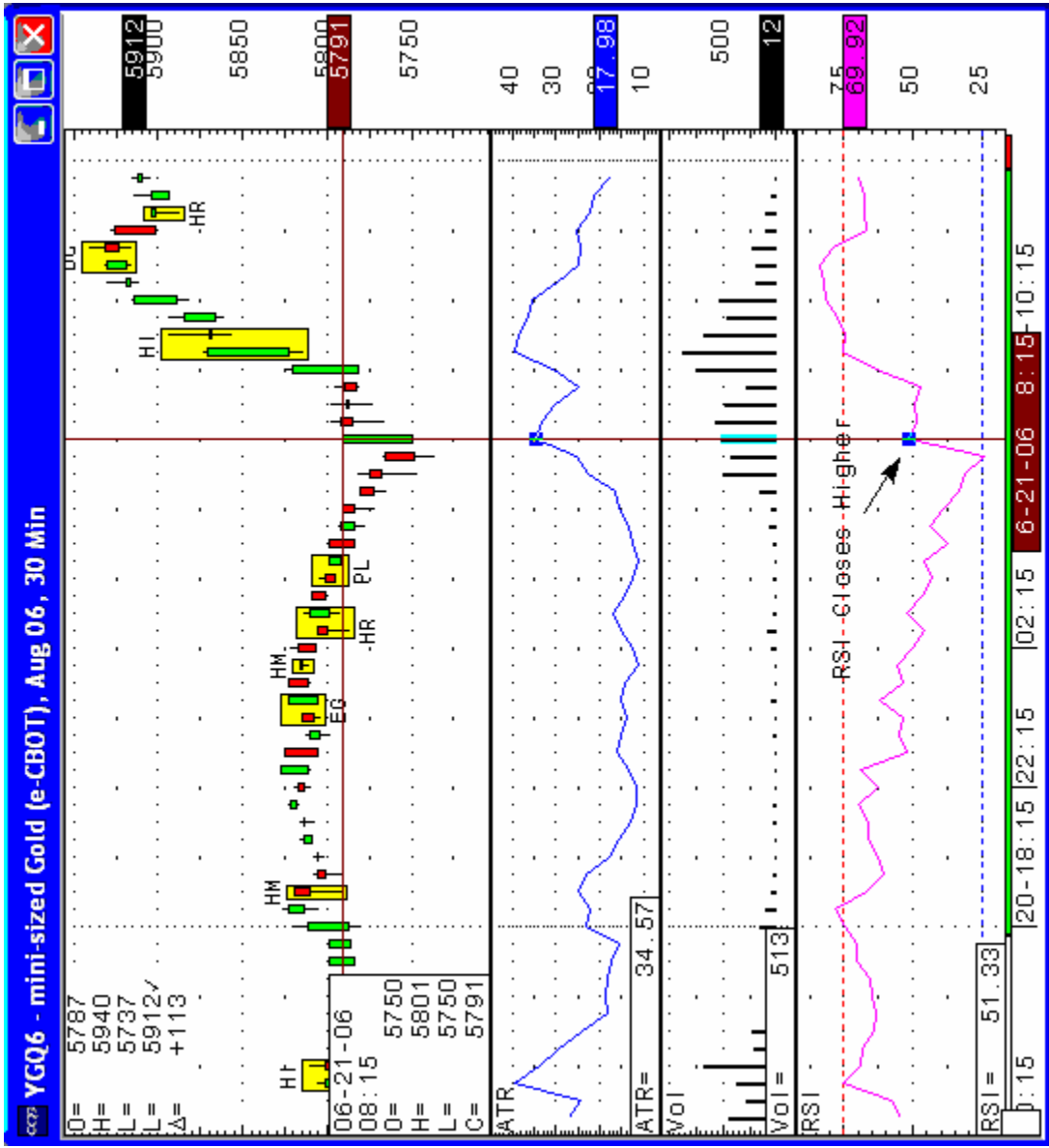
Sold at 592.50 (but kept my stop at 592.60)

Bought at 591.70 (couldn't tolerate it!)

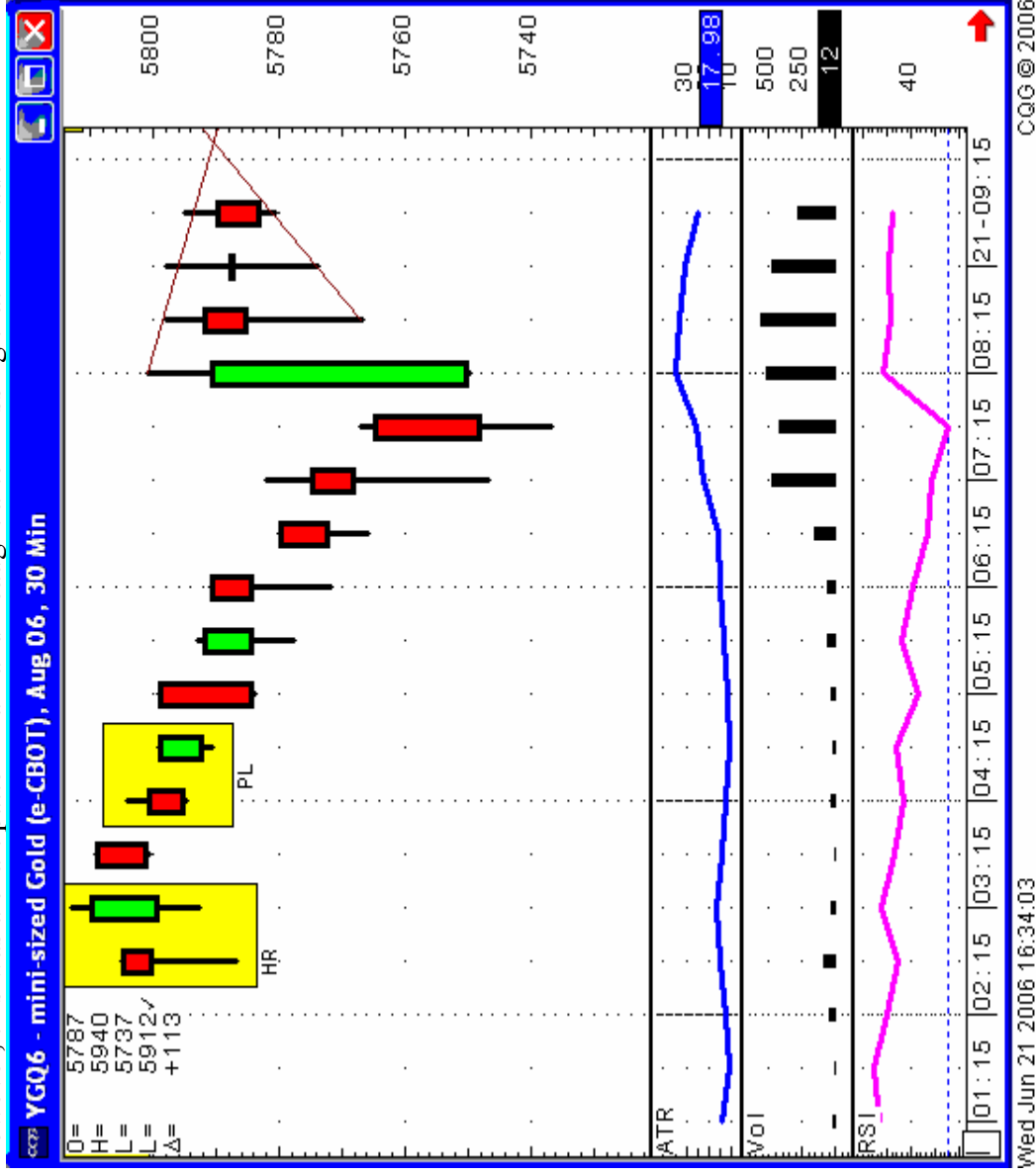
Profit = .80

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Here's another example from this morning. However, I didn't take the trade because by the time we closed the RSI higher, after it had moved below the oversold line of 25, we had rallied \$3 off the lows. To me the trade was over. [go to next page]



However, this was a chart pattern Earl and I caught after missing that RSI trade:



**Classic Bull Pennant.** And this is what happened on the next bar: