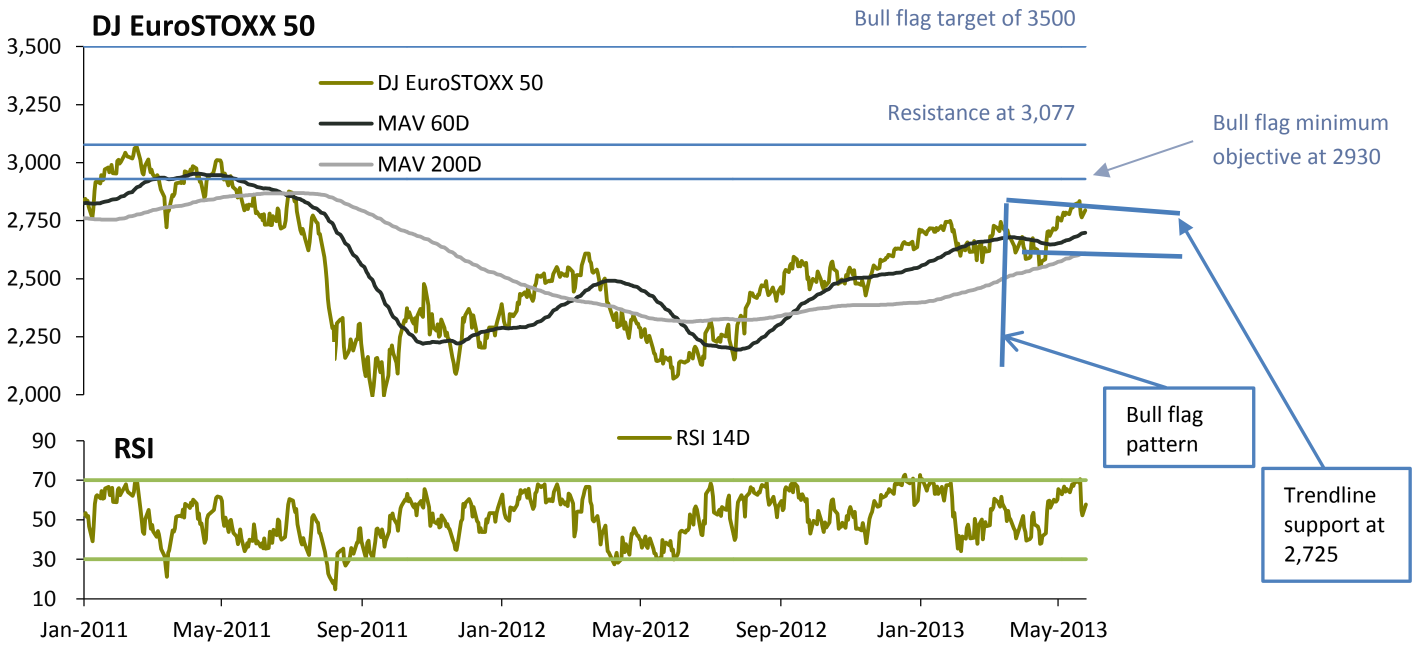
# Trade Booster

30 May 2013

DJ EuroSTOXX 50 rally extending


**Summary**

- **The bull flag pattern breakout in the DJ EuroSTOXX 50 index targets 3,500 on a long-term view (six-months or more)**
- **Resistance is at 3,077.24, the 18 February 2011 high**
- **Investors who believe that the DJ EuroSTOXX 50 index will continue to rally may consider the Boost EURO STOXX 50 3x Leverage Daily ETP (3EUL)**


Source: Bloomberg

**The sustained rally above trendline resistance at 2,730 in the DJ EuroSTOXX 50 is important as this was the top of the potential bull flag pattern. The fact that the index trended above this line confirms the chart pattern and suggests that further gains to 3,500 may be seen on a long-term view (six months or more). This target is derived by extending the flag pole length from the breakout point (see next page for details on the importance of bull flag patterns and measuring objectives).**

The DJ EuroSTOXX 50 index rallied strongly in mid-April as the uptrend was reaffirmed. The rally saw trendline resistance give way at 2,730. This confirmed a bull flag pattern, with the minimum objective placed at 2,930 while the long-term bull flag pattern extension targets 3,500 further out. The 18 February 2011 high at 3,077.24 is worth watching as this is the 'recovery cycle' high from the 2009 trough, and a break above this important level will add further confirmation to the bull trend view. Chart support on pullbacks should be found at 2,725 (former bull flag resistance line which is now expected to provide support). The falling 14-day RSI cautions the bull view; however, the fact that the corrective pullback in April did not break through the 200-day moving average is supportive of the bull trend. Adding to the potential for the bull trend to extend is the rising 60-day moving average which has been trending above the 200-day moving average since mid-September 2012. The DJ EuroSTOXX 50 should see gains to 2,930 over the coming weeks, and 3,500 over the next six months.

## Appendix

Bull flag pattern – This is a continuation pattern and is one of the most important technical analysis chart patterns. A bull flag pattern has three components. The initial price rally which forms the bull flag pole is the first. The pause in prices after the initial bull trend forms the actual ‘flag’ or ‘pennant’ and is the second. The price breakout in the direction of the original price trend move (higher in the case of a bull flag) is the third component.  This breakout is usually seen as another rally which turns above triangle or flat channel resistance (the breakout) and then extends to higher prices. The bull flag pattern has two targets. The first is the height of the actual flag or pennant extended from the breakout point (the difference between the high price of the consolidative pattern and the low price within the consolidative pattern added to the breakout point). The second target is the actual bull flag pole measure extended from the breakout point. The first target would be regarded as the minimum extension measure, while the actual flag pole measure is the medium or long-term extension measure. The importance of the bull flag (or bear flag) is that trending markets tend to continue to trend in the prevailing direction of price movement. A bull or bear flag is a clear signal that the trend that had been in place before the ‘pause’ is resuming.

Flag pole - The ‘flag pole’ in technical analysis is part of a ‘continuation pattern’ and can be either part of a ‘bear flag or pennant’ (prices are descending) or a ‘bull flag or pennant’ (prices are ascending). The flag pole is usually derived from the start of the rally (bullish) or sell off (bearish) to a price level where market activity seems to ‘pause’. This will usually see the uptrend or downtrend in prices consolidate for some time – with prices either ranging in a triangle or rectangle pattern (flag) or wedge (pennant). The price difference between the start of the rally and the highest price reached during the ‘pause’ in the rally is the length of the ‘flag pole’ in a bull flag or pennant. The price difference between the start of the sell off and the lowest price reached during the ‘pause’ in the bear trend is the length of the bear flag pole in a bear flag or pennant.

Minimum extension measure – The minimum price target in technical analysis derived from a pattern breakout. These can be continuation patterns (like a flag) or a reversal pattern (like a head and shoulders pattern). The minimum extension measure is the initial price objective or near-term target that is usually seen as the ‘conservative’ price objective, with other price extension measures seen as medium or long-term price objectives.

Congestive highs/lows – An area of chart support or resistance which is observed as a cluster of highs or lows at the same price area. These can vary in importance depending on the time frame – weekly congestive high/lows are more important than daily congestive high/lows and intraday high/lows.

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