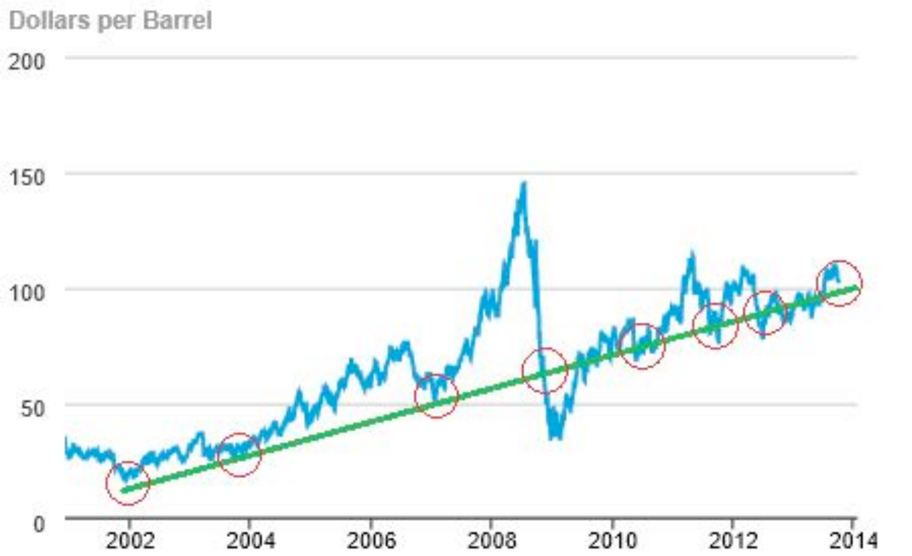
An Oil Chart to Trade On

Oil has been trading in a long-term uptrend for more than a decade, with a well-established trend line. That trend line has been tested seven times in dramatic fashion. It's failed only once, during the financial crisis back in late '08.



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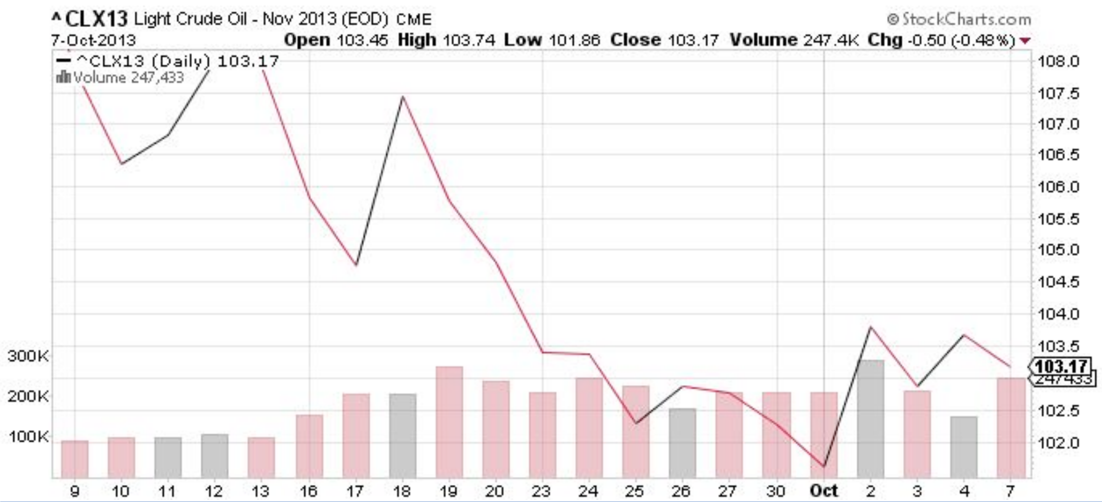
This next chart shows you the drop and the bounce. The steep falls are from the lack of military intervention in Syria.



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So where does oil go from here? We have a clear bounce, but is it enough to keep prices rising? I think so. I'm targeting $109.25 by the end of the year. I'll show you what that looks like in the chart below.

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The green lines are the long-term uptrend. You can see where the bottom trend line crosses the 38.2% Fibonacci retracement line. I don't want to get too technical here, but let me explain that Fibonacci lines measure a recent climb from a low (in late April, for this chart) to a high (in September, for this chart). What's interesting about Fibonacci lines is that they also show probable points of support.

Those levels are the three blue lines in the middle of the chart. A common percentage that prices fall after a substantial climb is 38.2%.

As you can see from the chart, that's nearly exactly where oil prices found their bounce on the bottom trend line. This cross of the Fibonacci and trend lines creates a strong support node that I think will provide some technical momentum to oil prices.

Adding to that technical support is winter. We're headed into heating oil season. This will lend some fundamental demand support to oil prices.

That combination could push prices back to recent highs from just before the Syrian crisis started to fizzle out. That's at about $109.25 by the new year.

Interesting, this level would put oil prices in the middle of its long-term uptrend channel, marked by the middle green line on the chart. Oil prices do have a history of finding resistance at that level, so taking your gains there might be the prudent path.

Even if prices do push through that level, movements get choppy.

That said, a move from about $104 to $109 isn't anything to sneeze at... especially if you crank up the leverage with options. **United States Oil (NYSE:USO)** tracks the price of West Texas Intermediate crude oil and is a popular investment with folks who want to get in the oil game but don't want to play futures.

A move in oil prices from $104 to $109 means USO could move from $37.35 to $39.54.

A fall below that 38.2% Fibonacci retracement line means the uptrend is busted, though I don't think a move like that is likely. The retracement line has an oil price level of $100.66 per barrel, so mind that level if you're trading oil into the winter.

All said, the long-term uptrend has held for 11 years and has provided strong support six out of seven times... The only time it didn't was during the financial crisis, and prices quickly snapped back to the uptrend.

Happy Investing,