



Chinese market may be trying to bottom at least on a near-term basis.

- The Shanghai Composite has been in a long-term downtrend for the past four years.
- The Composite is currently testing its 200-month moving average.
- Weekly technical models are offering encouragement as they have positively diverged from the price action.
- The FTSE China 25 index has been outperforming the Shanghai Composite and has just registered a new multi-year relative high.
- The FXI has just registered an Intermediate Term Buy Signal and is currently resides above its 50 and 200 week Moving averages.
- Chinese stocks that are rated Overweight are: TSM, MPEL, and VIPS.
- Chinese stocks that are rated Buy are: MPEL, CTRP, VIPS, TSM, and CEO.

### Shanghai Stock Exchange Monthly

The Shanghai Stock Exchange Composite (SSEC-2066.21) is broad based index consisting of 872 stocks. Since peaking on October 2007 at 6124.04 the index has steadily declined and now resides just above 2000.00. The index managed to retrace the initial sell off from 2007 to 2008 by 38.2% between late 2008 to mid 2009 (see chart below). A 38.2% rally is a Fibonacci retracement point and is considered an overhead resistance level. The index is currently below its 50-month moving average (MA) but is testing its 200-month MA.





Chinese Stocks Relative Ratings vs. the S&P500 Index. (Data through 10/31/2012)

OVERWEIGHT	MARKET WEIGHT	UNDERWEIGHT
TSM	HEK(-)	BIDU
MPEL	CTRP	UMC
VIPS	QIHU(-)	RENN
	SINA(-)	SOHU
	EDU(-)	
	CEO	

Chinese Stocks Momentum Model Ratings (Data through 10/31/2012)

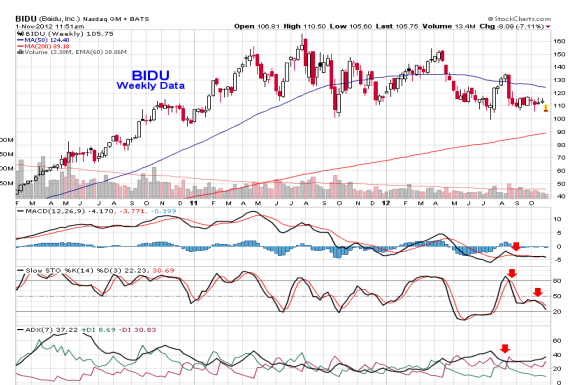
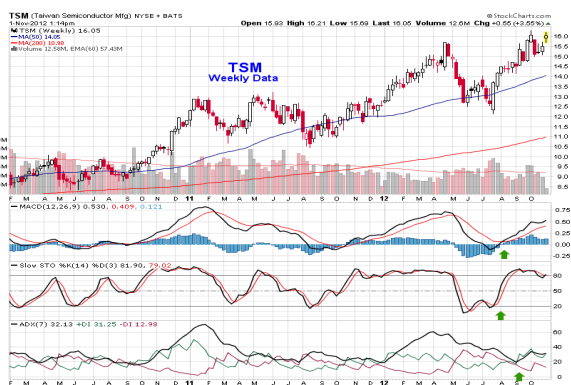
BUY	HOLD	AVOID
MPEL	QIHU(-)	HEK
CTRP	EDU	BIDU
VIPS		SINA
TSM		UMC
CEO		RENN
		SOHU

← Upgrade → Downgrade

(+) Technical Upgrade Alert (-) Technical downgrade alert

Technical Momentum Models

We utilize three technical models to gauge the upside or downside momentum potential for each stock. To receive a BUY rating all three models need to be positive (see TSM chart below). A HOLD rating is calculated when one or two models are positive (see QIHU chart below). An AVOID rating is calculated when all three models are negative (see BIDU chart below). All ratings are based on weekly data and weekly models. A “technical upgrade alert” (TUA) is assigned to a stock when the models are improving. A “technical downgrade alert” (TDA) is assigned to a stock when the models are deteriorating.





### Shanghai Stock Exchange Weekly

The weekly technical models on the SSEC (see below) are offering encouragement. Notice that the index has recently established a new reaction low; however, the technical momentum models have established a higher low. This development is considered a non-confirmation or a positive divergence and suggests that the market may be in the process of forming a near-term bottom. In addition, technical models have turned positive. We must note that a third model (not shown) is still negative so we would rate the weekly trend Neutral at this point. On previous occasions in February 2011 and January 2012 when both these models turned positive short-term rallies did materialize (see chart blue arrows).



### FXI Weekly

We must also note that the FTSE China 25 index (FXI-36.93) has been rallying as well (see chart below). The index consists of 25 of the largest and most liquid Chinese companies, and is designed to represent the performance of the largest companies in the Chinese equity market that are available to international investors. The index has registered an Intermediate-Term Buy Signal and has surpassed both its 50 and 200 week MAs. A weekly Buy Signal develops when all three weekly technical momentum models turn Positive, as is currently the case.





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## About Dragon Gate Investment Partners

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