



The Shanghai Composite has pulled back and currently has just dropped below its 200-month moving average.

- Weekly models unfortunately are on the defensive once again which could prolong the potential basing process.
- The FTSE China 25 Index continues to outperform the Shanghai Composite
- The FXI index has been outperforming since May 2012 and shows no signs of reversing that trend.
- Chinese stocks that are rated Overweight are: TSM, QIHU and EDU.
- Chinese stocks that are rated Buy are: EDU, QIHU and TSM.

Shanghai Stock Exchange Weekly

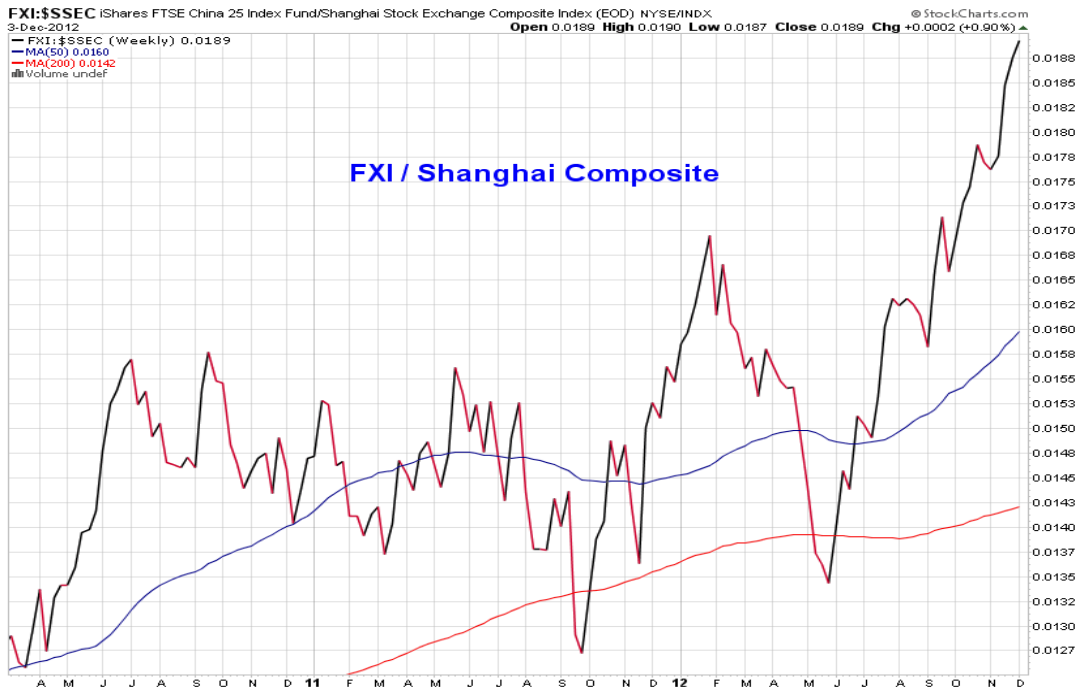
Since our last piece the market has pulled back more and currently has just dropped below its 200-month moving average (MA). Despite the new reaction low most weekly gauges continue to hold above their lows of September 24, and January 2, 2012 (see arrows on chart below). Weekly models unfortunately are on the defensive once again which could prolong the potential basing process. A technical formation known as a falling wedge has developed on the weekly chart as well which could have bullish connotations for the market once completed (price has to break above the top trendline). The idea behind the formation is as the market drops the rate of the decline is slowing (the bottom line is not as steep as the upper line exhibiting less selling pressure).





The FTSE China 25 Index continues to outperform the Shanghai Composite. The chart below shows the relative performance of the FXI index versus the Shanghai Composite. As you can see the FXI index has been outperforming since May 2012 and shows no signs of reversing that trend. Based on this relationship investors might consider the index and or the stocks that make up the index if their mandate is relative performance.

FXI Weekly



Chinese Stocks Relative Ratings vs. the S&P500 Index. (Data through 12/04/2012)

OVERWEIGHT	MARKET WEIGHT	UNDERWEIGHT
TSM	HEK(-)	SINA→
←QIHU	EGO(-)	UMC
←EDU	FMCN	BIDU
		TSL

Chinese Stocks Momentum Model Ratings (Data through 12/04/2012)

BUY	HOLD	AVOID
←EDU	EGO(-)	HEK(+)
←QIHU	FMCN(-)	BIDU
TSM		SINA
		UMC
		TSL

← 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 EDU chart below). A HOLD rating is calculated when one or two models are positive. An AVOID rating is calculated when all three models are negative (see SINA 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.



Relative Stock Charts Versus S&P500





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About Dragon Gate Investment Partners

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