

## **SHANGHAI, CHINA**

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Is this the collapse following the blow-off rally top? It has some of the characteristics so we concentrate on managing positions rather than adding new positions. This is a dramatic fall back into the consolidation area.

The monthly chart of the Shanghai Index shows a wide consolidation band. The lower edge of the band is near 3000. The upper edge of the consolidation band is near 3300. The breakout above resistance near 3300 was not strong.

The very strong and powerful historical consolidation band reduces the probability of a large collapse after the index moves to the right of the parabolic trend line. This is bullish for the market because a consolidation provides a good base for a future continuation of the long term uptrend. Investors believe the consolidation is a buying opportunity.

Investors watch for the rally to continue above 3300 but investors must also be prepared for a retracement and consolidation behaviour.

A 10% retracement from the high near 3326 gives a target level of 2994. A fall of less than 10% is a technical correction in the trend. A fall of more than 10% is a signal for a change in the trend.

