

CHINA ON THE MARCH

By Colin Miller

I had been watching the China Shanghai Composite Index (SSEC) and Dow Jones Shanghai indices to keep track of the Chinese equities market (see daily charts below).

Towards the end of July it was obvious that significant price action had been forming by way of a compression wedge upside breakout on high volume. Towards the end of August the SSEC had been testing a falling line of resistance and judging by the behaviour of the GMMAs my bets were on a bullish breakout.



I decided I'd better get long since this could be the end of a five-year bear market and the upsides could be significant for a long term hold. I'd been reading that price to earnings ratios in China were very low - hence my longer term perspective.



Dow Jones Shanghai Index daily

Even though it was my plan to shift to a weekly chart once I'd moved into good profit, I still wanted to time my entry using shorter timeframes. Underpinning my general approach was the intention to use Daryl's "catching the bounce" principal and enter as price 'bounced' off the long term GMMAs after a gentle retracement (see SSEC and DJ Shanghai daily charts).

I decided to use my IG Markets CFD account to take the trade (see daily chart of "China A50 Cash" security below).



China A50 Cash daily chart

Finessing my entry even further I used a 3-hour chart as the platform to determine my technical entry criteria.



China A50 Cash 3-hour chart

My entry signal was a close above the 30 period moving average (light-blue coloured MA) and a close above the Guppy Count Back Line on the 3-hour chart. These are traditional methods, they are nice and simple.

You can see on the magnified 3-hour chart below that the entry was taken on the price bar immediately after these conditions were met, marked by the blue box sitting amid the horizontal blue line.



The MACD histogram was shaping up nicely too - showing bullish divergence (see 3 hour chart price lows at 21 August and 29 August, the lower second price-low diverged with the higher MACD histogram low on 29 August).

I felt confident that the trade was behaving correctly after the tall green bar stamped bullish authority on the breakout from the 150 period moving average (beige coloured MA) and sloping down-trend line.

I'll be watching count back lines on the daily charts for a while before switching to a weekly chart.