Unicorn Financial Solutions Pte Ltd
538 Geylang Road #02-09
The Arizon Singapore 389493
Tel: (+65) 6887 3885
Website: www.unicorn.sg

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What happened to The Shanghai Composite Index

On 19th January 2015, the Shanghai Composite Index ended the trading day down 7.7%, the biggest plunge in equity prices in 6 years. This was due to regulators announcing a tightening of margin-lending regulations to rein in record margin lending in China.

Policy makers are concerned with the surge in stock purchases using borrowed money, after outstanding margin loans surged to RMB1.1 trillion as of 16 January 2015 from about RMB400 billion at the end of June 2014. This led to a 67% jump in the Shanghai Composite Index in the past 12 months, as individual investors invested into the market on record volumes, making the index the best performer among 93 global indexes over the past years.

At the end of the trading session on 20th January 2015, the Shanghai Composite Index gained 1.82%.

Our View --- Staying Vigilant, Always Ready

There is no need for you to be alarmed by this occurrence. The crack down on excessive margin finance bodes well for the Chinese equity markets, as the Chinese government continues to regulate and reform capital controls and markets. This has no impact on the fundamentals of the Chinese equity markets.

We have also positioned your portfolio to take advantage of further buying opportunities should the Shanghai Composite Index correct further. Our research team is staying even more vigilant and alert during this period to find exciting opportunities for our clients to invest in.

Source

Chinese stocks plunge most in six years on lending curbs
http://www.bloomberg.com

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