

Fullermoney

Global Strategy and Investment Trends by David Fuller

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Please note: This is a compilation of Comment of the Day for Subscribers, which appeared on the www.fullermoney.com website during the last week. Subscribers are encouraged to login at their convenience, to read the daily coverage and use the many other site facilities, including the Library of charts.

Monday 11th June 2007

Welling@weeden: Mind Games - [My thanks to a subscriber for this outstanding interview with Jason Zweig and to Kathryn M Welling for permission to quote it and also post it. Here is her introduction:](#)

Jason Zweig is a senior writer and columnist for Money Magazine, and a contributor to Time, but he earned his spurs as a financial writer at Forbes and he's never been one to simply ladle out the pabulum so prevalent in the genre. Only four years ago, Jason came out with an intelligently updated and annotated edition of Ben Graham's classic, "The Intelligent Investor" for modern investors. His newest book, "Your Money and Your Brain," is scheduled to hit the shelves in the fall, and Jason thoughtfully sent me an advance copy just in time for me to take it on my endless flight to China. It made the 14 hours fly. Granted, under publisher's orders, Jason dutifully spun the book's reportage and analysis of what neuroscientists are discovering about the brain's relationship with money for individual investors. But any investment pro worth his exorbitant fees should have no trouble recognizing plenty of himself, and of his organization, in the neuroscience insights Jason explores in the book...and in this conversation.

[And here is one of many interesting answers:](#)

I pause when I give that answer because we all say what we believe about ourselves. But most people don't understand their own behavior nearly as well as they should or as well as they could. The fact that you may believe that your decision is governed by objective factors does not mean that that's why you made the decision the way you did. It just means it's why you think you did what you did. This is one of the most well-established facts in human psychology. What people think their motive is for doing something is often wrong. Even analysts who follow the most rigorous research process have to stop and think well, why did I exclude company X from the universe at the beginning? Was it all just a quantitative screen? Maybe it was. Well, how did I pick the factors to use in the quantitative screen? The farther back you go, the more likely you are to find something (if you can take an objective view) that may have been determined by an emotional component you're not aware of. One of the best stories I've ever heard about this was told to me years ago by Arnie Wood from Martingale Asset Management. When he was a young analyst he was very excited about one of his stock picks. He'd spent weeks on it and he'd never been so confident that his stock was a buy. Then he went to

the investment committee meeting and made his pitch. The stock was Ford Motor; it was indisputably dirt-cheap and he made a passionate plea for investing in it. Everybody around the table was nodding and people were all set to go. Then the chairman of the investment committee said, "The last car I bought was a Ford and it was a lemon. We're not buying the stock." That kind of thing goes on all the time. I'm sure in hindsight Arnie was right and the chairman of the investment committee was wrong. But it's very hard to stay focused on what the data tell you because the data don't have any feelings attached to them. And it's emotion that really tips the scale. That is what people don't realize. You know, Arnie could have made the most persuasive case in the world for buying that stocks, but because the chairman had bought a clunker from Ford, nothing Arnie would have said could have made a bit of difference. It was just never going to be an option because of that emotional factor.

Sure, but that's an extreme example.

Yes, but it's a reminder that decisions are made all the time under the influence of emotion. One of the most important lessons to come out of the neuroscience research is that it's almost impossible to tell when you are under the influence of emotion. Emotion can often be unconscious. You can be in a good or bad mood without actually realizing it. There have been studies done showing that if you flash a happy or an angry face on a screen, with an exposure so brief that no one can describe seeing anything other than, maybe, a flash of light, people's behavior will change. People to whom a happy face was flashed will actually pay more money to buy a drink immediately afterwards than will people who saw an angry face. And not only do they have no idea that they're in a happy or angry mood, they don't even know that anything happened at all that would have changed their mood. Yet those brief cues change their behavior in a very significant way. The simplest experiment of all is asking people, would you rather have a 30% chance of winning \$10 or a 60% chance of winning \$5? If someone is induced, through a psychological experiment, to feel ashamed or angry or sad, he will almost always pick the 30% chance at \$10. He wants to take a big risk because he feels threatened and feels he has to get even, if you will. If you pose that same question to someone who is uncertain or worried or anxious, he will almost all [always?] opt for the 60% chance at \$5 because he doesn't want to take a risk. And you can take that same person and change his mood and find that he'll change his preference.

My view - Anyone with an interest in psychology will find much familiar ground in this illuminating interview. Humanoids have been hardwired to be emotional for millennia. It was often a matter of survival. If our ancestors had not jumped at shadows, they would have been eaten.

Today, we are instinctively emotional, often when we think we are being analytical. The only way we can recognise the difference, objectively, is by developing our emotional intelligence. Human behaviour is the least understood and therefore largely unexplored frontier of investment and trading analysis.

Email of the day (1) - [On chart reading](#):

"I have been receiving your free comment of the day for some time, but just recently subscribed to your full service.

"I have been a rather successful investor over the last 10 years, despite not being professionally trained and not using sophisticated research tools over this time.

"I am interested in better understanding the art of reading charts to take the next step up in my investing knowledge. I consider myself a chart reading novice at this time. I also hear that your November Chart Seminar is sold out.

"What do you recommend as a first step to better understanding the reading of charts? Does your service have a "Chart Reading 101" section?

"Finally, if someone considers himself a long term investor, as opposed to a trader, is there a different approach to reading charts?

"Thank you for your wonderful contributions to investment education."

My comment - [Welcome to Fullermoney and thanks for the feedback](#).

I am delighted to hear of your investment success over the last 10 years, which may owe something to the fact that you have not been "professionally trained" (whatever that means) and have not been using "sophisticated research tools" (whatever they are) over that time. I do not know how you would describe your investment approach but assume that it utilises common sense.

I commend your interest in a better understanding of the art of reading charts. Chart reading is a most useful tool if it is also approached on a common sense factual basis, rather than a theoretical approach. The price chart provides an efficient means of monitoring changing fashion trends in markets, created by sentiment and liquidity. There is no other way that I know of to monitor a wide range of markets, in which we may be interested from time to time, and which are often interrelated.

Yes, my November Chart Seminar on behavioural technical analysis is sold out. However Eoin Treacy will conduct two Chart Seminars in London during 2008, on 15th & 16th May and also 13th & 14th November. I believe he will also hold a sponsored Chart Seminar in Dublin, in late November 2007. We may have details on this when he returns from Beijing before the end of this month.

Meanwhile, I'm not a great fan of textbooks on technical analysis because they tend to be overly theoretical and also overemphasise pattern identification in my view. But if you read any, John Murphy's are probably best. You can see his books in the Fullermoney Bookshop (see link upper left), or on Amazon.

Lastly, I trust that you will learn something about chart reading from this site, and also by scanning items of interest to you in the large Chart Library. Look out for breakouts from trading ranges, consistent trends and strength relative to peers, sector or relevant indices.

UBS: Old and Rich - My thanks to a subscriber for this interesting [report](#) by Jonathan Anderson of UBS. Here is the opening:

Will China grow old before it gets rich? There's a long-running debate over who first posed and popularized that pithy question, but for many investors the issue first came to their attention in a Goldman Sachs 2006 research report of the same title. Since then, the question of the economic effects of Chinese demographics has waxed and waned more than once in popularity, and judging by the number of client requests in our inbox over the past few weeks, it's making the rounds once again.

The main concern, of course, is that somehow the mainland might be facing a structural growth crisis because of its aging population, i.e., that by the very fact of growing old, China will not be able to get rich.

What do we think about this? We don't see any compelling reason why China can't get both. There's no question that demographic changes imply a slowdown in mainland growth over time, and there are naturally a host of other factors that could intervene in the next few decades to prevent China from reaching developed country per-capita income levels - but as we look at potentially serious macroeconomic challenges going forward, the issue of aging simply doesn't make our short list.

My view - I find Jonathan Anderson's views on this subject persuasive and commend this report to you if only because others will comment on the subject, particularly Sinophobes. I believe that China will long remain the king of emerging markets.

Email of the day (2) - [On intervention by the Reserve Bank of New Zealand:](#)

"You may be doing so anyway, but I'd very much appreciate your comments on the significance of today's currency intervention by New Zealand's central bank. Is this (if anything) bearish for the dollar, because it indicates that things are getting serious again - I don't recall hearing of (admitted) intervention for quite a long time; or is it bullish because once the central banks decide to take action, it means they are determined to end the trend, and will succeed in doing so?"

My comment - [A mantra at Fullermoney over the last five years: No country wants a strong currency in this environment of competitive pressures due to globalisation.](#)

Today, the Reserve Bank of New Zealand used some of its NZ\$7 billion (US\$5.3 billion) stabilisation fund following the kiwi's surge to a new high against the USD last Friday. The question is, will the intervention succeed?

The RBNZ can have some temporary success because it has demonstrated that it is willing to intervene, unnerving carry trade speculators for the moment, and it is presumably willing to do so again. However I think it will have difficulty in checking the kiwi's ([p&f](#), [monthly](#), [weekly](#) & [daily](#)) medium to longer-term strength against the greenback.

Commodity currencies are in fashion due to the strength of their exports, which are mainly agricultural for New Zealand. Moreover the RBNZ recently raise NZ's bank rate to 8% making it one of the higher yielding viable currencies available. A Japanese investor will have to fear a slippage in the JPY/NZD rate of over 7% per annum to be deterred.

These charts show the NZD's current uptrend against the JPY([p&f](#), [monthly](#), [weekly](#) & [daily](#)), which is back to its historic peaks. They are a psychological resistance level but until Japan decides that it wants a stronger currency, previous highs and unilateral intervention by the RBNZ may only provide temporary resistance. The central bank could weaken its currency but this would require a combination of accelerated money printing and lower short-term interest rates, which it may not be willing to contemplate at this time.

Email of the day (3) - On chart ratios and the Nikkei 225 versus US 10yr bond yield overlay:

"David, you have many very useful charts on your website. Some, like the Dow/Gold ratio (long-term) is one that I became aware of some years ago before becoming a subscriber and it continues to fascinate me for its implications about the future of the gold price and the Dow (assuming the relationship holds).

"Another chart that I find particularly striking, and that I only became aware of after subscribing, is the Nikkei 225 v US 10yr bond yield. The visual correlation of these two statistics over, say, the last 20 yrs is amazing. For some time now there has been an increasing divergence between the two measures and the question that this seemed to pose was - "does it imply a future convergence with a fall in the Nikkei and/or a rise in the US bond yield?"

"The last few weeks seem to have provided an answer with bond yields rising sharply and the Nikkei relatively weaker but holding firm and promising to rise further. I think this confirms your own long-term bullishness for Japanese equities and your bearishness on bonds. I'd be interested to know the statistical correlation of these two measures over the last 20 years. The question I have is "Does this correlation hold at higher levels of bond yields and higher levels for the Nikkei?"

"Surely, at some point the relationship breaks down - perhaps when Japanese bond rates have closed the gap on US and other bond rates and we see the end of the yen-carry trade and Japan has a "normal" inflation rate.

"Do you have any thoughts on this?"

My comment - Thanks for your interest in our charts. Here is the [overlay](#) for the last 10 years. The chart is interesting; others have commented on it but I have never felt that I could learn anything of practical value from this convergence. Moreover the trends for these instruments are easier to see on candlestick or p&f charts, without the overlay. They have diverged in recent years, as you point out. And on this [50-year chart](#) we can see plenty of divergence in the earlier years. But I do think the long-term trends will be in a similar direction more often than not, with both the Nikkei and US 10-year yields moving higher, mainly due to coincidence.

Email of the day (4) - On China funds (from a new subscriber):

"Could you please recommend funds which invest in the Chinese stock market?"

My comment - A number of China funds, investment trusts (closed-end funds) and ETFs are listed in the Chart Library under the "Asia & Asia Pacific - Funds, ITs & ETFs". They differ in terms of the categories of Chinese shares, so you might want to check their fact sheets on Google, to see what is most appropriate for you.

One of them is a core position in my long-term portfolio, because I know the manager, like the methodology and the performance - the [Atlantis China Fortune Fund \(ATCHFOR\)](#).

Note - Eoin is currently in Beijing.

Tuesday 12th June 2007

Gold Bullion: Avoid or Accumulate? - My thanks to Prieur du Plessis of Plexus Asset Management for his timely [report](#). Here is the opening:

The gold price has experienced a rather precipitous decline of 6,7% since its recent peak of \$691,7 on 20 April 2007. This correction is considerably larger than the drop in the prices of commodities in general as well as the increase in the value of the dollar from about the same time.

This begs the question whether we are experiencing a normal bull market correction or perhaps the start of a more ominous longer term-trend reversal.

In order to gauge bullion's action, it is useful to look at how the historical picture stacks up. The following chart (originally devised by [www.ZealLLC.com](#) and adapted by Plexus Asset Management) shows the

three stages of a typical gold cycle as experienced from 1971 to 1980, while overlaying the present cycle on the same axes.

My view - I think most readers will be interested in the historic chart mentioned above. I certainly was.

The graph - "Stages of a Typical Gold Cycle" - is extremely helpful in terms of perspective but it is obviously not a timing indicator. I think gold is in a buying range but with bond yields surging, stock markets correcting and the USD rallying, this is likely to be one of those occasions when discretion is the better part of valour, at least for traders. I will wait for some chart signals.

Email of the day (1) - On gold:

"Thank you for your previous valuable guidance and well expressed, balanced opinion that is a pleasure to read. As perhaps many do, I use a relatively small holding in gold, in my case through a spread bet, hoping that its negative correlation to other assets helps to balance my investment portfolio against unforeseen collapse in value. Or so I thought: now I notice that as stocks slip down, so does the gold price. Please would you comment whether gold is forming a new correlation with other assets, especially equities? Perhaps another strategy provides more effective 'insurance' within my portfolio, which by reason of unashamed imitation contains equities generally similar to yours? Forgive an email from a novice, I'm eager to learn."

My comment - Thank you for your thoughtful feedback. Your modesty becomes you but remember, in the investment game most 'experts' are self-appointed and therefore suspect, and probably trying to sell you something. In reality, we are all guessers. Some are better than others but no one has ever cornered the market in either good or bad financial guesses. However I believe we can improve our odds by observation, self-awareness, contrarian thinking during the market's more euphoric or panicky phases, and for those who also trade, good money control discipline.

There are lots of theories concerning how gold should perform but I am not really comfortable with any of them. However there is one established fact - gold has the best long-term track record as a store of wealth, which is why some of us regard it as hard money. Nevertheless gold is also subject to fashion, just like everything else. Correlations come and go. If gold rises with equities as we have seen in recent years, we should not be surprised if it slips down with them as well. And following a period of outperformance, such as we saw with gold for at least several months up until the peak in May 2006, we should expect a period of underperformance. Similarly, underperformance by an important asset eventually begets outperformance. Such is the nature of markets, which are often heavily influenced by crowd psychology.

Lastly, I note that you sometimes track my portfolio. All I would say to you and every other subscriber on this point: don't do anything that does not make sense to you, or that makes you feel uncomfortable.

Uranium spot prices reach atomic highs - My thanks to Richard Le Vieux for this [update](#) on developments and thinking, written by Angela Macdonald-Smith for Bloomberg and now posted on Business Day. Here is a section:

Macquarie's price forecast [\$200] is less bullish than that of Neal Froneman, CEO of Toronto-based SXR Uranium One, who said the spot price may more than double to \$250/lb next year as demand outpaces production.

SXR, on Monday, agreed to buy Vancouver-based Energy Metals for C\$1,59bn (\$1,5bn) in shares.

In February it bought UrAsia Energy for \$3,1bn in stock.

RBC Capital Markets last week raised its forecast for uranium spot prices. Its 2007 average forecast is now \$120/lb, up from an earlier estimate of \$100/lb, said the bank in a May 28 report.

That was still lower than Macquarie's estimate. RBC raised its 2008 forecast to \$145/lb, from \$85/lb, which is higher than Macquarie's estimate for next year.

"Despite sharp growth in the spot prices, we remain confident that the uranium spot market will continue to strengthen over the next several years," UBS said.

Rio Tinto, the world's second-biggest producer of uranium, sees "plenty of upside" to uranium prices, said Preston Chiaro, CEO for energy, last month. Rio Tinto is examining expanding output at mines in Namibia and Australia as it seeks to benefit from higher prices.

My view - Uranium prices have been pushed higher by increasing demand and a dip in mine production. Specialist hedge funds, licensed to deal in uranium, have contributed to the demand. They are certainly helping to drive prices higher as they attract further investment capital.

While hedge funds have a reputation for being short-term players, this applies to highly liquid markets. In the illiquid uranium market, I suspect they are mainly in for a long-term play. They know that uranium obtained from the decommissioning of nuclear weapons will tail off significantly by 2012, if not sooner.

Eventually, uranium funds will become a greater source of supply than demand, but this transition could be years away. No one knows for sure, so I will be guided by the price action, which continues to accelerate. It would be prudent to assume that the first downtick on this [chart](#) will signal the onset of a medium-term correction, unless it is reversed in a week or two.

Uranium: Growing demand, rapidly depleting stocks - My thanks to a

subscriber for this excellent [report](#) by Rohit Ogra and Edward Morse for Lehman Brothers. Here is an informative section:

In addition to the 437 reactors in operation, 30 more are in construction, 74 have been planned or are on order and about 182 more have been proposed. Most of the facilities that are under construction or are planned lie in Asia, with China, Japan and India taking the top spots; Russia is the biggest investor in nuclear power in Europe.

The two biggest drivers of demand over the next 3-5 years will likely be the initial core requirements of new reactors and the reloading of cores for reactors already in operation. Initial core requirement refers to the amount of fuel that will be needed to sustain a reactor as it begins its first operating cycle. We assume that the initial core requirement is 1,185 lbs of U₃O₈ or 0.45 tU (tonnes of uranium) per thermal megawatt (MW) of power generated. Reloading demand comes from the need to refuel the core at the end of an operation cycle, which could last anywhere from 12 to 24 months. We conservatively assume that reloading will take place every two years and one third of the initial core will need to be replaced. Depending on design and engineering requirements, some reactors might need half the core replaced. There is a difference in the average enrichment of the initial fuel and the reload fuel. Typically, the enrichment in the reload fuel is roughly 2% more enriched than the initial core since there is a reduction in the amount of fissile U-235 atoms available in the entire assembly compared with the initial core. Accounting for this, we assume that the reload requirement is two-thirds of the initial core demand, which translates to reloading demand of 790 lbs of U₃O₈ or 0.3 tU for every MW of power generated.

My view - I find this information helpful but some subscribers may prefer to 'cut to the chase', in terms of the ten largest uranium-producing mines in 2006. The largest remains [Cameco](#), which I maintain will be a takeover candidate once the Cigar Lake uncertainty is resolved. Number two is [Rio Tinto](#) through its 68% (ERA) and 69% ownership of the Ranger and Rossing mines in Australia and Namibia, respectively. The Russian firm TVEL (a private company, presumably owned by the Russian government) is in third place, marginally ahead of [BHP Billiton](#).

However BHP intends to triple its Olympic Dam production by 2009, according to the Lehman report. This would almost certainly catapult BHP to the third spot or perhaps even number two, ahead of Rio. And since TVEL is not in play, the top three uranium producers available to investors will almost certainly remain Cameco, Rio and BHP, until unless one or more of these is taken over. I am pleased to hold all three in my long-term investment portfolio, directly and via [MLW](#), and have no intention of selling although I am likely to buy more from time to time.

Yes, I know there are some sexier plays among the new producers which do not have their uranium earnings diluted by long-term contracts. I see that as a wasting advantage over time and would rather have the metaphorical beef, in terms of large reserves.

Yes, I know that there are uranium funds charging '2 and 20' - a big cost against the hope of superior performance. They do not tempt me, for that reason.

I'm building my own conservative uranium fund within my investment portfolio. I might purchase [Areva](#) on a shakeout towards the 200-day MA, as it is the next biggest uranium producer and also has the lucrative complementary businesses of building nuclear plants, servicing equipment, plus the recycling and reprocessing of fuel.

Sole U.S. Company That Enriches Uranium Is Struggling to Stay in Business - My thanks to a subscriber for this interesting but sad [story](#) by Matthew Wald for The New York Times. Here is the opening:

Seventy years after the United States invented uranium enrichment, the sole American company in the business is struggling to survive, while nuclear power experts worry that its failure would leave the Russians dominant in the market for fuel processing.

The company, USEC, has liquidated some of its valuable uranium inventories to stay afloat, as its income has declined because of changing market conditions. But it had also maintained a high dividend, bought back stock and spent heavily on severance payments after frequent purges in the executive suite. The company spent more than \$100 million on two new technologies for enrichment before abandoning them and embarking on a third.

"USEC has been a four-letter word in some circles," said its president, John K. Welch, who was hired in October 2005 to save the company. Though he has taken steps to strengthen the company, he said the problem now is to find a way to finance new technology and become competitive in the world market.

My view - [USEC](#) has been mentioned in Fullermoney on occasion and did quite well from last October, until recently. This article details the problems. I do not think the US government would allow USEC to fail, given the strategic importance of this industry. However in the global beauty contest, it has lost any appeal for me.

Email of the day (2) - [Eoin's TCS in Dublin](#):

"I would be grateful if you could advise me of the dates for the Chart Seminar in Dublin in November and/or those of May 2008. If possible Dublin would be preferable. Looking forward to hearing from you or Eoin."

My comment - [Eoin Treacy](#) will present a somewhat shortened Chart Seminar sponsored by NCB in Dublin. The plan is for two afternoons from 2:00pm to 6:00pm, on Monday and Tuesday November 26th and 27th, 2007. The seminar is primarily for the clients and staff of NCB, but there may be room for several more delegates. Interested parties who do not have a connection with

NCB should contact Fullermoney's Sarah Harrison:
sharrison@fullermoney.com, tel: +44 (0)20 7352 2129.

In 2008, Eoin will conduct The Chart Seminar in London (the full two-day workshop on Behavioural Technical Analysis which I developed over many years) on 15th & 16th May and also 13th & 14th November.

Email of the day (3) - On freight rates and metal prices:

"Is it relevant that the freight market turned down in advance of latest decline in some of the industrial metals? If so, should we wait for it to turn up before moving back into these markets?"

My comment - Well done for spotting the downturn in [freight rates](#). In answer to your question, I don't know. In theory, there could be a link, psychological or economic, but it is even more likely to be coincidence. Only [nickel](#) has seen a really big fall, which I maintain had been a possibility since it reached the important psychological level of \$50,000. It will be interesting to see if nickel now encounters support near \$40,000, although I wouldn't bet on it, given the extent to which the [backwardation](#) has narrowed and with [warehouse stocks](#) now rising.

Email of the day (4) - On Indian stocks:

"You did mention in the audio that Nifty made a new all time high but I have just noticed that 46% of all stocks on the NSE are below their 200 DMA; the corresponding figure for the BSE is 50%. What should be made of that? Should the SENSEX be renamed NONSENSEX? Incidentally, 61% of all stocks on the NSE are below their 20 DMA.

My comment - Thanks for pointing it out. I feel the 200-day MA works best as a tool for monitoring trends, particularly in showing susceptibility to reversion towards the MA, or potential for a rally from this trend smoothing device. In a lengthy trading range such as India's stock market indices are experiencing, I would expect many shares to trade beneath their MAs. It isn't bullish but I would not exaggerate the bearishness either.

It suggests to me that India is not yet ready to extend its bull market - something that we can also see from the indices and many share charts. The short-term window for a sustained upward break by India closed when global stock markets entered the present reaction/correction early last week. As lagging indicators, I don't think the MAs will be of much use until this pause and consolidation is eventually followed by another consistent uptrend.

Tonight's Audio - I'll be discussing the latest deteriorations - renewed weakness by government bonds (the focal point of concerns), weighing on sentiment for stock markets and commodities, while supporting further short covering in the USD.

My personal portfolio: Coffee stop triggered - [My trading account was further deleveraged today as a long position in Arabica coffee was stopped out.](#) Accordingly, my July long was sold at 113.50¢, against my purchase at 112.45 on 17th April. These prices include all spread-bet dealing costs.

Trading is a struggle right now. I could try harder but the more sensible choice may be to do less until the environment improves.

Note - [Eoin is in Beijing.](#)

Wednesday 13th June 2007

GaveKal: Behind the Pessimism - [My thanks to a subscriber for this short, behavioural feature from the superb team at GaveKal.](#) This item is posted in the Subscriber's Area but here is the opening:

Most of us naturally suffer from vertigo. So with most equity markets around the world (except Japan) scaling new heights, it is only normal to want to look down and fear a potential rapid decline. Of course, as with other instinctual tendencies of human beings, a whole industry has sprung up to feed this fear.

Indeed, while equity markets never go up in a straight line, over time, they do tend to rise. Yet, when we read industry economists and strategists, we find that 90% of the work out there (we picked this number out of thin air, but it felt right to us) is devoted to trying to guess when the next market meltdown will occur, and only 10% of the work (at most) is done to explain why we should expect equity markets to move higher, why the world keeps getting better, why capitalism works, etc... This is an odd quandary: why would so many bright people decide to "challenge" the long-term market's trend and the history of capitalism to forecast doom and gloom?

We recently asked this question over dinner to our friend Victor Niederhoffer (the author of the must-read book, Practical Speculation), and we found his answer so compelling that we decided it to reproduce it here for our clients:

"Ayn Rand used to talk of 'second-handers': those who derive their self-esteem from the perceptions of others, not from objective achievements. One virulent form of second-handedness masquerades as virtue: the need to be needed. I suspect it's behind the overly-chivalrous and boastful demeanor of some elderly gentlemen. It is also behind the pessimism.

The doomsayer needs followers who feel endangered and vulnerable. The forecasts of doom make the prophet needed to get through the pending calamity. No one needs a savior if the forecast is for sunny times ahead. By undercutting the sense of security of others, the doomsayer carves out a niche for himself: I will get you through the market panic, the economic collapse, etc. The confident, optimistic investor is the doomsayer's greatest threat. To become needed, they must make others needy. Such is their benevolence.

Twenty years after 1987, we stand at new highs on global equities, and the doomsayers continue to beat their drum. It is odd how we excoriate those who encouraged people to buy stock in 2000, but yet say nothing about those who counseled against equity ownership for the last 10,000 Dow points. If a physician sickened his patients in order to have a steady stream of revenues, no one would hesitate to call it malpractice. But what of investment advisors who fill their clients with fear in order to sell them services and seminars?

'You need not examine a folly', Rand once wrote; 'you merely need to identify what it accomplishes'. Pessimism and negativity create dependency and a psychological crippling. The need to be needed is a need to undercut the certainty and security of others. That's why it's a 'symptom of something worse'."

Which brings us back to the question at hand: why be pessimistic all the time? It has not paid off in the past 20 years. And given that we live in a world with:

More countries experiencing faster growth (and fewer countries experiencing recessions) than ever before.

Policymakers who, by and large, steer clear of big mistakes (protectionism, tax increases, increases in regulation, prohibitively high cost of money); and

A pace of creation that just keeps on accelerating (on this topic, we highly recommend the 2006 Dallas Fed annual report entitled *The Best of All Worlds*); we doubt pessimism will pay off in the coming years either. Equity markets everywhere are making new highs for a good reason. The markets are not stupid; they are simply acknowledging Capitalism's Golden Age.

My view - Readers will recognise some basic truths in this, although as a generalisation it is somewhat harsh. Many of us know or can name some highly experienced commentators, mainly value investors, who have remained somewhat pessimistic because they feel most comfortable with historically low valuations. This is understandable. These people know that single figure PERs are not the norm but their concern reflects the reality that risks rise with valuations, not to mention interest rates.

Many people have legitimate concerns over issues of corporate governance, not least in the USA. My own impression regarding governance is that there is cyclicity in terms of standards, within a long-term trend of gradual overall improvement. Abuses increase during bubble phases, inevitably, when managers are vetted like pop stars rather than employees answerable to shareholders.

Nevertheless, persistent pessimism against the background of generally rising profits, overall upward trends for stock markets, and a global economy synchronised in GDP expansion, reveals more about the commentator than the financial outlook. Just as we are what we eat, our individual psychological perceptions are inevitably influenced by our experiences throughout life. Disappointment can be a conduit for pessimism.

There is also a degree of chicanery among a fringe element of pundits. Hellfire and damnation is not the sole province of religious fanatics. In the financial industry, it sells, as I have said before. Victor Niederhoffer makes this point rather well in the GaveKal segment above.

The concluding reference to "Capitalism's Golden Age" may raise some eyebrows among contrarian thinkers. I haven't read the piece but am inclined to agree with GaveKal, at least because more countries have embraced capitalism (and are profiting from it) than ever before. This is also the most inclusive era of globalisation, and accelerated technological innovation creates unprecedented opportunities.

In terms of downside, briefly, these factors also create some hardships, as we know, and we appear to be overtaxing the planet's resources.

Stock market update - My immediate concern, via Fullermoney, is the health or otherwise of the financial markets. Since yearend 2006 I have spoken repeatedly of a somewhat choppy environment for stock markets, characterised mainly by some larger reactions and lengthier ranging phases than we had become accustomed to during the persistent rally that followed the medium-term correction in May and June last year.

We had a larger reaction in late February and early March, and a number of overextensions relative to the 200-day moving averages (MAs) indicated susceptibility to another reaction. I have stated that this would almost certainly be less of a mini-meltdown than seen earlier in the year. Instead, I looked for a slower, ranging reaction, providing some mean reversion in terms of the long-term MAs. I believe this reaction commenced on Tuesday 5th June.

I also mentioned that [China](#) was the market most likely to uncouple from a Wall Street leash-effect reaction, not least because it had led with a setback commencing on 30th May. In fact, China bottomed Tuesday a week ago, just as the Wall Street-led reaction was commencing.

Interestingly, Asia's smaller markets have seen virtually no reaction to date, as you can see from [Indonesia](#), [Malaysia](#), [Philippines](#), [Singapore](#), [South Korea](#) and [Taiwan](#). So subscribers investing solely in these markets will be saying: "What reaction?" [Hong Kong](#) has continued to range. Further a field, [India](#) and [Australia](#) have been somewhat weaker but action to date clearly includes much more ranging than seen at the end of February.

Among European markets, [Germany's](#) reaction more closely resembles the earlier setback but it is one of several to steady at the first area of potential support, evident from the small trading range beneath 7500. Note the double dip in March. We won't have convincing evidence that the reaction lows have been seen until markets find good support near or above an earlier low.

Meanwhile, western indices with a heavy weighting of banks are underperforming, as we can see with [Ireland](#), [Switzerland](#) and [Sweden](#). This is a concern because what is bad for banks is generally not favourable for the

broader market. That said, These indices are in ranging patterns, correcting previous overextensions relative to their long-term MAs. The [UK](#) has been steadier with bank weakness offset by industrial resources.

The [US S&P 500](#) has temporarily checked its slide but it is too soon to conclude that this comparatively small reaction is over. Some downside risk remains and we can anticipate at least several weeks of ranging mean reversion before additional upside beckons. I'll feel more optimistic when we have clear evidence of support and [Treasury Bond](#) prices are firmer. Currently, they are somewhat oversold following acceleration to [previous lows](#). Consequently we should be near a reaction low, albeit within a secular bear market for long-dated bond prices.

Having helped to roil markets, perhaps Alan Greenspan might actually say something reassuring for a change. Stranger things have happened, and pundits do not want to be thought of as predictable.

Lastly, I have mentioned a risk that this ranging reaction could morph into a correction not seen since May-June last year, if the bond market rout continued. Bonds will carve out their own course, with timing dictated mainly by crowd psychology, but I do not see any compelling reasons for why the mini-meltdown should be extended at this time. I think the slump in bonds is due to a delayed realisation by the majority that this really is no longer a bull market for fixed interest investments. The long-dated government bond crowd was previously in denial over the gradual deterioration in chart patterns, observed by veteran subscribers since June 2003.

Note - Eoin is in Beijing.

Thursday 14th June 2007

Robin Griffiths' World Investment Strategy: Long distance runner - My thanks to Robin Griffiths and his co-author Rashpal Sohan for the latest [edition](#) of their fine global summary. It has arrived a little later than I had hoped but I think subscribers will agree that it is worth the wait. Here is a portion of the Summary from this 41-page, chart-illustrated guide through markets, from one of the most experienced observers:

Do not sell in May and go away. The seasonal variation is a fluctuation around the long-term trend, but this at present is steeply upwards. The risk of being out of equities is greater than the risk of being in them.

› In most markets there is a growing realisation that interest rates will have to rise. The most that can be said is that they are on hold. Even this only applies in the US where the property bubble burst. Bond prices will fall so money is trapped into equities.

› The supply of equities has gone down as companies use profits to buy back stock. Predators also use borrowed money to take over stocks. No one is too big to be immune. The price of stocks should rise.

› China and other Asian countries have huge reserves in dollars. They are determined to spend them on real assets whilst they can. Commodities and all related investments are in prime uptrend.

› The converse of this is that the US dollar is in prime downtrend. Any rally that it has is a short-term tactical move only.

› The Shanghai shares have got bubble features, but the Chinese investor is being rational. The return on his savings in a bank do not match the rate of inflation. His problem is that he is restricted to what he can buy. Overseas investors can buy shares in the same businesses at a much lower rate. These stocks are not in bubble territory.

› It is highly probable that the huge amount of cheap credit is causing the world's first global bubble, but, if so, it can run longer before getting into trouble. Mr Greenspan gave his irrational exuberance speech in 1996. The last bubble peaked in 2000.

My view - I commend this report to subscribers because you won't find a better macro walk through so many different markets in a single monthly report. While the main premise is common sense technical, key fundamental themes are also noted.

I was particularly interested to see the next two sentences from the WIS summary, which I reproduce here:

Our work on cycles says we should stay bullish until early 2009. There is unlikely to be a recession until 2010 to 2012 even though we can see the causes of that in plain sight now.

Veteran subscribers will note that this is very much in line with my long-standing view, which I will summarise:

Some reactions aside, the third year of a US Presidential Election cycle (2007 in this instance) is on average the most bullish. To date, this looks like a typical third-year performance. My often repeated best guess is that with a little luck we can avoid a bear market until 2009-2010, at the earliest.

Incoming governments (probably the Barack Obama administration) and the Fed usually clean the Augean stables during the first two years (2009-2010). Thereafter, the White House has a strong incentive to gun the economy, hopefully creating a 'feel good' factor among the electorate over the last two years and prior to the next presidential election (2012).

What about the luck that I referred to? As Robin Griffiths indicates in another section, we can already see the factors that will eventually end this bull market. In my view, it will be global economic overheating, a further rise in both short-term and long-term interest rates and commodity-led inflationary pressures.

Today, the only economic overheating has been in China and India, but it is not chronic. I think the global economy will grow around the 5% level in 2007, or possibly slightly slower in which case the cycle gains a little more breathing space. I expect China's economy to remain in the lead during the 2008 Olympics year, with India close behind.

Problems of overheating occur if global GDP growth increases to 6% or 7% next year. Another and more likely potential problem would be tight supply in basic foods later this year or next year. This would cause prices to surge, potentially prompting another round of central bank rate hikes, pushing bond yields higher in the process. Rising fuel costs are another hazard. Commodity related risks to the upside are increasing, which the reason why my personal portfolio is overweight in this sector.

Meanwhile, stock markets are showing firm action once again, following somewhat climactic selling in long-dated government bond markets. We may have seen the reaction lows for stock markets. Therefore share indices would have to break their lows of the last several days, to signal an additional downward move rather than sideways to higher ranging.

See also yesterday's chart-illustrated stock and bond market comments.

Here is an [Addendum](#) to the WIS report.

Email of the day (2) - On a GaveKal statement:

"I found Gavekal's statement intriguing: "Indeed, while equity markets never go up in a straight line, over time, they do tend to rise".

"Equity markets? Rise?

"Yes, equity INDEXES repeat INDEXES have risen for the last many decades but indexes comprise of the largest capitalisation companies and these are the largest capitalisation because they are the most successful companies. Once the companies peak out and start to decline, these are unceremoniously removed from the index!. And replaced by....you get the idea!

My comment - Yes, but are you allowing for the shares that die and levitate to money heaven? Unfortunately, I've had a few of those in my day.

Tim Price: Transient market pygmies; and an awkward outlook for bonds - My thanks to Tim Price of UBP for his colourful [e-letter](#), which takes a swipe at forecasters, who are certainly fair game. Here is a section on money supply and inflation:

And as Stifel Nicolaus analyst Barry Bannister points out, money supply has led inflation in all instances since 1875. As economist Milton Friedman observed, inflation is always and everywhere a monetary phenomenon. M3 money supply

growth in the US is currently running at an 8% year-on-year rate. Broad M4 money supply growth in the UK is currently running at 13.3%. Even the seasonally adjusted M3 money supply growth data for the Euro zone shows a 10.4% rate. Perhaps the benign effects of "early stage globalisation" (manufactured goods and factory wage price disinflation) allied with central bank purchases of dollar assets (i.e. Treasuries) are now colliding harshly with the forces of later stage globalisation (the rush for control of finite resources, thus inflating the prices of oil, gas, electricity and sundry foodstuffs), and those of currency diversification. As we also know, since the late 1970s, wage compensation as a percentage of US GDP has fallen, and corporate profits have risen, to a degree of disparity never previously seen. Labour is losing out to capital on a monumental scale. This would be broadly sustainable if the prices of basic economic inputs were not going through the roof. But they are, at a time when many workers are least able to bear such pressure. It is not just bond market equilibrium that is at risk - how about social stability ?

My view - I agree. [Tim Price](#) describes what I believe will be an increasing problem. We can expect a jump in the US minimum wage, shortly after the next presidential inauguration, particularly if a Democrat is elected, as I expect.

Uranium: Interview with Steve Kidd, Director of Research and Strategy at the World Nuclear Association - [My thanks to a subscriber for this interesting interview](#) by Jackie Steinitz, posted on Resource Investor. Here is the conclusion, commencing with a great question:

RESOURCE INVESTOR: *And what will be the issues in the medium to long term? If I were to interview you again in 10-20 years time would there be a new uranium age to add to your chart?*

STEVE KIDD: There will probably be a period from perhaps 2009 to 2015 when the market has sound supply. Thereafter with rising demand but diminishing secondary supplies it will become more challenging for the industry to meet demand - you can see how much production will be required on the chart above. (Please note though that we are not assuming that production will be flat from 2015 onwards it is just that we cannot as yet identify the mines that will be producing).

However there is a downside risk that although there are many benefits of nuclear fuel it is undoubtedly expensive to build a power station (in the order of \$4 billion to build a 1200 megawatt reactor) and it takes perhaps 5-6 years before it is generating electricity. A gas-fired power station by contrast costs 'just' \$1 billion and can be producing within 2 years. This may deter investment by the private sector and could lead to a significant fall in prices as we saw at the end of the 70s/early 80s.

Nonetheless on balance if you were to interview me again in 10-20 years my best guess is that given that price and production cycles in uranium tend to be longer than in other commodities that we would still be in the fourth age of "renewed production growth."

My view - We can see the trend and I think nuclear fission will be an important growth industry until the daunting challenges of nuclear fusion are eventually cracked on a commercial basis.

My personal portfolio: MLW leveraged long partially reopened; gold and silver longs increased - Having taken profits on my leveraged [MLW](#) longs on the 6th, due to what has so far been unnecessary concern over a stock market reaction, I bought back half the position today, because the big industrial mining shares remain rock steady. I bought December contracts this time, paying 615.22p, based on a cash price of 602.25.

Shortly before the close, I bought two equal-sized units of [silver](#), this time in the September contract, at \$13.33, and another two at \$13.32, replacing four-fifths of the silver that had been stopped out at higher levels recently in the July contract.

I then bought back some of the [gold](#), paying \$656.6 and \$656 for equal-sized positions in the August contract, and two purchases at \$661.8 in the October contract, replacing two-thirds of my gold stopped out at higher levels recently.

These prices include spread-bet dealing costs.

Email of the day (3) - On speculative oil position:

"In Tuesday's audio you said you were not aware of any large speculative position in the crude market.

"In his May report, Tim Guinness says:

"As mentioned above, April saw a big move in the NYMEX non-commercial open positions. The net position moved from 40,000 to 81,000 contracts long over the first three weeks of April, before falling back to 64,000 long on April 24th. I wrote in March and repeated last month that it will be interesting to see whether this (open long position) is extended in the run-up to the U.S. driving season and these numbers show that it has been. However, I also warned that if this long position unwinds there could be significant downward pressure on the oil price and I still believe this to be the case. The April 24 and May 1 data showed that it had begun to unwind and we need to watch this very closely."

"You can see from <http://www.softwarenorth.net/cot/current/charts/CL.png> that this position is still there."

My comment - Thanks for the correction and the graphic. Last year's downturn was influenced by an unwind of speculative positions but there are inevitably other factors as well so I think the best timing indicator will always be the price [chart](#), which remains bullish in my opinion.

Italease: How many corpses might be out there? - [My thanks to a subscriber for this cautionary item from WSJ, breaking views:](#)

Banca Italease is a small bank in big trouble. The Italian provider of lease financing has lost almost half of its market capitalization, or €1.4 billion (\$1.9 billion), in just more than two weeks. The problem is that it sold its clients complex interest-rate derivatives that have since gone wrong. Italease is now on the hook. It's a lesson in the kind of risks that can come along with fancy financial instruments.

Italease was offering its clients the chance to hedge their exposure to changes in European interest rates, according to people familiar with the matter. That's the sort of attractive risk-reduction that defenders of options always boast about. If these contracts were simple hedges, then clients would indeed have profited from recent rises in current and expected interest rates.

But in fact, the opposite happened. Italease was selling more than plain old interest-rate swaps. First, the contracts contained "barriers," likely to have been bets that rates wouldn't increase by too much. Second, the securities may also have involved call options, which increased the losses when volatility spiked in the recent weeks. Finally, the derivatives were leveraged. So it looks like the clients may have taken a triple bet -- and lost.

Italease has acknowledged there are problems and has promised to reveal the full impact of the derivatives positions in its financial statement through June 30.

Italease didn't create these derivatives -- it merely sold them. But that hasn't got it off the hook. Whether through necessity, concern for its clients' solvency or its own reputation, it has paid €192 million to buy some of the derivative contracts off the issuing banks. That means Italease will have to absorb any additional losses on those contracts if things get worse.

Goldman Sachs and Mediobanca are preparing a rescue package, the bank says, presumably with one eye on snapping up Italease's derivatives book on the cheap. After all, even a €400 million after-tax hit -- a crushing blow to an Italease -- is pocket money for a Goldman Sachs. But if financial markets in general become more turbulent, Italease's suffering clients may have plenty of company.

My view - [If it's complicated \(sometimes promoted with the financial euphemism, "sophisticated"\), I just walk on by.](#)

Today's interesting charts - [As a discipline, consider setting up a large list of favourites in the Library, including important international markets which could have an impact on your portfolio. I find scrolling through these each day to be time well spent. Charts keep us in touch with market realities.](#)

Taiwan - [Extending](#) breakout following lengthy consolidation; would require a close beneath 8250 to question current upside momentum.

Australia - Probable downside [failure](#); requires close beneath 6150 to indicate renewed weakness rather than sideways to higher ranging.

UK (FTSE 100) - Surge to test recent [highs](#) where some temporary resistance may be encountered but a close beneath 6450 would now be required to signal pattern deterioration rather than the current outlook for sideways to higher ranging within the overall upward trend.

US (Dow) - [Upside](#) follow through after yesterday's dynamic; would require close beneath 13,250 to reverse current scope for sideways to higher ranging.

Brazil - Reaffirms [uptrend](#) and would require close under the psychological 50,000 level to indicate potentially significant pattern deterioration.

Rough Rice - Surges to March and May [highs](#); requires a downward dynamic to indicate more than temporary resistance here and reconfirm resistance in this region.

Cotton - Surges to previous [highs](#) and would require a downward dynamic to reaffirm more than temporary resistance here rather than scope for [base](#) completion.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of June 3rd new signups, including subscribers and pre-subscribers, live in the following countries or regions, Andorra, Australia, France, Germany, India, Ireland, New Zealand, Singapore, the UK and USA - 10 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the UK, Australia and the USA. Welcome all to the Fullermoney Global Strategy Service.

Thousands of people around the world receive Fullermoney's Free (Abbreviated) Comment of the Day, and their numbers steadily increase. Why do so many sign up? It is primarily due to word of mouth or word of press recommendation, from people who like Fullermoney's global perspective, our Empowerment Through Knowledge theme, and know that they will not be solicited with advertisements or other marketing material.

Friday 15th June 2007

Send In The Clowns By All Means! - My thanks to a subscriber for this interesting and sagacious [feature](#) by Cliff Droke for Gold Digest, discussing the debate over the IBES Valuation Model. Here is a section:

One of the truisms of financial market analysis, or indeed of any endeavor that involves predicting outcomes, is that a predictive model can and should always be used as long as it shows consistently positive results. Even if the rationale behind the forecasting model is flawed, anything that has

consistently predicted outcomes for 20 years or more cannot be easily dismissed as an anomaly or "just a coincidence." I've heard highly educated individuals argue until they were blue in the face why, for instance, a certain stock market timing model "shouldn't" work based on all sorts of scientific and mathematical data. Yet the models these individuals were railing against were beating the market month after month and year after year. As the old saying goes, "You can't argue with success." The law of averages and probability statistics is really all you need to know to evaluate the usefulness of a timing model. The IBES Valuation Model passes muster on all counts.

My comment - This is sound advice, to which I'll add another caveat: Don't risk money on an indicator or system until or unless it is confirmed by the price trend. And when they diverge, you go against the market at your peril.

I've seen and even met geniuses, of a certain kind, who devise systems that consistently beat the market - for a while - before self-destructing in the manner of a tennis player who suddenly loses his timing. Only the system will probably never recover, or at least not before the disgruntled investors have pulled out.

Some computer specialists are very good at devising models that would have done very well in the last cycle. And if that cycle persists, they will be rewarded. However, that economic cycle and its fashionable influences will inevitable change at some point. Worse still, it may stay changed for years, decades even, before what goes around eventually comes around once more.

How could it be any other way? The market is not a machine. It is a living, evolving entity, driven by sentiment and liquidity. If you want to understand it, let alone profit from the market, look at the trend in the manner of a naturalist.

Some people are just 'too smart' to do that, especially when their egos are involved.

Email of the day (1) - On disputing, markets "always go up over the long term":

"I have been reading your daily comment for a while and find it very interesting, educational and unusually unbiased, please keep up the excellent service.

"I have always been slightly irritated / amused by our "industry's" collective comments that markets tend to rise, usually phrased as "always go up over the long term". Certainly had your timing been unfortunate on the Dow, 1929 to 1954 and 1966 to 1982 put long term in perspective and that of course is in nominal terms, with inflation added / taken away some might say it comes close to a lie and not even a particularly white one!

"It is a very old and now much underused saw that people should not invest more than they can afford to lose, or at least do without over the "long term". I

am sure markets will be fine, even if they do not go up in a straight line, but as far as I am aware nobody's balls are made of crystal"

My comment - Thank you for your generous comments regarding the Fullermoney site. To remain unbiased is an ongoing challenge but worth pursuing because in markets we are lost without objectivity.

Thanks also for your long-term perspective on markets and droll conclusion. I agree that the "markets always rise" hypothesis is misleading. Anyone who bought at the top of a secular bull market would struggle to show even a modest return over the next 20 years and could be very tempted to cash up when the next bull move commenced. There are also statistics showing that most of the Dow's long-term return has been achieved from dividends. For additional perspective, here is a 50-year [chart](#) of the Dow, adjusted for CPI inflation.

However we also have the stunning examples set by Warren Buffett and other top managers. Refreshingly, there is no rocket science involved - just a shrewd appreciation of value and potential, and often a contrarian approach. We can emulate this and charts can help us with timing, not least in the global environment.

Email of the day (2) - [On water funds](#):

"When you mention funds like the Water Index Fund or the Claymore Global Utility Portfolio or any other fund for that matter, it might be interesting to let your readers know how they could find out what is in the portfolio of these funds, i.e. if one is interested in water and the problems of refining it and transporting it, it is not necessary that one is interested in those companies selling bottled water.

"It is therefore interesting to know what these funds have in their portfolio or at least what the emphasis is. Sometimes funds don't like to give out their major positions but others do.

"I would like to mention a water fund that has done quite well so far: it is the PF Lux/Water/P Capital run by the Pictet Bank in Geneva.

My comment - Thanks for mentioning the Pictet Water Fund which Eoin will add to the Library on return from holiday, as it meets our criteria of good performance within the sector. I agree that one should know the top-ten holdings in these funds. This information can usually be found on Google. Just type in the name of the fund, followed by 'fact sheet'. I then clicked on the translation link so that I could see it in English. Just [scroll down](#) and you will see the Fund's top-10 holdings.

Email of the day (3) - [On metals availability](#):

"It's nice to have comments about candy, but I still have problems to find the candy shop.

"Imagine that following your view of Tuesday 5th June I would like to trade some Arsenic (though I wouldn't like too much the idea!), Bismuth, Indium, Germanium, Tellurium or Zirconium. Where could I trade it as a private investor?

"Even traditional industrial metals are difficult. I opened an account at City Index, the Spread Bet Company, only to learn a couple of weeks ago that between others they don't trade nickel. The only industrial metal that they trade is copper. So could it be possible to mention some useful addresses?

"Thanks again for the excellent service and kindest regards."

My comment - Thanks for the feedback.

[IG Index](#) is a well-established spread-bet firm, and it offers contracts for the LME traded metals - aluminium, copper, lead, nickel, tin and zinc. You could also trade these through most commodity brokers. Regarding the other minor metals that you mentioned, let me tell you a cautionary tale.

Back in the mid-1970s, probably even before you and I first met, my little research business shared an office with a commodity broker. LME metals were just beginning to trend up out of lengthy base formations. I managed to get some price data on minor metals from the Metals Bulletin publication.

Aluminium was classified as a minor metal in those days, and the LME futures contract had yet to be launched. I produced a p&f chart of aluminium and it looked like many metals back in 2001 - a big bear market and very long, ranging base formation. This just might have been the first chart of aluminium ever produced.

I took the aluminium chart to the Chairman of the commodity broking firm. He and I agreed that it was a buy (we had already seen the futures-traded metals breakout on the upside). He called up a minor metals firm in London which dealt with the trade (producers and consumers of these metals) as both a buyer and a supplier of the physical metal.

We visited the firm and asked if they could write a futures contract for us in aluminium. They asked why, and were amused when we showed them our little hand-drawn p&f chart. Looking like Cheshire cats, they wrote futures contracts (for six months, as I recall) just for us.

The price of aluminium soared, but that was the end of the good news. When aluminium eventually lost upside momentum, prompting us to phone and take our handsome profits, they said there were no bids. We kept calling over a number of weeks and either got the same story or were told that they had gone fishing. It wasn't until aluminium had fallen all the way back to our purchase price, and then some, that the dealer managed to find a bid.

I'm not suggesting that the same thing would happen today, but there might be a safer route for you to consider.

You have probably anticipated my answer. Go into the Chart Library and look under the section, "Commodity Indices - Funds, ITs & ETFs". You will not find a fund dealing directly in the minor metals mentioned above, and if you could it would probably have "2 and 20" charges and a lock-in period. In this instance, I think it is preferable to buy an industrial metals share fund.

Several are mentioned, including the investment trust, MLW, which I hold. It still trades at a discount to NAV. Alternatively, you could cherry pick among their top-10 holdings. Most of the minor metals that you mentioned are by-products found with other metals.

Email of the day (4) - From TCS to new market themes:

"Many thanks for your recent TCS performance, it was certainly worth the trip from the other side of the globe. And it was an amazing coincidence to run into you on a South Kensington street corner later that night. My brother Alistair will be attending your swansong in November, and I have instructed him to repay our debt of one green tea, one fresh juice and an hour of interesting discussion.

"Your course has given me much to think about. In particular the way you described the behaviour of market participants that produce the often repeated chart patterns has made me think a lot more about what is going on within that market. Rather than just observing something I am now trying to understand it more.

"You will be pleased to hear the Fullermoney umbrella slotted easily into my golf bag, avoided the scrutiny of the Singapore Airlines security checks and is being gladly used here in Melbourne. And the squeezey ball is also getting a solid work out this week - I am sure you would have noticed the relative strength of the big resource companies over the last couple of weeks? (I haven't got any supporting data or charts because we are not in the mainstream broker information loop here). BHP is breaking into fresh highs, RIO and Zinifex not far behind. All three have new or departing CEOs, often a time of weakness. But they are powering on as the ducks fall into line - analyst metal price upgrades, constant corporate activity, private equity sniffing about, falling metal stockpiles (except for nickel), continued strong demand etc. etc. I feel it has the potential to be a major move given the low starting valuations and the likelihood that the naysayers will eventually be forced to capitulate. I also have a feeling in the past that resources have outperformed against the backdrop of rising bond yields (up to a point) and mainstream markets topping out, which may fit with the current conditions.

"If this is a major move in metals equities and it concludes later this year with your classic acceleration I feel that will warrant the proverbial "sell the lot" response. I agree that the resources boom will be a twenty year story (on volumes, not prices), but global capital prices in the good news so quickly now, and this equity rally has been going since 2003, and so I feel it is

inevitable that the major resources equities will have to track sideways at best for a couple of years. Which leads me, eventually, to my question - are you musing over any emerging new themes? Your running themes of the last couple of years - supply inelasticity, developing Asia, re-emerging Japan etc etc - have been spot on and rewarding. Do you see any different themes likely to emerge after the next significant global bear market (I take the view that leadership changes from phase to phase), or do you think in five years time you will still be focusing on the same areas?

"Once again, thank you for your very kind offer to join you for sushi on the Friday night. I would have expected you to go running the other way after spending two long days with subscribers. It was a memorable hour in my life! You will be proud to hear the Fullermoney collective is functioning well - the TCS participant that sat next to me has passed on by email details of the best Irish golf links for my next journey into Europe. More important than the next share tip."

My comment - Many thanks for this delightful email. I enjoyed the chat with you and your friend, and look forward to meeting your brother in November.

Taking the two questions in your penultimate email in reverse order, the aftermath of the next significant global bear market is my least concern. Bear markets create attractive equity valuations and the next cycle's leaders reveal themselves to the observant.

On the question of "musing over any emerging new themes", if they are emerging, we will see them on the charts. Then we can assess the merits of their fundamental drivers. And yes, we can muse about this beforehand but I suggest it will be more profitable to focus on the here and now. The relevant challenge is to monitor today's trends, running with the bulls and crucially, identifying the next bear market in time to take appropriate evasive action. To exit too early can be just as costly a mistake as overstaying while the next bear market develops.

And while there are lots of trading themes, not to mention tactically challenging short-term trend changes within those sectors, I don't turn in a good investment theme like the car every two or three years. One theme which I suspect will run for a very long time, albeit punctuated by any correction, let alone bear market, is infrastructure development, particularly in Asia.

Today's interesting charts - How could one hope to monitor global markets without price charts?

US Dollar Index - At minimum, today's [drop](#) has checked the dollar's run for at least the short term and a move above 83.30 is now required to offset scope for sideways to lower ranging.

Euro/dollar - Today's [upward](#) dynamic has checked the euro's slide in a region of potential support. A move under 1.326 is now required to offset scope for sideways to higher ranging.

AUD/JPY - Extending upward [trend](#); a downward dynamic is required to check upward momentum beyond a brief pause.

USD/SGD - This is possibly the end of the US dollar's [rally](#) against the Singapore dollar. A move above S\$1.546 is required to reaffirm the US currency's technical recovery.

DJ World Stock Index - [Not dead](#) yet and anything that leads this to a new high is likely to be a hot performer for at least the short term.

My personal portfolio: Taiwan futures purchased; leveraged futures longs increased in gold, silver and MLW; an expiring corn and silver position rolled forward - Early this morning, I bought the Taiwan stock market index (TWSE) ([daily](#) & [weekly](#), also illustrated yesterday) on the opening. I paid 8490 for a June position. I would have liked to have bought further forward but that possibility was not available via my spread-bet firm.

I bought a little more [gold](#) and [silver](#) this morning, paying \$660.7 for October gold and \$13.24 for September silver. This increased these positions by 16.6% 20%, respectively. I then increased my [MLW](#) long by 50%, this time purchasing a September position for which I paid 608p.

There were also two rollovers of expiring positions. My one remaining and most expensive unit of silver, before I commenced repurchasing yesterday, was a July position which was sold at \$13.145 against my purchase at \$13.935 on 25th April (I must have inhaled on that day), and I simultaneously purchased another unit of September silver at \$13.307.

There was better news in [corn](#) where my expiring July position was sold at 408.5¢ against my purchase at 382.8¢ on 19th April, and I simultaneously purchased a December position at 418.1¢.

Prices above include spread-bet dealing costs.

Email of the day (5) - On the site:

"Your site is a 'treasure trove' of exceptionally valuable information."

My comment - Many thanks, and you are a prime contributor among the generous collective of subscribers.

Quote of the week - On human change:

"Just as energy is the basis of life itself, and ideas the source of innovation, so is innovation the vital spark of all human change, improvement and progress ever conceived."

Theodore Levitt, courtesy of Steve

Note - [Eoin is in Beijing.](#)

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