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Global Strategy and Investment Trends by David Fuller www.fullermoney.com

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 18th June 2007

Rod Smyth's The Week: Reducing Equity Overweight, Adding Commodities - My thanks to Rod Smyth and colleagues for their excellent publication, published by Wachovia Securities. Here is a brief sample:

We are reducing our equity overweight and adding exposure to commodities. Our strategic allocations already reflect our long-term preference for stocks over bonds and so neutral is a pro-stock position. We raised weightings in March when sentiment was negative seeing a tactical opportunity. With bond yields now in a new primary uptrend and stock market sentiment, as measured by the Ned Davis Crowd Sentiment Poll, still in excessive optimism territory, we think the risk reward is not as favorable over the short-term. That said we plan to maintain a small overweight as long as stocks do not breakdown on a technical basis. We think the message from the bond market is that global growth is going to remain strong and that investors (especially sovereign governments like China) are shifting assets from bonds into stocks, commodities and infrastructure. We also like commodity exposure because it can provide some protection from inflation.

My view - Investors who are not already experienced in trading commodity futures may not wish to take on this additional learning curve, which can be steep due to leverage, tactics, volatility and contangos. It is also time consuming. Also, there are other ways to participate.

Futures funds can suffer for the same reasons, and there are few experienced managers. I think commodity shares are the safer and probably more attractive alternative, subject to valuations and price chart performance.

If we ask, why commodities are attracting interest today, the obvious answer is because they are performing. And if we ask why they are performing, I would suggest because prices for most commodities had been extremely depressed for many years, if not decades, leading to a decline in production capability. Today, this supply inelasticity coincides with a synchronised global economic expansion, embracing more countries than ever before, creating unprecedented demand. Veteran subscribers are very familiar with this theme.

One can participate in commodities via funds or ETFs for specific commodity-producing countries. Brazil would head my list in terms of both foods and industrial resources, including bio-fuels. In South East Asia, Indonesia and the

Philippines are big exporters of foods and the former also has oil. I would not overlook Thailand, hopefully emerging from its political problems and undervalued relative to most markets.

Australia, Canada and South Africa remain prime exporters of both industrial and agricultural commodities. And New Zealand is primarily an exporter of forest products, meats and dairy products. Russia and Venezuela have resources in abundance but questionable governance raises important questions concerning the rights of minority shareholders. In the global beauty contest, this would deter me from investing in these two countries.

Most international food companies continue to do well, Monsanto being a prime example but it is not cheap. However industrial miners also remain in form and are not expensive. In comparison, gold mines have offered less value and have underperformed, but this chart patterns suggests they have some catch up potential over the medium term. The oil sector has started to perform once again.

Lastly, and using the term commodity loosely, any companies in the global infrastructure development business should continue to do well, while global stock market uptrends remain intact. On this point, a review of the charts above will induce a degree of vertigo in many instances. Risks can only rise in a long bull run but the leading indices remain in form and vaulations are not climactic. The possibility of more frequent reactions aside, it is still a case of 'make hay while the sun shines'.

Email of the day (1) - On mining booms, past and present:

"May I comment on the interesting email from your Melbourne subscriber published on Friday. I suspect that, unlike me, he is not old enough to have observed and taken part in the mining boom in Australia in the late sixties. In all, it probably lasted over three years with the then majors - BHP, CRA, WMC etc leading the charge as they made major oil, nickel and other finds, and the juniors ultimately all joining in. It turned into a full-blown mania with taxi-drivers and hairdressers et al giving tips. It was punctuated by several corrections but at the end it was full on. As a callow youth I had no idea what was going on but trading was fun and I, and most people I knew, were involved and made, and subsequently lost, significant profits. My point? It seems to me that, even with the surge in anything connected with uranium, and perhaps iron ore, we are a long way from the level of public participation where you "sell the lot", and I doubt it will happen within the next few months. This commodities bull market seems altogether bigger and the majors are still relatively cheap. If and when they overshoot and become overvalued is probably the time to leave the party. And, as you keep reminding us, the charts will be essential in helping to determine when that is.

"One thing the sixties experience did for me was to kill forever any interest in trading. I have found that, with the help of a smart broker, and with Fullermoney giving me the best big-picture advice available - surely without peer! - a buy and hold in some emerging miners, as well as majors, has produced unimaginable rewards. The re-rating of a miner as a mine gets close to completion can be very substantial. Of course, you need patience, but if you haven't got that you should not be in the market!"

My comment - Thank you for sharing your experience and perspective. I believe that you are as wise regarding the Australian mining boom as you are generous when mentioning your broker and Fullermoney.

Most subscribers will know the adage: In markets one usually has to make at least two fortunes, because the first one will also be lost in the markets. As a collective - thinking, looking, questioning, sharing views and information - we should all do far better in this decade and beyond, than any of us did in the '60s, '70s or whenever we paid for our investment education in the markets.

The US Imbalancing Act: Can the Current Account Deficit Continue? - My thanks to a subscriber for this blockbuster (112-page) report written by Diana Farrell, Susan Lund, Alexander Maasry and Sebastian Roemer for McKinsey & Company. Here is a brief sample:

The US current account deficit could continue to grow

Our analysis shows that a correction in the US deficit is neither imminent nor inevitable. Under the current pattern of the US current account, world growth and exchange rates, the US current account deficit would reach $1.6 trillion in 2012, or 9 percent of GDP . For this to happen, however, the current account surpluses of other countries would also have to grow sufficiently large to fund the deficit. We find that under reasonable assumptions, these surpluses would reach $2.1 trillion in 2012, providing the capital required. US net foreign debt would reach 46 percent of GDP, but the United States would still be able to finance the deficit because the implied net foreign interest payments would remain at less than 1 percent of GDP .

That said, there are several scenarios that could limit growth in the global net capital outflows necessary to fund the US deficit. For instance, if China were to increase domestic consumption and reduce its savings significantly, net capital outflows from China-currently a significant source of funding for the US deficit-could fall dramatically. In our model, this would leave the US deficit equivalent to 90 percent of the remaining global net capital outfflows, a figure that is implausibly high. However, we consider this scenario unlikely. MGI's research on China's consumer market shows that although domestic demand will account for a greater share of GDP , its expansion will come largely from growth in incomes and there will be only a slight fall in the national savings rate. Other scenarios, in isolation, would not limit growth in the US deficit.

Eliminating the current account deficit would entail a large dollar depreciation

Although our research shows that the US current account deficit could plausibly continue to grow over the next five years, the United States cannot continue to build up foreign liabilities forever. Eventually the deficit will need to stabilize, or even decline, relative to the size of the US economy. A major rebalancing of global demand and a dollar depreciation of historic proportions would be required for this to happen over the next five years.

To balance the US current account by 2012, we find that the dollar would need to depreciate by 30 percent from its January 2007 level. Reducing the deficit to 3 percent of GDP , a level that many economists believe to be sustainable, would require a 23 percent depreciation. Only once over the last 35 years has the dollar depreciated by 30 percent within a five-year period-in 1985-88. However, in 1985 the dollar was at its highest level since 1970, whereas today the dollar is already below its average post-1970 value, and a further 30 percent fall would leave it at its lowest level since 1970.

My view - My guess is that the US current account deficit is unlikely to shrink much until there is a US recession. Maintaining that the US is likely to avoid a recession this year and next, partly because of the ongoing strength of the global economy, the deficit could also increase. The deficit safety valve, such as it is, will likely remain a soft US Dollar Index more often than not.

Email of the day (2) - On the yen carry trade:

"I have been reading your superb analysis for the last five years. And frankly, I have been making some decent profit, especially on your call on Japanese stocks back in 2003. At that time, you have been so kind to send an extra Fuller Money plus on the Japanese stock call.

"Now, this particular again catch my attention and I would like to know what is your comments on the following article.

"Housewives Outmaneuver UBS, Deutsche Bank Trading Yen - Bloomberg

"Well, I believe that when a lot of retail investors make good profit, betting on one direction, in this case, the yen carry trade, I try to see that as a signal for contrarian investors. Do you think the yen carry trade will unwind this year? And if yes, would that impact all risky assets especially those emerging market?"

My comment - Many thanks for your generous comments.

Those Japanese investors referred to in this Bloomberg article that you kindly provided have been very smart to diversify out of the yen, and Japan's government has not objected, to my knowledge, as it certainly wanted a weak yen to help jumpstart the economy and end deflation. They are succeeding but understandably want plenty of confirmation, over time.

Yes there are market risks when everyone is leaning in the same direction and for the contrary signal you mention, we could perhaps say that the warning lights are now flashing amber, telling us that risks are increasing. We know that all the great market trends eventually waltz into a cul-de-sac. However I have long maintained that the yen carry trade will only end when the Japanese government eventually regards it as undesirable.

At that point, the BoJ will presumably not only signal higher interest rates and reduce yen liquidity, but also express its preference for a strong yen. If it prepares the market for this transition and tightens monetary conditions very gradually, the process may not be too disruptive for asset markets influenced by the carry trade. The main risk to markets is that a rapid transition occurs, so we should keep an eye on the charts. Meanwhile, the yen carry trade continues, evidenced by the yen's weakness - USD/JPY, EURJPY, AUD/JPY and NZDJPY.

Email of the day (3) - On US brokers that deal in foreign stocks in foreign currencies:

"Just made a whirlwind trip to South America and since I'm a computer novice I moved heaven and earth to get my laptop ready so I could stay current on your site. I love it so and you do a great job of feeding your subscribers.

"Would you know of a broker that Americans can use to buy foreign stocks in foreign currencies?

"Thank you so much for your great work,"

My comment - Thanks for your kind words and enthusiasm for the Fullermoney site.

I get emails of this sort from time to time and never cease to be amazed at the provincialism of so many US brokers. For convenience, I would start by checking to see if the shares of interest are quoted in ADRs. While you would be buying in USD, their price will still reflect moves in the shares' main listing, including currency.

Otherwise, in theory, any US broker with overseas offices should be able to transact your business, although there may be complications that I am unaware of.

My personal portfolio: Some silver stops triggered - Having increased my leverage considerably last Thursday and Friday, I placed a number of breakeven stops this morning. This usually means that some positions will be stopped out, for better or worse. I lost two-thirds of my silver positions this afternoon, as two equal-sized positions in one account were sold at $13.32, against purchases at that same price on 14th June. In another account, two equal-sized positions were stopped out at $13.34, against purchases at $13.33 on 14th June. These prices include spread-bet dealing costs.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of June 10th new signups, including subscribers and pre-subscribers, live in the following countries or regions, Australia, Bahrain, China, Dominican Republic, France, Hong Kong, India, Ireland, Malaysia, New Zealand, Singapore, South Africa, the UK and USA - 14 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the UK, Ireland 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 mention, from people who like Fullermoney's global perspective and our Empowerment Through Knowledge theme. Incidentally, on receiving our free daily email, you will not be contacted or solicited with advertisements and other marketing material. No one else will have access to your email address. We respect your privacy.

Note - Eoin is in Beijing.

Tuesday 19th June 2007

Tim Price: The death of bonds: how 'something' is destroying the Treasury market - Here is another controversial and colourful letter from Tim Price of UBP. Here is a brief sample:

We also shouldn't discount the impact of former Federal Reserve chairman Alan Greenspan, who having serially inflated an equity market, housing market and credit market bubble, is now talking up prospects for his imminent book, "The Age of Turbulence". Well, he stoked that fire. Ironic, really, that a central banker who most people couldn't understand while he was in office has finally found a clear voice - and one that he can't shut off. In reference to historically low spreads on emerging market debt, Greenspan suggested last week that

"it ain't going to continue that way. And indeed, all the spreads you are looking at, including your spreads relative to the 10-year are going to start to open up and the 10-year is going to be moving as well."

We can take this kind of stuff from Bill Gross, but from a former Fed chairman ? You can practically hear the cackling and moustache-twirling. Evidently Greenspan is not a man to pass a blazing house without reaching for an oil can.

My view - On a short-term basis, long-dated government bond prices - all long-dated futures contracts - remain oversold and a short-covering rally is underway. Here is the evidence: US 30-Year futures, 10-Year Euro-Bunds, Gilts, JGBs and Australian 10-year futures. While prices for these contracts remain above their recent lows, stock markets are likely to remain firm. Danger lights will commence flashing when bond futures resume their downward trends. If it is only a drift, it may not be a problem. However another slump similar to what we saw in April and early May would certainly test investors' nerves.

The art market - one of my biggest personal investments - will probably remain firm for longer than stock markets. Remember, art auction prices continued to climb following the 1987 stock market crash, not that I expect a replay of that event. My point is that fashionable pictures are an international currency, with cachet. And some of us like pictures for their inestimable yield to the spirit. However if I was buying art for a fund, I'd be bidding for Andy Warhol's portrait of John Lennon in Christie's South Kensington, to be auctioned tomorrow evening. An iconic artist and subject, very colourful, you can't go wrong. This photo(scroll down) does not begin to do it justice. I expect the picture to sell way above its estimate of £1,200,000 - £1,800,000.

Email of the day - More on US-based investors dealing in foreign shares:

"In regards to U.S citizens purchasing foreign shares, the large on-line brokerages allow this (Interactive Brokers, T.D. Waterhouse, I believe Schwab, and I would assume ETrade. As far as the majors I have an interesting story. Well over a year ago I closed an account with Interactive and had some assets at Merrill Lynch. I inquired about buying Merrill Lynch World Mining Trust (MLW). My broker said he had to get back to me. When he did he gave me a litany of reasons why it would not be a good idea. After he finished, I said "No problem. I still want to buy it". He said he would have to get back to me. He finally did and the trade was consummated although the price information is delayed for about 48 hours on the Merrill Lynch site, but who needs that? I found it quite odd as to how much they tried to talk me out of it. Bottom line, any large broker can do it (at least London). I picture the day, and I believe it is not far away, when we will be able to trade most stocks and Closed-end funds listed on the Fullermoney Chart Library regardless of country it is listed in. When you think of the size and wealth of a Merrill Lynch, it seems a bit stunning to me that one cannot trade European exchanges, at minimum. I will say that they seem to be extremely cautious. I made a very short term trade of a small Uranium stock, Nufcor [*Ed: NU/ LN*), and sold it within a week after it moved 20%. It just is not my style and I had visions of it falling out of bed along with me. Anyway, a week later I get a call from Merrill Lynch asking for an explanation of the trade. I found this quite unusual. My explanation was that I wanted to purchase it and shortly thereafter wanted to sell it. Apparently, my explanation was acceptable although had the trade been large (which it was far from) I am not sure what would have transpired. My main point is it seems as if the mega brokers, as they do their investment banking, institutional sales, quantitative research, create and sell their structured debt and equity products, do their Private Equity deals (Blackstone-Merrill) and other deals that they sell to clients that have no idea what it is that they are really buying, have lost all interest in the retail business and the individual (those that believe they are capable of making their own decisions and that, in the beginning, made these firms what they are today."

My comment - Thanks for this interesting report. Sadly, I suspect your conclusion is correct.

Citigroup: U.S. Exchange-Traded Fund (ETF) Universe - My thanks to a subscriber for this comprehensive and valuable list of US Exchange-Traded Funds (ETFs), shown by sector.

My view - Congratulations to Citigroup for producing this 12-page list. It will be particularly useful for US-based subscribers. I suggest that you print off a copy for further reference, although it will remain accessible on the Fullermoney site, via the Search facility.

The annual charges for these ETFs range from 0.95%, mainly for short (bear) or leveraged funds, to 0.07%. Vanguard's ETFs have particularly low fees. I suspect that any investor could select a good portfolio from this list, suited to individual interests and requirements - from growth to broader market, sector specific, overseas or income.

On comparing like for like, statistics suggest that your ETF portfolio would probably outperform most investment managers, due to the latter's higher charges.

Economics Asia: Weak yen = rising funds flow into Asia - My thanks to a subscriber for this interesting report by Chan Kok Peng and Yip Yee Lan of BNP Paribas Securities (Singapore) Pte Ltd. It is posted in the Subscriber's Area but here is the opening:

The relationship between the USD/JPY and its impact on net funds flow into Asian markets continues to hold up very well. Our calculations show that in the four weeks to 15 June, net funds flowing into the Asia-6 amounted to USD3.3b, down only slightly from USD3.4b in the previous four weeks.

My view - It's an interesting theory - don't miss the third paragraph and the graph.

Apologies - Apparently, I did not send out the Free (Abbreviated) Comment of the Day yesterday evening. Once I realised this, I forwarded it today.

My personal portfolio: Two more silver stops triggered; cotton stopped out - My cautious money control policy has taken me out of the remainder of my equal-sized silver positions. Today I was stopped out at $13.32 and $13.30, against purchases at $13.24 and $13.307, respectively, on 15th June. I would probably buy it back a bit lower, if silver provides the opportunity. However my recent tactics in silver have most likely been too cautious, since there is chart support just below currently levels and the USD's rally appears to be over. I think precious metals are cheap but perhaps not for much longer given the recent advice of many strategists to "overweight commodities". Fortunately, I still hold gold, platinum and palladium, and silver is still below where I was stopped out earlier this month, but perhaps not for long.

I had jammed my cotton stop up this morning because it was a fairly large position and hesitating near an area of lateral resistance. The stop was triggered this afternoon, selling my December position at 58.75¢ versus my rollover purchase at 57.67¢ on 8th June. I do think cotton has medium-term upside scope as the weekly chart indicates a large (Type-3, as taught at The Chart Seminar) base formation in the latter stages of development. Due to historically depressed prices, cotton has lost some acreage to grains this year and this will reduce supply. Nevertheless there is no shortage at present so a contango persists.

These prices include spread-bet dealing costs.

Note - Eoin is in Beijing.

Wednesday 20th June 2007

Email of the day (1) - On BHP, Rio and ORI:

"Thought subscribers would be interested in updated independent fundamentals done by Lincoln Indicators (Stockdoctor) on BHP, RIO and ORI. As you have been saying the two big guys still look cheap on forward earnings for 2008. Disclosure I own shares in BHP and RIO.

"Many thanks for your wise words and supplying a great site."

My comment - Many thanks for your comments and for the interesting report from Lincoln. It is posted in the Subscriber's Area but here is a brief section:

There are numerous reasons why BHP and RIO have become the subject of takeover speculation.

Firstly, both of the companies have low valuations. Despite both experiencing strong share price appreciation in recent years, the two companies continue to trade on PE ratios below their industry group average. BHP and RIO are currently trading at PE ratios of 11.99 times and 13.64 times which is by no means expensive. The recent rise in commodity prices had led BHP to be trading at only about 10 times the expected earnings for FY08.

The emergence of private equity and its broadening focus sees the resource sector now becoming an attractive target. In the past, the sector has been ignored by private equity due to the volatility of commodity price-driven cash flows. However, with the rash of private equity takeovers we have seen in the past year, traditional takeover targets have become scarce, forcing private equity to look outside of its preferred sphere.

Another reason involves the significant synergy benefits that would arise from a merger of RIO and BHP or another international miner such as Brazil's CVRD or Switzerland's Xstrata. A merger between such giants would immediately create billions in cost savings and other benefits. With the strong growth in profitability achieved by the mining sector in recent years, and the large pool of funds the international financial system is looking to invest in such opportunities, there would be little difficulty in being able to finance such a deal.

I would be very unhappy if a private equity consortium took over BHP, Rio or any other top miner. Yes, those of us who own shares in these companies would have an additional short-term gain but that would pale relative to their long-term potential. A friendly merger within the heavyweight miners would be another matter and I expect the takeover activity to continue.

Catch-up opportunities in Asia's stock markets - One of my forecasts six to eight months ago, and subsequently referred to on occasion, was that Asia's lagging developed country stock markets would commence catch-up moves at some point in 2007. The candidates were all in North East Asia, as Singapore and Malaysia have been strong performers ever since the global stock market advance commenced in 2Q 2003.

The candidates - Hong Kong, Japan, South Korea and Taiwan, were all in ranging patterns late last year and earlier this year. With the possible exception of Japan, they had competitive valuations and promising growth prospects within booming Asia.

South Korea (p&f, monthly, weekly & daily) eventually led the upward move with a decisive breakout in May. Today, it is somewhat overextended relative to its 200-day MA but well underpinned by the massive base formation evident on long-term charts. I have previously referred to that base as a secular bear market, and believe that it is now supporting a long-term bull move. The KOSPI Index currently trades on an historic PER of 16.79 with a yield of 1.65%, according to Bloomberg. Importantly, Korea's financial sector, is also performing.

Taiwan (p&f, monthly, weekly & daily) is the second of East Asia's developed country stock markets to breakout on the upside, commencing what started as a gradual move in May. It has begun to accelerate and this will lead to reactions and consolidations. More importantly, it is well underpinned by earlier trading. The TWSE Index trades on an historic PER of 19.94 and yields 3.17%. Taiwan's Banks and Insurance Index has lagged since 2004 but improved recently. It needs to not only stay above 950 but also break out with a sustained move over 1100, for the TWSE Index to fulfil its potential.

Close behind is Hong Kong, with the HSCEI (p&f, monthly, weekly & daily) Index (mainland Chinese companies listed in Hong Kong) leading the HSI (p&f, monthly, weekly & daily) by a day. These also look like important breakouts, assuming they are maintained. The HSI sells on an historic PER of 16.62 and yields 2.27%, while this valuation for the HSCEI is 21.68 and 1.24%. I do not have a banks index for Hong Kong but the leaders are underperforming the HSI and therefore a potential headwind.

Lastly, Japan's Topix (p&f, monthly, weekly & daily) has not yet followed the others in breaking out on the upside but the chart patterns show similar potential. Topix is a little more expensive with an historic PER of 23.07 and yield of 1.13%. The Topix Banks Index has steadied but a stronger performance may be required before the broader market resumes its long-term advance.

In conclusion, one by one North East Asia's lagging stock markets are breaking out of large trading ranges. Late movers can experience strong catch-up rallies as we have already seen with South Korea, once a re-rating commences. I remain bullish of the Asian region in general, and not least these former laggards once they sustain upside breakouts. But there are three provisos - the breakouts, where they have occurred, need to be maintained; bank shares in these markets need to participate; the global stock market uptrend needs to remain intact. This last factor may depend on stable rather than rising long-term interest rates, as I discussed yesterday and almost daily in the Audio.

Tomorrow, I will discuss the outlook for two other laggards, Thailand and India.

Email of the day (2) - On market themes, cost averaging, and UK and Irish brokers:

"I find your comments outstanding, particularly from a big picture perspective. They have enabled me to focus on areas that I would not otherwise have. In particular I like when you present views and opinions that are different to your own. That helps to keep us all sharp in our trading and investing.

I am particularly interested in your comments concerning the Resource/Asia themes. You have also helped with your comments regarding alternative investment methods, particularly your recent comments about the use of funds and ETFs as a lower risk option, rather than direct commodity investment. As someone who trades futures (short-term) I would have great difficulty investing in Futures and dealing with roll-over costs etc. My preference for investment would be to use some of the funds that you frequently refer to. Given the difficulty in getting into funds or any investment on a reaction, that are in mature uptrends I have decided that the best way for me to participate is by way of monthly investment purchases. Could you provide me with the name of a UK or Irish broker (preferably low cost) who I could use to invest for the following funds? Alternatively if I should invest directly with the fund please advise. Like some of your subscribers I only use a US broker, who either cannot access the funds or can only do so with great difficulty and cost. The funds that I am interested in are as follows:"

" Merrill Lynch World Mining Trust
" JP Morgan Indian Investment Trust
" Atlantis China Fund
" JP Morgan Emerging Markets Inv Trust
" Guinness Atkinson Global energy
" Invesco Perpetual income
" Aberdeen New Dawn

My comment - Many thanks for your generous comments.

Monthly cost averaging is a sound, conservative strategy. Holding investments in most of these funds myself, and rating them all highly, I approve of your list.

Here is a list of UK stock brokers, provided by UK Share Net. You would need to decide whether you wanted to invest over the phone, perhaps seeking guidance from time to time, or via the internet. Here is a list of Irish stock brokers, provided by Finfacts Ireland. All are properly regulated.

Email of the day (3) - On India funds in which I have invested:

"I enjoy reading your Daily comments and would like to know if you could be more informative as to which India funds you invest in."

My comment - Thanks for your comment on the service.

I have held the often mentioned JP Morgan Fleming Indian IT (JII LN) since 2Q 2003 and have added to this position on a number of occasions, particularly following setbacks. It currently sells at a 9.57% discount to NAV, according to Bloomberg.

Tomorrow, I have a private meeting BP Singh, who manages the comparatively new Atlantis India Opportunities Fund (ATLINOP ID), which is listed in Dublin. It has performed extremely well recently.

Email of the day (4) - More on US brokers dealing in foreign shares in foreign currencies:

"I'm sure you're not interested in an on-going discourse on U.S. brokers. But the gentleman quoted last night mentioned Interactive brokers, TD Waterhouse and Schwab. I've already checked with these brokers and they do not issue
foreign stocks in foreign currencies. But they will issue ADRs but I'm not quite sure how close ADRs are to owning a foreign stock in a foreign currency?

"Many, many thanks for your great work."

My comment - Thanks for the feedback.

I have always assumed that an ADR, although priced in USD, gave you the next best thing to participation in the company's primary listing currency, since any variation would presumably be reflected in the ADR's price. If I'm wrong on this point, I am sure someone will correct me.

My personal portfolio: Silver repurchased; gold long increased; Taiwan and Pacific Ethanol rolled forward - Feeling that my strategy for silver had been too cautious, and seeing it rally yesterday evening along with gold, I re-entered the market, purchasing four equal-sized units, two at $13.51 and two at $13.50. I also purchased another equal sized unit of gold, paying $672.1 for an October position, increasing my position by 14.3% in the process. These transactions occurred after I had posted Comment of the Day and recorded the Audio yesterday. They looked like a reasonable strategy for a while today, but were proved to be rash once bonds weakened.

Yesterday evening, I allowed my dubious speculation in Pacific Ethanol to be rolled forward on the risky premise that the sell off was overextended. My expiring June position was sold at $12.607 against the purchase at $15.675 on 20th March, and I simultaneously paid $12.835 for a September contract. If it fails to perform over this period I will walk away. This morning, my expiring June long in the Taiwan Index was sold at 8654 against my purchase at 8490 on 15th June, and I simultaneously purchased a July position at 8654.

These prices include spread-bet dealing costs.

Email of the day (5) - On Alan Greenspan's 5 marriage proposals:

"Alan Greenspan was quoted as saying that he proposed to his wife 5 times before she understood what he was saying! This would not come as surprise to Wall Street.

"Unfortunately I am not able to find the article which was printed in one of the Indian papers."

My comment - It was a great comment. I picked it up on the www and also this explanation of his public obscuration, from Yahoo:

Commenting on his past as Fed chief, Greenspan gave unusual insights into the often opaque style of communication that became his trademark in testimony before Congress.

"I got people asking questions that I couldn't and shouldn't answer because there are certain answers no matter how you phrase them and what you do have a market effect," he said.

"I found that where I got a question and got myself into a position where I didn't, couldn't and was not going to answer, I fell back into lapsed syntax and all sorts of ways in which the senator or congressman would think I was saying something terribly profound and think I answered his question."

He also said he proposed to his wife, Mitchell, five times before she realized what he was asking her.

Note - Eoin is in Beijing.

Thursday 21st June 2007

Deepak Lalwani's The India Report - My thanks to Deepak Lalwani for his must-read report for anyone interested in this important emerging market. Here is a brief sample:

Having tapped into the hi-tech micro chip design market India is now planning to enter the crowded chip manufacturing market. New Government incentives to boost chip making so as to increase employment, together with low labour costs and buoyant demand from electronic goods from a fast-growing middle class, supports such a case. India spent about $3 bn on semiconductors in 2005, and demand is estimated to exceed $36bn by 2015, according to a study by the India Semiconductor Association and research and consultancy fi rm Frost and Sullivan. The study also says electronic equipment consumption should surge to $363bn by 2015, more than 10 times spending of $28.2 bn in 2005. AMD (US) is a technology partner to the local SemIndia Consortium which plans to invest over $3bn over the next 5 years. The growth in mobile phones, digital TVs and computers has spurred demand for chips. For example, mobile phones subscribers in India rose 68% in March from a year earlier to 166 m. This represents only about 15% of the population, compared to 35% in China. The Government's target by end 2010 is 400m mobile users. Currently many chips used in electronic goods may have been designed in India - while it seriously lags in chip manufacturing it has made impressive strides up the value chain in design. India's semiconductor design industry had revenues of $3.3bn in 2005 and employed 75,000 people. This is expected to increase to $43bn in revenue and nearly 800,000 people by 2015, according to the India Semiconductor Association.

My view - India is noted for the quality of its corporate management. One reason for this is that decisions to develop and expand a business are based on the outlook for corporate profits, not government decree, as occurs in some Asian economies. Now that India has targeted the chip manufacturing market, and secured government incentives, this latest venture should become highly profitable.

Email of the day (1) - More on US brokers dealing in foreign shares, specifically a comment in Email of the day (4) yesterday that Interactive Brokers "do not issue foreign stocks in foreign currencies":

"That is not necessarily true. Interactive will allow purchase of Canadians, Tokyo Stock Exchange, Hong Kong and some European exchanges in local currencies. Here is a list."

My comment - Thanks for this link. I've had a look and Interactive Brokers deal in a very extensive range of foreign (non US) shares.

My meeting with BP Singh and Vinay Gairola of Atlantis Investment Advisors - Back in 2003, I asked Peter Pearson, the founder of Atlantis and former CEO, when he was going to launch an India fund. He replied: "When I find the right investment manager." I asked him the same question at least two more times in subsequent years, and received the same answer.

One of the challenges was that Atlantis wanted a home-grown manager, who lived with the market in which he was investing and was part of its culture. In 2005, Atlantis hired the Mumbai based team of BP Singh and Vinay Gairola, who previously worked for Deutsche Asset Management.

Like most specialist investment managers, BP and Vinay have a bottom up approach and cover 300 shares. When I asked BP how he had achieved the US$-denominated, $45m Atlantis India Opportunities Fund's appreciation of a third since the March low, against the background of a Sensex Index which has yet to clear its February high, he replied: "Most people don't do the work and just concentrate in top-tier shares."

In other words, in buying the big-cap companies, they are creating more of an index tracker than a managed fund. I should add that a soft dollar and strong rupee account for a small portion of Atlantis' recent strong performance.

My next question concerned the average capitalisation of the Fund's portfolio. BP and Vinay replied that it was between US$4bn to US$5bn, so they are clearly not driving up small-cap shares. Moreover, BP said that whereas the Sensex trades an estimated PER of 16.8 for 2008 and earnings growth of 18%, Atlantis' portfolio has a 13PER for 2008 and earnings growth of 31%.

Regarding sector weightings in the Fund, BP listed: Capital Goods and Construction, 18%, Pharma 9%, Telecoms 9%, "New Sectors" (consultancy companies which help firms to do business more efficiently) 9%, and Banks and Micro Finance 8%.

The Atlantis India Opportunities Fund is an open-ended unit trust authorised by the Irish Financial Services Regulatory Authority. The management fee is 1.75% and there is no performance fee. It is an unleveraged, long only fund. Dealing is on a daily basis and the minimum size is US$10,000. The Fund is ISA eligible, but based on past experience of my own and also that of subscribers concerning other Atlantis funds, I know that they are not on the books of most ISA dealers. I suggested to Atlantis' Marketing Director, James Alexander, that he should call on the London ISA brokers to sort this out.

I liked BP Singh and Vinay Gairola, age 39 and 31, respectively. They are both highly educated, dedicated, and appear to have good ego control. Since India is my favourite stock market for the long term, I know that I will invest in this fund, and probably in the not too distant future.

As always, subscribers can rest assured that neither I, nor my family, nor Fullermoney, nor Stockcube Research Ltd have any financial incentive whatsoever in mentioning this or any other fund or service.

Lastly, on the subject of inflation, BP mentioned that it was mainly in food prices. This should change when infrastructure improves, enabling the efficient transport of perishables. On energy, India has 150 years of coal reserves and has some recent and important natural gas discoveries. Consequently BP felt that India would be less reliant on oil imports in future. India is also the world's second largest producer of sugar cane, so it could presumably use this for bio-fuel at some stage, if it required. India has completed at least three-quarters of $12bn in IPOs, which have held up the stock market recently.

Email of the day (2) - On the Bear Stearns hedge fund blow up:

"A few thoughts on this Bear Stern blow up. Ok lets recap (do you have DGX Index from bloomberg in your chart library, it is the fixed income swap volatility index). Aug 2003 was the last big mortgage blow up. If I remember correctly, it was related to fannie mae underhedging and the mortgage market was suffering from pre-payments. Comparing the volatility of today to Aug 2003, we are nowhere near in absolute terms. So there is not much hedging done by wall street.

"2 views - 1. they have yet to hedge or 2. I think that they do not have much of these toxic debt on their book. This is why: CDOs are packaged by banks/hedge funds to sell to pension funds/ endowments/ private wealth. If the CDO buys up the entire tranche of the debt (let it be mortgage or otherwise), it is hard to mark to market again. Since the credit agency priced the credit based on the initial credit of the underlying basket and these collateral are rarely remarked (therefore re-rated), credit ratings of CDO rarely change. So there is no sign for CDO investors to raise concern...anyway, to make the long story short is that I think that this time round, the balance of the banks or mark to market entities who will have large unwind risk are cleaner and the risk has moved to retail instead. So we will see less crisis moves as the risk is less levered on retail level (even though the fund maybe levered).

"Finally, can we add a few funds to the Chart library: Fidelity Latin America USD LX [and] P Morgan Global Focus Fund EUR LX both did well against peers."

My comment - Thanks for this explanation on the CDO (Collateralized Debt Obligation) story. Here is a related article from Bloomberg on the subject that helped to roil Wall Street yesterday. Although I hope to be wrong on this point, I expect hedge fund meltdowns to increase in the next few years. At times like this we should recall Warren Buffett's adage: "It's only when the tide goes out that you discover who's been swimming naked."

Eoin will be able to add the instruments mentioned above to the Library on his return next week.

Email of the day (3) - On the Nikkei's performance:

"Japan: It may not feel like it (measured in GBP) but as the Nikkei closed at a 7 year high & I would be interested in your views - especially as this took place after the slide in the US.

'The Nikkei 225 index advanced for a sixth day, adding 28.62 points, or 0.16 percent, on the Tokyo Stock Exchange to 18,240.30 points - the highest close since May 2, 2000. Over the past six sessions, the index has gained 2.86 percent'

My comment - Yes, it's the last of North Asia's laggards to break out of a broad trading range. Well almost - at the risk of sounding like a pedant, it is not above the intraday high on 26th February. Nor has it been confirmed by any of Japan's other indices. Nevertheless the outlook is positive while the sequence of rising lows on the chart is maintained. The weak yen is good for Japan's exporters. *See also yesterday's feature on North Asia's stock markets.*

My personal portfolio: Silver longs increased - I increased my silver (today's chart action is distorted by an erroneous spike that has yet to be corrected at source) long position today, which is still small by some past standards. I paid $13.245 for a September position, increasing my long position by 25%.

Note - I'll do my promised technical review of India and Thailand tomorrow.

Email of the day (4) - On rumours and dreams regarding Rio:

"Regarding today's article on the potential for leading miners to take each other over or be taken out by private equity, I would add the dream that James Barstow of Mars Asset Management had last weekend in which Rio's were bought by China. Not so ridiculous given China's move into US Private Equity via Blackstone and Chip Goodyear leaving BHP."

My comment - That would be unfortunate. I believe that the effort to secure strategic resources will increase and not just by China. It's a contentious issue but I would hope that Australia would prevent strategic companies such as Rio from falling into foreign control, whether by China or any other country. I think Canada will regret selling some of its strategic assets cheaply.

A foreign takeover of Rio would not be a case of leasing mining rights, on a royalty basis, from a developing country since the Company is more than capable of developing sites under its control. After the Unocal rebuff, I suspect China would not attempt such a takeover unless it was certain of acceptance. Anyway, China is doing rather well in Africa.

Email of the day (5) - On this Alan Greenspan quote posted yesterday:

"I found that where I got a question and got myself into a position where I didn't, couldn't and was not going to answer, I fell back into lapsed syntax and all sorts of ways in which the senator or congressman would think I was saying something terribly profound and think I answered his question."

"A lot of market analysts seem to use the same strategy!"

My comment - Splendid observation! This had me chuckling.

Note - Eoin is in Beijing.

Friday 22nd June 2007

Investors Intelligence: US Market Timing - Advisors Sentiment - My thanks to colleague Mark Glowrey for this excellent and internationally quoted report, produced by the highly experienced team of Mike Burke and John Gray. Here is the opening:

The bullish advisors contracted to 53.3%, after reaching a 2007 high last week at 56.7%. Much of that drop was in reaction to the three-day market tumble from June 5-7. The bulls are still quick to pull in their horns on any signs of trouble and this was case with the current data. Keep in mind, there is a lag with these figures as the advisors compile and transmit their newsletters. These readings don't take into account the market rebound that occurred last week.

The decline in advisor optimism was a modestly good sign, but it remains to be seen if the renewed market strength will see a quick shift back into the bullish camp.

The bears were the big, bad news this week. Their number fell to 18.9%, from 21.1%, and that is the lowest level since July 2nd 2004 reading at just 17.7%. The Dow Jones Industrials closed at 10,282 that week and fell to 9,757 (-5.1%) by October. By then, the bearishness had increased to 25.5%. Very low numbers of bearish advisors are negative.

Advisors calling for a correction jumped up to 27.8%, from 22.2% last week. That is a high number for them that was also seen for two weeks in mid-February 2007, just before the market break at the end of that month. Those looking for a correction are short term bearish, but longer term bullish. They are looking for market dips as opportunities to buy.

The most recent low for the bulls was the 45.5% that we saw on March 9. The Dow Jones Industrials were at 12,276 then and now trade around 13,500. The number of bulls increased quickly from there but they have remained around 50% for over ten weeks. Advisors should be a smarter than the public and not sucked into a market making new highs but they also need to maintain subscribers and a bearish stance in the face of an ongoing rally is a recipe for failure.

My view - In addition to the analysis and sentiment graphics of Mike Burke and John Gray (I doubt that anyone in the financial business knows more about advisory sentiment than these two) this report contains a highly informative "Newsletter Extracts" section.

Given useful historic precedents, what can we make of today's signals?

The easy part, is that we know risks are rising evidenced by a high, but not dangerously so, advisor sentiment reading, rising interest rates of which long-dated bond yields are the most important, underperforming bank shares and as of late May, and underperforming Utilities Index.

All of these are leading indicators and the amber lights are flashing, but they are not signalling extreme danger. Of course an exogenous shock can always trigger a market plunge but fortunately these are rare events. And markets have shown resilience in the face of the recent Bear Stearns hedge fund problems.

This is encouraging but we should not be complacent. Similar to a boxer, even a resilient market can only take a certain amount of punishment before it tumbles. Unfortunately, no one can know in advance what level of indicator and trend deterioration this market can take before it runs into serious trouble.

Fortunately, each of us has perspective and some experience. We can monitor the ongoing action. In doing so, my best guess is that while each new high inevitably brings us a little closer to the next significant correction, not to mention an eventual bear market, today's risk remains limited to somewhat larger reactions and sideways ranging, in a mean reversion process relative to the 200-day moving averages, best seen on weekly charts. However if long-dated government bond yields spike once again, a stock market reaction would probably turn into a medium-term correction. Meanwhile, here is the DJ World Stock Index, also shown on a monthly basis so that you can see the last cycle.

Lastly, there are still plenty of bull points. Most stock market indices remain in overall upward trends, best defined by their sequences of higher reaction lows. Interest rates are not yet at punishing levels. The global economy remains synchronised in a period of GDP expansion. Corporate earnings are mostly rising. Valuations are reasonable across a number of markets. Liquidity remains abundant, if a little more expensive. The third year of a US Presidential Cycle (2007 in this instance) is historically the most bullish on average. Currently, many stock markets are overbought and/or overstretched in the short term.

The technical outlook for India and Thailand - Both of these markets have underperformed, India (p&f, monthly semi-log, monthly arithmetic, weekly & daily) since last February, Thailand (p&f, monthly semi-log, monthly arithmetic, weekly & daily) since January 2004. Consequently both are underweighted in portfolios, particularly Thailand.

India is completing the bulk of some heavy IPOs, as I mentioned yesterday. Valuations have come down by virtue of a ranging market against the background of strong GDP growth, and also on a relative basis as other stock markets have risen, not least in Asia. The Sensex sells on an historic PER of 22.62 and an estimated PER for 2008 of 16.8. It currently yields 1.32%. The economy is growing at 9.4% and corporate profits for the Sensex are forecast to grow at 18% next year.

I think India is completing a medium-term consolidation. If so, it could be only weeks away from following Asia's other ranging markets in sustaining upward breaks. A clear breach of 14,000 would be required to delay this scope for a significant period. A clear upward break by the Sensex would be potentially very bullish, attracting renewed interest, but it would also require a continued background of generally firm global stock markets to fulfil medium-term upside potential. Meanwhile, the indications from India's largest bank, ICICI, are encouraging.

Thailand remains Asia's cheapest market with an historic PER for the SET Index of 12.44 and yield of 4.17%. It's underperformance is due entirely to political problems, which have caused investors to shun this market. Nevertheless it has firmed recently, in hope that an August referendum is passed, leading to an uncontested election result, with the vote currently planned for 25th November. Any disappointment on either of these two fronts would presumably weigh on the stock market, further delaying the considerable upside potential indicated by valuations and the current trading range platform. Thailand's banks have lagged but participated in the recent rally shown by the SET Index above.

Friday's big picture, long-term outlook Audio - This will be recorded and posted on Saturday, around noon BST.

Note - Eoin is in Beijing.

Quote of the week - On money:

"Money is better than poverty, if only for financial reasons."
Woody Allen