

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.

Tuesday 28th August 2007

Commentary by Eoin Treacy

Global Thematic Investors (GTI): Big Oil and Small Furry Animals - My thanks to Iain Little and Bruce Albrecht for their splendid [newsletter](#), covering many interesting investment themes which I have no doubt will resonate with Fullermoney subscribers. As always they outline their views supported by commentary from their specialist advisors in this must-read report for the long-term investor. Here is a section on their investment approach.

GTI is an approach that tries to avoid complex probabilistic thinking. It keeps things simple. There are no simulated performance data predicting the future, no statistical pyrotechnics, no finger in-the-air forecasts, in fact no short-term presumptions at all beyond checking to see if valuations are getting out of whack with reality. GTI has simple, long-term beliefs. China will develop. We in the West are all growing older. Energy will be a prized commodity for years to come. Taleb's Black Swan could emerge to threaten our thesis (a new Black Death, Worldwide Bird Flu Virus, Islamist Extremism etc) but it would affect other investments just as hard and we're certainly not claiming to predict Armageddon.

GTI doesn't try to predict short-term market movements. It follows Edwin Lefèvre's ("Reminiscences of a Stock Operator") belief in constancy of behaviour and low turnover: "It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight. Men who can both be right and sit tight are uncommon. The market does not beat them. They beat themselves, because though they have brains they cannot sit tight."

Of course, Black Swans are always possible. But GTI tries to sit tight and not count its chickens - or cygnets - till they've hatched into White Swans.

My view - The managers of GTI have demonstrated over many years that they have the capability of identifying long-term secular trends and have the ability to stay with them as they fulfil their potential. At Fullermoney we try to concentrate on identifying which asset classes are most likely

to perform over the long-term and we encourage all investors to cast themselves as judges at an international beauty contest where all asset classes and sectors are the competitors.

All investors know that being long and staying long during times of market turmoil is difficult. Self doubt is enemy number one during such episodes followed closely by the flight mechanism triggered by profit erosion. The secret will always be to not become increasingly bearish as markets decline and to view such declines as buying opportunities for our favourite sectors.

Email of the day (1) - on 40 week moving averages:

"In his book, Mark Shipman likes to use a "40 week simple moving average" as part of his trend following strategy. Your charting facility does not facilitate a weekly SMA. Do you have any suggestions re same?"

My comment - a 40-week moving average is exactly the same as a 200-day moving average. You can add moving averages to any chart in the Chart Library by clicking on the Charting option in the top right of the chart window. Select Analysis and then Moving Average. The default is 200 days. Then hit Apply.

Email of the day (2) - on China focused closed-end funds:

"Excellent long-term audio on Friday putting everything in perspective. I came across these three closed end China funds trading at up to 20% discount to NAV...Could you add them to the chart library please...Would also appreciate your comments regarding such high discounts given the China bubble

"They are: CAF, CHN & GCH and can be seen at this [link](#):"

My comment - I am delighted to hear that you enjoyed the audio and thank you for this thoughtful email. Generally funds trade at such high discounts either because they are not performing in line with the market they purport to be tracking or their market has fallen out of favour with global investors. Since it is clear that China and Hong Kong continue to be outperformers globally, we must look to the first criteria to see if it holds water.

The [Morgan Stanley China A-Share](#) fund is trading at a discount of 17.97% to its NAV. It is [outperforming](#) the [H-shares](#) but has underperformed the [A-Share](#) market by 37.84% in the last year. Even though it is not performing in line with the A-Shares, few funds are and the 130.5% return in the last year is not to be sniffed at. This fund should perform reasonably well as long as the A-Share market continues to set new highs.

China Fund Inc is **underperforming** both the A-Shares and H-Shares. Although it has returned 50.83% in the last year the other indices have returned 170% and 88.08% respectively. This is probably at least in part why it trades at a discount of 12.29% to NAV.

The **Greater China Fund** trades at discount of 17.34% to NAV and is **performing** more or less in line with the H-Shares and has bounced well over the last two weeks. While it remains below its December high it shows every sign that it will be able to track the performance of the H-Shares going forward.

All of these funds can be found in the Chart Library.

Eoin's personal portfolio: H-Shares long increased - I increased my long in the August **H-shares** by 50% yesterday morning paying 13700 including spread-bet dealing costs.

Today's interesting charts - The Chart Library has two Search Engines. One searches the more than 14,000 equities, funds and ETFs in the International Equity Library and the other searches through the rest of the Chart Library for indices, commodities, currencies, bond prices and yields, ratios, spreads and overlays.

India (Sensex) - breaks **upwards** from the short-term consolidation and would need to sustain a move below 14,000 to limit scope for further upside.

Wheat - remains in a consistent **uptrend** and would need to sustain a move below 675¢ to question scope for further upside.

Platinum - breaking upwards from the short-term range having found **support** at \$1225 and would need to sustain a move below that level to offset scope for some further short-term upside.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of August 19th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Belgium, Canada, India, Ireland, Italy, New Zealand, Philippines, South Africa, Switzerland, the UK and USA - 12 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 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.

Please note - I apologise for the brevity of today's Comment of the Day but I picked up a bug from my daughter over the weekend and am feeling distinctly under the weather. Aisling is back on her feet after being sick for three days so it does appear to be a short-term virus and I hope to be back in top shape in a couple of days.

David is on holiday until September 6th. He will be in the office for two days before going away for another week and will return full time in mid-September.

Wednesday 29th August 2007

Commentary by Eoin Treacy

Email of the day (1) - on long-term investment themes:

"I found your Friday audio very informative, in particular your synopsis of commodity and stock investment over the past 20 years vs the next 20 years. It appears very logical that we are entering a period of gradually increasing inflation, hence the investment most likely to do well is commodity related. I would welcome your opinion on the best means of investing in commodities for the long term, particularly the areas you mentioned, energy and foodstuffs. Would you be prepared to recommend any ETFs for example? You also mentioned Asian currency appreciation vs the US\$ and Asian stocks. Would you be able to recommend specific currency ETFs and Asian country ETFs? Again I would like to compliment you and David for an excellent thought provoking daily commentary and audio."

My comment - Thank you for the positive feedback and this thought provoking email. The relative performance of asset classes is one of a number of factors which helps us to form our views of which sectors will outperform over the long term. Our three main investment themes for the long-term are Supply Inelasticity Meets Rising Demand, Emerging Asia and Creeping Inflation. These are not mutually exclusive but interact quite considerably.

The emergence of the billions of Asians into the global consumer economy as well as the urbanisation that is accompanying that move is providing long-term investment opportunities across a whole range of sectors. Asian stock markets stand to benefit considerably from these trends as we have seen in the last five-years and should continue to do so given that Asia is now the global engine of GDP growth. Personally I am not inclined towards a pure currency fund (although we have a number in the Chart Library which can be located by putting 'currency' into the search engine) because they tend to invest in short-term money

market instruments and I believe that the more appetising proposition is to invest in Asian equity funds which will benefit from gradually improving currency values in tandem with outperforming stock markets. There are a number of Asian country ETF's listed in the Chart Library.

Regarding the energy field here is section by David from Comment of Day on [November 30th](#) :

"My core investment holdings in oil will remain in Timothy Guinness' funds which are virtually identical except for currency and location: Guinness Atkinson Global Energy Fund (GAGEX US), Investec Global Energy ([GUIGLEI GU](#)) and Investec Global Energy (INVGEAA UK). I invested in the US\$-denominated Guernsey fund in April 2004 and that remains my main position. I later increased this exposure by adding a smaller stake in the sterling-denominated UK fund a few months after its launch. They have understandably underperformed this year but I would not be surprised to see new highs in 2007.

"Stronger oil prices will boost interest in the more speculative field of alternative/renewable energy, in which I currently participate via a recently purchased leveraged spread-bet trade in Pacific Ethanol (PEIX US) (weekly & daily). There are several alternative energy funds in the Library, including: Guinness Atkinson Alternative Energy (GAAEX US) and Merrill Lynch New Energy Technology (MNE UK). Stronger oil prices will also become a headwind for stock markets at some point."

It is difficult to maintain a long-term futures position in grains and other softs because they often trade at wide contangoes, which makes holding the position costly. Investing in soft commodities for the long-term is a relatively new investment grouping, however there have been a number of funds launched in the last couple of years which seek to profit from rising food prices. We have listed a number of these in the Chart Library such as the [DWS Global Agribusiness](#) Fund listed in Luxembourg, [Eclectica Agriculture Fund](#) listed in the UK and the [Powershares DB Agriculture](#) ETF listed in the USA. Companies such as [Monsanto](#) have already benefited from this theme and should continue to do so over the long term.

I would also refer you to David's review of the top 10 holdings in his investment portfolio from Comment of the Day on [August 8th](#).

Email of the day (2) - on the Fed:

An interesting note was made in the FT (24th August under Confidence Fragile Despite air of calm)re the FED's role in providing liquidity which probably highlights their attitude towards intervention and may make many reflect on the conspiracy theory scenarios many continually subscribe to.

"Fed policymakers assess market developments from a slightly different

perspective from market participants - putting more weight on liquidity and trading volumes rather than prices. Their objective is to get markets working again, and allow the "price discovery" process to resume. They are, or at least claim to be, relaxed about the price at which the market clears."

"Keep up the good work, it is always important to have the voice of reason, amidst the chaos, especially when being directed towards areas less vulnerable. I am subscribing once again for another year, payment coming from the profits you gentlemen have helped me make."

My comment - I'm delighted to hear that you are doing well from your investments but we can take very little of the credit. You are the one making the final decisions as to whether to open positions and you obviously have the fortitude to stay with them once you have opened them. We look forward to having you as a subscriber for many years to come. Here is a link to the [story](#) you referred to:

Fed policymakers do look at the economy slightly differently to market participants but they are certainly not unaware of what levels the market is trading at. This was without doubt the case in Greenspan's time and although Bernanke's Fed is trying to talk tough on intervention they are no less aware of what kind of impact the credit crunch is having on prices and investor sentiment. There has been much made of the minutes from their last meeting where they put the emphasis on the continued inflation risk. This is clearly not the case today and we can expect further injections of liquidity as long as credit markets remain under pressure.

Regarding conspiracy theories, I'm sure that those with a proclivity towards that mind set will see all kinds of clues towards intervention by the Plunge Protection Team in the last couple of weeks but I think the promise of lower interest rates in the near future has motivated markets to a much greater extent.

Email of the day (3) - on the bearish case:

"Greetings from across the Irish Sea from here in Wales. I recently came across the most recent quarterly newsletter from Jeremy Grantham which makes sobering reading.

"It was written in July- before, I suspect, the recent market slide. I've not seen it on the Fullermoney site, although I have been away on holidays for some weeks, and not been able to avail myself of all bulletins in recent weeks.

"I have very much valued your and David's views through these recent times.

"One thing does nag me however. What event would make you both reconsider your bullish stance? Do you have a support level on any index in mind? When does bullish become neutral to bearish? Is there a tipping point?"

My view - Thank you for this interesting [report](#) which sets out some of the inequalities rife in the world today as well as many of the excesses seen in the credit markets over the last 5 years. Here is a section:

The argument offered for the odd strength of equities was that since the increased rates were based on growth expectations rising, and since the growth rate for stocks would rise equally to offset the rising discount rate, there was no need for lower stock prices (see Jeremy Siegel on Yahoo). The bad news here is the data are just incompatible with the conclusion. For real interest rates in a given year have a slightly negative correlation with the following year's GNP growth. Even across broader time periods - 5 and 10-year periods - there is a slightly negative correlation between GNP growth and real rates. Finally, while the interest rate increase is a fact, there is, of course, no guarantee anyway that an offsetting increase in growth will occur!

So two of the three great asset classes are having the wobbles in some of their components. First, real estate is looking rather weak here and very weak in Spain, which moved into first place in the bubble league by building more houses than France, Germany, and the U.K. combined. (And talk about headless chickens! Their stock market continues to go up despite the housing crash and construction having risen to 13% of GNP!) And second, low-grade debt, especially real estate related but increasingly including corporate loans and private equity funding, is getting nervous. But the third great asset class, stocks, seems bound and determined to make it through this third year of the Presidential Cycle - a year that has never declined materially and should be considered the bane of short sellers everywhere.

In summary, a few more bolts in the bridge may fail, but in the end you have to bet that the bridge will hold, supported by amazing animal spirits. At least until October. Even then the fourth year of the Presidential Cycle (which begins in October) is typically a quiet year. The odds of failure rise but they probably don't become high until October 2008. At that time, a new administration with its new broom and new taxes and new antipathy to the financial world's rich, coupled with tighter credit and credit problems, we will have a very typical time, based on history, to have a bear market, and I for one am betting on it.

Jeremy Grantham has been bearish of Wall Street for a number of years and offers some plausible reasons as to why the market should not be going up. However that has not stopped the market from doing exactly what it wants. In answer to your question about what would change my bullish stance regarding global equity markets and the integrity of the 4-years and counting bull market on Wall Street, let's look at the facts:

The S&P 500 ([p&f](#), [monthly](#), [log scale](#), [weekly](#), [daily](#)) continues to display a progression of rising major reaction lows which is the definition of an uptrend. The latest low tested but did not break that progression. The Index has broken through its 200-day moving average but it has done the same on no less than 6 occasions in the last 4-years. Every time it has done so has been a good buying opportunity. This reaction was faster and larger (11.75%) than any other in the life of this uptrend. It has also bounced back faster than any other reaction in that time frame. There is a short-term progression of lower highs. The Index did experience some climactic selling on August 16th with demand reasserting itself at 1370.

As long as the Index does not sustain a move below 1370 we can give the upside the benefit of the doubt. Markets such as Hong Kong appear to be only loosely influenced by Wall Street and have already moved to new high ground. If the S&P does sustain a move below 1370 it will signal that this is at the least a much more length medium-term correction or even a possible top. However the evidence so far points towards the former view.

Liquidity and sentiment are what motivates markets. Sentiment has taken a beating over the last month. Liquidity has also been under threat as a result of the credit problems arising from the subprime issue, however the Fed and ECB have signalled that they are willing to inject as much liquidity as is needed to make sure markets remain orderly. This may yet result in interest rate cuts which would further support markets.

We know what the problems are and we are gradually being made aware of which companies have been hardest hit by the unfolding subprime fallout. However what is more important is the solution. No one particularly wants to see a bunch of high-rollers getting bailed out of their foolish leveraged trades however they want to see a depression even less. This means that liquidity will be made available in one shape or another to institutions which need it, making sure that financial markets continue to function. This is bullish for stock markets in the medium-term.

Vale, Rio Tinto May Raise Iron Ore Prices 35%, RBC Capital Says - This [article](#) by Tan Hwee Ann for Bloomberg covers some interesting developments in the iron-ore market. Here is a section:

Iron ore prices may gain 35 percent next year as producers led by Cia. Vale do Rio Doce, the world's biggest exporter of the steelmaking ingredient, seek to benefit from surging demand in China, RBC Capital Markets said.

Rising consumption and limited supplies may continue for two years, RBC analysts Chris Lancaster and Michael Chandler said in a report. The brokerage had forecast a 10 percent gain.

China overtook Japan as the largest buyer of iron ore in 2003 because of increased production of cars, buildings and appliances. Prices have risen for the past five years to a record helping Brazil's Vale, London-based Rio Tinto Group and Melbourne-based BHP Billiton Ltd. boost profits.

“Demand, particularly from China, has continued unabated, while supply from almost every producer remains constrained,” the RBC analysts said in the report published yesterday.

The price of Hamersley fines ore, produced by Rio Tinto in its Australian mine, rose 9.5 percent to \$51.47 a ton this year. A gain of 35 percent would take it to \$69.48 a ton next year. Prices are determined by the content of iron in the ore. Reference prices are usually taken from fines ore as it represents 60 percent of the traded market.

My view - There are few companies which have such powerful pricing power and margin expansion as the iron-ore miners. Production costs for companies such as CVRD, Rio Tinto and BHP Billiton are rising but so is their ability to pass on higher costs to the end customer.

It remains impossible for any country to build infrastructure without a huge increase in the per capita consumption of steel and given the number of projects in development and planned across the developing world it is likely that iron-ore demand will remain high for the foreseeable future, while supply is monopolised by a small number of companies.

These companies suffered alongside the wider stock markets during this correction. They all found support on August 16th following the Fed's cut to the discount rate and rallied well. As long as they can consolidate above their mid-August lows they are likely to reassert their uptrends once this correction has ended.

Email of the day (4) - on adding the members of the H-Shares index to the Chart Library:

"Is there any chance of all the companies on the Hang Seng China Ent Index (H-shares) being added to the Chart Library."

My comment - I have asked our IT people to add the folder to the Chart Library so that they can be found through the menus but they are available now through the dedicated search in the International Equity section of the Chart Library. Here is a list of their names and tickers.

Today's interesting charts - The Chart Library has a large number of macro economic statistics charts which may be of interest to Subscribers.

South Korea - has [rallied](#) well from the August 17th lows and would need to sustain a move below 1630 to question scope for further upside at least in the short term.

India - also opened down but [closed up](#) on the day. It would need to sustain a move below 14,000 to question scope for further upside in the short term.

EuroBunds - [pressuring](#) the upper side of the short-term range and would need to sustain a move below 113 to question scope for some further short-term upside.

Please note - David is on holiday until September 6th. He will be in the office for two days before going away for another week and will return full time in mid-September.

Thursday 30th August 2007

Commentary by Eoin Treacy

Citi Currency Research FX Chartbook: Carry-Trade Capitulation - [Thanks to a subscriber for this excellent report by Gabriel de Kock, Stephen Halmarick and Masafumi Yamamoto which has a large number of interesting charts. Here is a section:](#)

Around mid-August, the deepening credit market disruption escalated into a broad withdrawal from risk. In the currency markets, the carry-trade unwind, which at first appeared to lag the spike in risk aversion, morphed into a full-blown rout with rapid declines in both G10 and EM high yielders (see Figure 1). In Japan, margin calls squeezed out about one half of the net long FX positions of retail margin investors (see Figure 2).

Over the past 10 days, central bank liquidity provision has steadied financial markets. But we expect that broader asset market volatility and the unraveling of carry trades will persist for some time, buoying the JPY and the CHF and pulling the rug from under the high-yielding G10 and emerging-market currencies, notably the AUD, NZD and GBP. Indeed, the magnitude of asset price shocks to date and the lack of transparency about financial institutions' exposure suggest that we cannot rule out systemic shocks that could raise market volatility and affect currency markets in unexpected ways.

The Fed's action last week demonstrated that policy makers are ready to mitigate the global economic fallout from tightening financial conditions. Against this backdrop and with strong momentum in emerging Asia, our baseline forecast is for continued above trend global economic growth and an eventual ebbing of market volatility. When financial market activity normalizes, the yen carry trade likely will re-emerge, as accommodative BoJ policies and extraordinarily liquid Japanese

household balance sheets sustain capital outflows over the medium term. At the same time, high yielders with strong economic fundamentals likely will retrace some of their losses, especially the commodity currencies that leverage Asian economic growth.

My view - In mid-August, the Yen ([p&f](#), [monthly](#), [weekly](#), [daily](#)) strengthened from 118 to 112 in three days and has since weakened appreciably. The climactic action in the middle of the month corresponded with a massive deleveraging of trades in conjunction with a credit market rout and a surge in fund redemptions. Obviously those funds which have done worst were those most heavily invested in subprime related credits. However credit derivatives were not the only destination for carry-trade yen. Many funds were also investing in commodity currencies for the higher yield, or in Asian and Latin American stock markets. None of these funds should have very much to worry about unless this credit crunch morphs into a global recession which I am not predicting.

There remain a large number of credit derivative funds and banks in trouble and it will take time for all of the repercussions from this fiasco to play out, but I think investors outside of the credit markets will be much quicker to return to 'risky' assets than many suppose. Global equity markets are not expensive in relative terms, some high yield credits are at fire sale prices, funding from the carry-trade remains cheap, the synchronised global economic expansion remains intact and central banks are signalling that they will do whatever it takes to avert a credit crisis. There remains a seemingly insurmountable wall-of-worry outstanding and confidence is at a low ebb as one would expect following a big drawdown, but as long as the Yen holds below its recent highs and indices above their recent lows we can give the bulls the benefit of the doubt.

Richard Russell's Dow Theory Letters - Thanks to a subscriber for this excellent [extract](#) from Richard Russell's highly regards letter. Here is a section:

Gad, this has been a tough market to write about! It's tough because yesterday's plunge left us hanging. Was it a sold-out bottom we were seeing or was it an express train heading due south?

No way of knowing at the time. I told you that I'm going to abbreviate the sites on Wednesday, and that's what I'm going to do today. This is a perfect time to wait for today's close to see where we are.

First, yesterday was the fifth 90% downside day since July 24. That's a lot of fear and panic packed into roughly one month. But I had a slew of questions about yesterday's panic decline --

(1) Why were there only 75 new lows yesterday on the NYSE? By the way, Yahoo showed that there were 75 new lows on the NYSE, while this

morning's more authoritative WSJ shows only 42 new lows. Either way, both are a far cry from the 1132 new lows recorded on August 16. Thus, the "internal low" for this market decline is still very much intact. Bullish.

(2) Yesterday the Bullish Percentage (BP) of Stocks on the NYSE was 43.58% -- despite the 280 point plunge in the Dow, the BP was down only slightly from Monday's 44.71%. But remember -- at the August 16 market low, the BP was down to 30.99%. Bullish.

(3) With all the hysteria, neither the Dow nor the S&P have suffered a 10% correction on a closing basis. Bullish.

(4) We've had a panic decline, but the major stock averages are still UP for the year. Bullish.

My view - I agree with all of what is quoted above and refer subscribers to my section yesterday on chart facts.

Email of the day (1) - on US infrastructure companies:

"With infrastructure development as one of your global themes I was wondering if you had any good USA infrastructure builders in mind? Certainly I expect some money inflows in this sector over the upcoming years now that the discussion about the state of the infrastructure has started after the Mississippi bridge collapse?"

"Your thoughts and ideas are well respected!"

My view - The Fullermoney Collective may have some ideas on this issue. If anyone wishes to send in their ideas I will make sure that they are added to the Chart Library. While I agree that the domestic US infrastructure sector may see capital inflows and the dreadful tragedy of the Mississippi bridge collapse has highlighted the issue, it is by no means certain that the contracts will go to US companies. However, here are a number of US listed companies which may be of interest:

I conducted a number of searches on Bloomberg. The first was a search for companies that have the words 'road' and 'construction' on their description pages. All of these results are relatively small companies, while Martin Marietta Materials has a market cap in excess of \$5 billion.

[Astec Industries](#) designs and manufactures equipment used to build roads. It remains in a consistent uptrend from the lows in 2005. It is currently consolidating around the \$50 level and would need to sustain a move below \$40 to limit scope for some further upside.

[Granite Construction](#) is a construction company concentrating on infrastructure projects. It has fallen sharply in the last month but maintains its progression of rising major reaction lows. It needs to hold

above \$50 to sustain the integrity of the overall uptrend.

Meadow Valley specialises in the construction of highway bridges, overpasses, channels, roadways, highways and airport runways. It exploded upwards from its long-term downtrend in early 2005. Having accelerated to a medium-term top in early 2006 it remains in a corrective phase which bottomed near \$9 a year ago. It needs to sustain a move above \$16 to reaffirm the overall uptrend.

I also did a search for companies with 'highway' in their description. Martin Marietta Materials Inc. produces aggregates for the construction industry, including highways, infrastructure, commercial, and residential. It has fallen sharply in the last couple of months and is now consolidating above \$120. It would need to sustain a move below this level to offset scope for some further upside, at least in the short term.

Sterling Construction specializes in municipal and state contracts for highway paving, bridge, water and sewer and light rail projects. It peaked in mid-2005 at \$33 and is now in a tight range between \$18 and \$25. It needs to break upwards from this consolidation and sustain a move to new high ground to reaffirm the uptrend.

Email of the day (2) - on agriculture companies:

"This is in response to your subscriber's question about how to participate in the agricultural commodities bull market without buying futures. Here is a suggestion and a question:

"How about buying shares of companies that are world leaders in supplying fertilizer and animal feed?

"Could you please include the following two such companies (one is Canadian and one is American) MOS & POT in the chart library and comment on them?

"Both companies seem to be doing great."]

My comment - I agree wholeheartedly that fertiliser companies are one of the best ways to play the agriculture sector. Potash Corp of Saskatchewan and Mosaic are the second and third largest North American fertiliser companies and both are already in the Chart Library. They can be found by entering either their names or tickers into the International Equity Library's dedicated search.

Mosaic remains in a consistent uptrend from its 2002 lows and would need to sustain a move below \$60 to limit scope for a reassertion of the long-term uptrend.

Potash Corp of Saskatchewan broke upwards in late 2005 and remains in an uptrend although it is starting to lose consistency. This is a far

larger correction than anything seen in the last couple of years and the pattern is broadening which is another warning signal. However, it has bounced back well from short-term support near \$70 but needs to sustain a move above \$90 to reassert the overall uptrend.

[Agrium](#) has been consolidating its impressive gain from mid-2006 for the last 6-months and needs to sustain a move above \$50 to limit potential for further ranging.

Here is a section from a [story](#) in today's Mineweb which throws some light on the rather illiquid Potash market:

An announcement from BPC this week reports that it has completed price negotiations for potash shipped to Southeast Asian markets; these are to rise to between \$300 and \$330/tonne, commencing October 1. At the same time, BPC's price to Brazil will go up to between \$305 and \$315/tonne. Indicative of how hot market demand is, BPC disclosed that during the negotiations this month, it was able to sign contracts at the higher price levels starting early, on September 1. According to BPC's chief executive, Vladimir Nikolaenko, "we have achieved an unprecedented result in the establishment of a fairer price for all world manufacturers of the product, overcoming the psychological price barrier of \$300 in June, and striking a level of \$330 in August."

The global trade in potash is highly concentrated, with just two syndicates dominant - BPC, and Canpotex, which manages sales of the three North American majors - Potash Corporation, Mosaic, and Agrium.

Moscow investment bank Troika Dialog, reporting on the Russian potash producers Uralkali and Silvinit, recently published its forecast for a commodity price increase in the second half of this year of 14%. With dwindling inventories in China, a relatively swift negotiation by BPC, starting next month, should result, Troika believes, in a price increase for China of \$25-\$30/tonne.

Troika analyst Mikhail Stiskin has converted this price forecast, along with recently issued financial results from Uralkali for 2006 (calculated according to International Financial Reporting Standards) to a 66% pick-up in Uralkali's share price, ahead of the proposed initial placement offer (IPO), scheduled for London in the late autumn. "We have revised our valuation of Uralkali, and as a result, we are upgrading our target price from \$2.24 to \$3.71 per share."

"Overall, the scope of demand for food and especially biofuel, the synthesis of which requires potash, has again caught the market by surprise. The recent price hikes have driven the potash market beyond even our bullish stance....Due to the presence of swing producers, prices are unlikely to decline, providing important downside protection."

This is another iteration of the Supply Inelasticity Meets Rising Demand theme.

Eoin's personal portfolio: H-Shares rolled forward - [My August H-shares position expired yesterday at 13,652 against purchases on August 22nd at 12,747 and increased by 50% on August 28th at 13,700. I had neglected to leave an automatic roll and repurchased the entire position at 13,975 in the September contract this morning. All prices quoted are inclusive of spread-bet dealing costs.](#)

Email of the day (3) - [on large discounts for US listed China closed-end funds:](#)

"I own CAF and CHN and was also puzzled by the big discounts. After trading closed ends here and inv trust in the UK for a number of years I think I've seen a tendency for the US funds to trade at bigger discounts and higher premiums than their UK counterparts. I see two reasons for this:

"While talk of globalization has been on everyone's lips these past several years, in the US, it's probably a rare broker who would advocate a full int'l weighting in a client's portfolio. Anecdotally I still hear of 5-10% portfolio weightings in non US equities. This naturally keeps investors very much preoccupied with domestic events and when those events are cause for concern, those "exotic" funds with the high betas go first and fastest. Over the last year or so, I believe some US Indian funds went from double digit premiums to equal discounts. I guess you could say the US funds have a higher beta than the UK. This may explain why you can have simultaneously large china fund discounts and new highs in the Chinese/HK indices.

"Also there seems to be fewer non US equity choices here than in the UK, which obviously has a long history of overseas investment. While this is fast changing with the rise of ETFs, it has tended to leave the "exit/entrance" door to a given country or region a bit narrow when the punters pile in and out."

My comment - [Thank you for this interesting take on this subject which I'm sure will be of interest to US-based subscribers.](#)

Wheat Rises to Record, Extending Rally, on Strong Global Demand - [This article by Tony C. Dreibus for Bloomberg covers wheat's impressive performance. Here is a section:](#)

Wheat rose to a record for a second day as demand increased for U.S. supplies and global inventories were forecast to fall to the lowest in 26 years.

U.S. exporters sold 1.232 million tons last week, up 17 percent from the previous week, the government said today. That topped the 700,000 tons to 1.1 million tons expected by Citigroup Global Markets in Chicago.

Overseas orders for U.S. wheat from June 1 through Aug. 23 are up 95 percent, and prices have almost doubled in the past year.

“There's a rush” to secure dwindling wheat supplies, said Dennis DeLaughter, owner of Progressive Farm Marketing Inc. in Edna, Texas. “End-users are willing to buy at this price even though it's a record.”

Wheat futures for December delivery rose 26 cents, or 3.4 percent, to \$7.845 a bushel at 10:40 a.m. on the Chicago Board of Trade after earlier reaching a record \$7.885. Most-active futures have gained 97 percent in the past year after global consumption exceeded production for the seventh time in eight years.

Global stockpiles are expected to be at 114.8 million tons by May 31, the lowest for the end of the marketing year since 1982, U.S. Department of Agriculture data show. Production has been hindered in exporting countries including Australia, Ukraine and the U.S.

Production of winter wheat in the U.S., the largest exporter of the grain, was hurt by a freeze in April and excessive precipitation through June.

My view - [Wheat](#) was limit-up for much of today's trading moving to new high ground. The story above details the shortage of supply and it would need to sustain a move below 750¢ to question scope for further upside.

Also see Email of the day (1) on Wheat and the USDA report from Comment of the Day on [August 15th](#).

Today's interesting charts - The Chart Library has a large number of fertiliser charts which can be found in the Soft Commodities section.

South Africa - [pressuring](#) the upper side of the short-term range and would need to sustain a move below 26,000 to limit scope for some further upside.

Belgium - breaks [upwards](#) from the short-term consolidation above the mid-August lows. It would need to sustain a move below 4150 to question scope for further upside.

Saudi Arabia - remains in a medium-term [uptrend](#) from the lows near 7000 and is probably benefiting from a repatriation of petrodollars. It would need to sustain a move below 8000 to delay further upside potential.

Please note - David is on holiday until September 6th. He will be in the office for two days before going away for another week and will return full time in mid-September.

Friday 31st August 2007

Commentary by Eoin Treacy

Bush to Expand Government Role to Deal With Subprime - [This article](#) by Holly Rosenkrantz covers plans to ease pressure on marginal homeowners which could help to restore some level of confidence to credit markets. Here is a section:

President George W. Bush today pledged to help people who've fallen behind in their mortgages keep their homes and to tighten safeguards against predatory lending, while rejecting a bailout for ``speculators."

``I plan to help homeowners, the government's got a role to play," Bush said in a statement at the White House. ``But it's not the government's job to bail out speculators or those who made the decision to buy a home they couldn't afford."

Bush said he will let the Federal Housing Administration, which insures mortgages for low- and middle-income borrowers, guarantee loans for delinquent borrowers, allowing them to avoid foreclosure and refinance at more favorable rates.

Tighter credit and higher borrowing costs threaten the housing market, which has been an engine of U.S. economic growth. At the end of last year, there were 7.5 million subprime mortgage borrowers with \$1.4 trillion in loans, according to the Center for Responsible Lending, a research organization in Durham, North Carolina. More than 2 million Americans will lose their homes as introductory interest rates on mortgages reset to higher levels in coming months, according to the center.

The number of U.S. homes under foreclosure almost doubled in July from a year earlier as homeowners with adjustable-rate mortgages struggled to meet their rising monthly payments, RealtyTrac Inc., a seller of foreclosure data, said on Aug. 21.

My view - See [August 24th's Comment of the Day](#) for Bill Gross' report on why the government should legislate to protect the millions of people at risk of losing their homes. [This article](#) by Paul Kasriel in his Econtrarian newsletter argues that such a move would not be without some long-term consequences. Here is a section:

It is not even clear that the U.S. dollar would not come under downward pressure with a fiscal policy bailout of subprime and Alt-A borrowers. As alluded to above, private spending on research and development and business capital equipment would be crowded out by the government guarantee of less-than-prime mortgages. Slower growth in these types of private spending implies slower future growth in the U.S. economy. Slower future real growth in the economy implies slower growth in our standard of living, especially if we have to devote part of our future production/income to servicing our foreign debt. With the U.S. already a gargantuan net debtor to the rest of the world and with the bulk of our

debt denominated in U.S. dollars, foreign creditors might wonder if political pressure would be brought to bear on the Federal Reserve to crank up the currency "printing press" in order to help make principal and interest payments on the debt owed to these creditors. The anticipation of this, of course, would induce investors - both foreign and domestic - to reduce their exposure to U.S. dollar-denominated financial assets, thus causing the dollar to depreciate vs. other currencies.

For the FHA to guarantee the refinanced mortgages of subprime and Alt-A borrowers, a moral hazard policy still would be perpetuated, just not by the Fed. Subprime and Alt-A lenders would be bailed out by the federal government, thus reinforcing the notion that some form of government safety net would likely be there to mitigate the potential losses of investments in risky assets.

So, there is no free bailout to the predicament we have gotten into as a result of Greenspan's cheap credit and moral hazard policies. For those that think there are free bailouts, I suggest that they read the writings of Frederic Bastiat, a 19th century French political economist, who preached that in economic analysis, one must take into account not only what is seen, but what is not seen. In other words, employ general equilibrium analysis, not just partial equilibrium analysis.

One of the main fears stalking the market today is that the collapse of the subprime mortgage market will result in a crash for the wider housing market and the economy generally. Any measure put in place by the US administration to help out the millions of people at risk of losing their homes should help restore confidence in the credit markets. The longer-term effects of this bailout are likely to be inflationary, but given the current heightened sensitivity to perceived deflationary risks, this result is likely to be swept under the carpet at least for the moment.

Email of the day (1) - on US infrastructure companies:

"In response to one of your subscriber's email yesterday inquiring about US engineering and construction companies in the infrastructure sector, here are four that I know of (having worked in the engineering & construction industry for many years in my previous profession):

"Fluor Corp (FLR) Market Cap: USD 11B
Jacobs (JEC) Market Cap: USD 8B
Foster Wheeler (FWLT) Market Cap: USD 8B
Kellogg Brown & Root (KBR) Market Cap: USD 5B (until recently was part of Halliburton (HAL))."

Email of the day (2) - on US infrastructure companies:

"Re: infrastructure in US in tonight's comments, you may wish to look at Infrasource Services Inc."

My comment - Thanks to both of these well-informed subscribers for these interesting candidates for a play on US infrastructure growth.

Fluor Corp broke upwards from a year-long range in May and remains in a consistent uptrend. It fell for one week in mid-August but has rallied well from this hiccup and would need to sustain a move below 110 to limit scope for further upside.

Jacobs also broke upwards earlier this year. It posted a large downside weekly key reversal two weeks ago but has not had any follow through. It needs to sustain a move to new high ground to reassert the overall uptrend.

Foster Wheeler broke upwards from its more than 4-year **base** in April and is now consolidating that move. It needs to sustain a move above 120 to reassert that overall uptrend.

KBR was only listed at the beginning of the year and has been in an uptrend since rallying from its April low. It would need to sustain a move below \$30 to question scope for further upside.

Infrasource Services rallied significantly from October and experienced a Type-2 ending of at least medium-term duration in late July. It found support near \$30 and needs to hold above that level to maintain a short-term bullish outlook.

Email of the day (3) - on Robert Prechter's prediction of a Depression:

"Congratulations on the continually improving service being provided to Fullermoney subscribers. I've been a subscriber for 4 or so years and avail myself of the audio, commentary and charts on a daily basis.

"A friend forwarded me the latest (September 2007) issue of Robert Prechter's "The Elliott Wave Theorist". Many Fullermoney subscribers will be au fait with Prechter who can only be described as a "permabear" (or at least he has been for the last 20 years that I've been aware of his work).

"Not surprisingly he's forecasting a major market crash, along with a depression of 1930's proportions, with the crash most likely starting between 27 August and 26 October this year.

"The bit I found of interest was his prediction of deflation resulting from the expansion of the current credit crunch. His view is that the Fed will not and cannot bail out all the bad credits, so is powerless to prevent a spiralling deflation. He says like in the 1930's the Fed will only lend to good credit risks and needs to protect the value of their own Treasury Bond holdings that provide backing for the value of the Fed's Notes.

"Prechter wrote about his crash predictions a few years back in a book called "Conquer the Crash".

"Prechter says US house prices have fallen for 10 months in a row, the longest time since the 1930's, commodities are down from their highs, and stocks are beginning to turn down. He says all assets moved up from 2002 on the back of increased liquidity flows but now that credit is contracting, deflation will accelerate.

"In his view lowering interest rates will not work as illustrated by the experience of Japan where despite near zero rates, real estate imploded and the Nikkei collapsed.

"He thinks a sea change in sentiment will occur and cites the example of sub prime mortgages being viewed as fine one day and toxic waste not long after.

"We are seeing some credit squeeze here in New Zealand - 7 finance companies have gone into receivership in the last 16 months with 3 in the last week.

"Many mum and dad investors are extremely nervous. Like many western countries Kiwis have borrowed plenty against appreciating property values to buy more property and / or to fund lifestyles that they could not afford from their basic income.

"Time magazine seems to be full of empty houses in the US and desperate mortgage holders and lenders.

"I am interested in the Fullermoney view of whether Prechter's prediction of a deflationary spiral has any merit. If he was correct the prospects (at least in the short term) for commodities, stocks, property and most fixed income securities are poor. Presumably most Fullermoney subscribers are positioned for inflation with metals and other inelastic commodities, along with Asian and emerging market equities.

"Prechter's "scorched earth" portfolio recommends T Bills, Swiss money market funds, outright cash and deposits in a few selected (safer) banks. He says T Bills have outperformed the S&P 500 over the last 7 years and will do far better than stocks in the coming years by "simply not producing losses"!

"There's an old saying that "even a broken clock is right twice each day", and while Prechter has pretty much got it wrong for most of the last 20 years, he just may get it right eventually and I don't want to fall into the complacency trap and write off the deflationary risk just because the person espousing that is a permabear."

My comment - Thank you for this interesting email which raises some topical questions. I am very happy to hear that you are enjoying the service and we look forward to making a large number of new enhancements available in the not too distant future.

Japan made the mistake of squeezing for long after the stock and property bubbles had burst. This resulted in the deflationary spiral of the coming decades and the ultra low interest rates they have today. Central bankers have learned hard lessons from this experience and see it as a priority to avoid the same mistake today. I believe that it would take a whole series of major policy mistake for a 1930s' style depression to take hold and I just don't believe that the monetary authorities are that stupid.

Bob Prechter has been predicting financial Armageddon for as long as I have been aware of his work and it has yet to occur. That is not to say that recessionary risks are not evident because they are, but even if this crisis were to result in a recession I do not believe that we are going to see anything like what was experienced in the 1930s. I do not see the evidence from the charts to support such a bearish view, although I am sure it helps to sell books. So far, policy from the world's central banks has been measured and accommodative and the reaction of the markets has been positive.

At Fullermoney we do not deal in chart theories but in chart facts and the facts are that the 4-years and counting uptrend remains in motion, the progression of higher major reaction lows is intact and not one global equity index is making new lows. If these facts were to change it would be cause for reassessment but until they do I put very little credence in the bearish view.

Email of the day (4) - on a Bloomberg interview with Ed Hyman:

"I think you will find the following video necessary, since it is in line with the Fullermoney outlook.

"ISI's Ed Hyman: Slowing, but "No Recession" Forecast

"This is the link to the [article](#); the video link is on the right side."

My comment - This is a very common sense analysis of where rates and markets are headed and is well worth watching. I am not so sure that rates will fall all the way to 4% but the chances are that we are going to see some easing in the coming months which should act as a support for markets.

Cameco Strengthen Uranium Exploration Portfolio - Thanks to subscriber for this short report from Cameco which covers the consolidation of the uranium mining sector. Here it is in full:

Cameco Corporation announced today that its wholly owned subsidiary, Cameco Global Exploration II Ltd., has concluded a strategic alliance with Western Uranium Corporation (WUC), which allows Cameco's subsidiary to acquire a 70% joint venture interest in WUC's current

properties. As part of the transaction, Cameco's subsidiary also became a 10% shareholder of WUC.

WUC is a uranium exploration and development company with its head office in Vancouver, B.C. Its principal properties are in Nevada and New Mexico in the US, and Nunavut and the Northwest Territories in Canada. Shares of WUC trade on the TSX Venture Exchange.

Cameco's subsidiary purchased 5,586,244 units of WUC at \$3.80 per unit. Each unit is comprised of one common share and one half of a share-purchase warrant. Each whole share-purchase warrant entitles Cameco's subsidiary, for one year, to acquire an additional common share for \$4.25.

This transaction provides Cameco's subsidiary with the following rights: (i) to acquire a 70% joint venture interest at such time as any of WUC's current uranium properties warrant development to production; (ii) to participate in any future equity issues; and (iii) to nominate one person for election to WUC's board of directors, as long as the company holds 7.5% of WUC's outstanding common shares.

"This transaction strengthens Cameco's extensive portfolio of exploration investments and gives us another option to expand future production consistent with our strategy to build on Cameco's competitive advantage in the uranium business," said Cameco president and CEO Jerry Grandey. "Through our investment and strategic alliance with WUC, Cameco's shareholders gain the potential of a quality company with an attractive land position."

My comment - [Cameco](#) fell by more than a third between mid-June and mid-August. However the downtrend lost momentum as it approached \$40 and the fall below that level was climactic and could well signal that this correction has bottomed. It would need to sustain a move below \$36.75 to question scope for some further upside at least in the short term.

I was sorry to have only seen this story today as Cameco's purchase of what amounts to a controlling interest in Western Uranium Corp is a significant investment which has had a pronounced impact on [WUC's](#) share price. The share found support near \$1.65 and today's upward dynamic conclusively breaks the medium-term downtrend. It would need a countermanding downward dynamic to question scope for further upside.

Today's interesting charts - A number of equity indices have rallied well in the last couple of weeks and they can all be found in the [Chart Library](#).

Australia - breaking [upwards](#) from the short-term consolidation below 6200 and looks set to at least test the highs near 6400. A downward dynamic would be needed for the highs to offer anything other than a

temporary area of resistance.

Taiwan - having found support at 8000, the index consolidated above 8500 and is breaking upwards once more. It would need to sustain a move below this latter level to question scope for further upside in the short term.

France - posted an impressive upside key day reversal from support above 5200, consolidated above 5400 and has just broken upwards once more. While 5800 may offer token resistance, a downward dynamic would be needed to question scope for further upside.

Finland - within striking distance of the high at 11,846 and would need a sustained move below 11,250 to question scope for further upside.
Gold - breaks the 6-week downtrend and would need a downward dynamic to hinder potential for at least a test of the upper side of the range.

Gold - breaks the 6-week downtrend and would need a downward dynamic to hinder potential for at least a test of the upper side of the range.

Nickel - found support at the psychological \$25,000 and would need to sustain a move below that level to question scope for at least some further upside in the short term.

Quote of the week - "We make a living by what we get, but we make a life by what we give."
Winston Churchill

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