

# 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](http://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 17th September 2007

Jonathan Davis: The doomsters too can get it wrong - [My thanks to colleague Jackson Wong for noticing and saving, while I was away, another fine column by Jonathan Davis for the Financial Times. Here is the opening:](#)

Every market crisis that I can remember over the past 25 years has been characterised by intense speculation about how bad things might become.

Out of the woodwork at such junctures comes a familiar cast of soothsayers to predict that everything is bound to end in catastrophe, just as said soothsayers have been predicting for many years.

The history of the modern financial era is that such fears are normally misplaced, a fact that seems to infuriate those of bearish disposition and sometimes drives them to new heights of extravagant language.

Because markets are cyclical, the doomsters' fears often seem to be justified for a short period, but the Armageddon solution they have been warning about rarely comes to pass.

A good example would be the cluster of books that predicted a global depression in the 1990s. During the nasty recession of 1990-91 such gloom fell on ready ears, but proved only to be the prelude to one of the most remarkable bull markets of all time, in which bonds, equities and property all shared handsomely. Stirred but apparently not shaken in their beliefs, advocates of the Kondratieff wave and others of a doomster disposition retired to lick their wounds

Nothing is more certain about the current credit crisis than that we must all prepare for a new wave of gloomy tidings.

My view - [Veteran subscribers may recall one of my favourite adages: "I've heard the end of the world unsuccessfully forecast too many times to try to improve on that record."](#)

[For many of us in the markets game, the biggest mistakes, even during an otherwise successful career, have been to become too bearish on occasion. And for those who eschew a chart-based approach to timing, for reasons](#)

known only to themselves, an even greater mistake can be to turn bearish much too soon.

This certainly does not mean that we should suspend reality and become holy fools, worshipping at the altar of what we hope will become a perpetually rising Dow (choose your index), fuelled by a Viagra cocktail of financial liquidity and credit creation, because this too is not a constant, as we have seen recently.

And for those of us who are primarily investors, resisting our hardwired instinct to jump at every shadow, each bout of financial turbulence is no less terrifying. After all, what if the placard-carrying doomsters are right this time?

At such moments we need to engage our common sense, view the crisis of the moment both objectively and also through the prism of financial history, and not least, utilising our behavioural experience when listening to others. After all, everyone has an agenda, many of us proselytise and as George Eliot (1819-1880) famously said: "Our deeds still travel with us from afar, and what we have been makes us what we are."

With Eliot's quote in mind and as part of the evaluation process, let us consider the sources for many of the more bearish forecasts today.

My impression, inevitably somewhat subjective and based on what I read and hear from others, is that investment managers - particularly at hedge funds - are among the biggest bears. And not without reason - where performance has disappointed and customers are voting by asking for redemptions, this amounts to a personal crisis of bear market proportions for the managers. It can only influence their market views. A similar psychology will apply to many people within the banking industry who are now adjusting their personal financial expectations in line with the sectors' problems.

There is also a small group of conservative, value oriented investment managers who have been bearish for some time. Having underperformed up until the present correction, and with substantial cash reserves, they would understandably like to see a significant sell off by stock markets.

The prevailing psychology among these investment managers resembles a far less dramatic version, to date, of what prevailed following the Crash of '87 and the TMT meltdown in 2000. Back then, the financial community being most traumatised, expected the worst in terms of economic consequences. Fortunately, their personal experience proved not to be a leading indicator for the broader global economy, particularly in the former instance. Arguably, the 2001-2002 recession was triggered more by the 9/11 shock than the Nasdaq's burst bubble.

Returning to the present situation, to date, we have seen a bear market in western and Japanese financial shares, a small correction in most of the broader stock market indices and minimal reactions in the China-led markets. Weak financials, where evident, remain a concern and a successful resolution to this problem requires bold leadership from the central banks involved.

My main concern is that they risk falling behind the curve of events which are currently driven by uncertainty, rumours and especially a lack of financial transparency among banks. Unchecked, this loss of confidence will needlessly damage the economic outlook in the west, which was already slowing due to higher interest rates. I would prefer to see Bernanke (who is not being helped by Greenspan's lack of candour) cut both the Discount Rate and the Federal Funds Rate by 50 basis points tomorrow.

The ECB, Fed and now the BoE have provided liquidity and indicated that they will continue to do so. However this is not enough, under the circumstances and moral high ground sermons from the ECB and [BoE](#) are not constructive during a credit crunch. A crisis of confidence also requires coordinated reassurances, daily if necessary, from central bankers and treasury ministers.

Stockcube's John Ritchie: Global Cap Size Index Review - My thanks to colleague John Ritchie for his excellent technical [review](#) of big cap versus small cap performance.

My view - For a number of years many funds piled into small-cap shares, creating self-feeding momentum plays in what are often illiquid markets. Momentum is a two-way street and the shift from small-cap to large-cap, which commenced in 2006 in the USA, does not appear to be over.

Mark Glowrey: A Very British Bank Run - My thanks to colleague Mark Glowrey for this amusing [report](#) on the Northern Rock queues. Here is a section:

If the UK's clearing banks were not prepared to lend to Northern Rock, why should private investors? The message had been writ clear, and the queues started to form. Finally, a bank run. On my journey through the City this morning I observed an orderly line of mainly elderly savers backing up from their Moorgate branch. The door was locked and customers were gradually being let in whilst anxious and polite young staff walked the line with clipboards. The depositors appeared to be in good humour, and with perhaps a uniquely British approach exhibited a calm demeanour, sitting comfortably on deckchairs, some sipping from a tartan Thermos flask whilst swapping tales of successful grandchildren. Sensibly dressed ladies from the home counties discussed holiday destinations, with Spain apparently a popular choice. One saver held her place in the line whilst perched on a bicycle, the type with a steel frame and a wicker basket, however the rate of progress made this somewhat superfluous.

I noted that the queue appeared to be shorter on my return from lunch, indicating that demand was being met. However, the risk now lies with a contamination of fear throughout the other UK banks, which would not be a pretty sight to behold. For the banking system, as with all financial markets, confidence is king.

My comment - [And in this case, one would have thought Mervin King.](#)  
However in a shrewd political move, UK Chancellor of the Exchequer Alistair Darling appears to have pre-empted the BoE by [guaranteeing](#) all deposits with the Northern Rock bank.

Email of the day - [On China, from Tuscany:](#)

"Nearing the end of my first year as a full subscriber to your invaluable service, I wanted to let you both know how very much I appreciate and value the obvious hard work, professionalism and expertise with which it is run.

"I have been managing a modest personal UK equity portfolio ever since my interest in technical analysis was first piqued nearly 10 years ago, when I opened an account with one of the earliest "online" brokers. The ride since then has been sometimes euphoric and of course often terrifying but, now I have the Fullermoney commentary and audio as essentials in my daily routine, I know there is a much greater chance that I will make more informed and timely investment decisions.

"I could never hope to match the quality or scope of the material contributed by other more knowledgeable and experienced subscribers, but would like to offer the following as I think it relates very much to one of your main investment themes. In the mountain village in northern Tuscany where we've lived since my husband's retirement (but which is far too far from Covent Garden for my liking - I remain a paid-up "Friend!"), there are several very talented artists and writers with whom we've become good friends. I recently received a link to the first part of an [article](#) about China that I hope might be of some interest to you and other subscribers."

My comment - [Thank you so much for this lovely, thoughtful email.](#)

[Life in northern Tuscany sounds delightful and as a paid-up Friend at Covent Garden, I hope that your interesting lives will not prevent the occasional cultural visit to London. Mrs Fuller and I attend most of the ROH productions, where subscribers have introduced themselves on occasion, and I hope you would do the same.](#)

[Thanks also for the superb article which I found most informative. I am in agreement and hope that you will also be able to forward Part 2.](#)

Additional Commentary by Eoin Treacy

[Martin Spring's On Target: The Slow-Motion Crisis Gathers Momentum - Thanks to Martin Spring for his latest \[newsletter\]\(#\) which leads with a piece on the credit crisis, but here is a section from his interesting energy comment:](#)

[The cost burden: The International Energy Agency estimates that \\$20 trillion will have to be invested over the next quarter-century to meet the world's](#)

energy needs - that's \$3,000 per person alive today. Over half that amount will be for electricity generation and distribution.

Future projects are likely to be more complex and remote, such as multi-billion-dollar platforms in water thousands of feet deep, pipelines crossing difficult terrain, terminals and ships to move liquefied natural gas, new high-voltage transmission lines from remote wind farms. Even a straightforward new refinery in the US, processing 120,000 barrels of crude a day, would cost \$3 billion or more.

One implication is that consumers are going to have to pay a lot more for energy. Another is that there will have to be a stable and attractive investment climate to attract the capital needed for expansion.

Lead times: It can take more than two decades for newly commercialized energy-saving technology to be incorporated in most vehicles actually in use. Buildings stand for many decades and retrofitting energy-saving features can be difficult and costly. Power and industrial plants often last 50 years or more, limiting the speed at which energy-efficient facilities can be introduced.

Large new oil discoveries can take 15 to 20 years from exploration until production actually begins. A major new offshore oil platform can cost billions and take a decade or more to complete - the Hibernia platform off the east coast of Canada cost \$5 billion, took 19 years from discovery to production, yet meets only 0.2 per cent of world oil demand.

Energy-saving benefits: Improvements in the efficiency of energy use don't necessarily reduce demand for energy.

With cars and trucks, for example, fuel-economy improvements that have been gained in the US over the past couple of decades have been used not to reduce fuel usage but to allow for increased vehicle weight, horsepower and amenities. That's why vehicle fuel-economy levels have remained flat.

Although it will be technically possible to double the fuel economy of new cars and light trucks by the year 2030, lowering oil demand in the US by about 3 to 5 million barrels a day is going to mean higher costs, with smaller and less powerful vehicles.

The steady increase in house sizes has offset much of energy efficiency improvements in home design. Refrigerators in a typical home have increased in number and size, consuming much of the energy saved through greater efficiency.

My view - Oil ([p&f](#), [monthly](#), [weekly](#), [daily](#)) remains within a dollar of its high, while of the major oil producers such as [Exxon Mobil](#), [Conoco Philips](#), [Marathon](#), [BP](#), [Shell](#) and [Total Fina](#), none are making new highs. However the Oil & Gas Equipment and Services companies have broken upwards from a short-term consolidation and would need to sustain a move below 560 to question scope for further upside.

Big Oil is suffering from the problem of diminishing reserves lives in their major production fields. Many of them also have contracts with fickle, authoritarian or nationalist governments in politically unstable parts of the world which give them less exposure to the price of oil as it moves higher.

On the other hand, companies in the Oil Services sector should benefit enormously from the continued investment in the industry. They offer the best exposure to the secular bull market in oil regardless of who owns the oil fields, since it still has to be drilled for and pumped out of the ground and often needs more drills than it has in the past. They also have the potential to grow their margins because there is high demand and relatively little competition.

Schlumberger remains in a consistent uptrend from the 2002 lows. It accelerated to a high in late 2005 and consolidated that move from much of 2006. The sustained break above \$70 in mid-April ran into resistance at the psychological \$100. However it found support in mid-August and steadily moved upwards to the test the high. It consolidated beneath \$100 and is now breaking upwards and would need to sustain a move below \$95 to question scope for some further upside.

Halliburton began its uptrend around the same time as Schlumberger, but remains in a consolidation beneath \$40. It needs to sustain a move above this level to reassert the overall uptrend.

Baker Hughes broke upwards from its long-term base in early June 2005 and accelerated to a high near \$90. It remains in a consolidation of that gain and while it is now pressuring the high it needs to sustain a move above that area to reassert the overall uptrend.

National Oilwell Varco broke out of its long-term base in early 2005, reached a high near \$80 and consolidated until April 2007 before breaking upwards once more. While the global stock market correction in August caused it to briefly retest \$100 its resurgent move set new highs where it is now consolidating. It would need to sustain a move below \$120 to question scope for further upside.

Weatherford International also consolidated for more than year. \$36 marked to bottom of the correction, the stock then moved steadily upwards before consolidating beneath the high at \$60. It broke upwards last week and would need to sustain a move below the latter level to hinder potential for further upside.

Smith International is similar to National Oilwell Varco above. It would need to sustain a move below \$65 to question scope for further upside.

BJ Services is the laggard of the group and is in a medium-term downtrend. It needs to break the progression of lower highs with a sustained move above \$90 to question scope for a further correction.

Merrill Lynch China: Shift your paradigm, QDII is coming - Thanks to a

subscriber for this [report](#) which makes some interesting points as to the impact of mainland Chinese investment in Hong Kong. Here is a section:

To remain successful, think like the Chinese do

To many people's surprise, China Southern Fund raised Rmb15bn (US\$2bn) QDII fund in a single day. We conservatively estimate that US\$50bn QDII money may come to HK by the end of 2008. Assuming an average of 5x portfolio turn a year (a normal level in China), this could mean more than US\$1bn daily turnover in HK focusing on mainland names, mostly H shares. Our bold prediction: QDII investment will become the price setter for many H shares and we'd better change how we pick stocks according to their preference.

The difference

In our view, global funds tend to be more sophisticated in valuation but domestic funds know fundamentals of the Chinese firms better and are much quicker in obtaining information. Our experience with A/H dual listing stocks shows that A share price tends to lead H's.

Themes domestic funds like the most

We believe that it's reasonable to assume that Fund QDIIs will behave similarly to domestic funds. Our study on all A share mutual funds shows that as a group they are overweight in the following sectors (in descending order): Insurance, Hotels, Media, Beverage, Retail, Refinery, Property, Food, Machinery, Shipping, Retailers, Commercial Banks, T&D, Building Materials, Telecom Equipment and Auto Parts (See Table 3). Hence, we suggest investors to focus on the stocks in Table 1.

Risk - Will this be the B share market all over again?

After the B share market opened, essentially all foreign investors cashed out and left domestic investors to hold the candle. It may still happen to the H share market. However, we consider the risk low, mainly because emerging market funds don't have to care about the B share market but we believe they cannot afford not to be in H shares due to the latter's size, particularly if their performance is good.

My view - The China Enterprises Index (H-Shares) continues to trade at a sizeable discount to the mainland A-Share market. Considering that the market cap of the Hang Seng and H-Shares indices is approximately US\$2 Trillion, an additional \$50 billion is not going to make a huge difference. However the direction from where the money is coming is likely to have a significant impact on the stock market because it will be seen as the beginning of what could be a flood of investment from the mainland to Hong Kong.

The H-Shares ([p&f](#), [monthly](#), [weekly](#), [daily](#)) broke upwards from its base in early 2006 with a sustained move above 6000. It then accelerated upwards to 10,000, before consolidating the move. The Index broke upwards once more in May and experienced a medium-term peak near 13,500. It found support on August 17th and surged back upwards to set a new high above 14,000, where it consolidated again. Today's upward break suggests that a sustained move below 14,000 would now be needed to question scope for further upside.

Email of the day (1) - on silver:

"I'm interested in precious metals, esp. silver. I invest via SLV and stocks of miners. What do you think about the long-term fundamentals of silver? according to the US geographic survey, as pointed out by Ted Butler, the world silver resources will be exhausted in 14 yrs. is that true?"

My comment - I'm afraid I am not familiar with Ted Butler's writings so I can't vouch for where he gets his data but it sounds extreme. Yes, silver is a rare commodity and there is a paucity of pure silver mines but silver is generally obtained as a by-product of other mining ventures so I am sceptical as to whether we are going to run out of it. However there are plenty of other reasons to be bullish of silver without predicting the demise of the entire silver mining industry. Its increasing use in medicine alone is one reason to be bullish of the commodity over the long term. However what motivates me to a much greater extent is the chart pattern which tells me that silver is still cheap relative to other precious metals.

Silver ([p&f](#), [monthly](#), [weekly](#), [daily](#)) broke upwards from its long-term base in late 2005 and accelerated to a high in excess of \$15 by mid-May 2006. The ensuing medium-term correction consumed more than a third of the gain before bottoming near \$10. The metal continues to consolidate beneath the high and currently needs to break the short-term progression of lower highs to maintain the bullish outlook and over the medium-term needs to sustain a move to new high ground to reassert the overall uptrend.

We have often referred to silver as high-beta gold. [Gold](#) has already moved to a new high and silver is almost \$2 off its mid-August low. The chart of gold relative to silver shows that gold has been in a downtrend against silver since [mid-2003](#). In that time there have also been periods when gold has outperformed. This is one such occasion. Gold has [accelerated](#) relative to silver but is looking a little over extended. The ratio would need to sustain a move below 55 for silver to move to outperformance.

Email of the day (2) - on Gold traded in Tokyo:

"Would it be possible to add the TOCOM gold futures yen per gram chart to the library? I currently look at the chart library's gold in yen chart, which is usually more than adequate, but it would be very interesting to take a closer look at the action in Tokyo as gold approaches a new yen high.

"As always, thanks for the excellent work you do."

My comment - Thank you for this kind email and I agree that this would be an interesting addition to the Chart Library. You can now find it in the Metals Section of the main drop-down menu.

In [yen](#), gold is rallying towards the highs at 2675 where it has encountered resistance on four occasions since March. It needs to sustain a move above this level to reassert its overall uptrend.

Email of the day (3) - on Petrobank:

"Anyone in our group shed some light on Petrobank on the Toronto Exchange? Appear to have some decent prospects in addition to a technology to extract oil from oil sands at a lower price. Also a chart would be helpful."

My comment - [Petrobank](#) is already in the Chart Library. Simply enter 'petrobank' into the dedicated search in the International Equity section and it will pop up. Aside from the link I posted to their site on [Friday](#), I'm afraid I don't know much more about the company but perhaps someone in the Collective may have additional information.

The stock broke [upwards](#) from a year-long consolidation in February and remains in a consistent uptrend with a progression of rising major reaction lows. It would need to take these out to hinder potential for further upside.

Today's interesting charts - The Chart Library has a large number of commodity charts, not easily found elsewhere.

Ireland - one of only 3 international markets making new [lows](#). It needs to sustain a move back above [8000](#) to improve the pattern.

China (Shanghai A-shares) - offsets last week's downward dynamic by setting a new [high](#) and would need to sustain a move below 5300 to hinder potential for some further upside in the short term.

White Sugar - impressive [upside key day reversal](#) on Friday with some additional follow through today. It would need to sustain a move below 260 to offset scope for some further [upside](#).

Coffee (Arabica) - remains in an orderly [consolidation](#) beneath the highs set in early 2005. However the constructive [trading](#) posted over the last weeks suggests that a test of the high may be likely in the short to medium term.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of September 9th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Hong Kong, Ireland, Japan, Luxembourg, Malaysia, Netherlands, New Zealand, Nigeria, Singapore, Slovenia, Spain, Taiwan, the UK and USA - 15 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the USA, Ireland and the UK. 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.

## Tuesday 18th September 2007

Bernanke Reduces Federal Funds Rate by 50 Basis Points, to 4.75% in First Cut Since 2003 - [This announcement led to a surge on Wall Street this evening. Here is the opening from Bloomberg's report:](#)

Sept. 18 (Bloomberg) -- The Federal Reserve lowered its benchmark interest rate by a half point to 4.75 percent, the first cut in four years, hoping to keep the U.S. from sinking into a recession sparked by fallout from the housing-market collapse.

"Today's action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets," the Federal Open Market Committee said in a statement after meeting today in Washington. The central bank will "act as needed to foster price stability and sustainable economic growth."

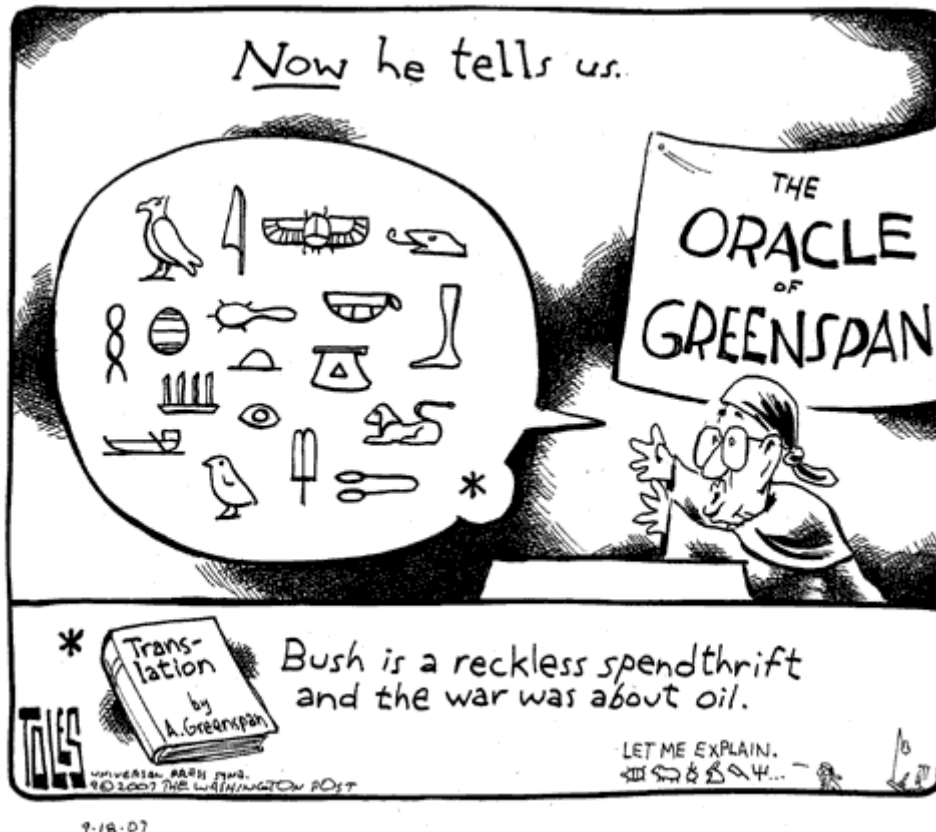
Stocks surged after the larger-than-forecast reduction, a move that signals Chairman Ben S. Bernanke will act aggressively to counter the risk of an extended economic slowdown. He may also leave himself open to criticism that he's rescuing investors from bad decisions.

My view - I believe this is the correct action and called for a 50 basis point cut in yesterday's Comment:

*My main concern is that they [central banks] risk falling behind the curve of events which are currently driven by uncertainty, rumours and especially a lack of financial transparency among banks. Unchecked, this loss of confidence will needlessly damage the economic outlook in the west, which was already slowing due to higher interest rates. I would prefer to see Bernanke (who is not being helped by Greenspan's lack of candour) cut both the Discount Rate and the Federal Funds Rate by 50 basis points tomorrow.*

*The ECB, Fed and now the BoE have provided liquidity and indicated that they will continue to do so. However this is not enough, under the circumstances and moral high ground sermons from the ECB and BoE are not constructive during a credit crunch. A crisis of confidence also requires coordinated reassurances, daily if necessary, from central bankers and treasury ministers.*

Speaking of Greenspan, I loved today's cartoon by Tom Toles:



I maintain that we will see a classic recapitalisation of the financial and property sectors, via the yield curve, at taxpayers' expense. If so, what are some of the implications, both positive and negative?

This move will extend the credit supercycle, supporting asset markets in the process. Consequently odds that US stock market indices hold above their August lows have improved. This will lend support to most other stock markets, particularly where they have been under pressure recently. It will cushion downward risk in property markets. It will also support commodity markets by reducing recession fears. The US Dollar Index will extend its decline, at least testing historic lows. This is bullish for gold and other precious metals.

I expect further rate cuts by the Fed, in 25 basis points increments. This will further dissuade the ECB and BoE from raising rates and some cuts are likely, if not this year in 2008. There will be an additional inflationary price to pay but probably not for the next year or two.

Email of the day (1) - [On the current financial situation:](#)

"My original thinking about the market turmoil was that the Fed would come to the rescue and confidence would gradually return to the markets. I even managed to buy at the lows but took my profits after the rapid rise in prices as I expected a lot of choppy trading & even a test of the August lows.

"However, the run on Northern Rock, the breakdown in the retail and construction sectors, etc is making me question my view that the interest rate cuts will keep this bull alive for a final leg up that lasts another 18 months or so.

"There is the possibility that the current turmoil may not be contained and spreads out to other areas of the economy. Normally it is right to buy when sentiment is so negative which it seems to be the case at the moment and I have often done that in the past, but I have a bad feeling about this.

"Any thoughts?"

My comment - Plenty of thoughts, which will be shared by Eoin and myself on a daily basis as this fascinating drama plays on.

Meanwhile, I appreciate your insightful comments, aspects of which will be shared by many of us. Our thoughts should also be subjected to the reality check of markets, best assessed on price charts, which I know you and many others are also doing.

Email of the day (2) - On recent developments:

"I haven't worked out if was easy (bearish super consensus) or hard (what if they hadn't cut?), but I have to say "Attaboy, David....you're doing the best work of your life right now!"

"Jim Rogers and Marc Faber on [www.Bloomberg.com](http://www.Bloomberg.com) seem to be on the other side of your trade!

"Well done"

My comment - Many thanks for your inspirational comments.

My personal portfolio: Pacific Ethanol trade rolled forward, gold, silver and platinum longs increased - Pacific Ethanol ([weekly](#) & [daily](#)) has been my worst trade this year, albeit fortunately small, due as much to my duff tactics as the downtrend. Basically, my cardinal error was in not introducing at least a breakeven stop during the periodic rallies. I could walk away, of course, but feel there is some merit in the learning curve, which ought to have been self-financing. Also, with crude oil at new highs in weak USD terms, I suspect the sector will generate further interest. Nevertheless this is a highly speculative trade, which I will not increase, and I see little reason as to why it should be of more than academic interest to subscribers, if even that. For the record, my expiring September contract was sold late yesterday at \$10.431 against my purchase at \$12.835 on 19th June, and I simultaneously purchased a December position at \$10.639.

Precious metals look infinitely more interesting to me, now that gold ([weekly](#) & [daily](#)) has firmed against all currencies once again and silver (not shown as

there was an error in the data feed as I completed this section) is recovering. There is often seasonal strength at this time of year, due to buying before the Christmas jewellery demand, the Indian wedding season and also the Chinese New Year. Gold shares have rebounded recently. I anticipate lower US interest rates, reversing what has been a headwind for gold. Rates may also weigh on the USD, boosting the \$ price of bullion which I trade using sterling spread-bets.

With most of my earlier positions now protected with in-the-money stops, I have leveraged up today, increasing my positions by 50% as I purchased Dec gold at \$724.3 and Dec silver at \$12.915. I did this before the Fed's rate decision today, in case Bernanke went for the 50 basis points cut that I mentioned yesterday. He did, enabling me to protect today's gold and silver purchases with breakeven stops, further reducing my risk of loss, although increasing the possibility of being stopped out of at least part of my position by what might be no more than a minor reaction.

Later in the day I increased my platinum ([weekly](#) & [daily](#)) longs by 50%, paying \$1318 for a January position.

All prices above include spread-bet dealing costs.

Incidentally, I posted an email a short while ago asking if I might review a former leveraging operation at some point, showing stop levels. This would be all but impossible as I can't remember former stop levels and don't write them down. Also, any historic example would be selective by definition, so a live example is more relevant in my view. But remember, a successful, low-risk leveraged operation requires the luck of a consistent trend. When risk is minimised with leveraged trading, one does well to make significant profits with one out of ten positions. I will err on the side of risk control with this round of gold and silver trades, not least due to the volatility that we have often seen. Therefore stop levels will be based more on monetary considerations than carefully selected technical levels, particularly in the beginning.

Later this week I will review my personal long-term investment portfolio.

Please note - This is an abbreviated Comment on my part as I was participating in the Independent Investor Conference earlier today. I'll say more about that tomorrow.

Additional Commentary by Eoin Treacy

Mineweb: Gold stock investors remain undecided - This [article](#) by Barry Sergeant for Mineweb describes how the larger gold mines are leading the way upwards for the sector. Here is a section:

Gold bullion may have moved up nearly 2% to 16-month highs on Monday, to as much as \$719.65 an ounce, but investors in gold stocks remain wary. A

selection of 41 gold stocks across the world, ranging from Tier I giants to exotic developers, remain on average 27% below highs registered over the past twelve months.

In line with trends over the past week or so, investors remain highly selective among gold stocks, aiming heavily for quality. This bucks the normal historical trend, where positive developments in the gold price typically trigger higher investment in riskier, and more marginal, gold stocks.

The best performance of all comes from Barrick (NYSE: ABX, \$37.37 a share), the world's biggest gold producer, currently featuring a market capitalisation of \$32bn, more than 50% more than its closest rivals, Newmont (NEM, \$45.26) and Goldcorp (GG, \$27.75).

Following Barrick in the performance stakes, however, are two Australian issues, in Lihir (LGL.AX, A\$3.62), and Newcrest (NCM.AX, A\$25.16). The losers in Tier I are dominated by South African-based issues. Harmony (HMY, \$11.20), which recently lost its CEO and financial director, remains the biggest loser in the Tier I category, now some 35% off its highs, but substantially better than the 50%+ numbers seen just weeks ago.

Positive features of the Tier II category include Randgold Resources (GOLD, \$28.19), Agnico Eagle (AEM, \$48.26) and Meridian (MDG, \$30.60). The latter is involved in potential corporate action with rival Yamana (AUY, \$11.77), which has substantially underperformed Meridian in terms of stock price development. Meridian is the potential target in this particular corporate story. Centerra (CG.T, C\$8.75) appears to have come back to life with the apparent removal of political uncertainties over its future.

The Tier III group has underperformed Tier I and Tier II, but has featured some outstanding recent performances, led by Jaguar Mining (JAG.T, C\$7.95), and, to some extent, Celtic (CER.L, £1.99).

My view - Gold shares have generally lagged the commodity's price over the last year but they are now starting to look like they may be about to break upwards from their more than year-long consolidations.

[Barrick Gold Corp](#) has a [beta](#) of 1.13 to Gold's performance. The share broke [upwards](#) on September 6th and is consolidating above the highs. It would need to sustain a move below \$35 to limit scope for further upside.

[Newmont Mining](#) has a [beta](#) of .992 to Gold. The share had been in a medium-term [downtrend](#) from the high to which it accelerated near \$60 in early 2006. The recent surge upwards from support near \$38 breaks the progression of lower highs and it would need to sustain a move below \$43 to limit scope for further upside.

Newcrest has a [beta](#) of .49 to Gold in Australian Dollars and .745 in US Dollars. The [weekly](#) chart shows us that demand has reasserted itself at progressively higher levels over the last five years. The share is [testing](#) the

highs near A\$27 for the third time and a downward dynamic would be needed to question scope for an upward break and reassertion of the overall uptrend.

The [Philadelphia Gold & Silver Index](#) is testing the highs near 160 following the impressive [rally](#) from the bottom of the range near 120. It is looking somewhat overextended in the short-term but would need to sustain a move below 150 to delay potential for an upward break.

The [AMEX Goldbugs](#) index has rallied in a similar fashion from the [mid-August](#) lows. This is the seventh occasion it has tested resistance from the top of the range. Unlike previous attempts to penetrate 370 it has sustained the move for longer and shows signs that it is consolidating the impressive move over the last month. It needs to sustain a move to new high ground to reassert the overall uptrend and a sustained move below 350 would be needed to question potential to do just that.

The [FTSE JSE Africa Gold Mining Index](#) also found [support](#) in mid-August but has so far failed to move back towards the highs above 3000. It needs to sustain a move above 2750 to break the medium-term progression of lower highs to indicate that the bulls are becoming more dominant.

Lehman Beats Estimates, Limits Losses on Mortgages - [This interesting article](#) by Yalman Onaran for Bloomberg covers the beginning of an interesting week for investment bank results. Here is a section:

Lehman Brothers Holdings Inc., the largest U.S. underwriter of mortgage-backed bonds, reported a smaller profit decline than analysts estimated after it limited losses on home loans and leveraged-buyout financing.

Net income fell 3 percent to \$887 million, or \$1.54 a share, in the third quarter from \$916 million, or \$1.57, a year earlier, the New York-based company said today in a statement. The average estimate of 16 analysts surveyed by Bloomberg was \$1.48 a share.

Chief Executive Officer Richard Fuld's strategy of diversifying beyond fixed income helped Lehman reap record fees from arranging mergers and money management, while hedging capped losses on leveraged loans and mortgage holdings at \$700 million.

U.S. stocks rose after the report from Lehman, the first of the biggest Wall Street firms to post third-quarter results.

"The worst of this credit correction is behind us," Chief Financial Officer Chris O'Meara said in a conference call with analysts. Yields on many fixed-income assets now look "attractive," and current markets present "trading opportunities," he said.

Lehman leaped \$2.11, or 3.6 percent, to \$60.73 at 10:56 a.m. in New York Stock Exchange composite trading. The shares had declined 25 percent this year through yesterday, the second-worst performance after Bear Stearns

Cos. among the industry's five largest firms.

Revenue from fixed-income trading fell 47 percent to \$1.06 billion in the quarter, while investment-banking revenue rose 48 percent to \$1.07 billion. Revenue from equities jumped 64 percent to \$1.37 billion.

My view - Lehman Brothers reported today, Morgan Stanley will report tomorrow with Goldman Sachs and Bear Stearns on Thursday. With so many of the major players in the current crisis reporting this week, their results are likely to have an inordinate effect on the wider indices.

The [Diversified Financials](#) topped out well in advance of the wider market, it found support in mid-August at 665 and posted an upside key day reversal. While it has been slow to rally over the last month, it has not moved to a new low and is potentially in a base building process. It needs to sustain a move above 750 to indicate that the bulls are regaining the upper hand.

[Lehman Brothers](#) found support at \$49 on August 16th, in common with most other stocks and ranged for much of the last month. Today's move sees it [break](#) above short-term resistance at \$60 and it would need to sustain a move to a new low to offset scope for some further upside.

[Morgan Stanley](#) found [support](#) at \$55 and rallied well before consolidating beneath \$65. It broke above this level on Thursday and has held the gain. It would need to sustain a move below \$60 to hinder scope for some further upside.

[Gold Sachs](#) found support at \$157, rallied somewhat, consolidated the gain and began to move [upwards](#) earlier than its peers. A move below \$170 would be needed to hinder scope for some further upside.

[Bear Stearns](#) led the sector downwards finding support at \$100 on August 6th and retesting that level on August 16th. While the stock has not moved to a new low it needs to [sustain](#) a move above \$120 to signal that confidence is returning.

Email of the day (1) - on an interview with Louis-Vincent Gave:

"There is an interesting [interview](#) given by Louis-Vincent Gave where he discusses his new book, *The End Is Not Nigh*, on the Financial Sense broadcast for Saturday 15th September. Website: [www.financialsense.com](http://www.financialsense.com) 2nd hour guest expert."

My comment - Thank you for this interesting audio which I commend to subscribers. This interview is very much in line with the report by Louis-Vincent Gave which appeared in the Comment of the Day on [September 7th](#) and outlines his long-term bullishness on Asia and Asian currencies and bearishness on Europe.

Email of the day (2) - [on additions to the Chart Library and the Crack Spread](#):

"From the International Equity Library we can view the components of S&P500 by sector. Could you provide a similar listing within sector for the Europe DJ Stoxx 600?"

"Looking further ahead, will it be possible to show each stock's relative performance against its sector index making it easy to see those outperforming?"

"Could you also introduce a chart showing the Crack Spread?"

My comment - [We already have the 19 Dow Jones Stoxx 600 sectors in the Chart Library](#). They can be found in the Western Europe Indices & Sectors section. I can't find any mention of sub-sectors on the [www.Stoxx.com](http://www.Stoxx.com) website and Bloomberg doesn't display any either. If they exist and you know where to find them I would be happy to add them to the Chart Library.

Our IT people are currently working on an enhancement due to be released in the coming month which will allow users to create charts where they can make anything relative to anything else in the Chart Library. This will also apply to spreads and overlays. Once this enhancement is in place you will be able to look at any stock relative to its sector or index.

Here is a definition of the Crack Spread from Bloomberg:

Crack spread. Measures the relationship between crude oil futures and oil product futures in dollars per barrel. If the spread increases, refining profitability is likely to increase. If it diminishes, refiners are likely to reduce the amount of crude they process in order to minimize losses.

The 3:2:1 spread measures the relationship of the sum of two parts gasoline oil and one part heating oil against three parts crude oil. The 5:3:2 spread measures three parts gasoline and two parts heating oil against five parts crude oil. The 2:1:1 spread measures one part each gasoline and heating oil against two parts crude oil.

Here also is a section from a piece in the [Motley Fool](#) on how the spread is calculated:

3-2-1 crack is an approximation of the profit margin that a refiner earns by turning crude oil into end-use products. Take the price of two barrels of gasoline and one barrel of heating oil, divide by three, subtract this average from the price of a barrel of crude, and there's your crack spread.

We cannot create an expression with more than two components in the Chart Library, so the best we can do is to add charts of crude oil spread over [heating oil](#) and over [gasoline](#). I constructed the ratios mentioned above using Bloomberg. All three ratios [3:2:1](#), [5:3:2](#) and [2:1:1](#) look quite similar.

There is a degree of seasonality to be seen in the charts with the spread contracting in the early part of year. In 2006 and 2007 it found support at the same level and for a similar duration. This year the rally from support at -150 has failed to regain the highs near -90, at least in part because of crude oil's rally. It needs to sustain a move above -120 to reassert the medium-term uptrend.

Email of the day (3) - on Schroders Commodity funds:

"The attached are an interesting way to gain exposure to the respective markets.

" [Schroders Alternative Agriculture Fund](#) & [Schroders Alternative Commodity Fund](#)"

My comment - Thank you for both of these funds which certainly fulfil our criteria of being leading performers in their sectors. I have added both to the Chart Library.

Email of the day (4) - more additions to the Chart Library:

"Is it possible to add the following to the Chart Library:

ETFS Aluminium ALUM  
ETFS Coffee COFF  
ETFS Copper COPA  
ETFS Corn CORN  
ETFS Cotton COTN  
ETFS Crude Oil CRUD  
ETFS Gasoline UGAS  
ETFS Gold BULL  
ETFS Heating Oil HEAT  
ETFS Lean Hogs HOGS  
ETFS Live Cattle CATL  
ETFS Natural Gas NGAS  
ETFS Nickel NICK  
ETFS Silver SLVR  
ETFS Soybean Oil SOYO  
ETFS Soybeans SOYB  
ETFS Sugar SUGA  
ETFS Wheat WEAT  
ETFS Zinc ZINC

"These are listed on the LSE from the company ETF Securities."

My comment - All of these can now be found in the Chart Library.

Email of the day (5) - even more additions to the Chart Library:

"Please could we add the DJ Euro STOXX small index to the Library?"

My comment - I have also added this index to the Chart Library.

Eoin's personal portfolio: gold position increased - I took today's weakness in [gold](#) to marginally increase my long in December gold by 16.66%. I paid \$721.3 including spread-bet dealing costs.

Today's interesting charts - The Chart Library has a large number of funds, investment trusts and ETFs focusing on a range of sectors which may be of interest to subscribers.

Nickel - breaks above [30,000](#) in what is the single largest upward move since June. In the short-term the commodity has a progression of higher lows and higher highs and would need to sustain a move below 26,000 to offset scope for further upside and a more prolonged base building process.

Spain - rallies from [support](#) near 13,500, but needs to sustain a move above 14,500 to break the progression of lower rally highs and indicate that bullish sentiment is gaining the upper hand.

India - continues to [consolidate](#) beneath the July high and would need to sustain a move below 15,000 to hinder scope for an eventual upward break.

### **Wednesday 19th September 2007**

Email of the day (1) - [Questions, on thinking of subscribing:](#)

"I have some questions for David Fuller as I am thinking of subscribing to the Fullermoney service.

"I have been considering options on portfolio building going forward and have struggled to find a service that suits my needs. Having worked in the City for a number of years, I have a reasonable grasp of what goes on and an interest in the subject of finance and investing. While I believe in good financial advice, I find that often, the general strategies that advisors come up with in terms of tax efficient savings etc are fairly self evident. Furthermore, the advice they come up with in terms of sector strategy, good funds/fund managers, trends and so on are either some way behind the curve or are things that I could find out myself from citywire or morningstar. For the benefit of this advice they seem to charge rather a lot of money.

"What I am looking for is market intelligence and trend spotting that is ahead of the curve (both timing of entry and exit), as well as recommendations on particular funds and fund managers from people who are well versed in and well connected to the market. I prefer to allow good managers to do the actual stock picking on my behalf and so am not so interested in individual stock recommendations.

"My particular questions to you are:

1) do you think your service adds particular value to someone looking for the things that I am or is it more aimed at the detailed and technical private investor or chartist?

2) do you come up with recommendations on particular ETFs and have a record of picking out the star fund managers (and also do you speak to managers directly?)

3) can you give me some good examples of winning investment trends that you have recommended to clients early in the curve (and maybe got them out of as well)

"Apologies for the long email but I don't want to subscribe only to find out it isn't really the right thing for me."

My comment - Thank you for your interest and for articulating questions that will be relevant for many other pre-subscribers.

Fullermoney is an interactive global strategy service and our theme is Empowerment Through Knowledge. Eoin and I hope to empower our subscribers through a combination of experience and detailed observation, the latter including a behavioural approach which I have developed over the last 40 years. We know that our knowledgeable and often specialist subscribers help to empower us.

We do not make recommendations, but I think we go one better by telling you exactly what we are doing with our own money, including details of every investment and trade, as they occur. Recommendations would be a case of for whom among our diversified and global subscriber base? We do not presume. Also, it is a matter of style in that we regard recommendations as a control issue, similar to saying: "Trust me - I know what is best for you." We think information is the key to empowerment; thereafter each subscriber is the person best qualified to decide what is appropriate for them.

We use our own brand of behavioural technical analysis for timing and this process is facilitated by a state-of-the-art, customizable Subscriber's Chart Library which is constantly growing and evolving. Rather than chartist theory - whatever that is - we use price charts as our reality check and they alert the observant to change.

Our approach is global macro, commencing with which asset class? If equities, which sector, theme or region? Thereafter, we share your interest in funds, provided they perform, are transparent and the charges reasonable. We certainly look at shares but the largest portion of my personal investment portfolio is in funds and there is very little turnover. I know some of the investment managers of these funds.

The UK Financial Services Authority requires that all subscribers classify themselves as either institutional or private. My impression is that a majority, including many who subscribe in a private capacity, either are or have been in the financial industry.

Last but not least, we advise all pre-subscribers to check the Fullermoney Archives, including Audios. Everything that Eoin and I have written and said, since this service became fully online, is in the Archives which become public domain after four months. A diligent review should tell you everything you need to know about this service, before you subscribe.

Email of the day (2) - On "greedily" taking part (from a pre-subscriber):

"Though couched in "soothsayer"eez, your comments in today's daily commentary really says:

"Let the excesses occur so I can greedily take part; and, when bad things start to happen, please make sure I can greedily continue. That's not capitalism, it's poor governance to use a term you so frequently cite.

"The Greenspan put = the Bernanke Bailout"

My comment - Well, that is your interpretation. Actually, I see my analytical challenge, on behalf of subscribers and myself, as one of assessing the environment objectively and accurately so that we can take the appropriate action.

Reading between the lines of your comment, I'm tempted to ask if you are short and / or sold longs at a lower level? I hope not, for your sake.

As for governance, there are risks in any strategy taken by the Fed but I stand by my views regarding this specific crisis, including this paragraph on 6th September, under the sub-heading: *A few thoughts on the credit crisis:*

*I wonder about the priorities and logic of those who view a severe global recession - depression for many - as appropriate medication rather than an economic catastrophe. Perhaps they believe that the eventual dénouement following even more reflation in an over-indebted system will be even worse. How can they be sure?*

Subscribers can review the entire section via this [link](#) or by searching under "logic".

Email of the day (3) - On a fund, previously discussed:

"I had a lengthy conversation with Richard Lockwood, a director at Geiger Counter, regarding the [fund](#). I came away rather impressed in that they had no qualms about the retracement of uranium, indeed, felt it was a good thing. No cheer-leading here that I could discern. Also, it appears the [fund](#) may be

the simplest (only?) way to participate in some small operations in Africa. Indeed, they are involved in some equity partnerships in addition to owning shares. I recall there was some discussion of the fund and its "2 and 20" model. While acknowledging the hedge fund type fee structure, I came away feeling it was worth a small punt given its apparent uniqueness.

"Anyway, thought I'd pass these thoughts along. David, I trust you are rested and relaxed following your biking holiday. It seems the fireworks in the mkts are set to continue. Welcome back."

My comment - Thanks for sharing this information, certain to be of interest to some subscribers, who can also monitor the fund in the Chart Library, along with other instruments in this sector. You are astute to show interest at this time, following a significant correction in this important supply inelasticity sector.

Thanks also for your personal note - the holiday was a great experience and I am recovering nicely from it.

My personal portfolio: Taiwan Greater China Fund rolled forward and gold futures long increased behind in-the-money stops - My ill-timed but small long trade in the Taiwan Fund ([TFC US](#)) was automatically rolled forward at a loss near yesterday's close. Accordingly, I sold at \$7.4102 versus purchases at \$7.696 and \$7.675 on 23rd July, and simultaneously purchased a same-sized position in the December contract at \$7.529, including dealing costs.

I increased my [gold](#) longs by a third today, paying \$731.1 for a December position, including spread-bet dealing costs.

I will review my personal long-term investment portfolio on Friday.

Additional Commentary by Eoin Treacy

India Brokers Desert CLSA, JPMorgan for Local Firms, Millions - This interesting [article](#) by Pooja Thakur covers in the increasing competition for talent in the Indian financial services industry. Here is a section:

Vasudev Jagannath quit as head of equity sales at CLSA Ltd. in May to join Mumbai-based brokerage India Infoline, along with three colleagues. He's \$22 million richer for the decision.

"These are exciting times in India, especially in the financial sector," said Jagannath, 37, who worked for a decade at the Indian headquarters of CLSA, the Asian investment-banking arm of Credit Agricole SA. "The challenge of building a multi-services financial powerhouse and to own a stake in it was the charm of taking up this opportunity."

JPMorgan Chase & Co. and Prudential Plc also have had defections in India. Domestic brokerages are winning staff with signing bonuses of \$2.7 million

and more, plus equity stakes. The competition is about to worsen as unlisted local brokers plan initial public offerings to fund expansion and as India's largest companies enter the industry.

Indian brokerage shares are surging. India Infoline has jumped 174 percent this year, with almost all the increase coming after the announcement of its new hires in May. JM Financial Ltd., which lured five sales traders from JPMorgan in August, has risen 92 percent in 2007. The nation's benchmark Sensitive Index is up 12 percent this year.

Tata Group, with interests in steel, automobiles and software, and Aditya Birla Group, whose main businesses are in commodities, say they may start brokerage and other financial services.

#### 'Wage Escalation'

The chase for talent in finance and trading is one of the most intense in India, where high-skilled labor is in short supply. Professional wages will rise 14.5 percent this year after climbing 14.4 percent in 2006, according to human-resources firm Hewitt Associates.

“There is a dearth of people everywhere, but the pressure is more in industries like banking, financial services and information technology,” said E. Balaji, executive director at Ma Foi Management Consultants Ltd., India's largest human-resources services provider. “The shortage here is more severe.

We see big attrition and wage escalation.”

Edelweiss Capital Ltd., 20 percent-owned by U.K.-based private equity firm Greater Pacific Capital LLP, and Religare Enterprises Ltd., the financial services company founded by the owners of drugmaker Ranbaxy Group, both are awaiting regulatory approval to sell shares.

Motilal Oswal Financial Services Ltd., the No. 2 Indian broker in Asiamoney magazine polls last year, sold shares last month and surged 18 percent on its Sept. 11 debut.

My view - In the aftermath of the subprime led credit crunch, investment banks are making headlines by closing down mortgage and securitisation operations but what does not get publicised is their search for the next big opportunity. Today, there are only two regions where banks have moved to new high ground following the correction. These are [Hong Kong](#) and [India](#).

While in the West banks are experiencing difficulties with declining profits from their mortgage related businesses, in Hong Kong / China and India they are at the opposite end of the scale. In these high-growth regions, the concern is much more about how to efficiently handle exponential growth in their business, than to worry about it shrinking any time soon. The above article on the shortage of skilled people in the Indian financial services sector is indicative of the speed with which the industry is expanding.

Hong Kong is benefiting from China's boom and interest rate cuts in the USA to which the Hong Dollar is pegged. However India is probably the better long-term play because it has the capacity to maintain spectacular growth in company profits for many years to come given the secular nature of this development. This growth will require a first class banking sector to service it and we can expect competition for the top people to intensify as well as further international operations open in India.

Globe and Mail: Petrobank tries new twist at oil sands project - Thanks to a subscriber for this section from a story in the Globe and Mail on Petrobank's THAIT method of extracting oil sands which was contributed in the spirit of Empowerment Through Knowledge following a request by a subscriber on the 17th. Here it is in full:

Predicts success of Toe-to-Heel Air Injection at Whitesands could mark sea change in how energy is wrung from ground

CALGARY -- The crude oil produced by Petrobank Energy and Resources Ltd.'s Whitesands operation doesn't appear noticeably different to that produced anywhere else in Alberta. However, the oil represents not only a realization of the company's dream, but a potential sea change in how Canadian companies wring energy from the ground.

Whitesands is an unimposing oil sands project southwest of Fort McMurray that's been in operation for about a year. Operations there are very different from other companies' attempts to extract crude from Alberta's oil sands.

Most companies pump steam into their reservoirs to move the putty-like deposits, a process called steam-assisted gravity drainage (SAGD). But this consumes a lot of costly natural gas.

Calgary-based Petrobank has taken a different route at Whitesands, injecting hot air into the ground to force the bitumen - the heavy crude produced from the oil sands - to the wells. "This is what all our work is for," says Dave Reddecliff, operations manager at the plant. "It might look simple, but it's also really exciting. To me, this is the answer for the oil sands."

The method, Toe-to-Heel Air Injection or THAI, is based on techniques that have been around since the 1920s. It is used in countries such as India, Kazakhstan and Romania. Hot air is injected down one vertical well, creating a combustion front that forces the crude toward a second vertical well, where it is extracted.

The process has historically been inefficient, as the air has a tendency to break into the second well, ending production. To overcome those problems, Petrobank has added a twist to the system. Like SAGD, THAI uses a horizontal extraction well, employing gravity to increase the proportion of crude recovered.

Globe and Mail Aug 13 2007: Resources has banked on domestic petroleum

assets in Western Canada to fuel the exploration and production company's profits. After selling some noncore properties, Petrobank acquired rival Western Canadian explorer Barrington Petroleum (with oil and gas assets in Alberta) in 2001. In addition to oil and gas operations, its Canadian unit is involved in two coalbed methane projects. Its Latin American unit operates in Colombia, where it has begun development in two producing fields and five exploration blocks. The company is also developing a heavy oil-recovery process. Petrobank, which began operating in 1994, has proved plus probable reserves of 9.2 million barrels of oil equivalent. (Chris Bloomer VP Heavy Oil, ex Shell Canada)

My view - When oil dropped to \$50 in January, interest in the sector was at a nadir and many bears were trumpeting the end of the bull market. However the move to new high ground without the influence of a weather or politically related event has many investors beginning to re-evaluate the sector.

There is growing acceptance that heavy oil mixes will make up a much greater percentage of global supply and the race is on to develop a cheaper way of exploiting these plentiful resources, many of which are in politically stable parts of the world. Petrobank is a leader in this regard, although not cheap. The company's shares continue to consolidate near the highs at \$35 and a downward dynamic would be needed to hinder scope for further upside.

Email of the day - on wanting to work in the financial field:

"I try and give back to the Fullermoney community as much as I can by contributing articles since your service is very informative, even the free commentary which I subscribe to at the moment. I look forward to signing up for the full service when it suits my own situation better. But today I thought I would ask you a little about your career and perhaps get some advice from you on my own.

"I've recently graduated from Industrial Engineering at the XXX XXX XXX, but have developed a passion for investing. This can be seen in my recent experience which includes a year long internship at XXX XXX and my undergraduate thesis on a risk metric called Conditional Value-At-Risk. Additionally, I have been expanding and refining the collection of resources from which I derive my investing-related knowledge.

"I follow several newsletters, analysts and research publications such as the Fullermoney service and John Mauldin's newsletter. Although I am very enthusiastic in working in the financial field, I am new to the industry, and would greatly appreciate any insight you might be able to provide as well as direction on where the best opportunities are for the future. A position similar to the one which you are in right now could be a goal for me, so perhaps a review of your own background would be useful.

"As always, keep up the good work, and I look forward to your reply."

**My comment** - Thank you for your contributions which show that you have already subscribed to our Empowerment Through Knowledge theme and we look forward to when you join the Collective as a full member.

I can empathise with wanting to get into the financial field when finishing university. I knew from an early age I wanted to work in finance. When I was 7 I used to sell programs at the football games in Fitzgerald's stadium for 10p a program and would go into the stands after the game and find those that had been discarded and sell them for half price as souvenirs to the fans of the winning team. When I was 10 we had a large family reunion with lots of our American cousins and I met one who was working on Wall Street. He described the stock market to me and I knew from then on that was the field for me.

I wanted a rounded education and read Philosophy at Trinity College Dublin for 4 years. Not exactly the best grounding for the world of finance but excellent for the skills needed to evaluate arguments. I went to a number of the milk-round presentations and enjoyed the food and wine as well as talking to people in the industry, but didn't like the way they wanted me to pick an area to work in. I thought it was too limiting to pick analysis, sales, sales trading or trading and then equities or fixed income. I didn't know enough to be able to pick an area and was interested in everything. I didn't apply for any and went to Melbourne on a working holiday visa for a year.

When I got back to Europe in early 2000 I moved directly to London and started looking for jobs. A sales guy from Goldman, whom I met at their presentation in Dublin a year earlier, arranged for me to spend a day on the UK equities floor and I got to sit with sales, sales trading and traders. I loved it but frankly my arrogance was towering way above my knowledge of the sector. At the end of the day, he took me aside, asked me some questions and kindly told me that he thought I was capable but I knew nothing of the industry. I had enough sense to take him at his word and seeing an advertisement for sales people at Bloomberg, applied, and started work there a week later. I spent nearly four years on the Belgium, Netherlands and Luxembourg sales teams managing progressively larger accounts.

I used that opportunity to learn as much as possible about the markets and interrogated every trader, fund manager and private banker I met on what was involved in their jobs. I also discovered technical analysis and it seemed to me to be much more based in reality than the myriad valuation tools I was teaching clients to use. Over the course of a couple of years I was teaching seminars across Europe on technical indicators. I had been whittling down the number of indicators I had any faith in following my initial splurge of interest in all such tools for about a year, when I met David at a conference we organised in Amsterdam. I was inspired and started at Fullermoney three months later.

We are all motivated by different things, I used to think money was the only measure of success, until I made some and found out that what really sets my world alight is the intellectual challenge posed by the markets on a daily basis.

In addition I would be lying if I did not admit to enjoying sharing my opinion with other people.

If I had one piece of advice to give anyone, it would be to learn to control your ego. That has always been my constant battle and my worst personal, financial and social losses have always come when I let it get the better of me.

Today's interesting charts - The Chart Library has a rich resource of instruments and ratios which are not found easily elsewhere.

Hong Kong - [breaks](#) above the round 25,000 and would need to sustain a move below 24,500 to question scope for at least some further upside in the short term.

Netherlands - surges [upwards](#) from the short-term consolidation and would need to sustain a move below 515 to question scope for at least a test of the July high.

US Dollar per 1 Euro - testing the [psychological](#) \$1.40 and a downward dynamic would be needed to question scope for a break above this level.

#### **Thursday 20th September 2007**

'Chindia' not the unified powerhouse it appears to be - My thanks to Jackson Wong of Investors Intelligence for this highly informative [article](#) by Jing Ulrich, Managing Director of China Equities at JP Morgan, published by the Financial Times. Here is the opening:

As the world's fastest growing major economies, China and India are often bundled together as a single powerhouse. The phrase "Chindia" was coined to highlight the combined economic clout of the two markets, which together make up 40 per cent of the world's population and consume more than 50 per cent of the world's coal, iron ore, steel and other key resources.

Yet China and India's economic models are so starkly different, they could be two complementary pieces of a puzzle.

Private enterprise plays a greater role in India's economy than China's. China's GDP is about three times larger than India's, and its exports are eight times larger. China's \$4,800bn in savings dwarfs India's \$215bn.

China's large savings pool provided the investment funds for the rapid build-up of its export-oriented infrastructure. But this has been a mixed blessing. The surplus of capital led to overcapacity and contributed to poor returns on investment.

In contrast, Indian companies used their funds more judiciously and enjoyed higher returns. A scarcity of savings also explains why India has focused on services, which are less capital intensive.

China has \$1,400bn of foreign exchange reserves, India has \$221bn. China is opening its capital channels and investment flows from the country are expected to have a major impact on global liquidity in the coming years. Indian capital outflows will be less influential.

Even China and India's similarity in population size turns out to be superficial. These may be the only two nations with billion-plus populations, but there are remarkable differences in their compositions.

My view - We hear endlessly about China and India but I commend this article to subscribers, not least because I have not seen some of Jing Ulrich's important points made elsewhere.

If I could only convey just one good idea to subscribers, particularly the youngsters among you (by my definition that would be anyone who is at least 10 years younger than I am) it would be to establish a long-term investment stake in both [India](#) and [China](#).

You have heard me say this before but I won't apologise for repeating it because so many people are wary of these two stock markets. Even if interested, they trade them, often selling too soon in good long-term uptrends. Due to a lifetime of conditioning, they see the Chindia glass as half empty, or worse. They don't like the track record, other than the last few years. They are concerned about issues of governance, pollution, poverty, valuations, or whatever.

At a primal level, many western people fear these countries, particularly China - just look at the US Congress. Basically, they fear domination, and not without some justification. There are two new kids on the block; they are already bigger than us in many respects, and almost certainly destined to become stronger than everyone else, for better or for worse.

We don't know which of these it will be although to regain their pre-eminence last seen in the 1700s, in a modern world, governance will have to be quite good. It is obviously in India's and China's interests for this to be the case and robust economic growth should assist the development and maintenance of sound governance. Incidentally, India has never invaded another country.

Sound governance is the first priority before economies can develop and it is essential to maintaining GDP growth. The west is strong on human rights and rule of law, but evidence of questionable economic governance abounds. China has prioritised economic governance and is increasingly good at it. India's progress in this area is currently led by the corporate sector. Neither country has to reinvent the wheel - they have seen what works best in other nations. This enables them to move up the learning curve very quickly.

Many western analysts and investors still regard the stock markets of China and India as being much more risky than their own. They were - previously - but this perception needs to be updated. Personally, I prefer to invest in countries with stronger economic growth and more rapidly increasing corporate profits, assisted by inexpensive but appreciating currencies.

Some Chindia advocates equate investment in these markets as similar to investing in the USA at the beginning of the last century, or perhaps we should say in the mid-1940s. I agree, although there is an important difference.

Warren Buffett and other astute long-term investors have shown what can be achieved. However history confirms that we live in a world of accelerating technological change, punctuated only by major wars and economic depressions. Chindia's development, provided a global environmental disaster is avoided, is therefore almost certain to be much more rapid than we have seen in other countries to date, including the smaller Asian economies which generally boomed from the 1970s onwards.

India has been my favourite and largest long-term investment since 2003. I commenced investing in China in January 2006 and it is my second largest position. I am much more likely to increase rather than decrease these weightings. From my perspective as a long-term investor, the China glass is only 1% full; India has only reached the 0.5% level.

Email of the day (1) - [On Investment IFAs:](#)

"I am writing in response to the email on the day number 1 that was from a potential subscriber, unsure of whether to subscribe or not due to the perception of advisers who cannot spot trends or do anything above or beyond his own research capability utilising Citywire and / or Morningstar.

"I own a firm of Investment IFAs (we manage c. £100m) and clearly this poor person has never had the experience of dealing with a "pure top end investment adviser".

"We are paid to outperform and indeed offer performance fees on long only portfolios - so our interests have to be aligned with that of our clients. On occasions we only switch on annual management fees after year 1 for uncertain clients - to prove our ability.

"I would say to this client that subscribing to this service would be in his best interests and although sometimes a little too focussed (in my humble opinion) on commodities and not enough on equities - I personally think it would be money well spent.

"Whilst I am most certainly NOT pitching for work I would be delighted for you to pass on my contact details and I would be happy to show this person how "top end advisers" - with the help of this site - are simply, way ahead of the curve."

My comment - [Well said and I am pleased to hear of your business. You will not be surprised to hear that there are some other successful IFAs among the Fullermoney Collective.](#)

20th Annual IFTA Conference: 8-11 November 2007, Sharm El Sheikh, Egypt  
- Check out this [Brochure](#), [Schedule](#) and [Registration Link](#) for what is certain to be an outstanding event. I was invited to participate but sadly had to decline due to other commitments. However I have participated at earlier IFTA events and found them outstanding, not least for the informal sessions and activities in lavish surroundings. There is a big, international group of speakers and many leading lights from the world of technical analysis attend.

And [Egypt](#) certainly has a booming stock market!

Email of the day (2) - On the RBA's view on the recent credit crunch, plus diversity of opinion:

I thought subscribers might appreciate the rather neat summary of recent events in world credit markets in a speech given by the governor of the Reserve Bank of Australia [today](#) (see first section). It's also interesting to see that he judges Asia is well placed to survive the credit crunch but its also clear they are worried about contagion getting out of control in the short term - note that the Reserve Bank is providing as much cash as the system needs and has gone beyond its normal processes to provide liquidity by taking some commercial paper as security for its lending to banks. Thanks for your service - its said that diversity is a hedge against ignorance, and that is especially true when applied to information - diversity of information and opinion is essential if we are to temper our own biases!

My comment - Many thanks and it is always good to get the view from 'down under' and I appreciate your point on diversity of information. The RBA report would have been published just before Bernanke's latest rate cuts, which clearly changed sentiment. Now it should just be a matter of which markets run and which underperform by experiencing the most convalescence time. We should now identify the next big risks, so that we can keep a close eye on them.

A large portion of what we have seen on the upside since the Fed's rate cuts on Tuesday has been short covering. We can now expect a temporary lull for most stock markets but that will look like a bullish consolidation if this week's lows hold. Fortunately Fullermoney themes of Asian emerging markets, resources markets and gold (enjoying a perfect storm having completed another long consolidation), remain very much in form.

The credit crisis is mostly over, except for the surfacing of 'toxic waste' in western financials and also Japanese banks, judging from their poor performance. Japan remains an underperformer, as do western markets heavily weighted in banks and property. Indian and Chinese banks look fine. Tech is firm, not least because most people still hate it 7.5 years after the bubble burst.

Investors need a worry and as credit fears gradually wane, the legitimate financial concerns going forward will be food-led inflation, eventually pushing

long-dated government bond yields above their May highs, and a weak USD which I maintain will eventually have to be rescued. Meanwhile, enjoy the 'back from the brink of Armageddon' (you may have noticed a degree of hyperbole from depressive bear types recently) window of opportunity in performing stock markets.

Roger Nightingale's Weekly Column - Always a stimulating read, this [letter](#) is posted without further comment. Here is a section on "moral hazard" with which I concur:

For most people, of course, the financial markets are an esoteric abstraction. What happens in them is not thought to be particularly important. It's mildly enjoyable to see overpaid City Slickers writhing in agony, but other spectator sports are preferred.

It's a different matter when it comes to the economy. If activity should be seen to be at risk, if jobs and living standards should be under threat, the population will want remedial action taken without delay. In the States, the August employment figures brought home to people what a couple of years of softening data hadn't: that money policy affects the real as well as the financial world.

It'll be the same here. All the platitudes about "moral hazard" will be dumped as politicians and regulators hurry to boost sentiment and spending. Chancellor Darling will forget his accusations that the commercial banks had engaged in irresponsible lending, he'll plead with them to continue to do so.

The more urgent task will be to find a replacement culprit. If not the commercial banks, who? The list of potential candidates is not short. The investment banks, those who designed the innovative products that "circumvented" the controls, are likely to figure prominently. Likewise the private equity boys. Their borrowing was astronomical, but their contribution to society questionable (in the eyes of the TUC, and a number of less neanderthal organisations) negative.

My personal portfolio: NZD purchased against the USD; platinum, silver and gold longs increased - I should have purchased the NZD ([weekly](#) & [daily](#)) on Monday but still like this positive interest rate differential trade sufficiently to open a position, for which I paid NZ\$73.17 in the March contract.

I also increased my [platinum](#) longs by approximately a third, paying \$1335.9 for a December position, including dealing costs. I then raised stops before increasing my [silver](#) longs by a third during a small pullback from today's highs, paying \$13.49 for a December position. Similarly, I increased my [gold](#) longs by 20%, paying \$741.3 for December.

These prices include spread-bet dealing costs.

I will review my personal long-term investment portfolio on Friday.

Email of the day (3) - On wine gift:

"I'm a very happy Fullermoney client who attended TCS in May. I just participated in a Hemscott online market survey for which I was rewarded a 20 quid wine voucher. Since I can't redeem the voucher here in Mississippi, I thought I would send it to you to fight over. Thanks for all you do for me.

"Copy & Paste this [URL](#) and follow instructions for your wine voucher."

My comment - Eoin and I remember you well and thank your for your kind words and generosity. Eoin lives in a euro-zone country and I am shedding unwanted lbs following a week in France. Therefore I have made an executive decision to post the URL in the Subscriber's Area so it can be accessed by an early bird among the Collective, who will no doubt toast a fine gentleman and kindred soul from Mississippi.

Additional Commentary by Eoin Treacy

Telecom and Technology shares - The Fed's rate cuts, the potential for further moves and realisation that we may also be at the peak of the medium-term interest rate cycle in the UK and Eurozone have bolstered markets. Our favourite sectors, such as resources, continue to perform well but selected Telecoms and Technology firms are also outperforming.

The Nasdaq 100 ([p&f](#), [monthly](#), [weekly](#), [daily](#)) fell 83.5% from the peak to which it accelerated in the late 1990s before finding support near 8000 in 2002. Since then it has maintained a progression of rising major reaction lows in what has been a relatively gradual uptrend. The Nasdaq is still expensive relative to other markets and has been outperformed by many emerging markets on cheaper valuations since 2002. However, following the mid-August low the Nasdaq 100 has outperformed its US counterparts and is testing the July high. It would need to sustain a move below 1975 to offset scope for further upside.

Here is a review of some interesting US and European technology and telecoms companies:

[Cisco Systems](#) found support at the bottom of its two-year range in August last year and rallied strongly to \$29 before entering another consolidation. It broke upwards again in mid-July and while the strife in mid-August caused it to fall for one week, the [bullish](#) environment quickly reasserted itself and the stock is now consolidating at the highs near \$32.50. A downward dynamic would be needed to question scope for further upside. Also see Comment of the Day on [August 25th 2006](#).

[Amazon.com](#) broke upwards from its three-year range in April with an emphatic dynamic and moved into a medium-term uptrend. It is currently pressuring the all-time closing [high](#) and is looking temporarily over extended as it accelerates towards the psychological \$100 region. However it would need a sustained move below the mid-August low to question scope for at least a test of that level.

[Google](#) remains in a well-defined uptrend with a progression of rising major reaction lows and while the July high may offer token resistance, it would need a downward dynamic to question scope for further upside.

[NVIDIA](#) broke upwards from its three-year base in mid-2005 and has gone from strength to strength. The pattern is now accelerating which is unsustainable, but it would need to sustain a move below \$27.50 to offset scope for further near-term [upside](#).

[Apple](#) broke upwards from its base in October 2004, consolidated above the 2000 high and moved into a consistent uptrend. [Momentum](#) is now gaining speed but it would need to sustain a move below the mid-August lows to question scope for further upside.

[Expedia](#) remains in a consistent [uptrend](#) and would need to sustain a move below \$27 to hinder potential for a sustained break above \$30.

[Logitech](#) was only marginally affected by the Tech bust and reasserted its [uptrend](#) in early 2004. A sustained move below \$25 would be needed to question scope for a break above \$30.

[Sun Microsystems](#) remains in a base formation following the collapse from over \$60. It needs to sustain a move above [\\$10](#) to confirm that the bulls have gained the upper hand.

[Nokia](#) broke upwards from its five-year base in June, [consolidated](#) the move above €20 and is now reasserting its uptrend. It would need to sustain a move back below €20 to offset scope for additional upside.

[ASML](#) has been in a gradual [uptrend](#) having bottomed near €5.40 in 2003. It has been testing resistance at €20 since the beginning of 2006 and broke above this psychological barrier in early June. It would now need to sustain a move back below that area to question scope for further upside.

[Telefonica](#) bottomed at €6.95 in 2002 and has maintained a progression of rising major reaction lows. The share encountered resistance at €15 in 2001 and 2005 but successfully [broke above](#) this psychological level in October 2006. It consolidated above this level and reasserted the uptrend in late July. The share would need to sustain a move below €17 to question scope for further upside.

RBC Capital Markets Conventional Oil & Gas Trusts, Another Fiscal Policy Body Blow? - Thanks to a subscriber for this interesting [report](#) by Dirk Lever

and Fergal Kelly on the proposed changes to the Alberta energy resources royalties' structure. It is posted without further comment but here is a section:

The panel's report recommends several changes to conventional (i.e. non oil-sands) royalties including:

(1) Eliminate the current use of tiers that currently identify "vintages" based on discovery date.

(2) Raise rate caps on commodity prices to \$17.50/mmbtu for natural gas and \$120/bbl for oil as the current caps do not reflect market conditions.

(3) Have price-sensitive royalty rate and volume-sensitive royalty rate become separate elements within one formula. (Total royalty rate =  $R\% = rp\% + rq\%$ ). The marginal royalty rate applied to price is  $rp\%$  and that applied to well production is  $rq\%$ . The maximum royalty rate payable for either natural gas or oil is 50% (a minimum 2% royalty is payable on natural gas).

(4) Eliminate several special royalty programs as they are no longer needed under new formulas.

(5) Eliminate the choice of using the Corporate Average Price to determine natural gas royalties.

(6) Reclassify existing and future primary oil sands wells as conventional heavy oil wells - the option to elect "oil sands" status for primary wells will be removed.

(7) Gas Cost Allowance - Crown should deem a fee for processing to apply to all gas processing facilities in Alberta, with adjustments for the different types of plants (e.g., wet, dry, sweet).

(8) Natural Gas Liquids - apply the recommended royalty formula for conventional oil to propane, butanes and pentanes plus, regardless of whether or not these products are stripped out of natural gas.

(9) Freehold Mineral Tax - apply 6% flat tax regardless of level of production and retain the base exemption of \$1,600.

#### Potential Changes to Royalty Rates

We believe the proposed changes imply an increase of approximately 5% to the royalty rate on Alberta production in aggregate, based on our interpretation of the change in "Albertans' share" of production and the calculated change in 2006 royalties payable. As mentioned previously, the changes to royalty rates will vary significantly based on the productivity of the well and the commodity (oil or natural gas).

CIBC World Markets Alberta Royalty Review Recommendations: Proposed Royalty Revisions Appears Punitive To Prolific Producers/Oil Sands - [Thanks to a subscriber for this detailed report by William S. Lee and colleagues, which](#)

also deals with the recommendations to change the royalties the Albertan government receives from the energy sector. Here is a section:

Although the Panel characterizes the proposed regime as benefiting lower production rate wells, with 57% and 82% of conventional oil and natural gas wells, respectively, paying less royalties, clearly the \$1.9 billion in incremental royalty costs will be born by the E&P sector as a whole.

Based on our analysis of the Panel's proposed revisions to the price-sensitive and volume-sensitive nature of the royalty calculation formula, the proposed changes are particularly punitive towards high rate producing wells (as shown in Exhibit 3). In fact, in periods of escalating commodity prices with respect to high rate wells, the new royalty regime would appear to significantly erode the underlying economics that would lead to investment in these types of targets.

Exhibit 4 provides an analysis of the proposed royalty rates on the economics of certain high rate plays within the Basin. Specifically, our NPV estimates for play types offering prolific production per well rates for a sustained period of more than one year would fall by more than 10% including deeper Devonian plays such as Nisku, Beaverhill Lake and Wabamun targets, along with horizontal Rock Creek and Montney development.

My view - Given the politically charged atmosphere around which this review has taken place, the market is probably correct in assuming that these recommendations will be put into place either in whole or at least in part. It appears that those companies which have already cleared their set up costs and those with high production rates are most likely to be hit with additional royalty demands.

Suncor remains the largest of the oil sands plays and encountered resistance at the top of the more than year-long range. The stock would need to sustain a move below C\$80 to indicate that the current action below \$100 is anything other than an extended consolidation. While these changes will be a blow to the sector, they are not unexpected and are unlikely to have as drastic an impact as the nationwide taxing of trusts, which was proposed last year. This sector remains in a secular bull market, although these changes may delay the upward momentum of the sector as their full implications are worked through.

Email of the day - on Euro Stoxx sector members:

"Thank you for taking up my request. Is it possible to show the components of the EURO Stoxx sectors in the library? I.e. the 12 which make up SXEE (energy) which are named on the Stoxx site. I also cannot find a breakdown of the DJ Stoxx 600 by sector, but details of the EURO Stoxx sectors would go a long way to meeting my request.

"Thanks also for your piece on Crack Spread."

My comment - You are welcome and I found researching the piece on crack spreads to be time well spent, so thank you. Regarding displaying the members of individual sectors, I'm afraid I can't alter the display in the International Equity Section of the Chart Library because we share the database with our Investors Intelligence colleagues. This means I cannot split the various indices into their sectors. There is also the added complication that the members of sector indices are always changing and it is a full time job keeping them up to date. However rest assured that all 12 members of the SXEE index are in the International Equity section along with the rest of the Stoxx 600 so you can put them in your Favourites. In the coming weeks we are releasing the capability to create multiple Favourites lists which means you will be able to set up a different portfolio for each sector if you wish.

Eoin's personal portfolio: H-shares long closed, gold longs increased - I closed my long in the September [H-Shares](#) contract this morning at 15,405 against my rolled forward purchase of 13,975 on August 30th. While the Index continues to look like it has further upside potential, I am unwilling to go on holiday with an open leveraged position in such a volatile market.

On the other hand I increased my gold longs by 33% this morning buying the [December](#) contract at \$742.1. I also forgot to report an additional similar sized purchase yesterday at \$731.9. I intend to hold my gold longs for the duration of my absence and have introduced in-the-money stops on the majority of the position to protect the profit in the event of a downdraft. I also raised an in-the-money-stop on my MSCI Singapore long.

Today's interesting charts - The International Equity section of the Chart Library has in excess of 16,000 equities which may be of interest to subscribers.

Canadian Dollar per 1 US Dollar - The US Dollar [continues](#) to weaken and is testing parity. It would need an upward dynamic for this to provide anything other than a temporary area of support.

UK Gilts - larger [reaction](#) than any seen since early-July and testing the Mid-Point Danger Line from the previous congestion area. It needs to sustain a move above 109 to reaffirm the two-month uptrend. Also see Comment of the Day on [December 6th 2006](#) for a definition of MDL.

Silver - breaks the medium-term progression of lower [highs](#) and would need a downward dynamic to question scope for further upside in the near term.

Please note - I will be in Shanghai for the next week but will return to the office on October 1st.

**Friday 21st September 2007**

My personal investment portfolio review of top-10 holdings: 6 new all-time highs - Just before going on my summer holidays I posted this [review](#) (8th August) of my own long-term top-10 equity holdings by portfolio weighting. I had frequently mentioned that I would not be taking profits in this portfolio, despite repeating daily in the Audio and Subscriber's Area Comment of the Day that many stock markets, although not all, had clearly commenced what I described as a medium-term correction.

I introduced the 8th August review with the following comment:

*My personal investment portfolio review: "What, me worry?" - In quoting the comically iconic Alfred E Newman's famous catch phrase summarising his lack of intellectual curiosity, I hope not to be complacent. But it is true that I worry far less about my personal investment portfolio than my family, not that they give me much cause for concern but stuff does occasionally happen. I worry about my investment portfolio much less than whether I will live up to my responsibility on behalf of subscribers. And I worry about my investments far less than my concern for planet earth. In fact, I worry much more about day to day matters, some of which are trivial, although not my inability to catch up with administrative necessities.*

My point in not lightening these investments was not that there was no temporary downside - of course there was - but that my investments were relatively immune to economic contagion from sub-prime related problems. The risk that I was willing to accept was that contagion would be psychological and therefore temporary, enabling my positions to be among the first to bounce back. Moreover, I knew that I would not be in a position to buy back effectively, geographically and perhaps psychologically, while cycling the hills of Northern England and Scotland with Mrs Fuller, followed by a week in Biarritz. In the event of a sharp sell-off and rapid recovery, it would have been difficult enough to repurchase in a timely fashion if I had been sitting at my desk, monitoring the markets.

On return this week, I was gratified on Wednesday evening, when a subscriber said to me enthusiastically but also discretely just outside the Patron's Lounge at the London Philharmonic Orchestra's splendid opening [concert](#) in the newly refurbished Royal Festival Hall (the 2006 Chardonnay generously provided by In-kind Sponsor, Penfolds Wines, was also memorable, being light and not too fruity) that he had added to his portfolio during the mid-August panic. Naturally I was delighted and hope many other subscribers did the same, perhaps recalling Warren Buffett's tenet: "As a group, lemmings have a rotten image, but no individual lemming has ever received bad press." Eoin, not surprisingly, also bought in the second half of August, as subscribers may recall.

So how did the top-10 holdings in my personal long-term investment portfolio, which has a turnover of less than 5%, year to date, perform and how do they look today? In addition to substantial overall gains and 6 new all-time highs, only 1 position is lower today than on 8th August, and marginally so.

- 1) JP Morgan Indian Investment Trust ([JII LN](#)) - new high and note the decrease in reaction size and also brevity of the setback. This IT still sells at a discount to NAV of over 11%.
- 2) Atlantis China Fortune Fund ([ATCHFOR ID](#)) - Outstanding, albeit slightly flattered by the USD's weakness. The manager Yang Liu, who a number of subscribers have now met, is exceptional.
- 3) Aberdeen New Thai Investment Trust ([ANW LN](#)) - slightly lower today due to ongoing but presumably temporary political uncertainty.
- 4) Rio Tinto ([RIO LN](#)) - Significantly higher - a great company but even I am surprised to see how quickly it has recovered, given the predictable post-takeover of Alcan hangover.
- 5) BHP Billiton ([BLT LN](#)) - Another surge as irrational recession fears wane.
- 6) Lihir Gold ([LGL AU](#)) - Leading bullion in a decisive breakout.
- 7) Merrill Lynch Gold & General Fund ([MRCGLDI LN](#)) - Significant gain and leading bullion higher.
- 8) Aberdeen New Dawn Investment Trust ([ABD LN](#)) - Surprisingly large correction, albeit brief, and currently trading at a discount to NAV of over 11%.
- 9) Merrill Lynch World Mining Trust ([MLW LN](#)) - New high but still trades at a discount to NAV of over 13% - absurd.
- 10) Cameco ([CCO CN](#)) - Only slightly higher but may be beginning to anticipate the next rally in uranium (note: Cameco is priced in C\$ which has been very strong).

Conclusion - I'm delighted, not least on behalf of subscribers who have some similar positions. The portfolio has done even better than I expected since the last review on 8th August. However there is never any room for complacency in this business. One should always be prepared for volatility which is a periodic certainty. We are not out of the sub-prime related mess yet, although I believe we have seen the worst. There are a few shoes still to drop, metaphorically speaking, in terms of disclosure, extending from Wall Street to Tokyo.

Crucially, however, overall investment sentiment is no longer deteriorating following Ben Bernanke's bold moves. Further cuts are necessary and I expect them, but the Fed Chairman has passed his first serious test with flying colours. And while it is easy to criticise the White House (many do so gratuitously), I am grateful for Hank Paulson's presence as Treasury Secretary. If I were handing out grades for performance in this crisis, I would give the Fed an A (yes, I know it helped to create the problem), the ECB a B and the BoE a C. The BoJ's grade is pending, but I fear may be worse.

Assuming, as I do, that the vast majority of stock market indices have actually bottomed and that where recoveries have occurred the August lows will hold, the portfolio above appears to have been refreshed by the correction, including what would be in 11th place, the Investec Global Energy Fund ([INVGEAALN](#)), which is testing its all-time high. Purchases of any of these and most other investments are best made on setbacks, as I have long emphasised, and I missed this most recent opportunity by being on holiday at the time.

Nevertheless I regard the portfolio as healthy and the discounts to NAV for several ITs mentioned above offer value. On a 'Dogs of the Dow' basis (buying the worst performers annually) Cameco beckons but it remains more speculative. India and China remain my favourite long-term investment positions, by far. I now regard my Thailand holding as no more than a medium-term catch-up play. I will lighten my gold positions if they perform as I hope over the next three to six months. *(Note: please read my concluding "Summary" for the 8th August review {link above} as my portfolio is intentionally unbalanced and will not be appropriate for everyone.)*

As for global stock market indices, the rallies evident on charts make it easier to monitor broader developments. There can be no retest of the lows for stock market indices, let alone the much bigger fall that many forecast, without prices first taking out this week's lows. While they hold, the door is open to further gains.

Assuming the correction is largely behind us, as I do, the risk of a near-term repeat is low, exogenous shock aside. I continue to look for a benign 4Q 2007 environment, probably carrying well into at least 1Q 2008. It probably won't be quite as strong as we have seen in the past, since investors and speculators will generally be more circumspect, but I look for additional gains. As always, watch for the Wall Street leash-effect, now joined by a China leash-effect which can only grow in terms of influence, particularly in Asia. *(See also yesterday's comments about the next worries, from rising long-dated yields to a too rapidly declining USD.)*

Email of the day (1) - On the Independent Investor Conference:

"David - good to meet you on Tuesday at the Savile Club, I was waiting to read your comments/ thoughts on the event. In particular, your thoughts on the words of Edward Chancellor. It seems to me that all these crises tend to involve poor risk controls, bad mortgages and greed at some point! Although brief I always enjoy Dr Bill Mott words/ thoughts on the mantra of keep it simple/ stupid - I am an investor in his Fund which you may consider adding to the Library given his current positioning. Finally it was a pity that the audience didn't hear more of your thoughts. Keep up the good work, I have just downloaded the audio for my train journey in the morning."

My comment - Thank you for introducing yourself at the Conference and also for your kind words.

Please let me have the specifics of Bill Mott's UK income fund and Eoin will be able to include it in the Library on his return. I liked his comment: "If the banks are bad investments today, then it will be worse for other sectors in the market." He was buying UK banks shares.

I though Edward Chancellor gave a very good history of credit crises. Among the highlights that I noted: "The basis of a credit system is trust. Credit is a relationship of trust." This has obviously been damaged.

He included some good quotes on credit crises:

"There are three stages - 'hedge', 'speculative' and 'Ponzi finance'."  
Minsky

"Stagflation is the price we pay for success we have in avoiding a great or serious depression."  
Minsky

And Chancellor, who I thought was too bearish in his own views, added rather colourfully: "Most investors have managed to get through round one without too much blood trickling from their nose."

Among the next speakers, a nice chap, listed as Head of a Multi-Manager hedge fund firm also spoke. In the Q&A I said: "I'm sure you won't mind me mentioning that Warren Buffett described hedge funds as: 'A compensation scheme dressed up as an industry', therefore my question is: Why should we, the investing public, pay '2 and 20' charges for a leveraged momentum play, without transparency, but with a lockup of our capital?"

He seemed thrown by this, to a degree that I felt sorry for him, at least until I saw segments of BoE Governor Mervyn King's and his hapless Deputy, Sir John Gieve's grilling by a cross-party Treasury committee of MPs - compulsive viewing.

My point on hedge funds is not that I am against them in principle - far from it. Hedge fund fees, however, are outrageous and an invitation to recklessness by the manager in search of performance. Or if not recklessness in terms of leverage, then the manager becomes so cautious that one is paying a premium for a closet index tracker that will struggle to outperform either the index or an ETF.

As one hedge fund manager said to me not long ago: "We charge '2 and 20' because we can get it." Yes, but only because the public is gullible. Hedge funds have been brilliantly marketed. Investors thought they were joining an exclusive club - a bit like becoming a Name at Lloyds of London before the asbestos claims.

Email of the day (2) - On email (2) Wednesday:

"Thanks for your comments. By the way, I'm neither short nor long, just an observer who's been a market follower since 1970.

"My point about "wall street" in general is that it seems completely hypocritical to want no controls on "irrational exuberance" on the upside, but immediate help when the market (the embodiment of pure capitalism) wants to correct those excesses on the downside.

"By every measure I follow the U.S. economy is still growing around 1.5 - 2.0% and inflation is contained. Seems to me that the market just discovered that a lot of so-called honorable people spread a lot of debt around with no audit trail on how it would be paid off. So now credit costs more, because people we believed in and trusted were found to be just the opposite and the market is pricing that in.

"I enjoy your comments of the day."

My comment - Thanks for the feedback and your valid points. I'll just add that the market is a mob and needs to be guided, particularly away from the point of self-destruction, as that really does cause collateral damage, extending well beyond the participants.

Also, sadly but realistically, we also know that there are too many not so honourable people, not least in the financial game. It reminds me of the General George Patton quote: "Moral courage is the most valuable and usually the most absent characteristic in men."

Email of the day (3) - On email (2) yesterday:

While reading the comment and reply (in particular to those who were on wrong side of market), it goes down to that old time honoured adage amongst banks and institutions:

" between greed and fear, I can probably tell you which one is the greatest motivator"

Have a productive day

My comment - Agreed, fear is hard-wired and visceral. Without it our ancestors would have been eaten.

My personal portfolio: Gold long trade increased - I nibbled at [gold](#) again today, during some profit taking following this morning's strength. I paid \$735.9 for a December position, including spread-bet dealing costs, increasing my overall position by 20%.

Please note - Next week I will be completing Comment and the Audio on an earlier schedule, particularly Monday, Wednesday, Friday and also the

following Monday, because I will be attending Wagner's Ring Cycle at Covent Garden.

Eoin is in Shanghai - He will be back on 1st October.

Quote of the week - On change:

"We must become the change we want to see."  
Mahatma Gandhi

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