

Fullermoney *Highlights*

Global Strategy and Investment Trends compiled by Eoin Treacy

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New Positions in Personal Account Open/Closed			
David	Silver	Long 07/09 \$12.75 Dec07	
	Silver	Long 07/09 \$12.65 Dec07	
	PEIX US	Long 18/09 \$10.639 Dec07	CL 18/09 \$10.431 Sep07
	Gold	Long 18/09 \$724.30 Dec07	50% increase
	Silver	Long 18/09 \$12.915 Dec07	50% increase
	Platinum	Long 18/09 \$1318 Jan08	
	NZD	Long 20/09 NZ\$73.17 Mar08	
	Platinum	Long 20/09 \$1318 Jan08	33% increase
	Silver	Long 20/09 \$13.49 Dec07	33% increase
	Gold	Long 20/09 \$741.3 Dec07	20% increase
	Gold	Long 21/09 \$735.9 Dec07	20% increase
	White Sugar		CL 21/09 \$278 Dec07
	Gold		CL 24/09 \$736 Dec07
	Gold	Long 24/09 \$735.4 Dec07	replaced above position
	Silver		CL 25/09 \$13.49 Dec07
	Silver	Long 25/09 \$13.425 Dec07	
	Silver	Long 27/09 \$13.695 Dec07	20% increase
	Platinum	Long 27/09 \$1367.5 Jan07	
	Platinum	Long 27/09 \$1364.4 Jan07	
	Platinum	Long 27/09 \$1363.3 Jan07	75% increase
Platinum	Long 28/09 \$1368 Jan07	CL 28/09 \$1358 Dec07	
Gold	Long 28/09 \$739.7 Dec07	CL 28/09 \$732.7 Oct07	
Eoin	Rio Tinto		CL 07/09 3590p Sep07
	Gold	Long 07/09 \$713 Dec07	
	MSCI Singapore	Long 11/09 435.7 Sep07	increased by 100%
	Gold	Long 12/09 \$721.30 Dec07	
	Gold	Long 18/09 \$721.3 Dec07	16.66% increase
	TFC US	Long 19/09 \$7.529 Dec07	CL 19/09 \$7.4102 Sep07
	Gold	Long 19/09 \$731.1 Dec07	33% increase
	Gold		CL 25/09 \$729.75 Dec07
	MSCI Singapore	Long 26/09 449.62 Oct07	CL 26/09 448.60 Sep07

September 6th Cycling through the markets

Back in the office for a couple of days, before completing the final quarter of Mrs Fuller's enforced summer holiday for your scribe, I am delighted to share some impressions. The cycling - North from London via the East Coast, zigzagging our way along small and scenic roads, all the way up into the Scottish Borders, before doubling back to the Lake District - proved to be an appropriate metaphor for the markets.

On occasion, I had cause to regret that this was not 'cycling for softies'. Mrs Fuller made no allowances for OAP chronological status. Instead, we averaged over 50 miles a day through some very hilly and therefore attractive countryside, including some spectacular moors. Unusually, we encountered a strong headwind wind blowing from the north, in addition to the UK's usual westerly winds, plus some persistent rain and even monsoon conditions in the first two weeks - thus my identification with subscribers and the markets.

Being a metro man, and as we were staying in some very nice places, the two panniers I was carrying on the touring bike weighed over 25 pounds - too much for speed but good for conditioning. The challenge of the journey made arrival at each evening's destination a sweet relief, especially in territory where 'subprime' would refer to the meal we did not have rather than the market's credit problems.

In the 'may you live in interesting times' department, sometimes associated with the Chinese proverb: 'It's better to be a dog in a peaceful time than to be a man in a chaotic period', I did follow market developments reasonably closely, albeit without the availability of charts, but I was particularly interested in what the central banks were doing. And there were the two lengthy phone conversations with Eoin on 16th August, mentioned in his Audio on that day, in which we discussed the climactic activity, not least being an intraday peak of 37.50 for the [VIX](#), the highest level since 2001.

I was relieved to hear of the Fed's Discount Rate cut the following day. Coincidentally, the weather we encountered began to improve on the 17th as well. Had I been asked the day before if I would be satisfied with the valuation of my personal long-term investment portfolio (last reviewed for subscribers on [8th August](#)) that I now see on return from the cycling trip, my answer would have been an emphatic yes! A number are above their prices on 8th August, before markets plunged the following week, and appear unaffected by the carnage evident elsewhere.

More importantly, what is the outlook for various markets over the short to at least medium term? What are likely to be the winners and losers? How might we both protect capital and make money?

Our investment choice is between the Wobbly West and the Enterprising East - For me, this is not a difficult choice. For cultural, lifestyle, political and not least family reasons, I prefer to live in the West. To protect and increase my capital, I invest mainly in the East, plus resources companies, for which prices are increasingly driven by Asia's growing requirements.

Fortunately, this is not a new realisation - veteran subscribers know that it has been the main focus of my personal investment portfolio since 2003. Recent market developments have only reaffirmed my investment convictions.

Of course this does not mean that there are not numerous good investments in the West, where many fine resources companies have their headquarters. American-led technology is staging a long awaited comeback. Western multinational companies continue to prosper from globalisation. Design and product innovation remains strong in the developed countries.

Instead, my point is that one has to cherry pick in the West more than in the East (Japan excepted until the performance of its banking sector improves). In other words, I expect to do much better in my China (*see Eoin's item on Yang Liu below*) and India funds, and similar, over the longer term than I could in most funds invested mainly in the USA or Europe.

Recent developments have shown Asia to be less volatile in response to the Wall Street leash-effect. This is a new trend but could it be seminal, indicating that perceptions regarding risk are changing? Do we now have a China leash-effect, which is growing in importance? Time will tell but I suspect so.

Meanwhile, Eoin has rightly emphasised the importance of the August reaction lows for stock market indices. There will be no deeper correction, let alone the bear market predicted by many, without sustained breaches of those lows.

But all markets are obviously not equal, not least in the eyes of investors. Where [China](#) did not blink during the 'subprime' turmoil, the chart patterns of most [Western](#) and Japanese banks remain a concern. This is in marked contrast to what we see in most of [Asia](#). Clearly in a bear market of their own making, US and other mainly Western banks will remain a drag on broad market indices until financial sector performance improves.

I note that a few brave souls are recommending bank shares, influenced by single figure PERs and insider buying in companies such as [Goldman Sachs](#). I like the contrary thinking and expect them to recover at some point. However until the relative performance of banks improves, this would be too much of a gamble for me. The P may be interesting but the E will surely collapse for a while, until investment banks reinvent themselves. Meanwhile, we can probably bank on a lengthy convalescence.

A few thoughts on the credit crisis - Aside from significant losses in mispriced credit securitisations, known and pending, I see this as a crisis of confidence rather than liquidity. It has been greatly exacerbated by the rating agency fiasco, which has undermined confidence by increasing uncertainty. Commercial and investment banks are reluctant to loan for more than a day or two because they do not yet know the extent of their own losses, including unexpected and temporarily unmarketable credit inventory, let alone the losses of other firms.

Fortunately, central banks have provided liquidity in their role as lenders of last resort. Some commentators have described this as a 'Bernanke put' and akin to giving 'heroin to an addict'. They have a point, I suppose, in that by reflating the Federal Reserve and other central banks are pumping up a risky credit system rather than allowing the underlying problem to resolve itself. However, the clinical 'tough love' of an Austrian school bust would be catastrophic, as I have argued previously, during other credit crises.

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?

The modern world's economic success has been facilitated with the use of credit, which is obviously an infinitely more efficient methodology than a primitive barter system. Yes, there will be credit excesses, leading to financial crises such as we have seen recently. These are partially self-correcting and central banks have learned not to repeat the errors of the 1930s.

Some believe that we will experience a repeat of that grim era one day. Theoretically, this must be possible and I do not assume that a credit cycle can be expanded indefinitely. However, if it does collapse at some point, I suspect this will be due to an environmental catastrophe, rather than speculation.

Meanwhile, it seems clear that the US economy faces at least two quarters of minimal GDP growth. However, timely action by the Fed, including more rate cuts which I now expect, can avoid a recession against the background of a synchronised global economic expansion. Corporate balance sheets are in reasonably good shape, some banks excepted. Having reloaded the interest rate gun with previous rate hikes, the Fed is in a position to provide whatever cuts are required to help the US economy at this stage. Any further rate hikes in Europe this year would be a mistake and I do not expect them.

In conclusion - The self-inflicted damage to banks, where it has occurred, is certainly a concern and also a restraint on near-term upside scope for the stock markets affected. Nevertheless where the August reaction lows hold, there will be little evidence that they are experiencing more than medium-term corrections. Some markets, including much of Asia and a number of resources exporters, have experienced little more than small reactions in recent months. They have the best prospects, particularly over the longer term.

September 21st 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 ([JIL 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 ([INVGEAA LN](#)), 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.)*

September 4th on global P/Es

Approaching the recent top in the equity markets, few global indices could have been considered truly expensive on a P/E basis. Valuations have remained at reasonable levels for much of the last five years because the earnings quotient has continued to outperform. In developed economies, it remains an open question as to whether earnings can continue to grow at the same rate we have seen in recent years, but this is much less of a concern in the emerging economies of the world.

The [S&P 500's](#) P/E has declined back to levels last seen in 1994. The downtrend has lost momentum and the ratio appears to be building a base. The 1987 crash effectively capped the ratio's uptrend for three years. The market turmoil of the last 6-weeks is unlikely to have such a strong impact. Even though the [Dow](#) has set new highs throughout the year, the last 6-weeks excepted, its P/E has been in decline for much of the last 2-years. The [NASDAQ Composite](#) has come back to levels commensurate with where it traded prior to the Tech and Telecoms Bubble. This is a growth index and continues to be priced as such.

The [Eurostoxx 600](#) has only got 6-years of P/E history but has found support near 10 and remains in a base. The [DAX](#) has a longer history and shows that German large caps have not traded below a P/E of 10 for more than a decade. The [FTSE 100](#) is cheaper today than at any time since the early 1990's. The [SMI](#) has only 6-years of history but is also trading cheaply relative to the available historical data.

The [ASX](#) P/E has fallen from a high near 38 to 15 today where it continues in a base. The [NZSE](#) had a phenomenal run up in 2000 which distorts recent action so here is [chart](#) of the last 4-years. It continues to range around the 20 level in this base formation. The [TSX](#) has been [trending](#) gradually lower following the collapse from the peak in 2001 and while P/E's have expanded in the last year, they are still within a base formation which has yet to be completed. [South African](#) P/E's continue in a baseband and are currently rallying from support near 11.

The P/E of the [Sensex](#) has been trending upwards for much of the last 5-years and it appears to be consolidating beneath the highs near 24. The market is expensive by historical standards. Many commentators, myself included, are not worried about this because it is justified by the enormous potential for growth in Indian companies. P/E's for the [Shanghai A-Shares](#) bottomed a year before the overall index and have been on an upward trajectory which has led the index. At 50 they are approaching levels not seen since the last bubble burst in 2000.

[Taiwan](#) remains a relatively cheap market and P/E's appear to be on the verge of breaking upwards. [South Korea's](#) P/E had been gently rising prior to the current correction from its bottom in 2004 and looks set to reassert its medium-term uptrend.

[Brazil](#) has been one of the better performing stock markets over the last five years but its P/E has only increased moderately. [Mexico](#) was looking expensive prior to the recent correction and has found support at 15 which had been a prior area of resistance through 2005. [Russia](#) is also looking more expensive than it has for a number of years. It peaked earlier this year above 14 and has found support near 11. However it needs to sustain a move above 12 to limit scope for a further correction.

In conclusion, a number of developed Western markets are trading at levels considerably cheaper than we saw earlier this year and some are trading at historically low levels, notably the UK. A number of emerging economies have an expansionary profile in line with the high growth of their economies, of note here are India and Mexico. China is the only market which is displaying anything akin to bubble tendencies but does not appear to have peaked.

September 4th on future storm clouds

The ongoing crisis in the subprime arena continues to incite fear amongst a segment of investors who are long of this sector. However the contagion which spread throughout the credit markets has led to a mispricing of a number of somewhat related sectors which has thrown up interesting buying

opportunities for those savvy enough to spot them. One of the reasons this crisis can be contained is that while the risk of default is significantly higher amongst subprime issuers, it continues to be quite low in the blue chip sector.

Loans and credits have been sold off aggressively but the chances of default for most companies not directly involved in the subprime business remain quite low. As long as the economy remains on a steady footing that risk should not rise markedly.

Taking a longer-term view, the seeds for the next crisis have potentially been sown in the credit default swap market. This is also a market which is opaque and has grown immeasurably in the last five years and has never been tested by a financial crisis. In a number of cases the CDS's insuring against default in a particular company outstrip the value of the assets which would be used as collateral if the contracts are activated. It is possible that were a large blue-chip such as GM to go bankrupt, the CDS market could face serious problems and spark another run on the credit markets. This is not currently a worry since default risks are low but may be a problem in future. In the meantime this correction has thrown up buying opportunities across a range of asset classes and the upside can be given the benefit of the doubt as long as the mid-August lows are not taken out.

September 7th on the Fed and the Dollar

The markets seem to be backing this 'solution', evidenced initially by the 10-year Treasury Bond market's rally ([weekly](#) & [daily](#)) which is still consistent. Additionally, the S&P 500 Index ([weekly](#) & [daily](#)) rebounded to nearly 1500, although it has fallen back over the last three days.

This raises the question: Might the Fed bailout the banks, at taxpayers' expense, via the yield curve? It has done so before. If so, what are the implications?

I think the White House is worried and that this will outweigh any more conservative views at the Fed. And in a pre-election year, both are under considerable pressure to stimulate the economy. Democrats won't carp overly because they will favour anything which helps beleaguered homeowners.

My guess is that an aggressive Fed, now in rate cutting mode, will underpin the government bond market for the short to medium term, producing a somewhat bigger rally of longer duration, before the secular trend of rising yields resumes.

This should cushion downside risk for the stock market, although we can expect some further choppy, ranging action in a convalescence phase. Profit growth will slow further but PERs should expand in a seasonal yearend rally.

The US Dollar Index should remain generally weak against the background of Fed reflation and a soft economy. This would be bullish for gold ([weekly](#) & [daily](#)), which has also strengthened against other currencies this week.

Assuming I'm right on Fed policy what could go wrong?

Rather than ranging gently lower, the US Dollar Index ([weekly](#) & [daily](#)) could fall too rapidly (one of my long-term concerns), weakening the Fed's hand and fanning crisis fears. This would be bearish for stock markets. Obviously it is not in the interests of any central bank to see the US dollar plummet. However, it will probably require multilateral intervention at some point to stem this eventuality.

Whatever happens, it will be interesting and every risk is also an opportunity.

September 17th on the bearish case

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, worshiping 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.

September 18th on the Fed rate cut

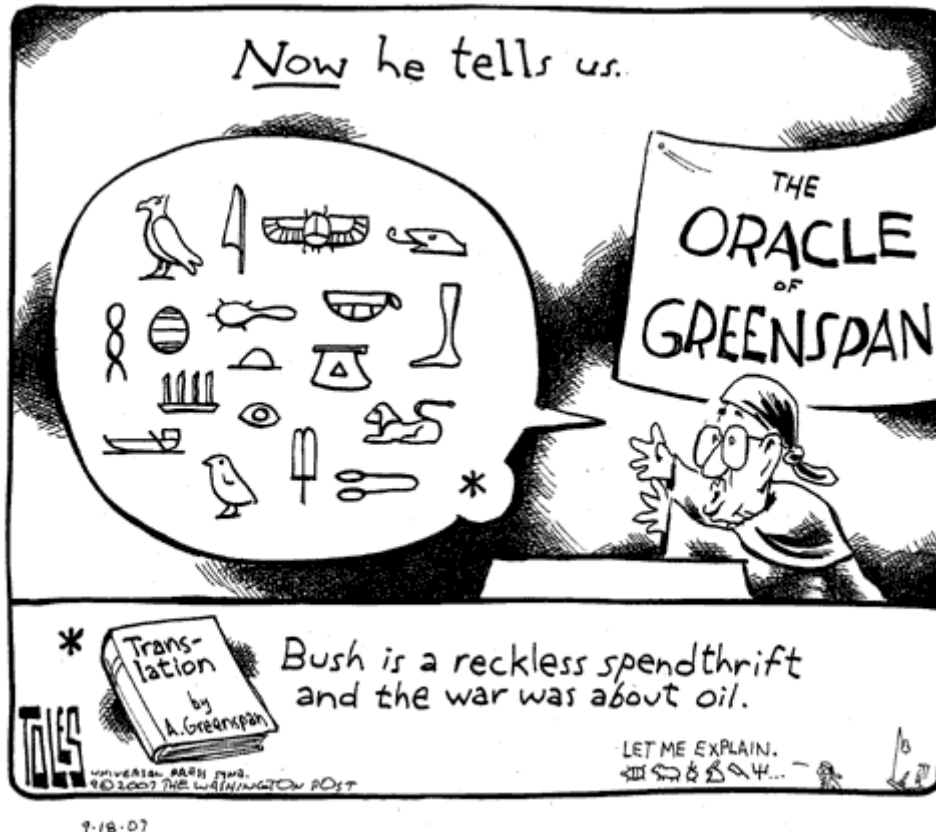
I believe this is the correct action and called for a 50 basis point cut in yesterday's Comment:

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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.

September 25th on the Dollar

The dollar is heading in the direction prescribed - downwards - given the USA's economic ills. Needless to say, this is inconvenient for many other countries which are overly reliant on America as consumer of last resort, and the greenback as a reserve currency. They also risk catching the additional dose of inflation that anyone not in denial can foresee for the USA, not immediately but over the medium to longer term.

Bernanke has just given the patient another transfusion of liquidity, to prevent toxic sub-prime shock. He can't now withdraw this, even if he wanted to, for risk of triggering cardiac arrest for the US economy.

How might this play out, not least in the markets?

The last time the US Dollar [Index](#) hit new all-time lows, we had multilateral intervention to support the greenback. I have often mentioned over the last year that this would be required to check the US dollar's slide. The problem today - it would be hard to find a central bank that wants more dollars. They are all stuffed with greenbacks!

Perhaps the US government, via Treasury Secretary Hank Paulson, will try to talk the dollar higher. His predecessors have attempted this before, with mixed success, and Paulson is certainly respected for his financial acumen. However everyone with any financial nous would know that he was cheerleading from a weak fundamental and technical position, and most likely of limited conviction.

If / when the US dollar's ranging slide accelerates, it will be viewed as a crisis in the markets and we probably will get multilateral intervention from the world's leading central bankers. After all, what other 'solution' do they have?

A dollar in freefall would catapult gold and other precious metals temporarily higher but it would probably cause renewed chaos in stock markets. We live in interesting times.

September 4th on gold in different currencies:

"You mentioned a few weeks ago to watch out for gold to move upwards in all currencies as a sign that the next leg of the bull market would be underway.

"Are we witnessing this now?"

My comment - One of the things David has continually watched for as a sign that gold may be about to move upwards from this consolidation is it appreciating in other currencies. Gold broke upwards today against the [Euro](#), [British Pound](#), [Swiss Franc](#), [Australian Dollar](#), [New Zealand Dollar](#), [South African Rand](#), [Indian Rupee](#), [Chinese Yuan](#) amongst others. This is a strong signal that investor interest is returning to the yellow metal as it continues to be seen as a store of value in turbulent times. More than 25 longer-term charts of gold in different currencies can be found in the Chart Library.

September 18th on gold shares

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.

September 11th on headwinds for China:

Surging long dated government bond yields often result in an ending for stock market rallies. This was certainly the case last year when US yields were rising prior to the May/June correction. China's 10-year [yield](#) has jumped from 3% in October 2006 to 4.33% today. While yields have consolidated somewhat around this area, higher [interest rates](#) could easily push them higher. Interest rates have risen from 5.56% in April 2006 to 7.02%, following six rate hikes. Rates are higher now than at any time since July 1998 because China has been trying to cool the economy and is also trying to keep inflation under control.

While consumer goods are not experiencing inflation, the input costs for food production are rising in line with advances in soft commodity prices across the sector. Everyone has to eat and the Communist government derives its mandate from a claim to look after the needs of everyone. It is likely they will be forced to introduce measures to curb food price inflation or risk deep unhappiness with the regime, particularly amongst the rural poor. This points towards higher interest rates over the coming months and probably an increase in food subsidies.

The stock market has been the world's best performer this year and one of the best last year. The Shanghai [A-Shares](#) bottomed in mid-2005 and proceeded to rally strongly. The break above 2000 signalled the onset of an accelerating move which continues today. Looking at this [log scale](#) chart, the uptrend from the 2005 lows has been punctuated by three reactions of relatively similar size and duration. The first occurred between mid-May and mid-September 2006, coinciding with the global stock market correction in the same period, and was a reaction of almost 14%. The second took place directly after the New Year holiday and lasted until mid-March. This was a reaction of almost 17%. The latest reaction begun in late May and the index successfully broke upwards to a new high in late July. This was a reaction of 21.45%, or 16.5% on a closing basis.

The Shanghai A-Shares posted their largest downward [dynamic](#) since July today which probably caps the advance at least in the short-term. A countermanding upward dynamic would be needed to offset scope for some further downside. However it would need to sustain a move back into the May - July range to question the integrity of the overall uptrend. The A-Share market has performed in spectacular fashion for much of the last two years but rising interest rates may act to cool it in the coming months, which could lead to another multi-month consolidation.

September 1st on the spread between the A-Shares and H-Shares:

"I understand that there is an index that tracks the difference between the Chinese A and H shares. I believe it is called the Hang Sang A-H Premium Index. Is it possible to get this index into the chart library?"

"There is a big difference in price between the mainland traded Chinese A shares which can be purchase via the US ETF CAF and the Hong Kong traded Chinese H shares which can be purchase via the US ETF FXI.

"Could you kindly comment on these ETFs and your opinion about the best ways to invest in the Chinese boom? Would investing in Austrailia (EWA) or Korea (EWY) be safer plays on China?"

My comment - Thank you for this interesting [index](#) which has now been added to the Chart Library. Here is its description from Bloomberg:

"Hang Seng China AH Premium index tracks the price premium (or discount) of A-shares to H-shares. The higher the index, the higher premium of A-shares over H-shares, and vice-versa."

This index shows that the premium of A-Shares over H-Shares has narrowed somewhat over the last two weeks but that it remains high by any standards. With some commentators speaking of H-Shares being as much as 55% undervalued relative to the A-Share market; there is plenty of room for this margin to continue to close as legislation is put in place.

The [H-Shares](#) have been one of the best performing stock markets since mid-August in large part because of an accelerating trend towards greater freedom for Chinese investors to invest outside of the mainland. (Also see Comment of the Day on [August 21st](#)). This [article](#) from Reuters indicates that this may be a slower process than some were hoping. Here is a section:

"We're still in a wait-and-see (mood), with a holiday in the U.S. and no fresh insights ... China Eastern looks good -- there's a bit more to go from here," said Miles Remington, sales and trading director at BNP Paribas.

Double-digit gains in the city's stock market following China's move to allow residents to invest directly in Hong Kong stocks have led Beijing to weigh the risks of the scheme, *Caijing Magazine* reported. Investments would get a green light only after Beijing had developed guidelines for mainland investors, it said.

"The Hong Kong market has been overheating on this news, so it's better for the market to go through a period of consolidation," said Alex Tang, research director at Core Pacific Yamaichi International.

"But (the programme) will eventually proceed."

The closing of this disparity seems inevitable but it is in the interests of regulators to allow it to happen slowly. In the meantime, the H-Shares continue to consolidate above the July highs and would need to sustain a move below 13,000 to question scope for further upside over the medium-term.

There are a large number of investment opportunities which stand to profit from the emergence of China as a center for commodity and technology demand. Hong Kong stock markets should benefit significantly when Chinese mainland investors can invest their savings in that market. As that move eventually reaches its logical conclusion, with the liberalisation of China's financial markets, all Asian and commodity markets should benefit from Chinese investors foreign investment.

China's hunger for raw materials knows few limits and commodity producing countries have benefited enormously from this change in the last five years. This is a secular move as frequently discussed at Fullermoney and should help to support markets such as Australia, Canada and New Zealand going forward. Markets such as South Africa, Brazil, Mexico and a number of others could also be added to the list subject to governance.

While the contraction of the spread in valuations between the A-Share and H-Share market should prove profitable for investors, it is a once off medium-

term move rather than a secular move. Once the spread has normalised, one of the reasons for H-Shares outperformance will have disappeared. However, the contraction of this spread is a bonus for this particular group of stocks and should not overshadow the long-term potential for the Hong Kong market.

This revaluation will have no impact on China's demand for commodities and the long-term outlook for suppliers of commodities will continue to be bullish for some time to come. This point should be further strengthened as India embarks on a massive infrastructure boom which is only now getting started.

Is [Australia](#) a safer investment than Hong Kong? Probably over the long-term because it is not so highly geared to the performance of the Chinese economy and political uncertainties associated with Communism.

There are many reasons for owning [South Korea](#), not least the fact that it is only now breaking out of a long-term base but it is not likely to provide the kind of access to the China story of Hong Kong or the commodity producers.

September 6th on the Yuan

The Chinese Yuan ([p&f](#), [monthly](#), [weekly](#), [daily](#)) was progressively devalued by the Chinese government from the mid-1980s though to 1994. It strengthened marginally until 1996 and was pegged at 8.3 Yuan to the Dollar until mid-2005. China has the biggest trade surplus and foreign reserves in the world, the economy is starting to overheat and inflation is finally starting to be a problem. Allowing the currency to appreciate is one of a host of actions which will help to mitigate some of these problems.

China is also under some quite intense pressure from the USA and other trading partners to allow the currency to strengthen but has so far rejected calls to allow it to appreciate at a faster rate. However there is no question of the direction of change altering. We can expect the Yuan to continue on its gradual upward trend for a number of more years.

This is a bonus for foreign investors with a financial interest in China's stock market. While the A-Share market is looking over extended and has valuations approaching bubble levels, the Hong Kong market remains relatively cheap and it appears that spread between the A-Share and H-Shares market is contracting which is a boon for the latter market.

September 12th on the Asian Dollar Index

The Asian Dollar Index ([p&f](#), [monthly](#), [weekly](#), [daily](#)) is made up of 10 currencies and is one of the best reflections of Asian currency appreciation against the Dollar. The Index collapsed during the Asian financial Crisis, bottoming at 94 and retested that level between 2001 and 2002. From those lows it has been on in a consistent uptrend with a progression of higher or equal major reaction lows. It broke out of its base in January 2006, consolidated above 105 and broke upwards once more.

The unwinding of carry trades in July this year saw a flight to the US Dollar and many Asian currencies weakened. This reaction was similar to that seen in May/June last year and as long as the Index holds above 110 the short-term upside can be given the benefit of the doubt. Over the longer term, there is every likelihood that the Index will gradually make its way back towards the highs seen before 1997 and potentially even higher as Asian GDP growth continues to lead the world.

Asian stock markets have so far weathered the storm in global equity markets far better than their Western counterparts and their beta to Wall Street should continue to decrease as the new economic centres-of-gravity in China and India develop further. In tandem with appreciating stock markets, appreciating currencies make a compelling investment case over the long term.

September 20th on China & India

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.

September 26th On investing in China and India:

"Reference yesterday's [Monday's] emails of the day (2) and your response - I too am following your lead into the Chinese and Indian markets, but the question of which vehicles to use can be a tricky one. ETFs are attractive from a cost and dealing point of view and I have a small holding in 2823.HK, the A50 China tracker. However, your comments about the complexities of the different China share classes are very valid and better left in the hands of a good active manager, as you have done with Yang Liu. I have the August fact sheets for both the Atlantis China Fund and the China Fortune fund. The former has outperformed the latter by a considerable margin, which makes me hesitate before I opt to increase my China exposure via The China Fortune fund, especially since it has a performance fee and an exit fee of up to 3%. May I enquire as to why you chose this fund over the China fund?"

"Thanks very much for revealing details of your portfolio holdings by the way - very useful."

My comment - Thanks for a very useful and informed email. Eoin and I often emphasise that subscriber's should always conduct their own due diligence, to be better informed and because it is humanly impossible for people in our position to cover all the important details, particularly at a micro level, in a

global strategy service. And by sharing useful information, just as you have done, we empower each other.

Firstly, I regard the Hong Kong-listed iShares [A50 China Tracker](#) as a very useful long-term vehicle, best purchased after shakeouts in what I assume will be a volatile market from time to time. I will probably add it to my portfolio at some point. Regarding the Atlantis China Funds, when I bought the [Fortune](#) version in January 2006, I believe it was slightly outperforming the older [China Fund](#) and it had the more flexible brief.

Basically, and I reconfirmed these details with Peter Smith of Atlantis this morning, the China Fund takes a somewhat longer-term view, has a bias to small and mid-cap, and is a traditional long only (mainly fully invested) equity vehicle. It's annual charge is 1.75% and importantly, there is no performance fee.

The Atlantis China Fortune Fund is an absolute return vehicle, meaning that it can go up to 75% in cash, is more tactical, stags new issues and is designed to be less volatile. In what Peter Smith described as a "safety first approach", it has a higher weighting of mid and higher cap stocks. The annual charge is slightly lower at 1.5% but there is the high 15% performance free on gains over 5%, calculated on a high water mark basis.

In conclusion, one could ask if Yang Liu's active management, compared to her long-term stock selection, is worth the performance fee that Fortune charges. Not yet, based on the Atlantis China Fund's superior performance recently, but we will not really know until there is a significant downturn in the Chinese stock market.

Personally, having confidence in Yang Liu, I would rather have the more flexible Fortune vehicle today. However if I were buying following a significant downturn, which we have not yet seen, I would go for the China Fund. I am also interested in the recently launched Atlantis [China Healthcare Fund](#). This is a new industry for China. Yang Liu says that the Chinese government will encourage the rapid development of healthcare, provided by domestic Chinese companies. The Healthcare Fund charges 1% annually, with a 20% above 5% hurdle, high water mark performance fee. Please note that there are front-end loads for these funds, which should be negotiated down. I paid 2% when I bought the China Fortune Fund.

Lastly, and as always, neither Eoin nor I, nor our families, nor Fullermoney via Stockcube, has any financial incentive whatsoever in mentioning these or any other funds.

September 14th on uranium miners

Uranium miners and particularly the juniors entered a predictable correction once the uranium price posted its first downward reaction following what was one of the most consistent uptrends I have seen. Cameco gave up more than a third of its value between mid-June and mid-August, however the failed

break below \$40 looked climactic and the stock appears to have bottomed.
<http://www.fullermoney.com/x/default.html?id=1147&schtxt=cameco>

Cameco broke [upwards](#) from a short-term consolidation two days ago and would need to sustain a move below C\$42.50 to question scope for further [upside](#). (Also see Comment of the Day on August 31st). The problems surrounding Cigar Lake Cameco have not gone away, however the management are starting to look substantially smarter following their measured response to the mania for anything with uranium in its name. The company's performance will continue to be tied to its ability to avoid long-term contracts and to the performance of the raw commodity generally.

[Uranium](#) remains in a correction and has so far failed to post an upward move since it reached a peak near \$140 in June. While interest is returning to the sector and some stocks are beginning to show signs of a recovery, it is likely that investors are waiting for the first up-tick in the uranium price before committing significant further capital to the sub sector.

[Uranium One](#) rallied well once it found support near C\$10 in mid-August. It consolidated below C\$12 and broke [upwards](#) today. It would need to sustain a move below this level to question scope for further upside.

[Denison Mines](#) also found support in mid-August but has not rallied to the same extent as Cameco. It is currently [pressuring](#) resistance at C\$10 and needs to sustain a move above that level to indicate that the bulls are gaining the upper hand at least in the short term.

[Energy Resources of Australia](#) is in a similar position to Denison Mines above with AU\$18 as the key value. [Paladin Resources](#) also shares this profile with AU\$7 being an important area above which it needs to sustain a close to signal that the bulls are regaining leadership.

September 27th Is it time to reconsider uranium once again? - I believe so. Fullermoney had long maintained that there would be a big shakeout among pure [uranium](#) plays once the previously accelerating metal price went into a medium-term correction.

This has occurred and while we have yet to see an up-tick in the weekly uranium price, I suspect it is in a bottoming area. I would expect the bigger-cap uranium shares to anticipate a sustainable new floor for the metal. Interestingly, they are now recovering as you can see from these charts for Cameco ([CCO CN](#)) and Denison ([DML CN](#)).

This service has long maintained that uranium was the best of the energy plays by far. To the occasional dismay of some subscribers, I chose to invest in the sector conservatively, initially through [Rio Tinto](#) and [BHP Billiton](#), which I also wanted for their outstanding reserves in many metals. Sometime later I invested in Cameco, which is the smallest weighting in my personal portfolio's top-10 holdings.

I have long regarded the uranium share sector as speculative, due to valuations rather than any reservations about the metal. Therefore I maintain that uranium shares are best purchased following shakeouts such as we have seen recently. Conveniently, there are more vehicles to consider, including Geiger Counter ([GCL LI](#)) (discussed in emails recently), [Nufcor Uranium \(NU/LN\)](#) (the big tails on recent candlesticks are temporary data bugs), a new [Nuclear Energy ETF](#) kindly pointed out by colleague John Ritchie of Stockcube, and this World Uranium [Index \(URAX\) Tracker](#) from Société Générale, kindly drawn to my attention by colleague Jackson Wong of Investors Intelligence.

September 17th on oil services companies

Oil ([p&f](#), [monthly](#), [weekly](#), [daily](#)) remains within a dollar of its high, while of the major oil producers such as [Exxon Mobil](#), [Conoco Phillips](#), [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.

September 20th on 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.

September 21st 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 thought 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.

September 25th On adverse currency costs:

"I have been a subscriber for less than [a year] and continue to benefit enormously from FullerMoney. I am now a global investor, having discovered access to the London Stock Exchange via Interactive Brokers. My investments there (MLW,JII,ABD) have done very well, especially MLW. That's the good news. The real bad news is that I have lost all those gains (and then some) thanks to the GBP/CAD exchange rate. I read this in MoneyWeek today:" The Euro should fall sharply," GaveKal predicts; (and perhaps, if true, the GBP may feel the effect?). Both the GBP and the CAD may be over-extended (for different reasons) in the short term. I am not a currency or chart expert, I wonder how you see them panning out in the next leg? Thanks."

My comment - Thanks for the feedback.

As a resources currency in a developed country, the Canadian dollar has been exceptionally firm, appreciating approximately 13% against sterling this year. Here is a long-term [chart](#) of CAD/GBP, showing that the C\$ has often been a weak currency but has been recovering in line with the resources boom. However these weekly charts of [MLW](#), [JII](#) and [ABD](#) shown in C\$ (note: that while the chart was first generated in sterling, it was then converted to CAD as you can see from the currency box, upper right), suggest that you may have done rather better than you think, at least for JII and MLW. Only ABD continues to lag in CAD terms, although it has steadied.

We live in a fiat currency (paper money) world, as I have mentioned many times before. In other words, we have faith-based currencies. The US dollar may have "In God we trust" written on it but most of us prefer something more tangible behind our money.

For this reason I have favoured Asian currencies for the last five years and also the currencies of stable countries that are major exporters of natural resources. And gold is gradually becoming remonetised in the eyes of many investors, at least in terms of being an alternative store of wealth.

Sterling's earlier strength against the US dollar and some other currencies was due in part to the UK's rising short-term interest rates, but people are now reassessing prospects, concluding that UK rates are now more likely to decline than rise, if not this year then in 2008. This would not surprise me and I also feel that Euroland rates have peaked for this cycle. The euro may stay somewhat stronger than would otherwise be the case due to its increasingly important role as an alternative reserve currency.

Lastly, we should remember that in this era of particularly intense competition due to globalisation, no country wants a strong currency. However some

countries want (unofficially) and need a weaker currency more than others. The USA remains in this position.

September 25th On Japan:

"I can only reiterate the appreciation and respect expressed recently by subscribers for your and Eoin's guidance through the current turmoil in the financial markets. Without it, I'm sure the most appropriate 'sit tight' investment rule might have gone by the board.

"However, listening to your comments last night on Japan, I get the feeling that sitting tight with the likes of Atlantis Japan Growth IT might be the exception to the rule. Do you agree?"

My comment - Many thanks for your thoughtful comments.

There were two main strands to that guidance. 'Sit tight', as you put it, applied to shares and funds in my portfolio that I maintained were in secular bull markets, unlikely to be affected for long by the markets' credit panic. The other strand was to identify the climactic selling activity on 16th and 17th August, as a turning point rather than the beginning of a bear market.

[Japan](#) has clearly been Asia's 'odd man out' for the last eighteen months and counting, with [bank shares](#) leading the way down. This suggests to me (I have no other information or evidence) that there will be some unpleasant announcements, probably including sub-prime debt.

The Atlantis Japan Growth IT ([AJG LN](#)) is a fund that I have owned in the past and may again at some point, as its investment manager Ed Merner is very experienced and has a distinguished record, although he has underperformed his benchmark ([TSE2](#)) recently. Meanwhile, I recalled and have just confirmed with Atlantis that Ed Merner, who lives in Tokyo, will be giving a presentation in London for Atlantis on 4th October. I suspect that is not convenient for you but you might wish to have a word with [James Alexander](#) about Ed's latest views and outlook for the fund. My guess is that he thinks a turnaround in the TSE2 is close to hand. This is certainly possible, given the hammering that it has received, although there is as yet no confirmation that the low has been seen, as you will know from the chart.

So AJG may well be a recovery candidate, albeit still in search of a sustainable low. However if I were going to own any two of Atlantis' funds for the next 10 or 20 years, I would choose from their three China Funds, and the Atlantis India Fund managed by BP Singh and Vinay Gairola.

September 28th Jackson Wong of Investors Intelligence: Identifying Relative Strength Within Japan's Topix Index

My thanks to colleague Jackson Wong who produced this excellent technical [report](#) at my suggestion. It complements some of the earlier work of this type that Eoin has produced.

Why Japan, you might be asking; it's been such an underperformer for the last 21 months. True, but this will not always be the case and the [Topix Index](#) has firmed near the lower side of what I suspect is a very lengthy medium-term consolidation within its long-term recovery. Eventually, this pattern should support a strong advance but there are many 'ifs' and hurdles.

Chief among these, in my view, is the worrying underperformance of the [Topix Banks Index](#), which I have mentioned frequently, particularly in the Audios. Something is clearly wrong here - it is being discounted by the market but has yet to be fully disclosed. With no particular insight or information, I fear that it may be 'toxic waste' in the form of duff credit derivatives.

On the plus side, in percentage terms, we have already seen a medium-term bear market in Japan's banking sector. It has also fallen back, in a steeping trend which can be climactic, to the first significant region of potential support evident near 300. This is both lateral and psychological (note the difficulty the Index had in clearing this level on the upside during 2004 and 2005). An upside weekly key reversal occurred this week, the first really good technical evidence for a long time, but upside follow through is required to confirm an important low for the Topix Banks Index.

Nevertheless this is a good time to identify early relative strength leaders, since they will contain the real stars among Japan's many shares - companies that have so much going for them that investor apathy and chronic underperformance by the broader market can no longer hold them in check.

Jackson has identified 52 stocks out of 1719, which show varying degrees of relative strength. A Japan fund manager could do a lot worse (they have) than hold a portfolio of these stocks. Other investors interested in Japan can 'cherry pick' among Jackson Wong's list, which is in three categories, selecting the patterns that they most prefer and then conducting their own due diligence.

Incidentally, Jackson used Investor Intelligence's fine charts for this exercise - you will see both the actual price over five years and also the performance relative to Topix for that period. And for your convenience, there is also a table of these 52 stocks, showing their ticker, year-to-date percentage change, market cap, PER and beta. Subscribers to Investors Intelligence or Fullermoney will also be able to view any of these shares, at their convenience, in these services' respective Chart Libraries.

Fullermoney will provide more reviews of this type in future, with the emphasis on timely coverage.

September 27th Thoughts on Fullermoney, and questions:

"I read with interest the question to you from a potential subscriber on 19th September, and wonder if you would care to pass these comments on to him.

"Like the questioner I had the same dilemmas about portfolio building, and the same reservations about the quality and cost of advice on offer in the City and

from so called professionals. I asked around a lot and found no satisfactory answer from anyone.

"By chance I came across your web site and service and after hesitation I signed up about six months ago. I have no regrets. I have spent a lifetime in and around University Education, both as a teacher and entrepreneur, and what most impressed me about your daily newsletter is the quality of the debate and information. It is like attending a daily seminar. Nothing else I have come across can compare. You called it "Empowerment Through Knowledge". That indeed is what a university education is all about at its best. Through you I am learning a lot about markets and investing, and above all shedding old and bad habits of thought and attitudes. I also accept your philosophy that as an investor I have to learn to stand on my own two feet and take my own decisions, and that no one can do that for me successfully however much they are paid.

"So thank you for the education you are giving me even at this stage in life. Results are not instant, but I make progress! Please tell your questioner that I consider the subscription worth every penny, and advise him to join the Seminar.

"Can I add a question or two? In August you said you saw a market setback in the medium term. What are your definitions of short, medium and long term. By medium term did you really mean 4-6 weeks, or have you been taken by surprise by the markets recovery. Your parameters on these terms would help me, understand you better.

"I think you also said at some point (8 and 22 August) you held a substantial amount of cash. Is this still true?

"Lastly I enjoy your aphorisms and observations. Your well timed question to those who view a recession as appropriate medication (me included) - "how can they be so sure " - has set me thinking most deeply. (Just what good teachers are supposed to do!)

"Finally we are all hard wired to fight or flee (being metaphors for greed and fear) are you yourself hard wired to be a fighter or a flee-er?"

My comment - Thank you so much for this most generous and thoughtful email.

A key point about empowerment, as I frequently mention and that you will know, is that we empower each other. I am delighted by what you and others say you have gained from this service. I am also excited by my own learning process because a week does not go by without my awareness being enriched by insights, observations and information from the Collective of subscribers. I know that my own rate of learning has increased since this became a fully online, interactive service. I am grateful for the experience, and long may it continue.

Thanks also for the invitation to define and clarify terminology that I often use.

By short-term, I generally mean anything up to a few weeks. Medium-term in my thinking is anything from a couple of months to occasionally up to two years and even longer. As an example, note the lengthy medium-term consolidations within this secular uptrend for gold ([monthly](#) & [weekly](#)).

I believe I had been variously describing developments in stock markets from late June onwards as a reaction (short-term) growing into a correction (medium-term) for many although not all markets. And in my mind, there are three stages: identifying the reaction / correction, identifying the probable low point for that move, and recognising completion of the overall reaction / correction process, for which we do not have conclusive evidence until the primary trend resumes.

Bear markets are longer, generally, and certainly bigger in percentage terms, leading to additional convalescence time. I have never felt in recent years that we were slipping into a bear market for diversified stock market indices, some Middle Eastern oil producers such as [Saudi Arabia](#) excepted. This is now in a base building phase. This year we have also seen some statistical bear markets for a small number of sectors, not least financial shares. This remains a concern.

I have always retained a fairly large cash position, not least because I sometimes use a considerable amount of leverage in my trading accounts. Temperamentally, I prefer holding a reasonable amount of cash, especially as I can more than offset its purchasing power erosion by trading, which also remains my main source of funding. I may reassess this as interest rates come down for a while, and inflation picks up again later on.

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