

Fullermoney

Global Strategy and Investment Trends by David Fuller

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

Monday 24th September 2007

Barclays Capital's The Commodity Investor: Serial shortages - [My thanks to a subscriber for this good summary](#) by the excellent commodity team of Kevin Norrish and colleagues at Barclays. It is posted in the Subscriber's Area but [here is a brief sample](#):

Commodity index: Commodity indices made healthy gains over the past week with base metals the strongest performer and all sectors registering increases except for livestock. Base metals responded very positively to the Fed's 50 bp rate cut and should continue to be very sensitive to global growth concerns. Oil price risk is still to the upside and with a wide backwardation in nearby months now re-established the negative roll yield from crude oil is strongly positive again. We also see the potential for base metals spreads to tighten heading into Q4 and so see little imperative to pursue modified index roll strategies that utilise the rolling of positions to further forward parts of commodity curves. For now, the front end of the curves is still the place to be.

My view - [The Fullermoney view for the last 6 years and counting is that commodities are in a secular bull market - a supercycle - led by industrial resources. We continue to invest and trade accordingly.](#)

Email of the day (1) - [On my personal portfolio update](#):

"Thanks for the portfolio update. Looking at my SIPP I realize (yet again) what a positive influence Fullermoney has been on my investment decisions, and on my returns!

"Does the list give relative weightings from top to bottom? Any chance of providing the actual %/position...or would this be a case of "too much info"?

"There is another question I have, and I have briefly discussed this with both David and Eoin, regarding spread betting risk parameters. To clarify, when placing a spread bet, is the risk taken on commensurate with a like futures contract (if it exists), whether full or mini that might be put on by a subscriber? I ask because for those of us in the US, and perhaps elsewhere, who cannot avail ourselves of spread betting, the risk taken on can be far different than that of a relatively smaller punt in a spread bet. That difference might affect how we enter a trade, stops, adding on, etc. Especially in metals, energy,

where the tick value can be quite high. I realize you might not want to say in the letter, "I bought the equivalent of 1/3 silver contract, doubling my previous position", for example. Just wondering how I might need to adjust my risk parameters based on an "average" spread bet mentioned in the letter. Perhaps ETFs are the answer for some trades.

"Again, thanks for the great service. I have learned so much in the few years I have been a subscriber."

My comment - Thanks so much for the feedback. Your modesty becomes you as you are, of course, the architect of your own improved success, having chosen your information, assessed and then acted on it.

My personal investment portfolio top-10 did give a top to bottom weighting but I do not know the exact percentages as they are spread over several accounts. Also, the weightings are not something that I think about unless they change significantly, as last happened with Ballarat in late 2005, which I felt had become too large a weighting due to a speculative surge, so I halved the position. The share was later taken over at a somewhat lower level by Lihir Gold which is still in the portfolio.

Regarding your question on spread-bet risk parameters or the equivalent with any other trading portfolio, the key point in terms of risk control, I believe, is to start small relative to your capital, and mainly leverage up behind trailing stops in a position that is trending in your favour. I can't emphasise this often enough. In contrast to building a position incrementally, big opening bets are inevitably much more risky. Lastly, your point about ETFs being the answer for some trades is a good one.

Email of the day (2) - On my two favourite long-term investments:

"I have been a subscriber for over ten years now, and enjoy your comments very much. I was very tempted by your comment about long term investments in the Chinese and Indian stock markets. The problem is I don't know what will be a good way to invest in the markets for the long term. And by long term, I mean at least 10 years. I would be grateful for your help. Thanks very much in advance."

My comments - Thanks for the feedback.

I would only consider funds or ETFs. I have used funds, particularly important with China, I believe, given the complicated structure of that market in terms of share classification listings. The fact that you have asked the question above suggests to me that the Atlantis vehicles, for instance, may not be eligible for you in your country or residence. You would know but we list a number of other China and India funds and ETFs in the Chart Library.

Email of the day (3) - On Fed Funds vs Nasdaq, and Topix:

"Many thanks for the top-notch audio's and commentaries that you continue to post; in particular I would like to congratulate Eoin for his calm and lucid comments when the brown stuff was hitting the fan in mid-August.

"Following the various Central Bank moves over the last few days, I share your sanguine view of equity markets and precious metals markets. However, a glance at the overlay chart of Fed Funds vs Nasdaq suggests that equity markets fall when the Fed cuts (after an initial bout of short-covering). Any thoughts? Also the monthly chart of Topix sends a few shivers down my spine.

My comment - Thanks for your kind words, particularly regarding Eoin's coverage in mid-August. One of my most important objectives with this service in recent years has been to provide both depth and continuity without any decline in standard. Looking to the future, we aim to go on improving all aspects of the Fullermoney Global Strategy Service, because in any cutting-edge business if you are not learning and developing, you are backsliding.

I take your point regarding the Fed Funds vs Nasdaq but as you know, relationships are seldom carved in granite in the money game. The price charts will show us what we need to know. I share your view on Topix which has been underperforming for some time, and the lead signal, mentioned so frequently in this service, has been the weakness of Japan's banks.

Email of the day (4) - On trading and an amazing presentation regarding observation:

"Traders see what they want to see, this [presentation](#) shows that the brain plays some tricks."

My comment - Many thanks for an extraordinary, and for me, disconcerting presentation above. I still find it hard to believe, even though I have had experiences where my imagination played tricks on me. I think people will be fascinated by this presentation on observation.

Email of the day (5) - On the presentation above (4) and trading:

"Scary! If eyes are not to be trusted!. The enemy is really within.

"Your 'what me worry' comment in august was certainly found to be a little too flippant for some subscribers' liking but it certainly hit the bull's eye. As is your wont!.

"New highs have surprised many people who, by continuing to expect an even bigger fall, are making one analytical blunder into two. From personal bitter experience, denial remains Enemy no 1 of the trader.

"I continue to enjoy the markets, since I have long accepted being a figure of fun!"

My comment - There is wisdom in what you say - when trading, the enemy usually is within.

Regarding events in August, I was very worried about the snowballing credit crisis and whether or not central banks would move swiftly enough to restore confidence. Fortunately they did. However many of the problems remain and have yet to play out.

Regarding your last point, it is good to remember that we are *all* figures of fun, as it helps to curb analytical arrogance such as telling the markets what to do, which is usually fatal.

Email of the day (6) - On from "clueless investor to a confident one":

"Having been a subscriber for some 3 years, I must admit to having never missed a daily column including most attachments (not all of the 200 page ones). I am sure that 95% of this information has vanished from my limited brain into thin air. However, the 5% that I have retained is what has turned me from a clueless investor to a confident one. That 5% is the repetition of certain themes that remain a constant with Fullermoney. As an example, I first bought gold coins as a long-term investment at the \$350 range. I then would add at various junctures through futures contracts. I would win and I would lose on these. Then, I read the concept about gold needing to advance against all currencies, not just the dollar, to potentially be in a strong uptrend I stopped trading gold until I saw evidence of that recently and moved into it at \$690. It is these little tidbits of information which are repeated that I would advise newer subscribers to watch for.

"On another note, Jim Grant would certainly not be a nominee for the bullish camp. However, for me his column is invaluable in understanding the credit markets better. I believe this is a requirement for good investing. He also has been on a rant for the last 2 years about the mess that was being created in the U.S. through subprime contagion. In the end he was close to spot on in his assessment of what would transpire. I have sent a link to the September 7 (before the rate reduction). I was not able to copy the section I wanted to copy from the article "Pillars of Faith". However, in essence, I am in agreement with your long term assessment of China and India but feel strongly that there will be a major bump in the road caused by what I would call an economically irrational global monetary system where China continues to print Renminbi to buy dollars that we continue to print. I believe you would agree that at some point (if not already based on the most recent numbers out of China) inflation and upward pressure on interest rates will become the proverbial "fly in the ointment" in China and how that plays out is anyone's guess. The subprime mess was an inevitability and just a matter of time. I made the statement that the Subprime mess was the fly in the ointment for the U.S. stock market and economy some 1 1/2 years ago and you were gracious enough to print it. Now I say that an inflationary nightmare is waiting to happen but who knows when. I don't think this is a bearish statement just a statement of fact and I believe that you somewhat agree with me based on your trepidation going forward into 2009-10. http://www.grantpub.com/cache/47364_31042.pdf

My comment - Well done on the gold recently and thanks for your observations.

Jim Grant would certainly have had one of the best insights regarding the build up of credit problems (incidentally, I could only access the home promotional page with your link above, but thanks for trying).

A difficulty for investors with sub-prime or any other financial crisis is that the problem usually develops incrementally, sometimes over many years before the dénouement, which is occasionally catastrophic but more often a short to medium-term problem. Early awareness of the situation would certainly help one to avoid naïve participation in that particular area during the latter stages of the cycle, but might specialisation in one fundamental area also deter one from other sound investments? For instance, might it have frightened me into scaling back my long-term investment portfolio, to what would have been my detriment to date?

These are not just hypothetical points because we have all seen people so terrified by an inflating bubble that they miss out on one of the market's great moves, which can run for years before bursting. For this reason, I aspire to be reasonably well informed but for timing, I'll use a technical, chart-based approach every time.

There will indeed be bumps along the road for China and India, and thus it always was, for any market. One of Fullermoney's long-term premises, as you know, is that we are in a cycle of gradually and erratically rising inflationary pressures. This is being led by commodity prices and is least evident in manufacturing and wages, due to reasons previously discussed in detail. However the impact of this inflation, including some inevitable stagflation, will not be felt equally.

As investors, we should not fear challenges. Instead we should try to understand them, encouraged by the knowledge that each problem also presents an opportunity - for analytical development, not to mention wealth protection and creation. I find the process fascinating, as no doubt do most subscribers.

My personal portfolio: Sugar and a gold stop triggered - On Friday, I was stopped out of my London [white sugar](#) position. This was from an earlier rollover and I was stopped out of the December contract at \$278 on the 21st, against my purchase at \$274.8 on 7th September. Sugar is cheap but has not been easy to trade, at least for me. Nevertheless it appears to have reached an important low recently and may have pulled back in a consolidation before resuming a recovery.

I jammed up a stop on Friday's latest [gold](#) purchase this morning when the market was firm. This was stopped out this afternoon at \$736 for the December contract against my purchase at \$735.9. Seeing nothing untoward on the screen, I repurchased it almost immediately, paying \$735.4.

Prices above include all spread-bet dealing costs.

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

Tuesday 25th September 2007

Fears for the US dollar as Saudi Arabia refuses to cut rates - My thanks to a subscriber for this [article](#) under a different headline by Ambrose Evans-Pritchard for the Telegraph (UK). Here is the opening:

Saudi Arabia has refused to cut interest rates in lockstep with the US Federal Reserve for the first time, signalling that the oil-rich Gulf kingdom is preparing to break the dollar currency peg in a move that risks setting off a stampede out of the dollar across the Middle East.

"This is a very dangerous situation for the dollar," said Hans Redeker, currency chief at BNP Paribas.

"Saudi Arabia has \$800bn (£400bn) in their future generation fund, and the entire region has \$3,500bn under management. They face an inflationary threat and do not want to import an interest rate policy set for the recessionary conditions in the United States," he said.

The Saudi central bank said today that it would take "appropriate measures" to halt huge capital inflows into the country, but analysts say this policy is unsustainable and will inevitably lead to the collapse of the dollar peg.

As a close ally of the US, Riyadh has so far tried to stick to the peg, but the link is now destabilising its own economy.

My view - 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.

Email of the day (1) - 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.

Email of the day (2) - On hedging against US dollar weakness:

"As someone, who is based in the Euro zone but who uses the US market for a significant portion of my trading and investment, your comment yesterday about hedging \$ weakness interests me. How would you recommend hedging against future US dollar declines on a short term and a long term basis? By the way I find the audio and comment of the day excellent, particularly at the macro level.

My comment - Thank you for your inspirational comments.

You could hedge with currency futures, effectively shorting the USD against an in-form currency but you may not need to do this. For instance, I use spread-bets (this facility is available to Euroland residents, although perhaps not with the same tax advantages) for which I can select from three currencies - GBP, EUR or USD. For instance, with a long bet on gold futures (quoted in US dollars), I use sterling. However I may have to reconsider this if sterling breaks down out of its 5-year range against the euro. Presumably you would use the euro.

Email of the day (3) - 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.

Email of the day (4) - On the next generation of Chart Library enhancements:

"Looking forward to the next build of the chart library. Any idea of when you plan to roll out this build?"

My comment - Eoin has been adding content at a steady rate, as you know, and we must have at least 16,000 item in the Subscriber's Chart Library. The all-important next generation of software upgrades are taking longer than I had hoped. I'll be kicking up a fuss over this at tomorrow's Stockcube Board Meeting.

Today's interesting charts - The Fullermoney Subscribers' Chart Library is customisable, one of the largest in the world and still growing.

India - Currently a top performer within an established long-term uptrend, but becoming temporarily overextended once again.

Hong Kong - One of the strongest in the world recently but now overextended. Nevertheless a downward dynamic is required to check momentum beyond a brief pause.

Australia - This has been an impressive recovery following a large correction, albeit over only 4 weeks. A failure to maintain this latest upward break would signal additional ranging, further questioning overall momentum.

United Kingdom (FTSE 100) - Back [above](#) the still rising MA - just - but the overall pattern shows a loss of momentum and likelihood of further ranging.

Ireland - Still [weak](#) despite somewhat overstretched decline. Minimum requirement is a sustained move above 8000 to show evidence of improvement.

Germany - Corrected [overextension](#) relative to MA; would require breach of August low to offset current scope for sideways to higher ranging.

Switzerland - [Not an impressive](#) rally to date and needs move above 9000 to improve this pattern which shows a considerable loss of overall upside momentum.

USA (S&P 500) - A good [recovery](#) - would need to closer below last week's low to reaffirm resistance near earlier high.

Platinum - A downward dynamic would be required to offset current scope for a potentially significant [upside](#) breakout, and rather reaffirm resistance near current levels.

My personal portfolio: The most recent silver trade was stopped out and reopened more advantageously - My latest [silver](#) purchase was stopped out at \$13.49 for the December contract this morning, against my purchase at that price on 20th September. Since my trades are spread-bets, dealing costs are in the spread and there is no other expense, so this was a breakeven transaction. I later repurchased the December position at the slightly lower price of \$13.425.

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

Please note - I will be completing early on Wednesday, around 3:00pm BST, due to the Ring Cycle.

Wednesday 26th September 2007

Central Banks Have More Work to Do In Freeing Up Credit and Money Markets - My thanks to a subscriber for this excellent [article](#) by Marco Annunziata Chief Economist at UniCredit Markets and Investment Banking, published by The Wall Street Journal. Here is a sample:

Monetary policy must remain focused on controlling inflation and ensuring overall macroeconomic stability. Both the ECB and the Fed have underscored the distinction between the technical, short-term measures they are adopting to restore the orderly functioning of money markets and their longer-range monetary policy strategy, which remains guided by the outlook on growth and inflation. They have also repeatedly stressed that they do not intend to bail out the financial sector.

But central bankers are keen to avoid excessive collateral damage to the broader economy. Assessing the underlying resilience of the real economy and the likely impact of the financial turmoil is far from easy. The Beige Book showed that the U.S. economy remains robust. But recent data on the U.S. labor and housing markets have rung alarm bells, and the latest Eurozone data have also shown some signs of softening. More importantly, the dislocation in money and credit markets, if protracted, could eventually result in a credit squeeze on consumers and corporations.

Balancing these competing concerns is where American and European monetary policy strategies are diverging noticeably. The Fed has taken the most aggressive stance so far, launching a pre-emptive strike to forestall the risk that the financial crisis might significantly affect the real economy. It has jolted the markets with a greater-than-expected 50 basis-points cut in the Fed funds rate, signalling a clear determination to prevent a severe downturn in growth. It was a bold move, especially as growth indicators are still resilient and the Fed itself recognized that inflation risks remain.

The rate cut should bolster confidence while providing additional effective monetary easing. There are some tentative signs that tensions are easing (higher rollovers of asset-backed commercial paper and a decline in three-month rates), so the Fed's maneuver might buy enough time for financial markets to return to normal. Lower interest rates might also take pressure off the highly stressed structured credit market and bolster investors' interest in assets where indiscriminate selling has pushed some valuations well below fair values. However, it remains to be seen whether this move will suffice to durably restore confidence, or whether investors will use the rally to lighten up on risk exposure.

The ECB, by contrast, has so far been more sanguine on the growth outlook, signalling confidence that the euro-zone economy is robust enough to withstand the turmoil. While it monitors its banking systems with close attention and some anxiety, the ECB seems to think that this is largely a U.S. problem from which the rest of the world is likely to remain immune. The bank abandoned its plans for a September rate hike, but it has maintained its focus on inflation and has made it clear that further hikes have been postponed, not necessarily canceled. The idea of pre-emptive monetary easing is not even on the radar screen.

Paradoxically, a decisive U.S. monetary easing might even strengthen the ECB's conviction that growth will remain robust, and lead the bank to start looking for the best time to resume its hiking cycle. Other central banks have already been hiking in the middle of the turmoil, but they are in smaller countries and can afford to act locally. Decoupling by the ECB would be a much stronger signal.

There is no silver bullet. Fighting moral hazard without exposing the real economy to excessive risks is a delicate balancing act. The Fed's decisive rate cut has raised eyebrows, as it appeared to some to be a bailout. The Fed argued it was necessary to pre-empt a serious risk to growth. Given its track

record, I believe the Fed deserves the benefit of the doubt.

At the same time, the risk of refueling leverage and moral hazard cannot be underestimated, and the danger that inflation expectations could become unmoored is equally real. In the end, a moderate slowdown in growth is a fair price to pay to bring the global financial system to a more sustainable position, with a more realistic pricing of risk. This will probably imply a moderate further reduction in the Fed funds rate, and rates on hold in the euro zone.

My view - I am in general agreement with this article, although I fear that the risk to economic growth in Europe and the USA may be somewhat higher than Marco Annunziata suggests. It is impossible to tell in advance because there are still too many 'known unknowns', to quote Donald Rumsfeld, speaking in another context.

I suspect further interest rate cuts will be required from the Fed and that the ECB and BoE should cut rates as well, if not this year, then in 2008. Economic growth is clearly slowing in the West and this will shave GDP slightly in other regions which export to Europe and the USA, even though the 'Chindia'-led portion of the global economy should remain robust.

We can expect somewhat lower rates of growth for corporate profits, particularly in the West. Perhaps this is what the somewhat flatter stock market performance in Europe is discounting, while the US stock market has so far benefited from Bernanke's bold rate cut, and performance is also flattered by the soft US dollar.

Meanwhile, a medium-term problem for stock markets, particularly in the West, is that further gains will probably require some valuation expansion. This is not unusual when GDP growth slows and short-term interest rates are lowered by central banks.

I still expect a reasonable performance by most stock markets in 4Q, extending into 2008. However I'm certainly not feeling complacent about it. Further weakness by banking sectors would cause me to lower my expectations for equities. The weak USD could also damage confidence, as I have mentioned before.

Email of the day (1) - 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.

Email of the day (2) - [On gold backing for the Swiss franc and US dollar:](#)

"To answer your question on gold covering the Swiss franc, I have not yet received an answer from the Swiss National Bank on recent statistics but the statistics from the World Gold Council is more or less what I had seen in the recent past.

"There were 2.400 tons of gold in 1998 of which 1300 were earmarked to be sold for various excuses, ie Red Cross restitution to Swiss cantons, holocaust victims and above all synchronisation with IMF standards that everyone should be without.

"This leaves 1.100 tons or approx 34.100.000 oz of gold at \$730 or \$28.9 billion or CHF 29.17 billion Swiss Francs to cover some 43 billion Swiss francs in currency in circulation which theoretically gives a present gold backing of 67.8% for the currency.

"This compares to \$806 billion in circulation in the US with officially \$11.1 billion of gold accounted at \$42.20 an oz which would require a revaluation of gold to \$2077 to have the same backing as the Swiss franc presently of 67.8%. A 50% gold backing would necessitate a minimum of \$1.532. This explains a certain sense of solidity in the Swiss franc even if it has been forced to sell half of its holdings.

"Conclusion: will history repeat itself as usual and push the [Ed: dollar?] price of gold up to a theoretical backing of 50%? Probably yes, as it has for 5000 years but not without a series of outrageously funny or pathetic efforts to keep the price down."

My comment - [Fascinating, and another example of the Fullermoney Collective's vast knowledge.](#)

I am intrigued by the figure of \$806 billion (only!) USD in circulation. I suspect the actual total is higher. If the Fed has not printed them, North Korea and other rogue states have.

Email of the day (3) - [More on IFAs and also government bonds:](#)

"First and foremost I would like to say how much I am enjoying yours and Eoin's commentary. I have only been a full subscriber for a short while, but nevertheless I feel like a kid with a new toy, waiting with anticipation to listen to the audio and read your comments of the day!.

"The truth is, I am a IFA for a living, and after reading some of the comments last week I would recommend any IFA in my industry to subscribe. It amazes

me how many IFA I have come across over the years (me included at times) who haven't got a clue with reference to why clients should be bullish or bearish in given sectors, and I can honestly say in the short time I have been a subscriber my confidence has grown somewhat and I look forward to continuing with your theme of Empowerment Through Knowledge, so hopefully I and my clients can benefit.

"My question? In the audio, you are bearish with reference to long dated Government Bonds. Is this due to the looming threat of inflation and its impact on the yield? Food for thought! If you could be so kind to give full explanations behind your theory at times for this mortal soul!

"Keep up the great work!"

My comment - Welcome to Fullermoney and many thanks for the feedback. Empowerment Through Knowledge, as I never tire of saying and as I am reminded by today's emails, is a collective process. And I am delighted by the number of subscribers who have taken it to heart.

I suspect that IFAs range from brilliant to incompetent, as in any other profession. The key for any of us, I suspect, is the hunger for knowledge and understanding. In the financial game, once we lose our analytical interest, self-awareness and passion for what we do, personal development goes into decline.

I have written about long-dated government bonds at great length over the years, so please forgive me for asking you to first try the Search facility. Suggestion, use key words and phrases, such as "June 2003", or "long-dated", or "Government bonds", or "secular bear market".

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

Please note - I am completing early today and also Friday, around 3:00pm BST, due to the Ring Cycle.

Thursday 27th September 2007

Deepak Lalwani's The India Report - My thanks to the author for this must-read [report](#) for everyone interested in India, published by Astaire Research. Here is a brief sample:

The Economic Times reports that private companies are to own a majority stake in a company that will manage India's largest infrastructure project so that faster decisions can be made. The Central Government and six state Governments will hold a 49% stake in the \$90bn Delhi-Bombay Industrial Corridor Project, with 51% being owned by infrastructure firms. The project is being funded by the Indian and Japanese Governments, Japanese firms and money raised by Indian firms issuing shares in Japan. The project which is modelled after the Tokyo-Osaka industrial corridor will stretch across six

states; have new power capacity of 4000MW, three new sea ports and six airports. This is a positive move as the Government effectively accepts that if it has majority ownership the project could be considerably slowed. This way typical bureaucracy and interference from officials will be reduced.

My comment - This is a very exciting development, not least because poor infrastructure and bureaucracy have been the main impediments to even more dramatic growth for India.

[India](#) has been my favourite stock market for the very long term since 2003. All perceptions regarding risk are being stood on their head. For instance, look at this long-term [chart](#) showing the US dollar's bull market against the rupee peaking in 2002, at which point the rupee's bull market against the US dollar commenced.

Email of the day (1) - [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.

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.

Email of the day (2) - On India:

"I am a reader of your daily newsletter from Mumbai. I must say that with the integration of the Indian financial markets into the global financial system, your daily newsletter is now part of a lot of people's daily reading list in India. Many a times, you need people who are able to provide clarity of thought more than anything else, and my personal sense is that you are one of these people. It ensures that we always walk on the ground with our head on our shoulders. The Indian markets had a blow out on Wednesday [Ed: 19th]. Is this sustainable and do you prescribe to the decoupling theory?? The problem we face in the Indian markets is over reliance on FII/hedge fund money, which nearly makes us hostage to global developments that may or may not directly affect the Indian domestic growth story. How do you see this panning out?? On a lighter note, we keep reading about yours and Eoin frequent trips to China?? How is it that India does not figure on this list??"

My comment - Thank you and I am delighted to have a steadily growing number of subscribers in India and enjoy hearing from you. One reason for that interest, I imagine, is that you may have noted my fascination with India. But, alas, it remains a virtual love affair because I seldom travel unless I can

do so on a bicycle. My excuse is that the day job keeps me so busy! With Mrs Treacy being Chinese, Eoin has no choice but to go to China.

I think the surge in your stock market is sustainable over the medium term, at least in terms of extending the overall upward trend loosely defined by this [200-day](#) moving average. Leading emerging markets such as India are benefiting from strong growth, particularly in terms of corporate profits, abundant liquidity which has increased recently, and a perception that Western markets are no longer less risky, but they are less promising. There are also a vast number of successful Indian ex-pats, living around the world, who can now invest in the country of their heritage. And how long before India's middle class equals the combined populations of Europe and the USA?

I take your point about FII and hedge fund money, but there is more of that sitting outside India and capable of coming in, than money in India that might depart. All this is subject to governance, of course, so we are all relying on you and your fellow Indian citizens. Keep up the good work!

My personal portfolio: Another new all-time high in the investment account; silver and platinum trades increased behind in-the-money stops - Eight of my personal top-10 long-term equity / fund investments, last [reviewed](#) on Friday 21st September, have reached new all-time highs since the stock market plunge in August. The latest position to do so is the Aberdeen New Dawn Investment Trust ([ABD LN](#)), which still trades at an enticing discount to NAV, which was shown by Bloomberg as 11% prior to today's move. Obviously performance won't always be this good but I remain bullish of these positions.

Being more disciplined in my trading accounts since I returned from holiday, I raised many of my metal futures stops again today and then leveraged up a bit more in [silver](#) and particularly [platinum](#). I bought December silver at \$13.695, increasing my overall position by 20%. In platinum, I bought the January contract, paying \$1367.5, \$1364.4 and \$1363.3, increasing my overall position by 75% in the process. I'm obviously hoping that we see a decisive upside breakout this time. These prices include spread-bet dealing costs.

Incidentally, if I did not want to trade futures in precious metals, for whatever reason, I would invest in the ETFs which are available in many countries. Of course shares and funds are the other play in this currently in-form sector.

My expiring platinum longs will be rolled forward this evening and my October gold position for the same month will be rolled forward tomorrow.

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

Please note - I will be completing early on Friday, around 3:00pm BST, due to the Ring Cycle.

Friday 28th September 2007

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.

Email of the day (1) - [On seeing the Chart Library](#):

"Wow! I just went into the chart library for the first time in a while and all I can say is thank you! There is a wealth of information and it has grown incredibly since I last visited.

"Have you ever come across a historical time line that depicts the rise and fall of the worlds' great currencies? Even better if it is relative to gold. I know I've seen something before but even with the powers of Google, I can't seem to find it.

Thanks for any info and keep up the great work,

My comment - [Many thanks for the feedback](#).

As a shameless proselytiser, I will encourage all subscribers to scan sectors of the Library whenever they can. Yes, it takes time and we are all busy but there is no better way to gain a feel for what is *really* going on in the markets. Charts are our reality check.

I have not heard of the currency study that you mention, but you can view gold and other commodities in up to 28 different currencies in the Fullermoney Subscriber's Chart Library, which will always remain a work in progress.

Incidentally, our next generation of customisable upgrades are in the pipeline but taking longer than had been initially suggested. The 'problem' is that Stockcube's software division accepts outside work for valid commercial reasons. And if a large institution is willing to pay a premium for immediate work, our own in-house projects are delayed. I don't like it, in terms of Fullermoney's projects, but it is a commercial reality. At least Fullermoney is at the head of the in-house queue and my guesstimate is that our own software upgrades will be completed and tested prior to release sometime in November. I thank all of you for your patience.

Email of the day (2) - [On a Vivian Lewis recommendation](#):

"Late last year you posted a couple of reports by Vivian Lewis, and one of the shares she was recommending at the time was Dryships (DRYS in the US), one of the bulk shippers taking advantage of those soaring rates to ship goods to the developing world.

"I consider myself fortunate. I bought DRYS back then and am now sitting on a tidy profit (or have I got a tiger by the tail?). Could you please add DRYS and two other bulk shippers to the chart library? The others are Diana Shipping (DSX) and Eagle Bulk Shipping (EGLE). Thanks so much."

My comment - [Vivian Lewis is a friend and smart gal](#). She sold that report but still produces something called 'RightSide Alerts' for Global Investing. Eoin will be able to add the shares to the Library on his return next week.

Email of the day (3) - [On a currency fund for those seeking refuge from the sliding USD:](#)

"In light of today's focus on the USD and how to participate in its erosion (or protect oneself from same) I wanted to pass on to other subscribers a fund that I have invested in - the Merk Hard Currency Fund (MERKX). It affords one a more conservative means (or, at a minimum, a less management intensive means) of profiting from the decline in the USD.

"Your work is first rate!"

My comment - [Thanks for your thoughtful words and a very useful USD hedge. Merk has not been mentioned on this site since January 2006 when I included a report. Eoin will be able to add this fund to the Library next week.](#)

Email of the day (4) - [Useful mention of a broker for UK investors:](#)

"2% front end load? Through our mutual broker Tony Smith of Brewin Dolphin I pay zero load but 0.5% brokerage for the China Fortune, China Healthcare, and India Opportunities Funds."

My comment - [Thanks for the reminder. This information will be useful for some investors who have had difficulty in their fund dealings. Tony Smith \(on holiday until the second week of October\) was last mentioned on 14th August](#)

Email of the day (5) - [Question on affording Fullermoney:](#)

"I have been receiving your free Public Daily Message for a few months and find it brilliant, congratulations to you and the team. Of course I read an item and wish to explore it more, but need to sign up to,..... continue in the subscribers area, which for me in New Zealand \$ would be about \$1,300. Here is the rub, I have about \$100,000 to 'invest', would you suggest that that is a sufficient amount to receive the benefits of your advice & group discussions to repay the subscription cost."

My comment - [Thank you for your feedback and interest in Fullermoney.](#)

[In all sincerity, I don't know, but I certainly hope so. Rather than the size of your account, which I do not see as an obstacle, it would depend on three factors: The timeliness of this service, how you actually used it, and future market developments which are an unknown. Incidentally, I would probably say the same to anyone.](#)

[Please note - I am behind on your emails but aim to catch up next week.](#)

[My personal portfolio: Expiring platinum and gold trades rolled forward - A](#)

quarter of my sterling-denominated [platinum](#) spread-bet trades were rolled forward yesterday evening as they were in the expiring October position. Accordingly, these were sold at \$1358, against my ill-timed purchases at \$1343.8 and \$1339.3 on 19th and 23rd July, respectively. An equal quantity of January platinum was simultaneously purchased at \$1368. The difference in price reflects spreads charged, which are not cheap in platinum being \$5 in this account, and the contango which has contracted slightly in line with US interest rates. I have high hopes for this position, which I increased substantially yesterday at some risk, and it needs to maintain the breakout.

In [gold](#), my expiring October position was sold at \$732.7 yesterday evening, against my purchase at \$670.7 on 31st July, and I simultaneously purchased a December position at \$739.7.

These prices include spread-bet dealing costs.

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

Please note - This is an early completion today due to part 3 of Wagner's Ring Cycle.

Quote of the week - On giving:

"We make a living by what we get, but we make a life by what we give."
Winston Churchill

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