

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 8th October 2007

Rod Smyth's The Week: Crowd Sentiment Suggests Stock Gains May Slow - My thanks to [Ken Liu](#) for this excellent [report](#) which he produces along with Rod Smyth and Bill Ryder. Here is the opening:

The S&P 500 rose to a record high on Friday following the favorable employment report. With the economy looking like it can avoid a recession, we think the bull market will continue in its current exuberance band of 22 to 24 times trend earnings which implies an upper end potential for the S&P 500 of around 1650 (+6%) over the next nine months. We raised our stock exposure to slightly overweight two weeks ago because two of our investment rules - Don't fight the trend and Don't fight the Fed - were firmly in support of stocks. However, we are reluctant to add more exposure at this time because of our third rule: Beware of the crowd at extremes. Our favorite gauge of stock sentiment, the Ned Davis Research Crowd Sentiment Poll is now well into the "extremely optimistic" zone at 66% bullish (see Chart of the Week). Previous peaks in the sentiment poll have been around 70% during the past three years, which suggests some room for further upside in the current rally. But with sentiment now at an extreme, we suggest investors looking to increase stock weightings wait for sentiment to become neutral before adding more stock exposure.

My view - [Subscribers will like the Ned Davis Research chart.](#)

Overall, I agree with The Week's conclusions regarding this indicator. The market is temporarily overextended but we probably do not need to worry too much about this. In an overall upward trend, it can stay in the "Extreme Optimism" zone for lengthy periods and the environment remains benign, particularly now that bank shares have extended their rallies.

Email of the day (1) - [On the Debt Supercycle and UK companies likely to outperform should sterling fall against the US dollar:](#)

"Your intuition on the market seems to remain as keen as ever. Well done (at least for the present - in any case, your record is good enough to allow for the occasional faux pas at some point in the future!).

"I make no apologies for referring to a recent article by Marc Faber discussing Debt Supercycle or Apocalypse Now. Your view, which I would be foolhardy to ignore, is that the debt supercycle has a bit more life left in it (and it has shown itself to be incredibly resilient until now). I am undecided as to how things will pan out, although I have been stocking up on gold miners, both large and (excuse me) minor miners.

"Everything comes from the currency effect, and relative values, as the standard chart of the S and P measured in Gold will show.

"If the dollar falls, the Dow, at least, will rise. Eventually, some impact may be seen on the US trade deficit, although it will be interesting to see the collateral damage that occurs during the narrowing of the deficit.

"However, I wonder if you can point me to anything in the archives regarding which UK companies are likely to benefit from an eventual weakening of the pound against the US dollar. The reason I ask is that a good look at the UK financials and especially the charts of the house builders and the commercial property companies such as Land Securities and British Land seem to be following the pattern of the US, but with maybe a year or so of time lag.

"This bodes very ill for UK housing over the next year or so, and is even more worrying for the banking sector. This would then lead us to look at lower interest rates in the not too distant future, which would then lead to a decline in Sterling (which in my opinion is hugely over-valued relative to the dollar, an opinion corroborated, I believe, by the Big Mac Index!). So, just as the current rally in the US is being led by exporters or large Dow Industrial blue chips, who are likely to have a large proportion of their earnings from overseas (i.e. non-US), and thus have good earnings over the next few quarters, so I think this process is likely to reverse shortly, and FTSE companies with large dollar earnings may start to look good once more.

"This would probably be a shot in the arm for the likes of BP and Shell, and for the Glaxos and Astrazenecas. I wonder who else might benefit, in earnings upgrades, from a relative strengthening of the dollar. Is this why Diageo has been on a bit of a run? I quite like Unilever, despite its apparent reputation as a perennial under-achiever, although it appears to be consolidating its recent gains. Have you any more insights into other UK companies that have high percentages of overseas earnings? At least this may enable a bit of protection from what are likely, in my mind, to be stormy seas over the next year or two.

"Congratulations to Eoin, for manning the fort so well during your well-deserved "rest" if we can call it such, and well done to both of you for a wealth of invaluable insight, and the care with which you nurture the Fullermoney collective!"

My comment - On behalf of Eoin and myself, many thanks for your thoughtful words, and thanks also for an interesting and perhaps timely email.

Yes, I do maintain that the Debt Supercycle (a description first used, I believe, by The Bank Credit Analyst, written by Martin Barnes in recent years) is not

over following the August and September 'credit crisis'. Incidentally, noted bears have been predicting a collapse of the Debt Supercycle for decades, and have been notably wrong each time.

The Debt Supercycle persists because it is the creation of the US Federal Reserve and other central banks (CBs). Yes, the commercial banks and investment banks can create a great deal of credit but the broad monetary conditions under which they operate are determined by CBs, which will increase or contract liquidity as required. Consequently, the Debt Supercycle will not collapse of its own weight, as so many continue to predict, if the Fed and other CB are willing to pump it up whenever a debt deflation threatens.

Yes, this may require greater amounts of liquidity to be pumped in each time but this is in part a reflection of the larger global economy. And these crises are not without some self-correcting mechanism, as we are currently seeing with write-downs by commercial banks and investment banks.

Inevitably, there are some inflationary consequences with each bailout. Central banks will always opt for this as a lesser evil, on the basis that they have some chance of moderating inflation, which is always preferable to a serious debt deflation.

An awareness of this situation is presumably behind your current interest in gold miners, and this long-term chart of the [Dow/Gold Ratio](#) supports your fourth paragraph. I believe this graph remains in a long-term downtrend.

There is currently nothing in the Archives regarding which UK companies are likely to benefit from an eventual weakening of the pound against the US dollar, because we have generally been bulls of GBP over the last seven years, 2005 excepted. Despite the Big Mac Index, I'm far from convinced that sterling is about to peak against the US dollar, at least not without multilateral intervention, although the dollar is experiencing a technical rally at the moment.

However your point about economic softening and lower interest rates in the UK is a good one. Sterling has already weakened against the currencies of stronger economies and these trends would presumably continue with the advent of lower short-term rates in the UK.

Accordingly, I have reviewed the FTSE 100 Share Index and selected the companies that I feel would most likely show relative strength against the hypothetical background of a generally softer pound.

Inevitably, any selection of shares is somewhat subjective and for this exercise I have chosen companies to outperform, on average, their benchmark FTSE 100 Index, not only against a background of a soft pound versus a majority of currencies, but also during a generally benign environment for global stock markets. In other words, it is not a portfolio for weak equity markets, a condition that would require more defensive positioning and an emphasis on yield.

My list contains 37 shares, which have reasonably good chart patterns and varying degrees of high to rising overseas earnings. For instance, the miners included derive almost all of their earnings from outside the UK, unlike Tesco, which I have included, because it continues to perform and is upping its expansion activity in Europe, Asia and more recently the USA.

Among the companies you mentioned, Shell and BP would derive a significant portion of their earnings from outside the UK but I have excluded them due to indifferent chart patterns and especially my concern over declining reserves. More subjectively, I have also excluded GlaxoSmithKline and AstraZeneca, which you mentioned, as they have indifferent chart patterns and I do not like the industry. Fine companies though they may be, I would always be worried about future earnings due to expiring patents, rival company breakthroughs and the potential for approved products to be withdrawn as unanticipated problems surface. I prefer simpler businesses with less risk of rapid obsolescence.

Here is my UK share list, in alphabetical order, to outperform the FTSE 100 in the event of a soft pound and in an environment of generally benign global stock markets: Anglo American (AAL), Antofagasto (ANTO) BAE Systems (BA/), BG Group (BG/), BHP Billiton (BLT), British American Tobacco (BATS), British Sky Broadcasting (BSY), Cable & Wireless (CW/), Diageo (DGE), HSBC Holdings (HSBA), ICAP (IAP), ICI (ICI), Imperial Tobacco (IMT), International Power (IPR), Invesco (IVZ), Johnson Matthey (JMAT), Kazakhmys (KAZ), Lonmin (LMI) Reckitt Benckiser (RB/), Rentokil (RTO), Reuters (RTR), Rexam (REX), Rio Tinto (RIO), Rolls-Royce (RR/), SABMiller (SAB) Schroders (SDR), Scottish & Newcastle (SCTN), Shire (SHP), Smith & Nephew (SN/), Smiths Group (SMIN), Standard & Chartered (STAN), Tesco (TSCO), Unilever (ULVR), Vedanta (VED), Vodafone (VOD), WPP Group (WPP) and Xstrata (XTA).

This is a relatively large list because many of the FTSE 100 Index companies have a substantial proportion of overseas earnings. Consequently I believe the UK's relative stock market performance would improve in the event of a softer pound.

Please note: This list of 37 companies is not offered as a model portfolio. I personally have a stake in the miners, directly through BHP and Rio, and the others via my holding in the Merrill Lynch World Mining Trust (MLW). Investors interested in these companies should do their own due diligence. All are listed in the Chart Library, which I reviewed, using weekly candlestick charts, during my click through.

Browning Newsletter: Fall Preview - My thanks to Alex Seagle of Fraser Management for their fascinating world [report](#) covering climate, researched and written by Evelyn Browning Garriss. It is posted without further comment and here is a brief summary:

The weak to moderate La Niña is growing stronger and will last all fall and winter. It will shape a cooler than average autumn in the West and a warmer

season in the East. It should encourage an already active hurricane season to linger through November. When winter comes, it should shape an intense mid-winter cold spell.

Email of the day (2) - [On gold](#):

"I saw you were rather self critical about being short term shaken out of gold. What follows is a bit "technical".

"Is it only me or is gold an unusually hard technical chart to read? Of course, the usual trading disciplines apply quite a lot of the time (higher highs, higher lows, trend consistency, mid point danger lines, congestion area analysis, type 1 (acceleration), 2 (rounding bottoms) and 3 (sudden change in trend) endings etc).

"But over 27 years trading gold, I have found myself too often bumped out of positions on seeming breakdowns, only to be proved the idiot by a rally coming from nowhere. On the downside, I have often held on too long as a bullish pattern depreciated suddenly or even gave a false signal. Early 2004, for example, seemed to proclaim an upward break but was followed by a horrible retracement that lasted some time and took the bullishness with it.

"What could cause this and what's the remedy?

"Upside. Government manipulation? Perhaps if it gets overcooked and scary to CBs?

"Downside. Debtor developing nations that are "forced" to buy with CB reserves on any pull back and are relatively unsophisticated in watching chart levels and overbought/ oversold positions?

"Remedies. The only strategy I think works for me is a core position that remains in place whatever the market does, with a satellite trading position round it to play these moves from overboughts to oversolds and vice versa."

My comment - [The problems you refer to apply mainly to trading. In contrast, someone who took a buy-and-hold view of bullion, and either locked gold bars in his Swiss fallout shelter / wine cellar / vault, or purchased a bullion fund or a gold share fund, has done well against all paper money over the last seven years. They have only required patience, not quite of the divine, but enough to deal with the long, tedious, confidence sapping reactions and ranging phases.](#)

[Every trend has its own consistency characteristics, as you know. Looking at these two 5-year weekly charts of bullion - shown on both \[arithmetic\]\(#\) and \[semi-log\]\(#\) scale for convenience, we see lengthy, choppy trading ranges lasting for many months, followed by a step upwards lasting for a considerably shorter period, before the next lengthy range occurs. These moves created rally highs in January 2004, December 2004 and May 2006. And the biggest rally was the most consistent and persistent, necessitating an even longer convalescence once it had peaked.](#)

But the most persistent consistency characteristic on the bullion charts, and therefore most easily seen, is the sequence of higher reaction lows, arguably interrupted only in April and May 2004. Higher reaction lows are the hallmark of an uptrend and therefore a boon to both the investor and trader. However the predominance of whipsaw ranging can only challenge the trader.

The question of why these moves were so rangy is a matter of conjecture but I suspect they were caused more by disbelief than central bank sales. Disbelief comes from the analysts who knew only a bear market prior to the last seven years. They have mostly underestimated the upside and forecast cyclical moves more often than not. Consequently, following such long bear markets, precious metals, industrial metals and also crude oil have all been subjected to some very lengthy reactions and ranging phases within what I maintain are secular bull markets.

The strategy in your last sentence is very sensible. I often used it, with my trading in the earlier years of gold's recovery. I called it my Baby Steps, buy-low-sell-high, long positions only strategy. It worked very well provided one could accumulate on weakness within one's capital allotted for the exercise. I had more confidence doing this when gold was clearly historically low in nominal terms not to mention on a real (inflation adjusted) basis. Also, the fluctuations seemed smaller because the price was lower.

What spoiled me was the acceleration to a peak in May 2006. I've been waiting for the next bandwagon advance and recently hoped that it was underway. It may be, but even in early 2006 there were setbacks before the final, dramatic acceleration. Notably, gold was strong against all currencies from mid-August until recently, as you can see in the Chart Library. Provided it does not now give up all those gains, and I don't think it will, the current pause to consolidate near last year's highs should not last beyond a few weeks before the uptrend is resumed. Lastly, the Gold Bugs [Index](#) shows a very similar pattern.

Email of the day (3) - On the eventual possibility of multilateral intervention to support the US dollar:

"I have only been a full subscriber now for a couple of months, but Fullermoney fever has really got a grip on me. Not only as the audio and commentary now become an integral part of my day, but I have now put my name down for the chart seminar in May. As they say in those adds of that well know fast food chain, I'm loving it!

"My question today is on the US dollar and multi lateral intervention. I hear you saying that if the US dollar was to go into free fall this would be bad as a whole for the world stock markets, but you feel if this was to happen then there would be multi lateral intervention. But what is really meant by this, and how could this stop the dollar from free falling?

"Keep up the great work!"

My comment - Welcome to Fullermoney, and I thank you for your kind words. I also applaud your enthusiasm because that is the way Eoin and I feel about our relationship with subscribers.

Multilateral intervention in the currency markets is a rare event, not least because it has only occurred when the leading central banks of the day have concluded that the continuation of a trend - invariably for the US dollar, up or down, would be prejudicial to their national interests.

Since President Nixon scrapped the Bretton Woods Agreement in 1971, there have only been perhaps seven or eight instances of multilateral intervention - I can't recall the exact total although I have observed and commented extensively on each instance, as it occurred. Looking at this long-term chart of the US Dollar [Index](#), I suspect that the intervention dates were at US dollar lows in 1973, 1978, the peak in 1985/6, the low in 1987/8, again in 1990/1, probably again in 1992 and 1994 and the dollars last peak around 2001.

In my recollection, the intervening central banks have included at least the US Federal Reserve, the Bundesbank (later replaced by the European Central Bank in this role), the Bank of Switzerland, the Bank of England and the Bank of Japan.

I have long maintained that multilateral intervention would eventually be required to stem the US dollar's current downtrend. This is not an immediate prospect as the dollar is experiencing a technical rally at the moment, most of which is short covering. When short-term forex pundits on CNBC and Bloomberg are next unanimous in forecasting a further rally for the greenback, we will know that the market is long and vulnerable to the next decline.

Multilateral intervention would only occur if the US dollar was accelerating lower, creating a crisis atmosphere. Central banks would use this opportunity to engineer a high-profile bear squeeze. If / when this occurs, forex traders will claim that it won't work, because they are on the other side of the trade. Previously, they have backed off temporarily and then taken on the central banks once again, at considerable risk.

The central banks may lose a battle or two, but never the war. They are the occasional, big, rough and tough players in the currency markets. After all, they can run unlimited losses, print more money if necessary, and are only answerable to themselves and their respective governments, which will have sanctioned the intervention. The central banks can also change the 'rules', by altering interest rates, if necessary, changing margin requirements or even releasing statistics to unsettle speculators (these stats can always be revised later). If you regard currency markets as a casino, then central banks are analogous to the House.

Additional Commentary by Eoin Treacy

Natixis Commodity Markets Ltd: Metals Review 4th Quarter 2007 - [Thanks to](#)

Freddie Duff Gordon for this well researched [report](#) on the Industrial metals complex from the team at Natixis. Here is a section on lead:

As 2008 develops, the increase in concentrate availability should filter through to higher refined output. Natixis Commodity Markets forecasts a 50,000 tonne surplus in 2008.

We have raised our price forecasts to \$2,750/tonne for 2007 from \$2,400 in our previous quarterly report, and to \$2,500/tonne for 2008 from \$1,900. Although these prices are substantially below where prices resided just prior to this year's LME Dinner, we believe that prices are at unsustainable levels. The 50% correction in the nickel price in the summer provides a useful reminder of the downside potential as the acute tightness in a market begins to ease.

Alternative scenarios

With LME inventories already at critical levels the market remains exceptionally vulnerable to an unexpected surge in demand, or perhaps, more likely, another disruption to supply. The most likely trigger for a further supply shortfall is if the restart of the huge Magellan mine takes longer than we expect (early 2008). Although it is impossible to predict where technical/labour problems might emerge, the industry is heavily reliant on a smooth ramp-up to full capacity at Apex Silver's San Cristobal mine.

Recent price movements with lead making new cycle highs of over \$3,500/tonne in late September highlight the potential for lead prices to surprise on the upside despite the incredibly inflated base level. A move towards \$4,000/tonne can no longer be ruled out.

Given the amazing surge in lead prices over the last six months there is the potential for an equally sharp correction. The recent experience of copper and zinc suggests that only a minor deterioration may be required to trigger such a move. Under a low case scenario, which will, most likely, be triggered by a widening of the sub-prime crisis, Natixis Commodity Markets forecasts a low average annual price of \$2,600/tonne in 2007 and \$2,000/tonne in 2008.

My view - Much of the downside risk to the lead price in this report is linked to increased production due to come on line at Apex Silver's San Cristobal mine in Bolivia and Ivernia's Magellan mine in Western Australia. Looking at the share prices of these companies, investors do not appear to be pricing in the possibility that they are about to start producing large quantities of lead in less than 6 months. In fact the stocks are underperforming their global peers quite considerably.

[Ivernia](#) has been ranging for most of the last three years and is currently towards the lower side of the range. While a move below \$1 would be needed to indicate a more serious reaction, the share needs to sustain a move above \$2 to suggest that investor confidence is returning.

[Apex Silver](#) is also range bound and is currently towards the centre of the consolidation. It needs to sustain a move above \$20 to suggest that it has

gained enough momentum to improve on its performance over the last five years.

Although lead ([p&f](#), [monthly](#), [weekly](#), [daily](#)) accelerated to a high near \$3500 in late July, it has had only a brief consolidation when compared with the length of time some of the other industrial metals have ranged and importantly it broke upwards emphatically last week. A sustained move back into the range would be needed to question scope for further upside.

Email of the day (1) - on recommendations:

"I have a quick question. Do you have a portfolio of your current recommended open positions or is this something which is only available to subscribers?"

My comment - David responded to a similar question from another pre-subscriber on [September 19th](#). Here is a section from his response:

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

If you would like to view any of our historical trades you can use the search engine. Just type 'my personal' for David's trades and 'Eoin's personal' for mine. Everything we write and record is made available for free in the public archive after four months so you will find how we reacted to different situations there without too much trouble. I have also completely updated the Featured Articles section to make it easier for pre-subscribers to get an idea of what we have written. Here are some examples.

On our definition of a market "dynamic" from [December 19th 2006](#).

On clarification of "reaction" from [January 10th 2006](#).

On how does one become a successful trader from [February 2nd](#)

A flash report on [February 27th](#) on the implications of China's sharp stock market fall that morning

On Nickel's peak near \$50,000 from [March 27th](#).

On the resources sector beginning to turn to outperformance from [April 3rd](#).

Also of interest may be the technical review of stock markets on [May 11th](#), [14th](#), [15th](#), [16th](#) and [17th](#).

And from [June 5th](#): Why investors should tread carefully but remain in the stock market.

All these articles can be found in the Featured Articles section along with many more. And don't forget the [audios](#), particularly the big picture long-term Friday audios.

Email of the day (2) - on an addition to the Chart Library:

"Just noticed this: "<http://www.fogl.com/>

"Falkland O&G have done a farm-out deal with BHP

"could you put the Falkland O&G [AIM] hart in the Library?"

My comment - Falkland Oil and Gas can be found in the [International Equity](#) section of the Chart Library along with entire list of AIM index constituents.

Email of the day (3) - on further additions to the Chart Library.

"Any chance of adding the following, USD/DKK and USD/NOK.

"Thank you."

My comment - You are welcome and of course, both of these cross rates can now be found in the Major Currency Cross Rates section of the Chart Library. You will also be able to find them with the search.

World Equity Index Valuations Tables - Here is the monthly list of 97 global indices ranked in descending order by [dividend yield](#) and then in ascending order by [P/E](#).

Following the impressive performance of Asian stock markets and the relative underperformance of Western European indices it is interesting to note that many more of the Western European markets are towards the top of the list when sorted by P/E while Asian markets have fallen considerably in the last month.

When sorted by dividend yield, the UK indices continue to be well represented.

(Please note: All data quoted above originates in Bloomberg. We realise that some of the data displayed is inaccurate for some indices, particularly where ADRs are included. However, I have endeavoured to remove those indices which were problematic. We continue to publish these tables because the data is generally accurate and going forward we will continue to weed-out the less reliable data sets as subscribers highlight them to us.)

Today's interesting charts - The Chart Library has just about every country equity index which may be of interest to subscribers.

Bombay Banks Index - reached at least a short-term [peak](#) on Thursday following an accelerated move and would need to sustain a move to new high ground to reaffirm the uptrend.

China (Shanghai A-Shares) - breaks [upwards](#) following the mid-Autumn festival and would need to sustain a move below 5500 to question scope for further upside.

Taiwan - consolidating [beneath](#) the July high and would need to sustain a move above 9800 to reaffirm the overall uptrend.

Jordan - remains in an overall [base](#) formation but rallying [strongly](#) from the lower side of the range and a downward dynamic would be needed to check momentum beyond the short term.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of September 30th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, Greece, Ireland, New Zealand, Singapore, the UK and USA - 8 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the UK, USA and Australia. Welcome all to the Fullermoney Global Strategy Service.

Thousands of people around the world receive Fullermoney's Free (Abbreviated) Comment of the Day, and their numbers steadily increase. Why do so many sign up? It is primarily due to word of mouth or word of press mention, from people who like Fullermoney's global perspective and our Empowerment Through Knowledge theme. Incidentally, on receiving our free daily email, you will not be contacted or solicited with advertisements and other marketing material. No one else will have access to your email address. We respect your privacy.

Tuesday 9th October 2007

Jonathan Davis on fund management: To bet on a bull market, or play safe? - This is an interesting and superbly written [article](#) by Jonathan Davis of Independent Investor, published in the Financial Times. Here is the opening:

Are conscientious value managers heading for another dark night of the soul, like the one that played out after the crises of 1998? It is not impossible. "I have that sinking feeling," one such fund manager, a former associate of Sir John Templeton, confided last week. "We know what could be coming - and it is not going to be fun. We are going to get crucified on relative performance if this goes on, just as we were in 1999."

What he means is that fund managers whose addiction to value as an

investment methodology is more than skin-deep face the real possibility that global equity markets will now shrug off the credit crunch and embark on a final blow-off phase of bullishness. This could culminate in a spectacular meltdown at some point in the future - but not before the performance of their prudently managed funds has cratered to the bottom quartiles of the performance tables.

The way that emerging markets have performed since the middle of August strongly suggests this is a more than plausible outcome, notwithstanding the evident risks that the eventual fallout from the credit crisis will be severe. As often in markets, value and momentum have seemed to be on a collision course for the past few weeks, while the bond and equity markets are operating as parallel universes, discounting two quite different outcomes.

This is hardly a novel situation, but it is hard to recall a period, other than 1998-2000, when opinion about the future direction of markets has been quite so polarised. At one extreme is a Scottish investment trust whose pessimism about the credit crisis has driven it to adopt a position of 100 per cent liquidity - surely some sort of record in fund history, even for Edinburgh.

At the other extreme sit the pundits who argue, with the bank credit analyst and others, that what we are seeing is the classic market response to a reflationary move by the US Federal Reserve. Even though some sort of economic crisis may be inevitable in the medium term, so this argument goes, equities could have a long way to run before the current cycle reaches a peak. If emerging markets turn out to be a new mania, we may not even be halfway through the final phase.

For value investors who fail to ride this cycle, the risk is of being left behind - so far behind, in the worst case, that their business models will be at risk, just as it was for many firms who failed to "get it" in the crazy final stages of the internet bubble. For tech stocks then, read emerging markets now. For credit "crisis" this summer, substitute buying "opportunity" today.

My view - Oh dear, I'm about to quibble with my old friend Jonathan Davis.

In my opinion, the term 'value investor' or 'value manager' has been devalued by marketing efforts. Go to any public investment meeting, let alone where journalists may be present, and most managers will describe themselves as value investors. It sounds reassuring and the implied antonym is 'speculative investor' or perhaps racy trader, chartist even, interested mainly in momentum.

Value, I would argue, is often an abstract concept, in the eye of the beholder. Presumably the self-appointed value investors whom Jonathan has in mind would not agree with this contention. Instead, they would perhaps commence by defining value in terms of fundamental criteria such as low PERs, high and /or rising yields, and earnings cash flow.

Fair enough, but whether or not you are mainly influenced by these criteria, or consider them as no more than part of the larger and more complex overall

picture, I doubt that any investor reading this item would conclude that their approach excludes value.

And too many managers promote their value investing image to compensate for the arbitrary but often self-imposed constraints under which they operate. These mainly confine them to a national market or single theme. Presumably this was once seen to be a good marketing niche, or perhaps it was a mandated by the company to avoid overlap and to control risk management. However times and circumstances change and investors are not similarly constrained.

One is reminded of John Maynard Keynes, replying to criticism during the Great Depression for having changed his position regarding monetary policy: "When the facts change, I change my mind. What do you do, sir?"

I have limited sympathy with the investment manager who would answer Keynes by presumably saying that he will stick doggedly to his familiar patch, however mediocre it may have become, until 'Buggin's turn' perhaps favours him once again.

Meanwhile, the rest of us, regarding ourselves as freely floating investors, may prefer the value offered by world-class resources companies, rich in assets in the ground, or shares in China and India currently enjoying earnings growth of 20% per annum or more.

Is this the "final Gadarene rush into risk assets", as Jonathan Davis put it? Well, to quote Keynes once again: "Successful investing is anticipating the anticipations of others." The challenge is to do it twice, on the way in and on the way out. This is never easy, particularly emotionally, but price charts will reveal the turns to objective observers.

Also, it is a travesty to compare these companies with the tech stocks in 1999-2000, most of which never earned any money, but in the finest tradition of PT Barnum: "There's a sucker born every minute", were promoted and floated by those bastions of financial probity, Wall Street banks.

Email of the day (1) - On reading the markets' reaction to the credit crisis:

"Congratulations on reading the markets' reaction to the credit crisis so well - quite outstanding.

"This [article](#) in the FT caught my eye tonight - it seemed soundly reasoned and I thought if you had missed it, it might interest you - not expecting a comment or response just happy to contribute something which may help your though process - although I appreciate it's the charts which will lead in almost every case.

My comment - Many thanks for your feedback, and also for a very good article.

Eoin and I certainly cannot source and read everything of value, as much as we would like to, so we appreciate it when subscribers contribute informative articles and reports, in the spirit of Empowerment Through Knowledge. Your article above is germane to a Fullermoney theme, that some perceptions regarding financial risk need to change and are changing.

Vivian Lewis: Heidi is hiding something - My thanks to Vivian Lewis of Global Investing for this informative [item](#). Here is the opening:

Every now and again, there is a banking scandal in Switzerland, whose banks are also its brokerages. Like now.

The matter came before the Swiss Federal Court in Lausanne last year. It concerns retrocessions, a little-known device whereby banks' house funds pay fees to banks managing peoples' portfolios for placing money in the house funds. They banks take the money out of the clients' accounts, place it in a blocked account for a period, and essentially pay it to themselves on behalf of the funds, with a time lag. Since the money remains in-house, it amounts to a huge kickback to the banks managing clients' money. Moreover, the client is not told about the secret and very large retrocession payments.

The court ordered banks to tell clients about the retrocession fees paid to the bank where his account was held by the banks' funds his money was invested in.

While the case was brought against Bank Sarasin, the practice of retrocessions is general in Switzerland. And general too is the failure to properly inform those entrusting their patrimony to the banks about the fees they are incurring to place it in-house. Of course, this is very profitable.

I translated a form from Bank Julius Baer instituted after the Lausanne court ordered banks to inform clients more fully about fees. But the form leaves out as much as it tells.

To its clients, Bank Julius Baer wrote: "Retrocessions of the normal compensation of the bank for its services are deducted. The bank is not required to make known the form, nature, and size of past retrocessions." (Auf Deutsch, for those who want to check my translation: "Retrozessionen von der normalen Vergütung der Bank für deren Dienstleistungen abgezogen werden. Die Bank ist nicht verpflichtet, die Form, Art und Höhe zugeflossener Retrozessionen offenzulegen.")

Banks are fighting hard against the court requiring that clients be seriously and explicitly informed about the retrocession practice. However, as anyone who knows about where Swiss banks get business, this is very short-sighted. Switzerland has long been a center of offshore banking, notably, but not exclusively, for the European Union countries. The EU trend is toward greater transparency on fees under its MIFID regulations.

My view - The financial world is too often amoral, at best. One would hope that these businesses viewed their customers as valuable assets, best nurtured in their mutual interests, but that would be naïve, wouldn't it.

Email of the day (2) - On nuclear energy, including fusion:

"I happened to read the section on Nuclear Energy in the Alex Seagle piece. I recalled that my youngest son, a senior political science major at University of Colorado had written a term paper on the energy policies in Western Europe and that I had a copy of it and it had discussed ongoing research and technology in the Nuclear Energy field. I have copied a few sections. I assume that I am not crossing the line in the area of copyright infringement.

(1) According to a 2007 story broadcast on Sixty Minutes, nuclear power gives France, with 80% of its electricity generated by nuclear power, the cleanest air of any industrialized country, and the cheapest electricity in all of Europe.

(2) General Electric's CEO, Jeffery Immelt has stated "It's hard to believe simultaneously in energy security and reduction of greenhouse emissions without believing in nuclear power. It's just intellectually dishonest." (Ed: I realize he has some personal interest in it but I take him at his word.)

(3) Currently, economically feasible uranium supplies would last approximately 70 years. But new technology involving breeder reactors and recycling will allow for a 100 times increase in the energy created by uranium than do present reactors. However, the promise of fusion reactors, even if they be 50 years away, is our ultimate goal and answer. Fusion not only means a never ending supply, but also would answer safety concerns. No material that is useful for bombs is produced with fusion. This technology is fuelled by deuterium that comes from sea water. It is a technology that requires no fossil fuels and emits hardly any radioactivity. Since it comes from sea- water, the energy available from these reactors of the future is basically limitless.

My comment - My thanks to you and your son.

I've been reading about nuclear fusion - the holy grail of energy - since the first 'oil price shock' of the 1970s, but when the price fell back we were left with mainly nuclear confusion.

If you assume that the long-term price trend for oil will remain upwards, as I do, then renewed development of the nuclear fission industry and research on fusion has only just begun.

Today's interesting charts - In a financial world of theories, price charts are our reality check.

China (Shanghai Composite) - Reaffirmed uptrend with a runaway gap following the holiday period; overstretched relative to the MA, although not the

large [base](#), and would require a close beneath 5300 to question upside momentum beyond a brief pause.

Merrill Lynch Gold & General Fund - This well-managed [fund](#) has given up no ground to date during the recent reaction and consolidation by bullion. A move below 800, which I do not expect, would be required to question higher scope. *(Note: this fund is number 7, by capitalisation, of the top-10 holdings in my personal long-term investment portfolio.)*

Atlantis China Fortune Fund - Steady near [high](#) and would require a move beneath 3.3 to check momentum and suggest a possible upside failure. *(Note: this fund is number 2, by capitalisation, of the top-10 holdings in my personal long-term investment portfolio.)*

JP Morgan Indian IT - Somewhat overextended relative to its MA but well [supported](#) by underlying trading and would require a downward dynamic to check momentum beyond a brief pause. *(Note: this fund is number 1, by capitalisation, of the top-10 holdings in my personal long-term investment portfolio.)*

USA (S&P 500) - Extending [upside](#) break; would need downward dynamic to check momentum beyond a brief pause, and a close beneath 1500 to confirm upside failure and suggest possible top formation development.

USA (S&P 500 Banks Index) - [Labouring](#), albeit with higher reaction lows, and needs a sustained move above 380 to improve the overall pattern. Conversely, a close beneath the low of the last upward dynamic at 358 would indicate renewed pattern deterioration.

USA (AMEX Gold Bugs Index) - [Steady](#) in apparent consolidation near former high. A close beneath 375 would be required to further delay higher scope which appears well supported by underlying trading.

Additional Commentary by Eoin Treacy

Merrill Lynch Global Economics: The overflowing bathtub, the running tap and SWFs - Thanks to a subscriber for this interesting [report](#) by the global economics team on the growth in Sovereign Wealth Funds and the likely implications for global markets. Here is a section:

China is unusual in that it has at present the highest share of working age population among all economies in this group. That share is expected to increase over the next five years after which time it is expected to remain at a high plateau for another few years. Then, beginning around 2020, China's working age population begins a long-term decline, as the effects of the one-child policy (in effect from 1979) feed through. This pattern of an extremely high working-age population for 10 years ahead of a long, steep decline should contribute to a continued high savings rate in China for the next 5-10 years at least.

The demographic profile of countries in the Middle East is very different. They have among the youngest populations in the world. The result of this, according to the traditional model, should be relatively low savings and high investment. With the energy shock, however, oil-exporting countries' net savings have surged as oil revenues have offset the demographic effect. Nevertheless, in a relatively stable oil price environment,

Middle Eastern external surpluses are expected to narrow significantly over the next couple of years as demographic forces reassert themselves. As an illustration of how the global imbalances problem could evolve, the IMF's April 2007 World Economic Outlook (Chart 9, previous page) shows how, by assuming roughly stable growth and crude oil prices, the US current account deficit merely stabilizes relative to world GDP (which would imply an increasing deficit in absolute terms or relative to US GDP), as the baby boomers continue to drop out of the peak earning/savings age group.

The excess of savings over investment in developing Asia and the Middle East continues to increase in this scenario, whereas Middle East savings should recede over the next few years due the relative youth of Middle Eastern populations. Young populations imply a tendency for low savings relative to investment.

My view - Central Banks, particularly in the emerging world, have the twin concerns of what to do with their accumulating massive foreign exchange reserves and the pressure that process of accumulation is putting on their currencies. China and some of its Asian neighbours still have currencies that are well below the values they traded at prior to the Asian financial crisis even though arguably their economies are in far better shape now than they were then. The gradual uptrend in the [Asian Dollar](#) Index indicates that this situation is slowly changing but these currencies still have considerable room to appreciate before they can be described as anything other than undervalued.

When Asian Sovereign Wealth Funds look to invest for the long-term they will unavoidably invest in the USA because of its size and the ease with which it is possible to allocate large sums of money without moving the markets untowardly. However they will also be heavily inclined towards their own region because Asia is at the forefront of global GDP growth, it has the demographics for this growth to continue for a number of decades and is in the midst of the greatest urbanisation in history. Sovereign Wealth Funds based outside the region will also come to the same conclusion.

These are secular moves and should help to underpin equity markets in the region for the foreseeable future. This does not mean the region will be immune from volatility, but it does mean that equity markets in the region are likely to outperform as long as the global economy avoids recession.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his interesting, concise [report](#) which this week concentrates on the introduction of healthcare schemes aimed at priming the electorate in the event of early elections. Here is a section:

India plans to spend \$5bn to extend a rural jobs scheme from 330 districts to 600+ districts so that the whole country will be covered from April 2008, two years ahead of schedule. The scheme guarantees employment of 100 days a year to the unemployed. Also to be launched early next year is a new health insurance scheme for low-income families living below the poverty line. A smart card will be given to them granting them access to healthcare from state-run or private hospitals costing up to Rs 30,000 (\$750). Nearly 75% of the scheme, which is estimated to cost Rs 7.51 bn in 2008/09, is to be funded by the federal Government and the rest by India's 29 states. Also to be launched are two more schemes - one expanding the scope of old-age pensioners and another introducing death and disability insurance for the poor. According to the Finance Minister, Mr Chidambaram, the new schemes are not expected to alter the targeted fiscal deficit this year of 3.3% of GDP which under federal law is to be brought down to 3% by March 2009 and for the revenue deficit to be eliminated by that date. These proposals indicate that the Government is gearing up for mid-term polls ahead of the 5 year term expiry in May 2009. The Government is battling its worst crisis since it came to power with left allies threatening to end support if it pursues a controversial nuclear deal with the U.S. The likelihood increases of early elections by April-May 2008.

My view - The measures outlined above are a clear indication that the ruling party is intent on holding onto power and is prepared to use populist policies to do so. This may also have helped to encourage the government parties to sit down and iron out their differences over the proposed closer ties with the USA on nuclear energy. Investors put a premium on political stability. The prospect of a government collapse delayed India's bounce in mid-August and today's news of talks between the government parties was at least in part responsible for the impressive stock market activity. The [Sensex](#) moved to a new high, posting an emphatic dynamic and it would need to sustain a move below 17,350 to question scope for further upside.

Email of the day - on Hong Kong, forwarded but not written by a subscriber exclusively for Fullermoney:

"This past mainland Golden Week holiday turned out to be quite unique. Rather than being asked by visiting mainland friends, 'where is the best shopping venue?' this year, I was repeatedly hit by the same question, 'how do I open a stock-trading account in Hong Kong?'

"It takes less than an hour to open a private stock account with a bank in Hong Kong, and you only need to present a copy of a relevant travel document and proof of a mainland address. Online trading is provided by most brokers.

".....how mainlanders managed to bring in so much HK loot from China. Here's the skinny: From February this year, mainland residents are allowed to purchase the equivalent of US\$50,000 in foreign currencies at mainland banks each year. As communications between the databases of Chinese banks is not yet up to par, an individual can technically change more than the official quota at different branches with multiple transactions even in one day.

Note that this underground through-train of privately carried money brought into Hong Kong is completely off the official records of the QDII scheme."

My comment - This explanation sounds very plausible in light of the fact that many Chinese seem to have little issue with carrying large sums of cash around when needed. China remains a very cash-based economy. This injection of capital helps to explain the surge in Hong Kong shares well in advance of access to the market by mainland Chinese. Investors have raced to buy Hong Kong listed equities before they have to compete with hordes of mainlanders chasing them once regulations are put in place.

However this does not alter the possibility that the market will experience a correction once these regulations come into force as all those who bought on the expectation of selling to the Chinese mainland's millions are likely to do so at the same time. For the moment the [Hang Seng](#) has found at least short-term support near 26,750 but needs to sustain a move above 28,900 to reassert the uptrend.

Today's interesting charts - The Chart Library has two Search Engines. One searches the more than 16,000 equities, funds and ETFs in the International Equity Library and the other searches through the rest of the Chart Library for indices, commodities, currencies, bond prices and yields, ratios, spreads and overlays.

Australian Financials - joins a select group of other Asian Financial indices which have moved to [new highs](#) following the August correction. It would need to sustain a move below 7200 to question scope for further upside.

Nasdaq 100 - remains in a consistent [uptrend](#) but beginning to look somewhat overextended in the short term. However it would need to sustain a move below 2050 to question scope for further upside.

Soybeans - finds short-term [support](#) at 925¢ but would need to sustain a move above 1000¢ to reaffirm the overall uptrend.

Bulgaria - posted a [key day reversal](#) yesterday and followed through today as the Index encounters resistance at the psychological 2000 level. Yesterday's high probably marks a peak of at least near-term significance and it needs to sustain a move to above this area to reaffirm the overall uptrend.

Wednesday 10th October 2007

Barclays Capital: For a Few Dollars More - My thanks to a subscriber for this interesting [report](#) by Barclays Capital's excellent analytical team, led by Kevin Norrish. Here is a brief section on precious metals:

Precious metals: We have increased our Q4 07 gold price forecast to \$750/oz due to key price determinants turning increasingly positive amid gold-favourable market conditions. External factors such as a stronger EUR/USD (already trading above 1.40), buoyant oil prices and the sensitive geopolitical

environment coupled with additional catalysts of expectations of slower US growth momentum and further Fed rate easing have the potential to drive prices to fresh 28 year highs. Physical demand has also made a remarkable comeback, which is providing a solid footing for prices. Coupled with the rapid build in ETF positions, this outweighs the two bearish factors for gold of a slowdown in producer de-hedging and pick up in central bank sales.

My view - Technical action strongly suggests that precious metals are back in fashion and seasonal factors are bullish. I'll have more to say in today's Audio.

Email of the day (1) - On indicators, including relative strength (RSI):

"You use a lot of charts but do you use any indicators like a relative strength to determine if a market is over bought or over sold - while the trends may still be intact? Great site and a lot of good information."

My comment - Welcome to Fullermoney; thanks for the feedback and also for making a good point on RSI.

The short answer is that I no longer look at many indicators, haven't for several decades now, maintaining that most of the information that we need is in the raw price chart, if we know how to read it. And I would rather look at more individual charts to have a broader view, than scrutinize a single instrument with lots of technical filters. But I also think that it is a matter of preference rather than a right or wrong approach. This is why there are many customizable features in the Subscriber's Chart Library, mainly covering momentum and relative performance.

I should probably look at RSI a little more often, especially when trading popular futures markets. For instance, this [chart](#) of platinum shows the overextensions, particularly danger signals such as acceleration, very clearly and one can easily see lateral resistance with just the price data. However the RSI does tend to highlight these probable reaction points equally clearly and that can be important because plenty of traders will watch RSI.

Thailand: Recovery candidate or perpetual underperformer due to poor governance? - For yet another example of the Fullermoney maxim: "With emerging markets governance is everything", look at Thailand. In 2003, when the global stock market recovery commenced, Thailand was a [world beater](#) because many strategists regarded business savvy Thaksin Shinawatra as the ideal prime minister. When he fell from grace the Thai stock market inevitably followed, and although it has firmed somewhat, it has lagged way behind the rest of Asia due to ongoing uncertainty.

Having invested in Thailand in 2Q 2003, sold out on January 2004 and then bought in again during the dips, I am not a disinterested observer as the Aberdeen New Thai Fund ([ANW LN](#)) is the third largest position, by weighting, in my investment portfolio. Frankly, the problems have persisted for longer than I expected, taking a greater toll on the economy than envisaged.

So I was pleased to see this [report](#) by Keith Neruda for UBS, kindly forwarded by a subscriber. Here is the title and some opening bullet points:

Rerating underway: Index target of 1034

Locals seem finally to be buying and supporting the market

Since the beginning of July, foreigners have been net sellers of Bt7.4bn, yet the market has nevertheless risen by 5%. We believe that it has been the lack of local buying support that has been the major reason that Thailand trades at a 33% PE discount to Asia. This change in local buying behaviour is the key reason we now believe that the market can rerate sustainably above its recent trading range.

Low growth and political uncertainty not likely to last through 2008

Our call for a market rerating is arguably a bit early given that economic growth, especially private spending, remains extremely weak. Moreover, we have low expectations that a general election will be enough on its own to turn this around. Having said that, we believe that the market is also not pricing in a recovery at this point, especially in the banking sector, and the economic outlook and consumer sentiment should improve over the next year.

Bottom-up turnaround began since April

Our bottom-up implied 1-year index target has increased from 827 at the end March to 922 now. However, we are setting our 1-year index target at a 12% premium to reflect our view that the market will rerate over the next 12 months.

Upgrade Banks to Overweight

Banks have underperformed the index by 13.4% since the coup. The four Buyrated BBL, KBANK, KTB and SCIB trade an average 08E PE of 9.3x, P/PPOP of 5.3x and P/BV of 1.2x. Deteriorating asset quality remains a concern, but of the four, we believe only KTB is under-provided.

Naturally, I would be delighted to see 1034 for the SET Index and this monthly [chart](#) suggests that it could move considerably higher. Needless to say, perceptions regarding governance will influence the timing. However all investors need to see in this currently favourable environment for Asian and commodity exporting countries (Thailand qualifies on both counts) is an improvement. And a business friendly government could catapult Thailand higher.

Seeing plenty of potential in the chart pattern, I will retain my investment in Thailand but perhaps commence a gradual reduction of my position on strength above 1000 for the SET Index.

Email of the day (2) - [On possibly becoming a paid subscriber once again:](#)

"I have been reading the public version of Fullermoney for some time now and may finally be coming to the point where I wish to be a paid subscriber once again. But could you please clarify a point. Mention is often made of a

"Subscriber's Area," as, for example, a place where the entire content of an article or letter -- and not just an introduction to it -- can be found. Exactly what else is contained in the "Subscriber's Area"? Also, is it possible to gain significant benefit from a full subscription without taking the time every evening to listen to David's audio discussion, which (as a short-term former subscriber, who does not recall a "Subscriber's Area"), I often found to be too long for me to listen to? Thanks you."

My comment - Thanks for your interest.

Understandably, the Subscriber's Area contains the most important information - conclusions, forecasts, reports, and not least, Eoin's and my personal trades and investments. It also provides access to the latest Audios - one is recorded every working day, updating our market views and discussing important developments. My guess is that few subscribers will listen to all of the Audios but the important point is that they are there for when people wish to hear our latest views. Incidentally, some subscribers download the Audios onto an iPod, or equivalent, and multitask by listening to them when driving, riding public transport, walking the dog, or whatever. Subscribers also have access to our, vast and increasingly state-of-the-art, customizable Chart Library. This will always be a work in progress and a series of new features should be available before yearend. Subscriber's requests on additions to the Library are promptly implemented. Subscribers are much more likely to have their questions of general interest answered in the Email(s) of the day.

Annual subscriptions cost less than monthly subscriptions and annual subscribers receive a loyalty discount for continuous renewal. The current rate for an annual subscription is £440, which I have just heard is less than the rate for a double room for one night at a reasonably good London hotel. Our many subscribers living outside the sterling area almost invariably pay by credit card, using our online subscription [facility](#).

My personal portfolio: Investec Global Energy Fund sold, zinc and nickel futures longs opened and silver futures long increased - I sold my initial investment in the Investec Global Energy Fund (Guernsey-listed) last April and sold my latter purchase in the London-listed, sterling-denominated vehicle ([INVGEEA LN](#)) today, receiving 200.94p against my purchase at 153.51 on 19th August 2005. This had been the 11th largest position, by capitalisation, in my personal portfolio.

The Investec result is disappointing, not least because I remain a long-term bull of energy and the fund chart still looks promising. However, I am concerned about the long-term fundamentals for companies in this fund. They are dominated by big, Western oil shares which cannot replace their reserves. Moreover, in recent years we have seen how vulnerable they are to expropriation of reserves, which mostly reside in countries with authoritarian regimes, keen to nationalise oil fields now that they are so profitable. And oil-rich democracies such as Canada are raising taxes once again. This may be good for the countries involved but it does no favours for minority shareholders.

In summary, big oil owns very little of its reserves relative to top-tier mining companies. Also, Investec's managers have stuck with low valuation companies, which was once commendable, but in recent years the drillers and equipment suppliers have shown by far the best performance. Eoin last made this important point in his excellent [review](#) on 17th September, in commenting on Martin Spring's report.

I will probably reinvest cash raised from the Investec Global Energy Fund sale in resources, favouring mining companies.

In my trading account, I opened longs in both [nickel](#) and [zinc](#), using the new Exchange Traded Fund Securities (ETFS) which IG Index now quotes. Both have seen big setbacks in recent months although the patterns are quite different. Eoin and I have long advocated buying resources following setbacks and I'm anticipating a downside failure for zinc, while nickel appears to be bottoming out following a significant correction. I bought June 2008 nickel at \$4128.52 and zinc at \$1446.16, including spread-bet dealing costs. For the record, these ETFS track the DJ-AIG Nickel and Zinc Total Return Sub-IndexSM (aren't these acronyms tedious).

In [silver](#), which I should have bought yesterday, I paid \$13.91, including spread-bet dealing costs, this time for a March contract, increasing my overall position in this metal by a third.

Email of the day (3) - On uranium and rugby:

"Once again my congratulations for your site. I have been a subscriber for the last months and every day I find in it new challenges both from you and your team and from other sharp subscribers.

"My question is about uranium. After being smashed in the last months it seems that it is close to land near the 200 ma. Would it be advisable to take a small position once it happens? I know that you hold a position in CCJ as part of your core investments and I would like to know your thoughts.

"Many thanks and I hope to see England and Argentina playing the final match of the Rugby World Cup, in Paris. That would be nice."

My comment - Many thanks for the feedback.

Regarding the Rugby World Cup, so many of the Collective are passionate supporters of their national sides that discretion and respect will limit my comments to congratulating the eventual winners. Except that I found last weekend's games riveting and your Pumas have certainly distinguished themselves.

As for [uranium](#), it certainly is looking interesting and your strategy makes sense. Alternatively, and more conservatively, you could wait for the first up-tick in the price before buying the actual metal through one of the vehicles

listed in the Library. Uranium shares are also interesting following their large corrections and they have the gearing.

For the record, I don't actually hold CCJ US, which is the Cameco ADR. I have a long-term investment in the actual company which is [CCO CN](#). Although in 10th position, in capitalisation weighting within my personal portfolio, this is a small holding at less than 20% of my largest equity investment which is in India. I will probably buy more Cameco at some point and suspect it is in a buying range right now. However I am not adding new money to my investment portfolio at this stage and cannot use the Investec Global Energy proceeds as they have to be invested in a UK-listed vehicle.

My dream scenario, would be for gold shares (a significant weighting in my portfolio) to spike higher before uranium turns upwards once again. That would enable me to make a timely switch. Of course the markets will travel their own paths, unconcerned by my wishes. Also, mines are likely to perform as a group, albeit not at the same rate.

Additional Commentary by Eoin Treacy

Pimco: Global Central Bank Focus: A Reverse Minsky Journey - Thanks to a subscriber for this [report](#) by Paul McCulley which looks at some of the behavioural aspects behind the recent credit market crisis. Here is a section from a piece quoting Keynes:

In practice we have tacitly agreed, as a rule, to fall back on what is, in truth, a convention. The essence of this convention - though it does not, of course, work out quite so simple - lies in assuming that the existing state of affairs will continue indefinitely, except in so far as we have specific reasons to expect a change. This does not mean that we really believe that the existing state of affairs will continue indefinitely. We know from extensive experience that this most unlikely. The actual results of an investment over a long term of years very seldom agree with the initial expectation. Nor can we rationalize our behavior by arguing that to a man in a state of ignorance, errors in either direction are equally probable, so that there remains a mean actuarial expectation based on equi-probabilities.

For it can easily be shown that the assumption of arithmetically equal probabilities based on a state of ignorance leads to absurdities. We are assuming, in effect, that the existing market valuation, however arrived at, is uniquely correct in relation to our existing knowledge of the facts which will influence the yield of the investment, and that it will only change in proportion to changes in this knowledge, though, philosophically speaking, it cannot be uniquely correct, since our existing knowledge does not provide a sufficient basis for a calculated mathematical expectation. In point of fact, all sorts of considerations enter into the market valuation which are in no way relevant to the prospective yield.

Nevertheless the above conventional method of calculation will be compatible

with a considerable measure of continuity and stability in our affairs, so long as we can rely on the maintenance of the convention.

My view - While John Maynard Keynes was certainly not referring to chart reading when he wrote the above paragraphs, I can think of no better exhortation of why one should look at price charts. When a market is trending, we tend to assume, that the prevailing conditions will continue for the foreseeable future. If not, we would never open any momentum trade and would be limited to buying favourites following sell offs. However there are ways which can help us to determine whether we are justified in our assumption and help us to determine when a trend may be ending..

At The Chart Seminar, we spend a significant period of time drilling through charts, identifying trend consistency characteristics and determining what would need to happen for the chart to tell us that conditions have changed. This entails answering questions such as: Is the market trending or ranging? If trending, is it consistent or inconsistent? Does it have a series of trading ranges, one above another? Are these congestion areas relatively similar sized? Is the distance between them relatively similar sized? Do they have a similar duration? Is the trend progressing steadily or is it accelerating? What do the internal dynamics of the present range look like? When we have answered these questions we are in a much better position to answer with confidence the question of whether the trend is likely to continue. Once an instrument begins to lose its consistency, this at the very least raises the question of whether the trend is sustainable.

It is very easy to allow ourselves to be shaken out of promising positions but much harder if we answer the questions above before making an investment decision, regardless of what maelstrom of news might be surrounding an instrument. Actually having the discipline to do this is more difficult still, and I can attest to experiencing some of my worst losses when I have allowed my ego to control my investing rather than my technical discipline.

Mineweb: An Interview with Mineweb Russian Correspondent John Helmer - This interesting [interview](#), which originally appeared in Norilsk Nickel Magazine, gives the Russia centric view of the global mining sector. Here is a section:

Q: What are the most typical problems for Russian companies in their expansion to the international markets? What are ways of overcoming them?

A: Let's not misunderstand or misinterpret what is happening. Russia's recovery from the damage of the 1990s depends, first and foremost, on the energy trade. But Russia's oil and gas exports depend, precariously, on pipelines that cross potentially hostile territory, on sea channels that can be closed to Russian cargoes, on investment in new energy reserves at home that can be starved of cash, and on a market rigged by a handful of international companies that take their orders from Washington or London. In this world, no one wishes Russia well. In a time of unprecedented high commodity prices, volatile currencies, and risk of global supply disruptions, it

is necessary for Russian corporations like Gazprom to protect their access to global markets, limit their exposure to the US dollar, prevent the depletion of their reserves, and combat the devaluation of their profits.

Gazprom and the state-owned oil companies pursue foreign expansion with a different rationale from the privately owned Russian corporates. Some of the latter have built elaborate offshore trading schemes to ensure that the profitability of their Russian operations is transferred abroad, without paying Russian tax. Others have created a mountain of debt for their Russian companies, while paying premiums for assets abroad. Forget synergies and beating trade barriers -- the assets which Russia's steelmakers have acquired are best thought of as profit havens, or insurance policies, or kickers on consolidated balance-sheets to sustain international share prices making possible share swaps and mergers. This is the new form of capital flight from Russia.

It is hardly surprising that when brokers and investment bankers in London, New York, or Johannesburg have assets they would rather get rid of, they leak rumours of Russian buying interest.

The market believes Russian money is hot, in flight, and willing to pay over market to get away from the taxman, or the Kremlin. There is also a natural apprehension in the international markets that Russian asset raiders will use the same tactics abroad that they used to acquire their assets at home. According to a recent survey of international attitudes towards Russian corporate expansion, there is widespread concern for corruption and bribery. Transparency International, an independent research organization, consistently ranks Russia at the worst end of the global bribepayers' index. Nothing can be done to change these attitudes, for the time being. The City of London, its investment bankers, lawyers, real estate agents, and PR men all live off this lawlessness. In fact, they share in the rewards, and have no motive to reform themselves - much to the chagrin of the somewhat better regulated, relatively more law-abiding institutions of Wall Street.

Q: How is the Russian mining sector different?

A: The two great Russian mining companies, Norilsk Nickel and Alrosa, are closer to Gazprom and the state-owned oil companies than they are to Russia's privately owned steel and aluminum groups; perhaps the state-owned Rosoboronexport group, led by Sergei Chemezov and Sergei Nosov, can transform the latter in a progressive direction over the next twelve months. Norilsk Nickel and Alrosa are giants in the global markets of nickel, platinum group metals, cobalt, and diamonds. Their products are priced in dollars. They must convert some of those dollars into foreign assets, and they must beat their rivals for market share, so as to preserve their profitability for the future. Norilsk Nickel's investments, upstream and downstream, in Australia and Finland, make sense according to these criteria. Buying Stillwater Mining Co., the North American palladium miner, did not, but arguably, it cost next to nothing. At any rate, it was one of Leonid Rozhetskin's schemes for enriching himself, when he was on the Norilsk Nickel board. After his dismissal two years ago, he can do no further damage.

My view - Russia has some of the world's finest ore and energy reserves but governance on both a corporate and political scale hamper the ability of these reserves to be priced similarly to those in other major resources markets. The news that Vladimir Putin will retain some form of control following the Presidential elections has helped to boost the stock market because it points towards further stability beyond the short term. This is probably not good news for the development of democracy and institutions the population can have faith in but nor does it point towards a reversion to the anarchy which followed the fall of the old Communist regime.

The [RTSI](#), quoted in US Dollars and with 50 shares, accelerated to a peak in May 2006 and subsequently entered a period of consolidation. It succeeded in breaking upwards to new highs in December and spent much of this year consolidating that move. Dollar weakness may be a factor in the volatility of this consolidation. Another of the characteristics of the consolidation is that it has been unable to sustain upward breaks. Is this occasion any different? Possibly, the RTSI Index has also broken upwards in other currencies, for example the [British Pound](#). The [CRTX](#) index, also denominated in US Dollars and made up of Russia's 12 largest companies, broke upwards from the more than year-long consolidation and is pressuring the psychological 3000 level, which also marked the 2006 peak. A downward dynamic would be needed to check momentum beyond the near term.

The Times: Australian queue-cutting set to fuel the rising price of coal - Thanks to a subscriber for this interesting [article](#) by Carl Mortished for The Times which covers tightness in international coal markets. Here is a section:

The price of coal in Europe has risen by 50 per cent this year, bearing down on the profit margins of big coal users, such as cement-makers and power generators. Over the past year the share price of Drax, owner of Britain's biggest coal-fired electricity generator, has fallen from a high of 929p in August last year to 615p. In Europe, a spot cargo of South African coal was reported to have changed hands at \$115 per tonne as a European utility sought to make good a delayed shipment.

"So many utilities and cement companies are looking," one trader said.

"They will pay, but they are desperate that no one finds out."

Meanwhile, Japanese and Chinese utilities are scrambling to secure supplies. Last week, several Japanese power companies agreed to pay an Australian mining unit of Peabody Energy \$68 per tonne for fourth-quarter coal, a 25 per cent increase on the price in the early part of the year.

Negotiations for 2008 coal are continuing between the Japanese utilities and Australian producers, such as Xstrata and Rio Tinto, but the expectation is that prices will rise.

My view - This is another iteration of the Supply Inelasticity Meets Rising Demand theme. Coal has been out of fashion for so long that many mines

have closed, infrastructure has decayed or indeed never been built and what was left of the industry was simply not prepared for the surge in demand originating in China. This had led to supply bottle necks and well publicised queues of ships waiting to load at Newcastle and other ports. New deep water ports need to be built in commodity producing countries to service their customers. China is well ahead in building its own infrastructure to handle the importation of these bulk commodities but the rest of the world seriously needs to play catch-up.

Much of the coal market is over-the-counter because of the varying grades and the ease with which consumers can negotiate with suppliers, so it is difficult to see exactly what the commodity is being priced at internationally. The NME traded [future](#) doesn't have much back history. It found support near \$25 in early 2002 before accelerating to a peak of \$65 in mid-2004. The Type-1 ending resulted in the commodity declining until late 2006, when it found support at \$39. It would need to sustain a move below \$44 to question scope for further upside in the near term.

The Times: Rusal to take smelting nuclear - [This article](#) by David Robertson also from today's Times looks at a new source of growth for the nuclear industry. Here is a section:

Rusal, the aluminium producer, will build its own nuclear reactor as soaring energy costs force large-scale industrial projects to find their own power sources.

The Russian company, the largest producer of aluminium in the world, will spend at least \$6 billion (£2.9 billion) building a smelter and two new reactor cores at a power plant on the Volga River.

Aluminium smelting requires vast quantities of electricity and Rusal has been using hydroelectric power from Siberian dams.

The company wants to own its power providers and is developing nuclear as part of a diversification strategy.

Rusal also said that nuclear energy was a good match to aluminium smelting because it was capable of providing greater quantities of power than hydro.

Rusal will add two new reactor blocks to the Balakovsky power plant in Saratov, about 400 miles (645km) southeast of Moscow.

They will generate 2,000 megawatts, equivalent to 5 per cent of the UK's total supply, and power a smelter that will produce more than 1 million tonnes of aluminium a year.

The smelter will increase Rusal's total production by 25 per cent.

Rising oil and gas prices are making it vital for large industrial companies to find sources of power that they can own or control.

My view - [We have long described uranium as the best of the energy stories](#) and this is further example that reactor construction is a growth business.

(Also see Comment of the Day on [July 9th.](#)) This article shows us that it is not only countries which are likely to want to build reactors and indicates that the growth potential for the entire uranium industry remains intact, although in a corrective phase right now.

As long as the [uranium](#) price continues to correct, the speculative side of the industry is likely to remain in a period of consolidation where junior miners with confirmed reserves in the ground are likely targets for the larger players, now that they have fallen from their speculative peaks. However the larger cap miners such as [Cameco](#) appear to be in a bottoming out process and the order books for reactor builders have not been affected one way or the other by the recent turmoil although their equities have.

Both [Areva](#) and [Toshiba](#) suffered a decline during the August correction and have so far failed to regain their highs. However they would need to sustain moves below their mid-August lows to question scope for a reassertion of their uptrends over the medium term.

ETF Securities to list new range of ETCs providing investors with access to a different part of the commodities futures curve - Thanks to EFT Securities for this [news release](#) which came through yesterday. It refers to the introduction of 9 new ETFS which track the Dow Jones AIG Commodity 3-Month Forward Indices. Here is a section:

Global pioneer in exchange traded commodities, ETF Securities (ETFS), will deliver another world first by listing nine new Index Exchange Traded Commodities (ETCs) on the London Stock Exchange on Wednesday 10th October- offering investors, for the first time ever, the opportunity to gain direct and simple exposure to commodity futures prices which are linked to the Dow Jones-AIG Commodity 3 Month Forward Indices. Another nineteen Individual ETCs will be listed in the coming months.

The new ETCs will track 28 different individual commodities and baskets of commodities, making a total of two different maturities available. Up to 58 ETCs available, tracking both the Dow Jones-AIG Commodity IndexSM and the DJ-AIGCI 3 Month Forward IndicesSM which were launched by Dow Jones and AIG Financial Products Corp. for the very first time on 28 September 2007.

The first ETCs to track DJ-AIG Commodity Indices were listed on the London Stock Exchange in September 2006. Since then, the existing 29 ETCs tracking DJ-AIG Commodity Indices have accumulated over \$1.2 billion in assets. The most popular ETCs have been those tracking precious metals and agriculture, which contribute 70% of ETC assets. Over the past twelve months, the ETCs have been listed on five European stock exchanges including London Stock Exchange, Deutsche Borse, Euronext Paris, Euronext Amsterdam and Borsa Italiana.

Substantial demand from investors for more choice to different parts of the commodity futures curve has led ETF Securities to create these new forward

ETCs, providing investors with more choice and allowing investors to implement different investment strategies in commodities. The demand for new ETCs is a result of significant investor interest in commodities and increased knowledge about commodities investing.

The new forward ETCs have historically shown lower volatility while the effects of contango and backwardation also vary between the existing and new ETCs. The new ETCs provide investors with the opportunity to optimise returns by increasing exposure to backwardation or decreasing exposure to contango. Investors have been searching for a means to expose their portfolio to the benefits of backwardation* which can provide a source of return in addition to the commodities price return. Due to the dynamic nature of backwardation and contango, investors wish to be able to track different commodity futures dependent on this feature.

My view - I will add these new Exchange Traded Commodities to the Chart Library in a couple of days because the download failed today, probably because it could not detect any back history. I had a quick chat with one of the marketing people at ETF Securities yesterday who told me that these new securities have been modelled along the same lines as the present suite of investment vehicles, in that the management fee and backwardation / contango costs are hard cooked into the quoted price.

This means that if there is a significant backwardation or contango then the ETC will vary considerably from the way the actual front month of the commodity is trading. The 3-month forward contracts offer access to a different part of the curve and will look to the contract three months forward from the current on-the-run contract. The example he provided on the phone, was that January is the current on-the-run Platinum contract, so the 3-month forward ETC would own the April contract. This increased flexibility in trading commodities is to be welcomed and I look forward to other investment vehicles being released.

Email of the day - on spread-betting Exchange Traded Commodities:

"I've just noticed that you can now trade the ETFs commodity trackers with IG Index which means that there are now a lot more commodities available to trade (especially for me because I always use stops so I can't trade most of the industrial metal futures). You can also trade groups such as softs, industrial metals etc...The main draw back appears to be the large spreads.

"P.S. Can't get enough of the Chart Library, Comment of the Day and daily Audio - great stuff!"

My comment - Thanks for the heads-up and we are delighted to hear that you are enjoying the service. I guess that since IG Index appear to be the only spread-betting firm offering access to the ETCs they can charge whatever spread they like. Hopefully, other companies will take a leaf from their books and start offering more products which should, through competition, help to bring down the spreads.

Today's interesting charts - The Chart Library has a large number of credit spreads which may be of interest to subscribers.

VIX - falling [back](#) towards the psychological 15 level which had been an area of support in June and July as volatility increased. It would need to sustain a move above 20 to suggest that volatility were about to increase once more.

USD 3 month Libor - while the 3-month LIBOR rate remains elevated; when [spread](#) over the 3-month T-Bill it is beginning to fall and would need to sustain a move above 1.5% to question scope for further contraction.

Indonesia - [broke upwards](#) impressively last week but is looking somewhat [overextended](#) in the short-term. However a downward dynamic would be needed to check momentum beyond a brief pause.

Thursday 11th October 2007

How to prevent a rout of the declining dollar - My thanks to a subscriber for this excellent [article](#) by Jeffrey Garten for the Financial Times. Here is the opening:

When Hank Paulson, US Treasury secretary, says the US believes in a strong dollar, he is merely repeating an empty mantra, for the Bush administration continues to rely almost entirely on an ever weakening dollar as the central thrust of its international economic policy.

When a European leader such as Jean-Claude Juncker, chairman of the group of 13 eurozone ministers, publicly demands discussions of the soaring euro at the upcoming Group of Seven industrial nations meeting in Washington, he is just venting his frustration, for it has been decades since the G7 accomplished anything on currency misalignments.

The fact is, words hardly matter in today's gigantic marketplace. Only action does.

Leaders are behaving like deer caught in the headlights. Yet some action is crucial now because the dollar's orderly retreat could at any time change into a chaotic rout, given the uncertainties and anxieties in today's markets. The danger is enhanced as every sign - financial, economic and political - points to a dollar that will continue to drop, making a bet on a weaker dollar nearly a risk-free proposition.

Moreover, while the Bush administration exalts the export stimulus from a weakening dollar, the overall effect of continuous devaluation will be highly detrimental to America. It will be inflationary, because it will raise the price of imports, including oil and other commodities. At a time when the US needs to borrow \$2bn (€1.4m) (£979m) a day to finance its current account deficits, a depreciating dollar will act as a disincentive to foreign investment in US government securities unless American interest rates are raised. A weakened greenback will also expose US industries to foreign takeovers at bargain

basement prices. Admittedly, conflicting interests among countries make any grand scheme, such as the Plaza Accord that realigned and stabilised currencies in 1985, a non-starter. There are, however, at least four moves that finance ministers and central bankers should make soon.

My view - Fullermoney has long forecast that the US Dollar [Index](#) would break its 1990 lows on this present decline and that measures would eventually have to be taken to stem its downward trend. A new all-time low was reached last week before the Index steadied slightly.

So, what about the four moves mentioned by Jeffrey Garten, including their likelihood of implementation, let alone success?

1) Multilateral intervention would be the most effective means of steadying the USD as I have frequently mentioned before (*search under 'multilateral intervention' if interested*). I maintain that it will occur at some point, probably preceded by jawboning, assuming that I am also correct in forecasting a weaker dollar. Much depends on the speed of a further decline by the greenback. An accelerating slide would be perceived as a crisis, forcing a response. However there would be less urgency with a ranging decline, which is what we have seen to date. Multilateral intervention would trigger a short-covering rally in the dollar, simultaneously causing a knee-jerk reaction in precious metals and many other commodities. However the dollar's lows would be retested, judging from previous interventions, and it would be some time before long-term trends were changed.

2) US pressure on Beijing to revalue at a faster rate is no more than a populist political move. Cessation of White House and Congressional calls for a stronger renminbi would do little for the dollar beyond stemming the near daily reminder that US politicians really do want it to weaken further.

3) I agree that the US "needs to be prepared for a large increase in foreign acquisitions", and also fear that this could trigger a "nasty nationalistic reaction". Some Americans will feel humiliated by foreign purchases of iconic, flagship properties in the US. Wiser heads will recognise that it has occurred before - when the Japanese yen was [overvalued](#) in 1994-1995 - and that foreign buyers cannot take the property back home with them.

4) I am not sure that the Bank for International Settlements can do more than comment but it is rather odd, and presumably temporary, for the world to have only one important reserve currency. The markets will sort this out over the long term.

Email of the day (1) - On UK house builders and the possible weakening of sterling:

"Thank you very much for your comprehensive reply to my previous email regarding UK companies that may benefit from a relative weakening of Sterling.

"I have been looking at the charts of the companies you mention with interest (alongside the usual process of combing through their financial statements).

"I also mentioned that, IF the UK housebuilders are maybe 12 months or so behind their US counterparts, then the outlook for UK housing and the general domestic economy may be a bit cloudy.

"However, I am torn over this. I am not convinced that, despite the sentiment extremes apparent in the charts of the UK housebuilders, we are dealing with like for like UK vs.US.

"Having looked into the financials of the UK housebuilders (or at least those like Berkeley Group, Persimmon, Bovis and others) who are totally UK-centric, they generally seem to be exceptionally well-run, highly profitable, but conservative in their rationing of building projects, and with very little debt. Indeed, some of them seem to be valued purely at the historical value of their land banks, which may well understate their current real value.

I mention this, because it goes with your "inelasticity of supply" theme. The idea of being able to buy UK residential building land at historical cost seems quite attractive, unless you think the government really is about to flood the market with new building consents (and, in any case, the larger builders seem already to have snapped up the likely areas for relaxed planning restrictions). The same may go for the large commercial companies, and I note that Middle Eastern money has been building positions in British Land, I believe, according to a recent article in the FT. Again, the idea of buying chunks of prestige UK city centre developments at maybe 25-39% below current net asset value could be seen as an attractive proposition (although I still think they are a bit over-valued).

"The only reason I mention this is that my previous email ran with the consensus, i.e. that US housing is a disaster (which it currently is) and we in the UK will go the same way. I think there may well be more pain ahead, but it may, repeat, may be worth while for "contrarian" or "value" investors (sorry to use that word again!) to do their own thinking and research in this area. They will need to weigh up the likely trade-off between tightening credit standards and the increasing rush into "real assets", taking into account current valuations.

"Personally, I have been nibbling at some of these, although I may well get the chance to regret my actions at some point over the next year!

"Meanwhile, keep up the fantastic work - really just about anything worth knowing about the markets (fascinating and changeable as they are) finds its way through the Fullermoney site at some point, and I have benefited immensely."

My comment - Thank you so much for your thoughtful feedback, not to mention your diligent research, which I admire. You clearly know considerably more about the UK house building sector than I do, and I find your assessment of the fundamentals persuasive.

However I also believe I posted an email from you (or perhaps it was a kindred soul) on this subject on Monday [16th July](#). I won't repeat all those points but my main reservation at the time was the still deteriorating technical picture. A quick check in the Library indicates to me that they are somewhat better today, following the mayhem in August, although I still do not know how long the convalescence period will take, as a successful resolution requires the market to agree with you.

This last sentiment was expressed brilliantly by John Maynard Keynes:

"Successful investing is anticipating the anticipations of others."

Email of the day (2) - On 'Black Swan' events:

"I heard on BBC radio Nicholas Taleb, talk about 'Black Swan', extreme volatility events. Other prescient commentators have talked about how globalisation, whilst dampening longer term/ instances of volatility, leaves the markets vulnerable to concentrated system shocks the more integrated it becomes. Are we on the cusp of another one given the acceleration of markets post Fed rate cut? Or has this played itself out in July/ August? Is the crisis over for equity markets?"

(Nicholas Nassim Taleb, *The Black Swan*)

"Others such as John Maudlin have written about the book.

"I have only recently discovered your service and enjoy your comment of the day. Keep up the good work."

My comment - I have always seen globalisation as a big net plus, not least because it promotes GDP growth and international cooperation. In other words, the civilised world now lives in a global village of trade and communication, which blunts the worst edge of rivalry. It is in our mutual interests to cooperate rather than confront, although nothing will entirely eliminate confrontation which is in the nature of mankind.

Globalisation can diffuse risk, as we have seen with the sub-prime fiasco, but it can also spread risk across national borders, as we have seen as well.

I haven't read *The Black Swan*, although I am familiar with the genre. I imagine it has some good points and frightening books are entertaining in a sadomasochistic sort of way, just as bad news is more interesting than stories about how Granny's cat did not get stuck up the tree today. Books about potential economic disasters can also help to prevent them, in that if we are aware of a possible problem we may have a better chance of avoiding it.

Regarding your question on stock markets, when my own portfolio is appreciating faster than at any time in recent years (I say this not as a boast but with satisfaction tinged with concern because I know it is not sustainable), I certainly do not want to be complacent about risk.

However, having witnessed a panic in August, it would be surprising to see another one anytime soon. No, I don't think the last crisis is over, but perhaps more importantly, I do believe that we are past its nadir and that markets are looking ahead. This view is based on the proviso that bank shares continue to improve, rather than resume their previous declines. Plenty of people are still quite bearish, although quieter than a couple of months ago.

Many subscribers would be astonished by the apocalyptic nature of some bearish material forwarded to us in August. This went beyond the point of panic due to uncertainty, to gratuitous doom mongering from self-righteous congenial bears. Other stories were a cynical attempt to manipulate markets lower, including an apparently genuine \$750 million deeply out of the money S&P 500 put option expiring on 21st September, dubbed the 'Bin Laden' put. Eoin and I read and talked about it all, but we did not post what we felt was either hysterical or irresponsible.

Consequently there has been a scramble to cover shorts and jump back on the bandwagon. Share indices, led by emerging markets, resources and much more recently tech, are now sailing majestically on to the next 'crisis', which is the nature of the crowd. Fortunately, while markets often climb a 'wall of worry', significant panics are seldom more frequent than once a year, if that. Incidentally, stock markets are due for a temporary pullback and consolidation and there was a downside key day reversal on the Nasdaq today.

Email of the day (3) - On 'value-centric' and Mark Twain:

"On fund managers who claim to be 'value-centric' and reading your piece yesterday, I was reminded of this famous Mark Twain wit that reminds us as FM readers to learn how to be more well informed and learning to do matters by yourself:

"October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."

My comment - Apt and a wonderful quote. There is both wit and wisdom in so many of Mark Twain's remarks.

Email of the day (4) - More on the Audio:

"I don't understand why anyone would want to skip your audio. The only thing wrong with it is it's way too short! Your Friday spiel is much more the ticket and would be an excellent format for the rest of the week."

"Keep up the good work!!"

My comment - Eoin and I appreciate your interest and enthusiasm.

My personal portfolio: Copper long opened, longs in palladium, platinum, gold and the Taiwan Greater China Fund increased - I bought [copper](#) today, using the new ETFS, and paid \$4668.34 for a June 2008 position. I increased my [palladium](#) position by 100%, paying \$384.30 for a December position. My [platinum](#) longs were increased by 20%, as I paid \$1403.1 for a January position. I upped my small [gold](#) futures position by 100%, paying \$763.8 for a February position. Lastly, I raised my long position in the Taiwan Greater China [Fund](#) by 50%, paying \$8.378 for a March position.

As I complete this copy, these latest trades now looks irrationally exuberant, in light of recent gains and the US [Nasdaq](#) key, even if I was leveraging up behind trailing stops. So why did I do it? Probably because I felt I was underweight in these markets. I'm embarrassed.

These prices include spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Nasdaq continues to outperform. Could this be the real deal or just a flash in the pan? - The Nasdaq soared from obscurity in the 1980s to super-stardom in the late 1990s. Its associated TMT bubble was to attract investors from all over the globe, as everything with tech or .com in its title was seen as the future and doubtless to succeed. The accelerated apex to which it soared in March 2000 marked a speculative peak and the subsequent decline psychologically scarred a generation of investors.

The Index ([p&f](#), [monthly](#), [weekly](#), [daily](#)) subsequently fell 83.5% before bottoming in 2002 at 800. Following the bottom reached by most developed country markets in 2002, the Nasdaq moved into a lateral range with an upward bias until the beginning of 2007. From January this year it adopted a more aggressively bullish inclination and subsequent to the global stock market correction in August, the Index has outperformed its US peers. It is presently looking temporarily overextended, and at the time of writing the Nasdaq 100 was looking ready to post a key day reversal, which, if it closes at these levels, will cap the advance in the short-term. However it would need to sustain a move below 2000 to question scope for a reassertion of the short-term uptrend.. (Also see Comment of the Day on [September 20th](#) for further details.)

One of the reasons the Nasdaq was such an all-star in the late 1990s was because the Dollar was also close to a historical peak and it was an added bonus for foreign investors to buy appreciating Dollar denominated assets. Today the Dollar is making new historical lows, so the same incentive to invest in Dollar assets for international investors is not present. While the Nasdaq remains in an uptrend against the [Euro](#), [British Pound](#) and [Japanese Yen](#), it is not showing the same kind of outperformance as it is in US Dollars.

Even given the above caveat, the Nasdaq has a number of bullish factors supporting it. The recession which followed the bursting of the TMT bubble forced a large number of worthless companies to the wall. Those companies which survived the recession are, for the most part, profitable businesses which are deserving of investor attention. Unlike the events which followed the bursting of the Japanese stock market and property bubbles in the late 1980's; the US markets have been flooded with liquidity and until quite recently borrowing costs were at bargain basement levels. This has helped to support stock markets and at least in part helps to explain the Dow Jones Industrials and S&P moving to new all time highs. As we enter a cycle where companies are reinvesting in technological infrastructure there is a possibility that we may be looking at a period when technology stocks may outperform over the longer term.

I will update comments on a number of outperforming Nasdaq 100 companies in tomorrow's Comment of the Day.

Reuters.com: China "e" bikes silently drive lead demand - Thanks to a subscriber for this [report](#) by Lucy Hornby for Reuters which covers a previously underestimated source of lead demand. Here is a section:

"There's a huge amount of lead being carried around on bikes in China," said Huw Roberts of CHR Metals Ltd. He estimates the bikes produced through the end of last year have absorbed about 400,000 tons of lead.

That new source of demand could help drive up lead prices, which hit a record high of \$3,835 a ton on October 9.

Lead has been the star performer on the London Metal Exchange and is up by 130 percent this year.

SILENT FORCE

China produced 19 million battery driven bikes in 2006, and that figure could rise by 30 percent this year, said Zhang Changhai, lead analyst with metals consultancy Antaika in Beijing.

"The explosive growth is already over, and we expect new standards being developed for the larger bikes to slow growth in 2008," Zhang said.

The standards for newer, 48-volt bikes could be along the lines of those for the more common 36-volt bikes, limiting speed and size and setting guidelines for which companies can produce them to weed out cut throat competition.

Estimates for how many companies produce "e" bikes vary from 100 to 300 firms, but all agree that their low design and start-up costs have driven margins to the bare minimum, eroding profits for more established firms like Shanghai Forever Co.

My view - [This is an interesting explanation of where some of the growth in](#)

demand for lead is originating. I only remembered having noticed how quiet some of the scooters were in Shanghai when I read this article, although it should have come to my attention earlier considering how loud they normally are and just how many of them there are. The growth in the number of companies attempting to make a profit from manufacturing these scooters and the associated margin compression, probably indicates that many will go bust, but that should not damage the prospects for the raw commodity, as long demand for the vehicles continues to grow.

Lead broke upwards from its relatively brief consolidation last week and would need to sustain a move back below \$3500 to question scope for some additional upside in the short-term.

Email of the day (1) - on Commitment of Traders reports:

"On analysing the Commitment of Traders (COT) report by the CFTC (Commodity Futures Trading Commission) we see a very interesting pattern. The volume and open interest on the Dow Jones and the S & P is not very impressive during this current rally from the August 16th low. At the same time the net long positions held by Commercial Traders is at a multi-year high. This is a very bullish pattern for equities and is in line with your thinking that we are in a bull market.

"This brings me to my question. Is it possible to get Open Interest and net Commercial Positions on a few important futures contracts (S&P, Gold, Silver, and Industrial Metals)? I do not know if Bloomberg provides this data.

"I would greatly appreciate your thoughts on this matter."

My comment - We are less drawn to Commitment of Traders data in our analysis, nor do we look at open interest to any extent. However I am well aware that many futures traders find value in these data, so I have added a large number of Non-Commercial Long and Short reports to the Chart Library this afternoon. These are for Gold, Silver, Platinum, Palladium, Copper, Crude Oil, Gasoline, Heating Oil, Natural Gas, Wheat, Corn, Soybeans, Dow Jones Industrials, S&P 500, Nasdaq 100, 10-year Treasury, Euro, British Pound, Japanese Yen, Australian Dollar, Canadian Dollar, and Swiss Franc. They can all be found in the Backwardation / Contango, Inventory Data & CFTC Data section.

We cannot add open interest data because it is impossible to download it as an individual entity and we do not receive a fundamental data feed.

Here are the definitions of Commercial and Non-Commercial Traders from the Bloomberg Help pages:

Commercial:

A position taken for hedging or risk management purposes as defined by CFTC regulations (1.3(z)). A trading entity is generally classified as commercial by filing a statement with the CFTC (CFTC Form 40), stating that

it is commercially engaged in business activities hedged by the use of the futures or option markets.

Non-Commercial:

A position taken purely as a speculative trade.

The reason I added Non-Commercial figures was because I thought that these would better reflect speculative activity rather than that which can be explained through hedging.

Email of the day (2) - on point & figure box sizes:

"Just a quick question on the Chart Library, how you decide upon the box size for Point & Figure charts you maintain? I did a quick search on the site but could not find an answer. I believe there are several methods, but would be interested in your rule of thumb."

My comment - Picking box sizes for point and figure charts is very subjective but we generally start out with a 1% scale and adjust from there depending on how it looks. Generally we want to show as much back history as possible and we tend to avoid box sizes which result in an uneven scale when possible.

If you are using p&f a lot I would suggest using more than one scale for each instrument so you are aware of the bigger picture but also look at a less condensed scale for shorter-term moves.

Email of the day (3) - on US listed commodity ETFs:

"Many thanks for posting the news item from ETF Securities regarding the new London listed ETFS including Platinum and Palladium. I have recently been searching for such US listed ETFS and so far have drawn a blank. If you know of any I would be grateful to be informed of their RIC codes. Incidentally others that are of interest are coffee, cotton and uranium.

"As you will deduce I have been listening well to your daily commentary! As ever thank you for all your diligent work."

My comment - Thank you for your kind email. As far as I know the ETCs are not listed in the USA and I'm afraid I do not know of any pure commodity ETFs listed there. However if any subscribers know of any, I would be happy to add them to the Chart Library.

Email of the day (4, 5, & 6) - on additions to the Chart Library:

"Hi there - could you please add Jinshan Gold Mines Inc - JIN.TO - to the Chart Library."

"Can you please add the MSCI World energy index to the Library?"

"Please can you add NTX Index to the Library? It is the New Europe Index."

My comment - Thank you all for these interesting suggestions which have now all been added to the Chart Library.

[Jinshan Gold Mines Inc.](#) has one of the most promising chart patterns of any gold miner I've seen. Following the acceleration to a peak of over C\$5 in late 2003, the share gave up most of its gain before bottoming out in 2005 above C40¢. It broke upwards from this base in early 2006 and consolidated above C\$1. Jinshan completed this pause in January and accelerated to a high of C\$2.28 before entering another congestion area. It has just broken upwards once more and the upside can be given the benefit of the doubt as long as it can sustain the move above C\$2.30. With that said the company has yet to produce any earnings so it can still be classed as speculative.

The [New Europe Index](#), which is heavily influenced by Austrian shares, has been underperforming other global markets by not regaining its highs. However it would need to sustain a move below 2000 to question scope for an upward break in the short term.

The [MSCI World Energy](#) Index is consolidating beneath its highs at 290 but a downward dynamic would be needed for this to be anything other than a temporary area of resistance.

Email of the day (7) - on Chart Library enhancements:

"Thanks for the quick reaction on my last question (Stoxx 600).

"I hope you don't find me too demanding, but since I put a lot of importance on relative charts, is it possible to add the choice of currency in the charting settings.

"If I compare e.g., Japan with the US, it makes a better comparison including the currency effects."

My comment - I agree that currency adjustment is a vital tool when one is comparing indices on relative terms. At present, we do not have the capability to do this, but it is on the development list, although unlikely to be completed in the next roll out of software.

Today's interesting charts - The 'View All' tab in the top left of any of the menu pages allows subscribers to scroll through large number of charts much more quickly and makes comparisons easier.

Arabica coffee - testing the [highs](#) of the nearly three-year consolidation at 140¢ and a downward dynamic would be needed to check momentum beyond the short term.

British Pound per 1 Euro - upward [dynamic](#) puts at least a short-term floor underneath the Euro and a sustained move below 69p would be needed to question scope for further [upside](#).

UK (FTSE 100) - approaching an area of [potential](#) resistance at the July high but a downward dynamic would be needed to check momentum beyond a brief pause.

Friday 12th October 2007

Lee Kuan Yew Interview - My thanks to a subscriber for this superb [interview](#) of Singapore's founding father and currently Minister Mentor, conducted by syndicated columnist Tom Plate of the UCLA Media Center. In my view, Lee Kuan Yew is the greatest living statesman. Here is a brief section:

Q: One of the first questions I asked you roughly 10 years ago when I started the column on Asia and America was what would be the one thing you would say to the American people about the United States' role in Asia. You thought for a few minutes and then you said: "Tell the American people that America must get the relationship with China right, because if that relationship is gotten right, it benefits everybody in Asia. And if it's not gotten right, it's going to create problems." Have we more or less got the relationship right?

Lee: I think it's not bad. Congress is in a fractious mood looking for excuses for what's gone wrong, believing China's exchange rate offers unfair advantage. Yes, the Chinese should up the value of their yuan -- maybe 10 percent, 15 percent -- but it's not going to help you. It's not going to solve the problem. It might create problems for them if they do it so suddenly. But if they do it gradually, I think it shouldn't be a problem.

Q: They probably will do it?

Lee: They'll do it gradually. They're scared of unemployment. They're scared of what happened to Japan when the factories relocated. They need their low-end jobs, making shoes, garments, whatever. If these factories move, you have got unemployment -- that's a real problem for them. They're scared of it as they're moving up-market. It's a new game for them and they're nervous. Their legitimacy depends upon solving the economic problems and not having riots in the cities even as their old state-owned enterprises retrench.

Q: What would you say to Americans who say if China rises, America has to fall?

Lee: No, I do not see a win-lose, zero sum game here. It was the U.S. that brought China into the World Trade Organization (WTO). It was George W. H. Bush that opened the door, invited China to start selling to America. That was carried on by President Clinton. Clinton finally, with his then Treasury Secretary Rubin, got the Chinese into WTO.

You have got two choices with China. Keep them out -- but the U.S. must have done its calculations, because if you keep them out, then you have them as a spoiler. They're going to do reverse engineering, steal your patents and

where is the profit in that? You slow them down, there's no doubt about that. You slow down their transformation but at the same time, you are not benefiting from that transformation. If you go back and remember the 1980s and early 90s, you needed that market to grow but you never factored in the speed at which they would grow. That's scary. That's happened and I think they know that it's a difficult transformation for them. It's not easy. They have got enormous problems -- internal problems, disparity within the cities, between the cities and the countryside, and now with cell phones and satellite TV, they have to change track, instead of just going helter-skelter for gold ... now they're talking about achieving a harmonious society.

Jackson Wong: Finding leaders and laggards within the FTSE 100 Universe - I invited colleague Jackson Wong of Investors Intelligence to set up a pilot system of relative strength charts and particularly tables, covering various time series. Here is the opening portion of his introduction to this initial [report](#):

This report studies the relative ranking of stocks within the UK large-cap FTSE 100 Index universe.

The aim of this report is to identify stocks that are showing good price strength against the rest of the index constituents over time.

For this task, I compute the 1, 3, 6, 9, 12-month and the year-to-date return for each stock, group them in appropriate tables and then sort these returns in descending order. Ideally, I would like to compare the current rankings with their previous rankings. But since this is the first such study, we cannot do so. In replacement, I compare the change in the ranking between two time returns, for example, I compare the 1-month return ranking (RR) against the 3-month RR and search for stocks that showed the biggest change in ranking between these two tables.

Arguably, the stocks that are gaining rapidly in rankings should exhibit a rising relative strength while stocks whose ranking are falling are displaying weak relative strength.

My comment - With a Chart Library universe that must now contain over 15,000 equities, and rising, we are commencing work on filter systems to spot changes in relative strength or weakness for indices, sectors and shares. This is a long-term project but one certainly well worth conducting. Subscriber feedback on structure and presentation of this data, not least the tabular form, is welcome.

Don't be put off by the charts in this pilot project. Finished versions would be up to our Library standard.

Email of the day (1) - [On the Investec Global Energy Fund](#):

"I read with interest your comments on the Investec Global Energy fund, of which I am a long term holder. I note it shows a 28% return the past 12

months. Did you compare it to other UK listed energy funds? I note there are not many alternatives in the chart library that are listed in the UK; and I didn't find much on the Selftrade site, although their search engine remains incomprehensible to me. I did take a look at over 15 energy related ETFs in the US, along with the performance of the Guinness energy fund here, which I own. GAGEX returned 40%, while most of the energy related ETFs (oil service, exploration, producers, etc) returned 40-50%. So they still underperformed somewhat but were far superior to the UK version. I assume this is currency related. (crude was up about 35% in \$ and 25% in GBP in the period). Both funds seem to have 45-48% in the majors, and the rest in oil sands, expl, service, drilling etc.

"Hopefully the Fuller Brain Trust will come up with UK alternatives. I want to keep some energy exposure both here and in the UK, but perhaps there is a better vehicle."

My comment - I agree that the funds have done quite well, and the difference you cite above is due to sterling's appreciation against the US dollar. I also understand why you would wish to retain some energy exposure. In terms of funds, I doubt that there are more experienced managers than Timothy Guinness. My longer-term [concerns](#), mentioned on Wednesday, remain.

A superb item from Richard Russell - I've long admired [Richard Russell's commentary](#), particularly his longer-term socioeconomic assessments. Here is a great example:

October 11, 2007 -- It's just starting. I'm talking about the monster drain on money as the first segment of the Baby Boomers helps themselves to their share of Social Security. These are the people who were born in 1946 and are now 61 years of age. Shortly, an increasing number of these "baby boomers" will be taking early retirement. Why do I say that? Heck, read the papers. All you hear are these four words -- "escape," "vacation," "travel" and "retirement." But as I said, it's just starting. We're beginning to move into what I call the "Social Security Express Lane." This is the period when those people who were born between 1946 and 1964, 80 million in all, will qualify for Social Security.

You see, it's just the old crazies like Richard Russell who love their work and who don't retire. The boomers are from a different era. The boomer dream appears to be -- "I made a fortune at age 45, and I retired. Now I'm playing golf seven days a week and lovin' it."

With the SS trust fund bare, cleaned out and holding only government IOUs, how are all these boomers going to be paid? On top of that, there's Medicare, which is now paying out more than it's taking in.

Looking at the whole picture, Brian Riedl of the conservative Heritage Foundation warns, "This is the single greatest economic challenge of our era."

You think the US government's balance sheet is over-the-top now? Listen, over coming years, these programs will rack up \$50 trillion in government obligations. How's it all going to work out?

I have my own thoughts on the Social Security and Medicare situation. I believe that the US government will address the situation two ways. The first way will be to scale back on the benefits -- there's just no other choice. The second way that the US government will address the situation will be through monetary inflation.

The government will have to print the money to cover the coming tidal wave of unfunded liabilities. This process will have a brutal impact on the dollar. The purchasing power of the dollar will continue to head down. In my lifetime I've seen the purchasing power of the dollar lose 80 percent of its value. And I have to wonder what the dollar will buy ten years from now -- fifteen years, twenty years. It's very sad, indeed.

This is the reason to own gold. I hear a lot of talk about gold not keeping up with inflation, gold spending twenty years between 1980 and 2000 doing nothing or simply declining. Forget it, that was then, this is now. As I see it, the third phase of the great gold bull market lies ahead. Gold is fated to rise to "impossible" heights in terms of current US dollars. I know this sounds far-fetched to today's impatient holders of gold. But for a great move to materialize, it has to be considered to be "almost impossible" in advance.

Another way of putting it is that for a move to be huge, the public has to be clean of the item to start with. Ideally, nobody should be in the item. And today the US public is "clean as a whistle" when it comes to owning gold. "Oh yeah, I've got gold. I bought two American Eagles a year ago, and I still have 'em put away some where. Heck yeah, I got gold."

My view - OK, "the boomer dream" of retiring at 45 is a generalisation but not without a ring of truth. I certainly have nothing against golf - a splendid game - but find it deeply depressing that some talented individuals would aspire to little more during the second half of their lives than leisure time. How about going back to school, starting a business, writing a book, supporting good causes, or anything else that develops one's potential as an individual? We get one life and it's a wonderful opportunity, too important to waste.

Far worse than inactive minds are the CEOs who want and are given a two to three year juicy contract, with a golden parachute, so that they can make a short-term killing, often at the company's longer-term expense. Needless to say, these people are not restricted to the USA. They are evident in all countries but some much more than others. It is not a formula for maintaining a dynamic, creative and competitive economy.

What about Richard Russell's conclusion? I agree with every word of it.

Email of the day (2) - [More on Nassim Taleb's book:](#)

"Please forgive me for my presumption, but I have to pass a quick comment with regard to Nassim Taleb's book on the Black Swans.

"I simply think that you would really enjoy this book. It is very quirky, and multi-layered, once you get used to the writer's rather ideosyncratic ramblings.

"It is by no means a bearish tract, concentrating simply upon the vagaries of human nature, and our incredible propensity for ignoring the obvious, until it has occurred.

"If you get a chance, flick through it in the bookshop. You may find it hard to put down"

My comment - [Many thanks, I'll follow your suggestion.](#)

Email of the day (3) - [More on Cameco:](#)

"I too have a small position in Cameco plus I have made some money on it a number of times. In following the company over the years I have found the management somewhat south of forthright on its public statements. I deem the work at Cigar Lake a total crap shoot for the investor. There is no way to tell if their efforts to rid the mine of water will work or not, but the next few months should tell the story. My question is what would you estimate the damage to the shares if they are forced to shut the mine down and walk away which is a real possibility?"

My comment - [I suspect that you know more about this than I do but I too feel the management has been less than totally candid on the Cigar Lake project, in that it always sounded overly optimistic.](#)

[I assume that a "walk away" would be very damaging in the short-term, but regard it as highly unlikely. If I'm wrong, it might spark greater interest on my part because the company remains a major producer and assuming it still retained the Cigar Lake rights, I would expect the technical challenge to be resolved at some point.](#)

Email of the day (4) - [More on S&P COT data:](#)

"In response to the subscriber noting the multi year net long position of the commercial players in the COT data on the SP500 (net long 66,269 contracts), he may wish to take a look at the SP500 emini contract which paints the opposite picture (Net short 66,873 contracts). I have no idea what this means but if people are trading off one they should be aware of the other.

"Has COT data become obsolete with the OTC market growth in recent years?"

"Thank you for a fantastic report."

My comment - [Thanks for the feedback and interesting point.](#)

[Not specialising in COT data, I can't answer your question but perhaps someone within the Collective can.](#)

Email of the day (5) - [More on commodity ETFs:](#)

"For the subscriber that asked about the U.S. listed equivalent for the commodity ETF's, any global brokerage can buy these on the London exchange. My advice is to use a limit order, entered while London is trading, so you don't get taken to the cleaners while you sleep. I bought a decent position in COTN this a.m. with an execution exactly where I expected. Since these are denominated in dollars it is all the easier. Depending on your custodian, with the dollar denomination, they can be held in most any account."

My comment - [Thanks for sharing your experience, in the spirit of Empowerment Through Knowledge.](#)

Email of the day (6) - [More on The Black Swan:](#)

"I receive and read your free daily emails with great interest. Unfortunately, I'm finishing off my studies so I don't have the money to subscribe to your service but hopefully that will change soon.

"I'd just like to pull you up regarding your comment about "The Black Swan". It is so far from the "shock-horror-impending-disaster" genre, you should really read it and give it a go!!! In fact, I'd argue the book is much more about the positive random events than the negatives. It's a profound look at risk and volatility and I found it immensely challenging (in that it frequently forced me to reconsider my world view) and rewarding to read. My PhD is in risk quantification and management - albeit in the context of aerodynamic design! - and this is possibly the best book on risk I have ever read. It is certainly the best new book on investment I have read over the past few years. Please do read it and I look forward to your comments on it!"

My comment - [Thanks for an informative email. I will add the book to my reading list, which consists mainly of fiction.](#)

My personal portfolio: Merrill Lynch World Mining Trust and Vedanta purchased with Investec Global Energy Proceeds - [Approximately 60% of the Investec fund sale proceeds have been reallocated. Two-thirds of this 60% were used to top up my long in MLW \(\[weekly\]\(#\) & \[daily\]\(#\)\) for which I paid £6.816 today.](#)

[The other third was use to open a new long position in Vedanta \(VED LN\) \(\[weekly\]\(#\) & \[daily\]\(#\)\), the London-listed leading mining company in India, which I purchased at £22.18 today. This gives me even more exposure to India, in](#)

addition to mining. Arguably, India is one of the most under-explored accessible regions, likely to contain undiscovered reserves of metals.

Since there is some short-term risk of a market wobble following such strong gains, I am holding back on the remaining 40% cash received from the sale of the Investec fund.

Quote of the week - On money:

"Over all history it [money] has oppressed nearly all people in one of two ways: either it has been abundant and very unreliable, or reliable and very scarce."

John Kenneth Galbraith

Additional Commentary by Eoin Treacy

Nasdaq: Could this be the real deal or just a flash in the pan? (continued from yesterday) - The Nasdaq ([p&f](#), [monthly](#), [weekly](#), [daily](#)) has been impressive by its leadership over the last two-months which has been out of character compared with its relatively lacklustre performance over the last five years. A not insignificant fact is that while the US Dollar is weak, the Index remains in an uptrend against most currencies, albeit not nearly as racy as against the Dollar.

The rally from the mid-August lows has become somewhat overextended and yesterday saw the Index form a key day reversal which probably caps the advance in the short term. There did not appear to be any news which accompanied this selling which probably indicates that some of the larger players were closing long positions and we may be towards the end of a prolonged short-covering rally which fuelled the advance in the last weeks. The Index needs to sustain a move to new high ground to reaffirm the overall uptrend. Let's look at some of the leading Nasdaq shares to see if they offer any insight:

[Cisco](#) continues to display a consistent progression of rising lows and has not accelerated in the same fashion as the Index. It would need to sustain a move below \$32 to question the integrity of the four-month [uptrend](#).

[Amazon](#) looked to be in danger of posting a weekly key reversal earlier today but has rallied well today following yesterday's selling pressure. It has been losing momentum over the last week but had not accelerated. Yesterday's [action](#) probably indicates that the share is in need of some consolidation but a move below \$80 would be needed to question scope for a reassertion of the uptrend in the near term.

[Google](#) accelerated upwards from \$535 on September 18th to its high yesterday of \$641. However even following the selling pressure yesterday, it closed well off the low and is holding that gain [today](#). The share is probably in

need of some consolidation but it would need a sustained move below \$575 to question scope for a reassertion of the uptrend.

[NVIDIA](#) experienced only a shallow reaction between mid-July and mid-August and was quick to reassert its uptrend once the worst of the contagion selling had passed. It would need to sustain a move below \$32 to question scope for a [reassertion](#) of the uptrend.

[Apple](#) broke upwards to a new high in late September and was looking somewhat overextended. However it closed well of its lows yesterday and is holding that gain today. It would need to sustain a move below [yesterday's](#) lows at \$152 to question scope for further upside.

[Expedia](#) broke above \$30 on September 24th and is now consolidating beneath \$35. A downward [dynamic](#) would be needed to indicate that this was going to be anything other than a temporary area of resistance.

[Logitech](#) is consolidating beneath the high at \$30 and would need to sustain a move below [\\$25](#) to question scope for a break above this level.

[Sun Microsystems](#) remains in an overall base formation and while it would need to sustain a move above \$10 to break upwards from this congestion, it continues to push [upwards](#) towards that level. It would need to sustain a move below \$5.50 to question scope for further upside over the near term.

[Research In Motion](#) broke upwards in late September last year and consolidated the move in a first step above the base; holding above \$40 until mid-May. It then accelerated to a high beneath \$120 where it is currently encountering resistance. A sustained move below yesterday's [low](#) would be needed to suggest that this area is anything other than a consolidation.

[Foster Wheeler](#) is one of the main companies which stands to benefit from infrastructure investment in the USA. (Also see Comment of the Day on [August 31st](#)) The share reasserted its [uptrend](#) in mid-September and progressed to a high near \$140. While yesterday's move was a larger reaction than seen recently, the share closed well off its lows and would need to sustain a move below \$130 to question scope for further upside.

[XM Satellite Radio](#) peaked in late 2004 and moved into a downtrend which bottomed in mid-2006 at \$10. It needs to sustain a move above \$16.50 to complete the base and a sustained move below \$14 would be needed to question scope for further [upside](#) in the short term.

[Sirius Satellite Radio Inc.](#) also peaked in late 2004 and moved into a downtrend from early 2006. It bottomed below \$3 in May and would need to sustain a move below \$3.40 to question scope for further [upside](#) in the short term.

[Wynn Resorts](#) broke upwards from an 18-month consolidation in late 2006. It progressed to almost \$115 before experiencing a weekly key reversal which held it up for another six months. It broke upwards again in August and

accelerated to a high below \$170 where it is currently consolidating. A sustained move below \$144 would be needed to question scope for further [upside](#).

[Intuitive Surgical](#) broke above \$28 in October 2004 and accelerated to a high near \$140 in February 2006 where it experienced a weekly key reversal. The ensuing consolidation lasted until June when it broke upwards to new highs. It then accelerated to present levels. Yesterday's action was the single [largest reaction](#) in over a year, but the share would need to sustain a move below \$220 to question scope for further upside.

[Millicom International Cellular](#) broke upwards in January last year and moved to a high near \$52.50, underneath which it consolidated for six-months. It broke upwards once more in November 2006 before reaching a peak of \$100. It would need to sustain a move above this level to [reaffirm](#) the overall uptrend.

In conclusion, while the overall Index is looking somewhat overextended and appears likely to consolidate in this region, the outlook for many of the leading shares since the August reaction and the longer term is looking quite promising. Although some of the above shares are looking overbought in the short-term, there is no evidence yet, that they are about to reverse the impressive gains of the last 18 months.

Credit Suisse Research Weekly Initiating on India: The Dancing Elephant - Thanks to a subscriber for this [report](#) which focuses on India and makes a number of interesting points. Here is a section:

Although India will have its share of ups and downs in the form political uncertainty, opposition to second generation reforms and concerns over high fiscal deficits, we believe the high savings and investments rate, together with the opportunities generated by the demographic dividend and accelerated infrastructure spending should enable India to maintain its high growth rates in the long term. The doubling of per-capita income should ensure the steady improvement of penetration levels for various sectors (e.g. telecom, automobiles and financial services). The recent oil and gas discoveries should reduce India's dependence on external sources and also strengthen its forex position. While we are bullish on the growth prospects of the Indian economy in the long term and believe the power of consumer demand should emerge in a few years' time, we are neutral on the stock markets mainly because of the stretched valuations. To participate in this growth story, we are initiating coverage on large capital goods companies with diversified exposure. We believe infrastructure spending is a compelling secular investment theme, and we expect it to remain a topic of interest in the next few years. Companies in the best position to tap this opportunity include Larsen and Toubro (HOLD), Bharat Heavy Electricals (HOLD), and Crompton Greaves (HOLD). We have initiated coverage on all three companies with a HOLD recommendation, mainly due to the low upside from current price levels to our one-year target price.

My view - The Indian stock market has appreciated at a rate which is unsustainable beyond the short term, but even when this acceleration spills over into a consolidation, the long-term potential will remain intact. The [Sensex](#) is encountering at least short-term [resistance](#) underneath 19,000 but it would need to sustain a move below 17,300 to question scope for further upside in the near term.

The country's demographics, a large educated workforce, coupled with a regulatory environment which continues to open up sets the stage for impressive GDP growth. However when this is coupled with massive projected infrastructure investment and an appreciating currency we have a recipe for impressive investment flows into the country. We are witnessing some of the result of this right now and the speed with which the benchmark Sensex has appreciated has taken everyone by surprise. This is not the time for opening new long positions but it is a time for watching the next reaction which will provide the next good buying opportunity.

Email of the day (1) - on Utilco Emerging Markets Utilities IT:

"I wonder if you or other members of the collective have come across the Utilco Emerging Markets Utilities Investment Trust (UEM)? (Disclosure: I have established an initial small position.)

"The scrappy information I have been able to pull together from the internet indicates, as the name suggests, a mandate to invest in utility companies but also in other emerging country infrastructure companies. Thematically, this sounds very appealing, but I have not got any information on the manager."

My comment - Thank you for this interesting suggestion which I have added to the Chart Library and I agree that the theme is very much in line with the global infrastructure and Supply Inelasticity themes we have espoused for a number of years.

The monthly [report](#) from Utilco suggests that their largest holdings are in Brazil, followed by China and Malaysia, so they certainly fulfil their global mandate. The Fund ([weekly](#), [daily](#)) bottomed during June and July last year and proceeded on an orderly uptrend before succumbing to the selling pressure experienced by the majority of funds as a result of the credit crisis. However it recovered from this correction swiftly and went on to make new highs. It is not looking somewhat overextended but would need to sustain a move below 170 to question scope for further upside in the short term.

Email of the day (2) - on trading in ETCs from the US:

"For the subscriber that asked about the U.S. listed equivalent for the commodity ETF's, any global brokerage can buy these on the London exchange.

"My advice is to use a limit order, entered while London is trading, so you don't get taken to the cleaners while you sleep. I bought a decent position in COTN this a.m. with an execution exactly where I expected. Since these are denominated in dollars it is all the easier. Depending on your custodian, with the dollar denomination, they can be held in most any account."

My comment - [Thank you for this information which I'm sure will be of interest to subscribers.](#)

Email of the day (3) - [on ETF additions to the Chart Library:](#)

"Below is a list of Commodities ETF's that Eoin asked for.

"It looks like there are no individual base metals ETFs yet, from what I can see. It's unfortunate, I wanted to buy some LME Nickel today, but the size of the contract scared me off.

"As always, love your service - keep up the great work - Wish I had signed up for the seminar! Oh well

"Commodity ETFs (Exchange Traded Funds - charts of which can be seen on www.BigCharts.com) - DBA, MOO (agriculture), DBB (base metals), PXE, PXJ, OIH, DBE, DBO, USO, UCR, IXC, IYE, VDE, XLE & DCR (energy), DBP (precious metals), DBS & SLV (silver), DGL, IAU, DGL, GDX & GLD (gold), IGE, IYM, DBC, GSP, DJP, VAW, IYM & GSG (commodity indexes/natural resources), DBV (currencies), UUP, UDN (US Dollar), FXE (Euro), FXB (British pound), FXA (Australian dollar), FXC (Canadian dollar), FXM (Mexican peso), FXS (Swedish krona), FXF (Swiss franc), FXY (Japanese Yen), SPY (S&P), IEF, LQD, SHY, TLT (bonds).

"Caution: Each of these ETFs has its own unique characteristics, so be sure to seek out and read the ETF prospectus and other information about the ETF before considering investing in it."

My comment - [Thank you for this extensive list of ETFs and we are delighted to hear that you are enjoying the Service. I'm these funds will be of interest to US-based subscribers. Although many of them were already in the database, I can confirm that they are all now in the Chart Library. I had not previously been aware of currency ETFs but they are an interesting addition to this growing series of investment vehicles.](#)

Email of the day (4) - [more on Commitment of Traders reports:](#)

"I see an email on your Comment of the Day asking for COT reports (and perhaps some analysis around them).

"Personally I look at the daily comments from www.nsfutures.com which every Monday has a COT report included in their comment.

"I find this daily report a useful short term commentary on your excellent short to long term views. I believe nsfutures.com is free to all."

My comment - Thank you for this information. I think one has to submit an email asking for a login before receiving the newsletter.

Eoin's personal portfolio: lead position closed at a profit - Trading in LME metals without a stop is a bit nerve wracking and I had no desire to see my position slip into a loss. I sold my long in January 4th [lead](#) on this morning's weakness at 3770 against my purchase on October 5th at 3735 including spread-bet dealing costs. This may have been a rash move and I will consider re-opening the position if the chart pattern warrants it.

Today FM interview - I will be interviewed at 11:15 Sunday morning on the [Today FM Sunday Business Show](#). The topic in discussion will be the state of the global economy and specifically how Ireland is affected.

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