

Fullermoney *Highlights*

Global Strategy and Investment Trends compiled by Eoin Treacy

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David & Eoin's personal portfolio trades	Page 2
October 15 th Sovereign wealth funds the most important influence on markets that we will see over at least the next decade	Page 3
October 16 th Citigroup's Global Equity Strategist The Maturing Bull Market	Page 4
October 1 st On the impact of the credit crisis	Page 7
October 2 nd Global Bank Indices Another Technical Update	Page 8
October 3 rd on the relative performance of European Banks	Page 10
October 4 th On indices relative to their 200-day MAs	Page 11
October 4 th On my portfolio in the event of a bear market	Page 13
October 8 th On the Debt Supercycle and UK companies likely to outperform	Page 14
October 8 th On gold	Page 17
October 8 th On the eventual possibility of multilateral intervention to support the US dollar	Page 19
October 11 th On preventing a rout in the Dollar	Page 20
October 2 nd Shanghai trip report	Page 21
October 5 th Eastern European Indices moving to new highs	Page 22
October 11 th Nasdaq continues to outperform. Could this be the real deal or just a flash in the pan?	Page 23
October 12 th Nasdaq Could this be the real deal or just a flash in the pan? (continued from yesterday)	Page 24
October 17 th On Thailand	Page 26
October 4 th On a comprehensive review of major Canadian oil sands companies	Page 27
October 3 rd On wheat	Page 28

October 4 th On the bullish case for wheat from one of our best sources	Page 29
October 5 th On shipping companies	Page 29
October 3 rd On exiting trades too early	Page 31
October 4 th On backwardation	Page 32
October 8 th On recommendations	Page 33
October 8 th World Equity Index Valuations Tables	Page 34

New Positions in Personal Account Open/Closed			
David	Silver		CL 02/10 \$13.45 Dec07
	Silver		CL 02/10 \$13.50 Dec07
	Silver	Long 02/10 \$13.425 Dec07	
	Silver	total position sold	CL 02/10 \$13.22 Dec07
	Gold		CL 02/10 \$735.5 Dec07
	Gold	33% reduction	CL 02/10 \$732 Dec07
	Platinum		CL 02/10 \$1367 Jan07
	Platinum	Long 02/10 \$1360 Jan07	
	Gold	75% reduction	CL 04/10 \$730 Dec07
	NZD		CL 04/10 NZ\$.7420 Mar08
	Platinum		CL 04/10 \$1365 Jan07
	Platinum		CL 04/10 \$1364.8 Jan07
	Silver	Long 05/10 \$13.53 Dec07	
	Silver	Long 05/10 \$13.515 Dec07	
	INVGEAA LN	investment position sold	CL 10/10 200.94p
	Zinc ETC	Long 10/10 \$1446.16 Jun08	
	Nickel ETC	Long 10/10 \$4128.52 Jun08	
	Silver	Long 10/10 \$13.91 Mar07	
	Copper ETC	Long 11/10 \$4668.34 Jun08	
	Palladium	Long 11/10 \$384.30 Jan08	100% increase
	Platinum	Long 11/10 \$1403.1 Jan08	20% increase
	Gold	Long 11/10 \$7763.8 Feb08	
	TFC US	Long 11/10 \$8.378 Mar08	50% increase
	MLW LN	Long 12/10 £6.816	
	VED LN	Long 12/10 £22.18	
	Silver	Long 15/10 \$14.265 Mar08	
	Silver	Long 15/10 \$14.15 Mar08	66% increase
	Platinum	Long 15/10 \$1430 Jan07	20% increase
	Silver		CL 16/10 \$13.94 Mar08
	Silver	Long 16/10 \$13.91 Mar8	
	Silver	29% reduction	CL 16/10 \$13.65 Dec07

	DAX	Short 16/10 8088 Mar08	
	DAX	Short 16/10 8084 Mar08	
	DAX	Short 17/10 8142 Mar08	50% increase
	Gold	Long 17/10 \$770.9 Mar08	50% increase
Eoin	Gold	Long 01/10 \$752.75 Dec07	
	Gold		CL 02/10 \$739.75 Dec07
	MSCI		
	Singapore		CL 03/10 465 Oct07
	Gold	Long 05/10 \$743.20 Dec07	
	Lead	Long 05/10 \$3735 3mth	
	Lead		CL 12/10 \$3770 3mth
	Gold	Long 15/10 \$761.60 Dec07	100% increase

October 15th Sovereign wealth funds: the most important influence on markets that we will see over at least the next decade

In modern history, they have been with us since 1953 when Kuwaitis had the vision to launch the Kuwait Investment Authority. Other oil producers eventually followed, commencing with the UAE's Abu Dhabi Investment Authority, the Qatar Investment Authority, Canada and the USA with their Alberta Heritage Trust Fund and the Alaska Permanent Reserve Fund, respectively, all in 1976. Singapore was next with its Temasek Holdings and Government Investment Corporation in 1981. Yet these funds were hardly noticed at the time or even over the next twenty-five years.

This is now changing rapidly. Today, in alphabetical order, Australia, Brunei, China, Iran, Kazakhstan, Korea, Malaysia, Norway, Russia and Taiwan have also joined the growing list of countries with sovereign wealth funds. More commodity producing and emerging countries are certain to follow. Sovereign wealth funds (SWFs), currently estimated at around US\$2 trillion, will soon be more important than both hedge funds and private equity combined. Morgan Stanley estimates that the total will be approximately US\$12 trillion in SWFs by 2015.

I think it could be higher, provided a global recession is avoided, and I suspect the US Dollar Index will be lower by then. SWFs will redefine market trends in terms of both winners and losers. Investors who observe and understand this phenomenon should do exceptionally well. Those who do not will underperform.

Eoin posted an excellent [report](#) by Merrill Lynch on this subject in Tuesday 9th October's Comment of the Day, under the headline: "Merrill Lynch Global Economics: The overflowing bathtub, the running tap and SWFs". I believe Morgan Stanley has just released a similar report, which I would welcome and post for the Collective if any subscriber is able to forward it.

Meanwhile, I commend the Merrill report to those of you who may not have seen it. If you are pressed for time, just read the "Strategy Implications" on pages 22 - 25. Here are five trends forecast:

- 1) A massive shift into riskier assets
- 2) A shift out of government into private sector assets
- 3) A shift out of USD into non-USD-denominated assets
- 4) A shift out of internally-managed towards more externally-managed assets
- 5) The centre of gravity of these shifts moving from the Middle East to Asia and Russia

I will quibble with the term "riskier assets", in this instance meaning developing markets and particularly Asia, rather than the West. If risk means an undervalued but appreciating currency, strong GDP growth and rising corporate profits, then by this strange definition I suppose I am a "high-risk" investor.

Meanwhile, the 64 trillion dollar question is where will these funds invest? Eoin mentioned the USA due to market size and liquidity, followed by their own region. This has been the case but I think it is unlikely to continue, aside from some household-name multinationals and particularly big-cap tech. China, for instance, may hope to expedite its own tech development with significant investments in these companies. However I expect China to invest more in its own region, plus resources, and capitalisations can rise rapidly relative to the USA, as we last saw so dramatically, albeit temporarily, with Japan in the late 1980s. There may also be a secondary motive: to invest where they can not only make a decent return but also gain the most influence.

More importantly, price charts will show us. Perhaps they are already doing so with the performance of Fullermoney investment themes: emerging markets led by Asia, resources, global infrastructure and more recently, tech.

October 16th Citigroup's Global Equity Strategist: The Maturing Bull Market

Written by Robert Buckland and Orrin Sharp-Pierson for Citigroup's Strategy Focus, is this one of the best research [reports](#) that I have ever seen? Inevitably the answer is subjective, but yes, in terms of explaining and illustrating the Credit / Equity Cycle. If I had seen the equivalent of this report at the beginning of my financial career over 40 years ago, it would have done wonders for my learning curve.

As it turned out, I didn't know anything much for a very long time, except how to read price charts. They kept me out of trouble more often than not, provided I kept my emotions under control, which was frequently a struggle, particularly in the formative years. So at best I could see trends and participate in them, but I did not understand what was driving them, beyond the obvious points of sentiment and liquidity. This made it difficult to assess objectively the difference between moderate and outstanding potential, or a small versus large risk. In other words, all opportunities and hazards seemed about equal, when they were most emphatically not.

Today, like many somewhat older stagers, I have absorbed quite a bit of information on the Credit / Equity Cycle from various excellent sources over the decades, not least The Bank Credit Analyst.

However today's report by Robert Buckland and Orrin Sharp-Pierson adds considerably to that useful information in terms of presentation, style, graphics and history, and the best of it is only 10 pages long. I commend it to you.

Incidentally, in the global village of Fullermoney contacts and subscribers, the report was forwarded to me by a journalist friend in Moscow, who wanted to know what I thought of it, plus the implications for stock markets over the next few years.

Here is the introduction:

We start by considering the credit cycle. Figure 2 highlights a simple framework developed by our credit strategist, Matt King [Ed: see graphic, page 3].

Phase 1: Long credit, Short equity

This phase immediately follows the bottom of the credit bear market. Spreads fall sharply as companies repair balance sheets, often through deeply discounted share issues (as we saw for Insurance and Telecom companies back in 2002-03). This, along with continued pressure on profits, keeps equity prices falling.

Phase 2: Long credit, Long equity

The next phase begins as profitability turns and equity prices start to rally. Credit spreads fall even further as corporate cashflow rises strongly. We call this an immature equity bull market. For the present cycle, this phase began in March 2003.

Phase 3: Short credit, Long equity

The credit bull market is over, spreads start to rise as investor appetite for leverage wanes. The equity market decouples from credit and continues to rise. We think that the market is entering this phase now. This is the mature equity bull market.

Phase 4: Short credit, Short Equity

This is the classic bear market, when equity and credit prices are falling together. It is usually associated with falling profits and worsening balance sheets. Insolvencies plague the credit market, profit warnings plague the equity market. A defensive strategy is most appropriate - cash and government bonds are the best performing asset classes.

My view - Experienced investors will be familiar with this theme, but read on and don't miss Figure 4 on page 5:

The key point is that the correlation is not always positive. Sure, credit and equity prices both rise in Phase 2 and fall in Phase 4. But they move in opposite directions in Phase 1 and Phase 3. A credit investor makes money in

Phase 1 and Phase 2, but an equity investor makes money in Phase 2 and Phase 3. It is right to let go of credit at the beginning of Phase 3 (where we think we are right now), but it is not the time to sell equities.

In Phase 3 in 1988-90, global equities rose by 38% despite a 317bp increase in credit spreads. In Phase 3 in 1997-00, equities rose by 57% despite a 282bp increase in credit spreads. Given the latest bounce-back, equities are now flat since the credit cycle turned. But this analysis suggests that they could go some way higher, despite rising credit spreads. This information might be useful for those equity fund managers currently being bombarded with "you don't get it" comments from their credit colleagues.

Phase 3 Begets Bubbles

This increasingly speculative and unstable mature bull phase has often been associated with a major bubble somewhere in the global equity market. In 1990 Japan rose to a 60x trailing P/E and accounted for 50% of total global market cap (now 10%). In 2000 Tech, Media and Telecoms (TMT) also rose to a 60x P/E and accounted for 40% of global market cap (now 20%).

These bubbles usually build on a theme that has already been performing strongly through Phase 2. Into Phase 3 easier monetary policy and rising capital inflows from other asset classes provide the fuel to drive prices to spectacular and ultimately unsustainable levels. This then bursts and proves a major downward force on global equities in the bear Phase 4.

So where might the next equity bubble be building? Perhaps this could be the "global growth" trade that we have recently highlighted. These are the stocks or markets which are perceived to be most positively exposed to a robust global economy, irrespective of the US slowdown. These could be emerging market or commodity plays.

My view continued - I am in strong agreement. Using the terminology detailed by Robert Buckland and Orrin Sharp-Pierson of Citigroup and attributed to their colleague Matt King, we are now in the early 3rd stage of the credit cycle, in which bubbles form. China is leading the process which is now spreading throughout the often repeated Fullermoney themes of emerging markets led by Asia, global infrastructure development, and commodities led by industrial resources. Much more recently, a select band of big-cap technology shares appear to be joining the top performers. Percentage gains by equity indices for these sectors and therefore inevitably their related leading funds and shares, have shown preliminary bubble characteristics since their August lows. This has been evident for somewhat longer with China.

This does NOT mean, at least to me, that we should switch out of these high-performance investments and into lagging sectors such as, heaven forefend, underperforming bank shares in the USA, UK or Japan. A few previous wallflowers will perform but overall, I expect divergence between the leading and lagging markets to widen, punctuated only by increased volatility from time to time.

In other words, there will be some white-knuckle moments. Also, some intelligent, experienced analysts will say that valuations do not justify the outperformance in our favoured themes of the last five years, and they will shout: "Bubble!"

In terms of valuations, they may be right academically but probably not behaviourally. From my analytical perspective, I want to participate in a developing mania, provided technical evidence indicates that the bubbles are still inflating and headwinds are not blowing with such a force that we should flee to safety. The bubble phase, while it continues, is the most profitable.

The period of rapidly increasing danger, I believe, will be when interest rates are rising around the world once again. However it is unlikely to be the first hikes by central banks that cause lasting problems. It is more likely to be when a number of central banks have not only raised rates but also signalled a tightening bias over the foreseeable future.

Meanwhile, I would not be surprised if diversified stock market indices for countries where bank shares are weak, remained in primarily ranging patterns, despite favourable seasonable factors. The Fullermoney favourite themes mentioned above are temporarily overextended and due for consolidations.

October 1st on the impact of the credit crisis

One of the outcomes of the Western credit crisis is a long overdue reassessment of risk on a geographical basis. What I have previously described as a choice for investors between the Wobbly West and the Enterprising East has come as a shock to many, although it shouldn't, if they compare the regions' GDP growth, debt and savings rates. We can be smug in the West where many of us prefer to live, not least for cultural reasons, but that does not mean that it is the best place to invest.

Markets can be swift to adjust, at times, and investors have certainly been voting with their feet recently. Compare the West versus East stock market performances since the mid-August reaction lows. Here is one comparison: Germany ([daily](#) & [weekly](#)), which many regard as the West's most promising large economy, versus India ([daily](#) & [weekly](#)), which remains one of Asia's new pacesetters.

I have nothing against Germany; its stock market has been a good performer in Europe and remains within its primary upward trend, provided the August reaction lows hold. But I would much rather invest in India, with its considerably higher rate of growth, including corporate profits.

Ah, but what about the currency risk, some will say. Well, yes, the Indian rupee used to be a basket case but this [chart](#) of the EUR per 1 INR over the last five years shows that the rupee is now a considerably firmer currency. If economic growth remains the long-term determinant of a currency's performance, as it should, I would expect the rupee to appreciate against the euro over the next decade or more.

In the UK, former editor of the Financial Times and now director general Confederation of British Industry, Richard Lambert, recently described the bank run on Northern Rock as what you would expect in a ['banana republic'](#). Presumably this problem, which required the government to step in and guarantee deposits, will lead to better governance in future, including a rethink regarding the so-called 'tripartite' method of regulation introduced by Gordon Brown in 1997. It also demonstrates that there should be no complacency about standards of governance in the West.

What about the outlook for GDP growth and interest rates generally?

I assume that slower growth in Euroland, the UK and USA will persist into 2008. This should lead to lower interest rates from the BoE and ECB at some point, preferably sooner rather than later, although this necessitates a reassessment at these two institutions which were still signalling higher rates in early August. I also expect further rate cuts from the Fed.

While the US and Europe should avoid recessions, assuming the balance of monetary policy remains in favour of easing, slower economic growth almost certainly means lower corporate profits for many industries. This will be a headwind for Western stock markets.

Consequently, a repeat of the gains for share indices in the West, to which investors have become accustomed in recent years, will require valuation expansion in the form of higher PERs. This is not guaranteed, although easier monetary policy will help. Companies which export to Asia should be among the better relative performers. Meanwhile, the stagflation risk is increasing.

Slower growth in the West will almost certainly pare Asia's growth somewhat. However this could be a net positive if it causes the region's central banks to postpone further interest rate hikes.

Meanwhile, I remain satisfied with and gratified by the performance of my personal top-ten, long-term investment portfolio. However I would not chase these positions. There will always be market reactions.

Tomorrow, I will review global bank indices.

October 2nd Global Bank Indices: Another Technical Update

This global strategy service has long regarded the performance of a country's bank shares as an important lead indicator for its overall stock market. In other words, what is good for the banks is good for shares generally, and vice versa. We saw evidence of this earlier in the year, long before most people had heard of sub-prime, with the persistent weakness of bank indices for the USA, Europe and Japan, a fact frequently cited by Fullermoney.

So, following central bank measures to alleviate the credit crunch, particularly from the Fed, what are bank indices indicating today?

Significantly, the message continues to vary from region to region. For instance, India's Bombay Banks Index ([weekly](#) & [daily](#)) have largely uncouple from the performance by Western bank indices, which saw February peaks in the USA and April highs in Europe. Relative strength by India's banks helped the broader Sensex Index ([weekly](#) & [daily](#)) experience a comparatively small correction in July and August, before powering to new all-time highs. The only mildly cautionary indication from these indices is that they may be a little overextended in the short term. The more important message is that they recently reconfirmed their long-term upward trends.

This review does not quite compare like with like in that some of the financial indices included have constituents other than banks, such as insurance companies. Consequently they are likely to be somewhat firmer than a banks-only index, were the latter available. Nevertheless we get a reasonable indication and financial indices that nearly match the performance of broader indices in overall upward trends, let alone at new highs, can be regarded as providing bullish confirmation.

Australia's S&P ASX 200 Finance Index ([weekly](#) & [daily](#)) has underperformed the broader AS51 Index ([weekly](#) & [daily](#)). Nevertheless, it has recovered well and would need to fall back beneath 6800 to confirm significant resistance from the May high.

Singapore's Finance section ([weekly](#) & [daily](#)) has similarly underperformed the STI ([weekly](#) & [daily](#)) but not sufficiently to be a concern. Financials would now require a fall beneath 2400 to reaffirm more than temporary resistance near the June-July highs.

Indonesia's Jakarta Finance Index ([weekly](#) & [daily](#)) has slightly underperformed the broader JCI ([weekly](#) & [daily](#)) which reached a new high today. Financials would now need to break beneath 230 to signal potentially significant deterioration.

Thailand's Banks Index ([weekly](#) & [daily](#)) similarly shows only a slight underperformance relative to the SET ([weekly](#) & [daily](#)). A decline beneath 275 by the Banks would now be required to reintroduce bearish technical evidence.

China's S&P CITIC300 Financials Index ([weekly](#) & [daily](#)) does not have much back history but only lags the Shanghai-A ([weekly](#) & [daily](#)) by a small margin. Both have shown some loss of momentum recently, although the A-Shares Index reached a new all-time high on Friday. A slide beneath 5800 by the Financials would now be required to raise concerns.

Hong Kong's Financials ([weekly](#) & [daily](#)) has almost tracked the broader HSI ([weekly](#) & [daily](#)), providing bullish confirmation. However both indices have become overstretched following short-term accelerations which will inevitably be followed by reactions, albeit probably within the overall upward trends.

South Korea's Financials ([weekly](#) & [daily](#)) are lagging the KOSPI ([weekly](#) & [daily](#)), albeit within an overall upward trend. A close beneath the August lows just above 580 by the former would be required for an outright bearish signal.

Taiwan's Bank / Insurance Index ([weekly](#) & [daily](#)), although recovering from its August low, is clearly lagging the TWSE ([weekly](#) & [daily](#)). The Financials would commence pattern deterioration beneath 1000 - significantly if the August lows are taken out.

Japan's Topix Banks Index ([weekly](#) & [daily](#)) is lagging the broader Topix Index ([weekly](#) & [daily](#)). Nevertheless both have improved recently, with Banks seeing some upside follow through today after last week's potentially significant upside weekly key reversal. A close beneath 285 would now be required to reverse recovery scope.

Conclusion on Asian financial indices - They vary, with the healthiest patterns in relation to their broader indices evident in India, China and Hong Kong. The fact that these markets are somewhat overstretched in the short-term is another matter, which does not reflect on the long-term upside potential. Financials in Australia, Singapore, Indonesia and Thailand are not lagging sufficiently to be a concern. The sector needs to be watched more closely in South Korea, Taiwan and Japan, although all have improved recently, with Japan's Banks the most recent to show evidence of a new floor.

The USA's financial sectors are represented here by the S&P 500 Banks ([weekly](#) & [daily](#)), S&P 500 Diversified Financials ([weekly](#) & [daily](#)), Philadelphia Bank Index ([weekly](#) & [daily](#)) and S&P 500 Regional Banks ([weekly](#) & [daily](#)) (there are more in the Library but these should suffice). These are obviously lagging way behind the S&P 500 Index ([weekly](#) & [daily](#)), not to mention the Dow and Nasdaq indices which reached new highs for the year on Friday. The first three Financial Indices above show a sequence of either two or three rising lows since the August trough. Breaks of last week's lows would be the first warning, while breaches of the August lows would be an unequivocally bearish signal. A downward lead would probably come from the Regional Banks Index which remains barely steady. Conversely, every additional recovery by the USA's bank indices would be reassuring technical evidence for bulls.

Europe's financials are represented here by the DJ Euro Bank Index ([weekly](#) & [daily](#)), DJ Euro Financial Services ([weekly](#) & [daily](#)) and the FTSE 350 Bank Index ([weekly](#) & [daily](#)). These have had a torrid time, breaking or testing lows in mid-September, and trailing way behind the DJ Euro STOXX 50 ([weekly](#) & [daily](#)) and FTSE 100 Index ([weekly](#) & [daily](#)). However the European banks and financials have rallied recently, providing a little breathing space. As with the USA, moves beneath last week's lows, not to mention breaches of the September troughs, would be distinctly bearish. Conversely, an additional recovery by financials would open the door to more new highs by European indices.

October 3rd on the relative performance of European Banks

"Hope all is well with you and David.

"This month I work in a branch where I unfortunately cannot use my "Bloomie" via the 'everywhere' tool for security reasons.

"I was looking for relative charts so I took a look at your Chart Library and I was really impressed by the progress made. It's functional and user friendly and above all it's supported by a 'you ask, we deliver' service.

"I just have one question: is it possible to choose in the charting function an instrument of your own choice for comparison? I would like to compare the European banks with the Stoxx 600 which is not in the pre-selection. Very often a sector is compared to the Stoxx 50, but I think the broader Stoxx 600 is more relevant, because it's less biased by the big/small style."

My comment - I am glad to hear that the Fullermoney Chart Library can help to fill in when you are bereft of your Bloomberg. Our programming team are currently developing an interface which will allow users to make anything relative to anything else but it is not ready just yet. In the meantime I asked them to add the Stoxx 600 to the relative dropdown list in the Charting function, which they have done. You will now be able to look at any stock relative to the Stoxx 600.

[ABN AMRO](#), partly as a result of takeover expectations, continues to outperform the overall index. It broke above the previous high in mid-September and needs to hold above .95 for the upside to maintain the benefit of the doubt,

[National Bank of Greece](#) is also in the region of its July high but has encountered some short-term resistance at this area. It needs to sustain a move to new high ground to reaffirm the overall uptrend.

[Banco Santander Central Hispano](#) found support at the June lows before rallying. It would need to sustain a move below .0355 to hinder scope for further upside.

[Intesa Sanpaolo](#) has been broadly ranging for much of the last year. It found support in mid-July and rallied impressively before encountering resistance at .0155 in mid-August. Currently in the middle of the range, it needs to sustain a move above .0147 to signal that this congestion area is anything other than a distribution.

[UniCredito Italiano](#), [BNP Paribas](#), [Societe Generale](#), [Deutsche Bank](#) and [Banco Bilbao Vizcaya Argentaria](#) all share a similar pattern relative to the Stoxx 600. They have all been in a relative downtrend for much of the last year and have all found at least short-term support. A break below the mid-September lows would be needed to offset scope for some further upside.

[Fortis](#) is also in a relative downtrend but has sustained only a paltry rally from support at .055. It needs to improve on this performance to attract more bulls to the stock.

October 4th On indices relative to their 200-day MAs:

"A couple of comments/questions:

"1. Many of the national indices in the chart library show sharp V corrections and are back at or above their prior all time highs and close to the gap between price and the 200 day MA as at the time of the last all time high. Is it Groundhog Day? If the market was nervous about the price/200MA gap before, I would imagine it has cause to worry again given a particularly swift return to these high prices. Do you agree with this or what do you believe should give us cause to think differently?

"2. I notice the FM library Backwardation/Contango chart of LME Nickel Spot-3 Mths Nickel has gone negative since late July, the first time since early 2006 which was around the time we had the accelerated price increases for nickel. Is this current negative relationship highlighting a potential recovery in prices?"

My comment - These are interesting questions.

Regarding the first one, I'm not sure that the market crowd was nervous about the price / MA gaps before, since the crowd had driven many markets to those somewhat overextended levels. However some of us were concerned about the scope for a reaction, not least because of the coincidental deterioration of bank shares in many markets.

To address your question, let's look at this weekly chart of Australia's [AS51 Index](#) and consider both similarities and dissimilarities with the mid-July period, before the shakeout occurred, based on both this chart and broader technical and economic developments.

Commencing with the chart, as you pointed out we have an overextension relative to the trend-smoothing MA which is not dissimilar to other occasions when gravitation back towards the MA occurred. Therefore it would not be surprising to see the AS51 range sideways and possibly somewhat lower before long. However, I regard this as a small risk because the latest rally has been brief and would have included short covering.

In other words, recent strength does not resemble the persistently long bandwagon rallies, which suck everyone in, as we saw earlier in this trend before they were interrupted in March 2005, May 2006 and July 2007. Additionally, the recent reaction will have shaken out many nervous holders, and while some people may now decide that 'it is never wrong to take a profit', the prior shakeout should leave the market less vulnerable today, assuming the broader technical and economic background has not deteriorated further.

Inevitably, assessing these latter factors, particularly economic items, is more subjective than commenting on the price chart. Nevertheless, I am also happier about stock markets today than in June and July because bank shares are mostly rallying rather than declining. Provided financials continue to improve, and this is a very important proviso as I have said before, most stock market indices should range sideways to higher through yearend and probably well into 1Q 2008.

With the USA and developed European economies slowing, there is clearly some risk to global GDP growth, as I have said before. More importantly, I believe, short-term interest rates have peaked in these regions and perhaps elsewhere. Liquidity is abundant once again and likely to remain so for at least the next few months.

Regarding your second question, we most definitely can not assume that nickel will go higher just because the [contango](#) has returned. It has returned because LME [warehouse](#) stocks are rising. However I believe this is temporary, and that Nickel is [bottoming](#) out and support building following a significant medium-term correction within its secular bull market. The more difficult question concerns the length of this support building before a sustainable uptrend resumes. It is impossible to know but I believe nickel will be well on its way to testing and eventually breaking its all-time highs when warehouse stocks are declining once again and the backwardation has returned.

October 4th On my portfolio in the event of a bear market:

"Firstly, let me just say how useful and reassuring you and Eoin's objective and insightful commentary has been over the last few turbulent weeks. Looking ahead, I would be very interested to know what your options might be with regard to your investment portfolio in the event of the onset of a bear market at some point in the future. Would you hold on to your favourite long term investments or sell them in the hope of buying back at a cheaper price?"

My comment - Thanks for your thoughtful comments.

Twice in recent years - April / May 2006 and earlier this year, when the possibility of a global stock market correction appeared high or at least a series of choppy reactions looked increasingly likely, I have advised subscribers that I would not sell any of my personal long-term investments. My reasons were straightforward: I remained a long-term bull of my investment positions; I could (and did) partially hedge (asymmetrically); I felt the investment portfolio would bounce back quickly and most of all, I did not feel that a bear market was imminent.

Fortunately, the portfolio did bounce back quickly in both instances, and beyond my most bullish expectations last month. One could say that this was lucky, given the meltdown of Western financial shares, the sub-prime credit crisis and widespread forecasts of a bear market. Perhaps, but my portfolio was invested in the strong globalisation themes, not the risky, underperforming areas. Also, there are inevitably many more short-term

reactions than medium-term corrections, and many more medium-term corrections than bear markets. The latter are a rare occurrence, at least on a global basis.

Regarding my strategy in the event of a future bear market of global proportions, which will occur at some point, I have often said that my goal would be to cash up significantly, if not entirely. This presupposes that I would be clever or lucky enough to see the bear market warnings in time. I do not take this for granted, not least because first there will be a reaction, which morphs into a correction, which morphs into a bear market. Once the latter becomes obvious, it is almost too late to sell. And if we jump at every shadow, we will sell too often and too soon, and miss a large portion of the upside.

For the last two years, my best guess has been that we would be unlikely to see a global bear market for equities before 2009-2010, at the earliest. More importantly, we can all look for warning signals.

For instance, I suspect that a bear market could emerge during the next round of global interest rate hikes and soaring yields for long-dated government bonds. They would constitute by far the greatest danger in my view. Other contributing factors could be a freefall for the US dollar, although on its own that need not trigger more than a correction, provided it is handled properly by central banks. Oil and food price spikes, which we are likely to see, could also play a role.

Meanwhile, I think the risk of a global stock market bear trend has declined for the medium term, following the July-August drama, provided recently underperforming bank shares do not take out their lows of the last two months.

If only to cover all bases, there is the outside possibility of an exogenous shock, but this would have to be of biblical proportions to trigger more than a reaction or correction. Consequently it is not factored into my risk calculations.

Lastly, so that we are all using the same terminology, I would not regard a decline of 20% or even 30% as a bear market. These reside within the range of short to medium-term corrections, in my view. The infrequent but very destructive bear markets that I hope to avoid fall considerably further and are slow to recover.

October 8th 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.

October 8th 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.

October 8th 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.

October 11th on preventing a rout in the Dollar

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.

October 2nd Shanghai trip report

When I first moved to London in early 2000, the retail brokerages were all running marketing campaigns along the lines of hiring pretty girls to stand at rush hour in Liverpool Street station handing out flyers to convince punters to use one broker over another. The same campaign has been adopted by a number of the smaller brokers in Shanghai although with slightly different characteristics. We walked past one brokerage just before the lunchtime break. There must have been fifty sales people waiting outside attempting to convince customers to switch. Some of the salespeople told us they had congregated around this one shop because it was moving premises, so clients could be convinced to switch more easily. They get a commission for every client that switches.

Brokerages in China are much more like day trading houses in appearance. Many people do not have the internet at home so they spend a good proportion of the day in a brokerage watching the big board and dealing on the terminals provided. Chinese born, Mrs. Treacy opened an account with one of the larger brokers which occupies a 20 storey building. We arrived quite early and didn't have to wait long but, when we left there was a long queue of people waiting to open accounts. Access to different floors is dependent on how big one's account is, with VIP status accorded to 200,000 yuan and above clients. The VIP dealing rooms are towards the top of the building and the lower floors cater for much smaller account holders.

One can see people trading everywhere from offices to restaurants. One silk shop in Hang Zhou (a regional tourist destination about 200kms south of Shanghai) where we bought some scarves had a laptop in pride of place next to the till where the four middle-aged women working there were monitoring the markets. They told us that they were using investment magazines to generate the bulk of their trading ideas.

A number of taxi drivers claimed to have been dealing in stocks since the inception of the stock market almost twenty years ago and there were some

sour grapes at people who had started trading in the last couple of years and made a killing, without having had to endure the previous bear market. They asked the relevant question of what these newly minted bulls are going to do during the next bear market.

The dispersion of trading profits is easily seen with many people saying that they will go to an expensive restaurant and buy some luxury item on the next new market high. In more expensive restaurants the waiters told us that many of the customers wouldn't normally be there, were it not for trading profits.

We also found that almost everyone knows about the upcoming enactment of the QDRI (Qualified Domestic Retail Investors) program and are looking forward to investing in Hong Kong and potentially other markets. There is a perception that money in these other markets is safer than at home.

On the plane to China I met a Chinese executive from a large chip maker who was returning from a trip to Ireland, where he had been looking at facilities that could potentially be replicated in China. They were talking about setting up a motherboard manufacturing business in China but he was quick to reassure me that he had not been in Ireland to 'steal' jobs since their primary business in Ireland is chip manufacture. Making motherboards is a competitive and low margin business where labour costs can be the determining factor between profit and loss. Making chips is much higher end, requires greater sophistication and is not as easily transferable to China. It was his opinion that while China is progressing at breakneck speed it is not yet ready to compete in production of high-end chips on a par with those in the West.

I also met an interesting individual from Nashville Tennessee. He travels to China for 10 days every month and works for a company that insures mobile phones. They ship the broken phones to Hong Kong and Shanghai where they are repaired and then export them back to the USA. In excess of 400,000 units a month. I thought this was an excellent example of an American company using globalisation to its greatest advantage; exporting a low value item and importing it a short time later as a high value item which can be resold.

When I asked him how his wife liked him travelling all the time, he told me he used to work in the oil drilling business so she was used to him being away for long periods. The reason he was now in the mobile phone refurbishment business is because he was laid off 5 times in 2 years as the drillers went through a consolidation in the middle of the energy bear market. He decided enough was enough and left the industry. It is precisely because experienced entrepreneurial people, such as this man, left the business forever that there is a skills shortage today. It's been a long time since being a driller was a fashionable job and there is a dearth of graduates in this field. This is a contributory factor in the continued high cost of drilling globally.

October 5th Eastern European Indices moving to new highs

A number of Eastern European indices have had relatively shallow reactions relative to other markets as a result of the global credit crunch and a number have moved to new high ground. Here are some examples:

Bulgaria broke upwards from a seven-month consolidation in July and barely flinched during the mid-August drawdown in other markets. It reasserted its uptrend in early September and is now looking overextended as it approaches the psychological 2000, but a downward dynamic will be needed to check momentum beyond a brief pause.

Croatia has been consolidating its impressive move from 3200 to over 5000 for much of the last five months. It has just broken upwards once more and needs to maintain the breakout.

Latvia recovered well following the reaction which bottomed in Mid-August and moved to a new high above 760. It broke upwards again today and would need to sustain a move below 740 to question scope for further upside.

Lithuania also recovered well from its mid-August lows and has asserted its uptrend. A downward dynamic would be needed to check momentum beyond a brief pause.

Russia has been gradually ranging higher for most of the year and has moved to new high ground in the last three days. It needs to hold above 2050 to retain the bullish outlook.

Turkey broke upwards from a three-month consolidation in July and rallied to above 55,000, but gave up the entire short-term gain before funding support once more below 45,000. It has since rallied back to the previous high and broke upwards today. A sustained move below 52,500 would be needed to question scope for further upside.

Commonality suggests that these markets have been little affected by the global credit crunch and reactions, where they occurred, were probably more to do with contagion selling than any fundamental weakness in the region. They are likely to be able to improve upon their current performance in the absence of any further significant correction in global stock markets.

October 11th 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.

October 12th 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.

October 17th on Thailand

I found this short report very interesting, not least because I had read little about developments in Thailand recently, and it is my third largest personal equity investment, following India and China. I first invested in Thailand (p&f, monthly, weekly & daily) in 2Q 2003 because in my view it had the best chart

pattern in the world, and it was a good way to play China's booming economy, at a time when the Chinese market was underperforming.

I sold most of my Thai investment, which has always been in the Aberdeen New Thai Investment Trust (ANW LN) (p&f, [monthly](#), [weekly](#) & [daily](#)) in January 2004 because it was overextended, but bought back progressively during various setbacks. I have been waiting for the next big upward move by the SET, which has taken far longer than I would have hoped due to the political problems.

Governance is everything with emerging markets, as we are fond of saying at Fullermoney. Thailand's governance has been mediocre in recent years but I assumed that would eventually change. Having no particular insights in this respect, I hope Credit Suisse is right in its optimistic assessment.

There is no doubt in my mind that the SET chart can support an explosive upside move over the medium to longer term. In the short term, I would expect some consolidation of gains near the previous high. Meanwhile, spectacular moves in many of Asia's other markets have made Thailand look increasingly like a promising catch-up candidate. Someone has clearly been accumulating in the West, judging by the negligible discount to net asset value shown by ANW. One should not pay a premium for this or any other IT (closed-end fund), in my view, especially when there are other vehicles available in the Library.

October 4th on a comprehensive review of major Canadian oil sands companies:

"I enjoy your service, and your insights have benefited me greatly. I have noted that Fullermoney has been consistently bullish on natural resources over the past few years -- I have found (in my own research) that it is difficult to find, currently, a relatively comprehensive overview of the firms operating in the Canadian Oil Sands Industry. So here is an overview of the Canadian Oil Sands -- with firm-specific information (I think will be interesting to your readers):

Canadian oil sands are a type of heavy oil resource, mixed with sand and water which forms a substance which resembles an "oily mush." The bitumen from the oil sands -- chemically long hydrocarbon chains that are close in structure to those of asphalt -- can be upgraded, after separation from the sand and water, to syncrude (a type of heavy oil), which then can be further refined to gasoline, jet oil, and other premium petroleum products. The majority of Canadian oil sands are located in the Athabasca region of Alberta, an area covering approximately 30,000 square miles, but significant oil sands deposits are also found in the "Peace River" and "Cold Lake" deposits, which are also located in Northern Alberta but in distinct regions from Athabasca.

Note also, there are large oil sand deposits in Venezuela and Russia, but this analysis only covers the Canadian oil sands.

Oil Sands Majors:

Canadian oil sands production is up and running currently (in contrast with Venezuelan and Russian oil sand deposits, which are also very large but are not developed), with the majority of the production coming from four firms: (termed "Oil Sand Majors" here):

1. Syncrude -- a consortium of oil majors and the managing Canadian partner Canadian Oil Sands, Inc, which produces approximately 361,000 barrels of syncrude a day (at 6/07) mainly through mining methods

This excellent review of the major oil sands companies and the relative merits of mining versus in-situ extraction methods by Randy Kirk continues in the this [pdf](#).

My comment - I agree that the long-term potential for the oil sands is very much tied to the secular bull market for energy. Since we are very much in this camp, these companies probably represent good long-term value. However in the short to medium-term they are probably more likely to range than trend. This is because the oil price is consolidating its impressive gains and Alberta is experimenting with a new royalty / taxation system. There remains a large degree of uncertainty as to the impact these taxation changes will have, particularly on the larger companies already in production.

[Canadian Oil Sands Trust](#) rallied impressively between mid-2004 and May-2006 to a peak of C\$38.59. It has been in a corrective phase since, which bottomed between October 2006 and April 2007 at C\$25. While it has rallied well from this area and is currently consolidating beneath C\$35 it needs to sustain a move to new high ground to reaffirm the overall uptrend.

[Suncor](#) also rallied impressively before peaking in early 2006. It remains in a corrective phase which bottomed late last year above C\$70. It is now consolidating beneath the high and would need to sustain a move above C\$100 to reaffirm the overall uptrend.

[Imperial Oil](#) broke upwards from an 18-month consolidation in mid-May but fell foul of the global stock market rout in late July. It has since rallied back to test the high near C\$52 and needs to sustain a move above that level to reaffirm the overall uptrend.

October 3rd on wheat

[Wheat](#) accelerated upwards to a peak near \$9 and reacted briefly at that level before moving to a marginal new high above \$9.50. The two reactions which have been posted in the last three weeks have been the largest downward [dynamic](#) since July and signal that the risk of a more serious correction is rising as the uptrend loses consistency. The price would need to push upwards to new high ground and maintain the break to reaffirm the uptrend. If wheat closes down on the week, it will be the first significant down week in the last 15 which would be another inconsistency.

On a commonality basis, [soybeans](#) failed to sustain the move above 1000¢ and while it continues to have a progression of rising lows, it needs to sustain a move to new high ground to reaffirm the uptrend. [Corn](#) now has three lower highs from the peak near 440¢ to which it accelerated in March. It needs to sustain a move above 390¢ to indicate that the bulls are gaining the upper hand. [Oats](#) continue to encounter resistance at 300¢ and are currently looking set to post a weekly key reversal from beneath that level. It needs to sustain a move above 300¢ to confirm that the bulls have gained control of this market.

It is looking increasingly likely that we are close to a peak of medium-term significance in the wheat market, which may also affect the other grains. While this is a negative for those holding long positions, it could be a potential boon to stock markets as it will serve to diminish inflationary pressures. This however would not be a bullish outcome for gold.

October 4th on the bullish case for wheat from one of our best sources

"With regards to the Bloomberg story on wheat, this is the same bearish argument as they had last week. The price of wheat should go down because there will be lots of it by next summer. These people should get the Nobel prize for eradicating world hunger. You simply feed next year's wheat to today's starving . It's called pre-eating. With the Australian crop being the latest to implode (from 26 mln. tons to 11) the world balance sheet is totally broken, and someone somewhere will have to do without. Last week there were food riots in Morocco, because of a 30 % increase in the price of wheat. Within 5 days, Morocco bought 350,000 tons. You can't substitute enough rice, because the world rice stocks are at 30 year lows, just like wheat. Given an exorbitant price and rioting people, guess what governments do? To give you an idea how precarious the U.S. wheat balance sheet is , U.S. export sales are now almost 24 mln. tons, out of a projected 29 mln, with fully 8 months left in the crop year. Between now and next summer the available exportable supplies from all origins are far below the import appetite, even at these prices . At the current pace we will be sold out in less than 3 weeks. And that will put U.S. stocks at minimum pipeline levels. Durum wheat recently traded in the U.S at \$ 17.50 a bushel. No, that is not a typo. I hope the Bloomberg crowd don't plan to eat pasta next spring, because that price tells me that there may not be any."

My comment - This extremely knowledgeable grain specialist contributed a notable piece which appeared in Comment of the Day on [August 15th](#) and was right-on-the-money.

At present the US listed [wheat](#) contract is consolidating its upward break from the short-term congestion area and needs to sustain a move above 950¢ to reaffirm the bullish case.

[Milling wheat](#) listed on Matif accelerated to a high near E300 in a Type-1 as taught at The Chart Seminar ending in early September and remains in a corrective phase. It needs to sustain a move to new high ground to reaffirm the overall uptrend.

Wheat quoted on Liffe also posted a Type-1 ending, accelerating to a high £192 before correcting. It also needs to sustain a move to new high ground to reaffirm its uptrend.

October 5th on shipping companies

The Baltic Dry Index (p&f, monthly, weekly, daily) broke upwards in 2003 and rallied towards 6000, it then proceeded to range for the next three years, in what now looks like a prolonged first step above the base. The sustained break above 6000 in the second quarter signalled that the index was reasserting its uptrend. The index continues to look overextended but has done so for a number of months already and would need a clear downward dynamic to indicate that it is entering a corrective phase. (Also see Comment of the Day on May 2nd)

<http://www.fullermoney.com/x/default.html?id=1053&schtxt=baltic>

A number of shipping companies have been IPOed in the last couple of years and are performing in line with the Baltic Dry Index. Some of the leaders are profiled below:

Diana Shipping (weekly, daily) had a non-descript beginning to its trading life, falling from \$17 to \$10 by July last year. That marked the bottom and the stock embarked on an impressive uptrend which remains consistent. It is currently consolidating the break above \$30 and would need a sustained move below \$25 to break the progression of rising lows.

DryShips Inc. (weekly, daily) broke upwards from its year-long base in March. In the last six- months it has paused at \$20 intervals and the pace of its appreciation is increasing. DryShips encountered resistance at the psychological \$100 earlier this week; however it would need to sustain a move below \$80 to question the integrity of the uptrend.

Eagle Bulk Shipping (weekly, daily) broke upwards in February and continues to have a progression of rising lows. The latest consolidation has been longer than the other two and it needs to sustain a move to new high ground above \$28 to reaffirm the uptrend.

Genco Shipping & Trading Ltd. (weekly, daily) broke upwards in early July and has been advancing at a steadily increasing pace since. Having accelerated to a high just above \$60 it moved into a two-month consolidation from which it broke upwards three weeks ago. It would need to sustain a move back below \$60 to question scope for further upside.

TBS International (weekly, daily) started to trend in February and accelerated upwards to a high above \$40 in late July. Following the August lows it quickly regained the highs and would need to sustain a move below \$40 to question scope for further upside.

Quintana Maritime Ltd. (weekly, daily) started trending in January but it has had a much more inconsistent move than those mentioned above. It broke upwards from a brief consolidation in late July but failed to maintain the break

and fell back to test the bottom of the range. (This is a classic example of a rule-of-thumb from The Chart Seminar. Once an instrument fails to maintain a breakout, there is a strong possibility it will fall back to test the bottom of the previous range.) Having found support near \$15 it regained the high near \$20 and broke upwards on Monday. It would need to sustain a move below this level to question scope for further upside.

Excel Maritime Carriers ([weekly](#), [daily](#)) has more back history than those companies mentioned above. It accelerated to a high of \$65.85 in 2004 and gave up almost the entire gain over the next two years. It found support above \$7 last May and quickly broke the progression of lower highs. Since the move above \$20 in April, the stock has accelerated to test potential resistance at the previous high. It would need to sustain a move below \$52.50 to question scope for further upside.

Danaos ([weekly](#), [daily](#)) also experienced a failed breakout in early August and has yet to regain its highs. [OceanFreight Inc.](#) doesn't have much back history but moved to a new high this week and the upside can be given the benefit of the doubt as long as it sustains the gain.

A number of these stocks are in consistent uptrends and are reasserting the bullish pattern following the August reaction. However while they look like they have further to go on the upside, they are best bought following reactions and it is well worth keeping an eye on the Baltic Dry Index for any sign that it may be losing momentum because it is likely to be a lead indicator.

October 3rd on exiting trades too early

"I bought this stock on 19 July; price \$10.14, based on strength shown on 18 July. I considered exiting in late July and through mid August but instead placed a reasonably loose stop (under a reactionary low). I bought again on 29 Aug price 11.14 based on several days strength. Given that I could not put a stop loss in this stock (NASDAQ CM) I decided to exit at \$21.80 today (2 Oct) with a profit of 102% (thinking that I was very smart) because I will be travelling for the next 2 weeks, with limited email access (appeared to be a logical reason at the time). However price subsequently rallied to close at 27.65 a gain of 159% from my purchase price and a gain of 75% today. This is not the first time that I have walked away from significant gains. Wheat is another example. I caught the rally (that hit \$9.00+ recently) at an earlier stage than a well known Fullermoney veteran (XXX XXX). For what appeared to be a logical reason at the time I was exiting as he was pyramiding up. Once again I left significant profits on the table.

"It is frustrating that I seem to have the ability to identify highly profitable trades and also the weakness to cut profits short. I suppose the question I have is why do I not stay with highly profitable trades? I don't expect you to have an answer to my problem but any comments you might have would be welcome."

My comment - I had exactly the same experience with exiting my H-Shares position just prior to going on holiday. I had taken a good profit but saw the

headlines on a daily basis trumpeting fresh highs and felt robbed. However the reasons for closing the position remain valid, it is a volatile market and was beginning to look overextended. If today's action had happened last Wednesday I would have had felt very smug indeed to have exited the market early. Regarding [China Natural Resources](#), it has been prone to dramatic upward moves in the past, which it has failed to sustain although this is by far the largest. This is clearly an [accelerating](#) market which you were unable to place a stop in so I wouldn't feel too bad about closing the position because you had to go away.

Trading is a discipline that requires plenty of time in front of the screen and while I am not advocating screen watching, which is generally an indication that a position is too large, one does need to be able to assign a large amount of attention to a leveraged trading position. You can't do that if you are on the road. I allowed my Singapore position to roll forward while I was away because it was comparatively small relative to the H-Shares position and in a less volatile market. However I did so knowing that I was risking some or all of my profits in that instrument.

Trading and analysis are separate disciplines and we are lucky to have a natural affinity for one but almost no one is born with a natural talent for both. Personally, I know that my analysis is much stronger than my trading and while I work constantly on improving both, my trading is where I feel I have most room for improvement.

This is why charts are so invaluable, taking part in an accelerating trend is nerve racking because we are terrified of losing our paper profits but in an acceleration we almost always get a good signal that it is coming to an end. We should wait for this signal before exiting and should be raising in-the-money stops behind the price until it occurs. As we know this is not always easy to do.

October 4th on backwardation

"Please elaborate a bit more on backwardation.

"Should say the oil curve "normally" not slope upwards? Buying near-term plus storage/funding = higher prices further out?"

My comment - You are correct to assume that most commodities will normally trade in a contango because in a market where there supply more or less meets demand it is in the interests of sellers to get inventory off their books and sell near-term contracts cheaper. However when supply is tight, you will see it move into backwardation, in the short-term, because buyers doubt they will be able to secure enough to fulfill their needs. When a market goes into backwardation right across the curve it indicates that buyers are attempting to secure inventory at today's prices because they believe the tight situation will continue for the foreseeable future and they may not get the chance to secure these prices going forward. This puts pressure on prices right across the curve.

Here is the [oil curve](#) I posted yesterday which suggests that market participants believe that the market will be tight from the short-end to the long-end of the curve. [Six months ago](#) they didn't believe that was the case. This chart shows the short-end of the curve in contango while the long-end remained in backwardation. This corresponded with a time when there was a high degree of uncertainty about whether oil could reaffirm its uptrend right away, or whether it would take a number of months. The fact that the long-end of the curve remained in backwardation indicates that the majority of longer-term investors were still willing to bet that the price would eventually break upwards.

We can contrast this with the outlook for wheat [1-year](#) ago relative to [now](#). Only 6-months ago, almost the entire curve was in contango because no one really believed in a long-term bull market for agricultural commodities. Today the curve is a completely different shape, with even the long-end of the curve up 125¢.

These examples indicate a market can go into backwardation when there is a temporary shortage and that the actual consumers / users of the commodity are forced to pay up rather than wait for later delivery. It will go back into contango once that supply shortage is over, but in secular bull that may take quite some time. I reiterate that this does not mean that prices cannot correct but it does suggest that corrections should be limited to the medium-term rather than outright reversals.

October 8th 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.

October 8th 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.)

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