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

Monday 22nd October 2007

Jonathan Davis: About models, risk and animal spirits - There is wisdom in this column by Jonathan Davis for the Financial Times. Here is a brief sample:

Having clawed his way back from that disaster, and building up a new business with a few hundred million dollars invested in his new hedge funds, it seems that nemesis has now struck again, although what went wrong this time round is not immediately clear. The simplest explanation may be the most obvious one, which is that Mr Niederhoffer, who combines a PhD in finance from the University of Chicago with a voracious interest in gambling in all its forms, is hooked on risk. It is not uncommon, he notes in his book, for his trading to produce gains and losses of as much as 25 per cent in a single day. What successful traders need to succeed, he says, is the confidence that comes from high self-esteem, or, if you prefer it, "insufferable arrogance". Yet elsewhere in the same book, he notes that all the great champions in sport are humble about their abilities. "During the 10 years that I traded for George Soros, I never heard him speak once about a winning trade. To hear him talk, you'd think he had nothing but losers. Conversely, listening to the biggest losers you'd think that they had nothing but winners".

Who can doubt that this is good advice? To this day nobody is more quoted by stock market traders than the US trader Jesse Livermore. Yet this is a man who went bust at least three times, suffered repeated bouts of serious depression, married several times and ended up committing suicide in a New York hotel. The moral seems to be: if you have a great talent for trading, do not boast about it. Markets can be unforgiving places for investors and traders alike.

My view - I commend Jonathan Davis' column to all subscribers because it touches on lessons that every investor and trader learns, usually has to relearn, and sometimes never fully learns, as we know from the colorful Jesse Livermore and many other notable traders who crash and burn.

Successful investors and traders, in my observation, not only do not need to boast (a classic sign of insecurity and chicanery), they have no interest in it. Instead, they are preoccupied with their mistakes, which need to be understood if Repetition Compulsion Syndrome is to be avoided.

Email of the day (1) - On DAX shorts and stock market risk:

"Well done David for your timely DAX shorts. When I look at MACD which has been very helpful since the July peak in equities, it is quite possible that we could test the August lows again. Or perhaps we'll go sideways from around current levels and indicators such as MACD will come back down. How strong do you think is the possibility that the present pull-back becomes more severe and we go back to those lows? The markets rallied in a V shape and while expectations are growing of more rate cuts in the US, they need to adjust to the worsening earnings & economic outlook first before they can benefit from easier money. I know this is a favourable seasonal period, but as we know, that doesn't guarantee a rally in this quarter."

My comment - Many thanks for your kind words, not to mention the important questions and points that you raise.

The stock market rally overextensions have been apparent for several weeks and the rollover deterioration led by banks in the USA, Europe and Japan has also been noteworthy, as you know.

I find the renewed deterioration by banks in these regions unnerving, not least because I maintain that what is good or bad for the banks is also good or bad for the rest of the market. In other words, we cannot divorce the financial industry from the rest of the economy. Therefore I would be surprised to see meaningful strength for stock markets prior to some upward dynamics by their banks, similar to what we saw in the second half of August and in September.

That said, I would be very surprised if many of the broader stock market indices retested their August lows anytime soon. Although Ireland has done so and other financially weighted indices are obviously the most vulnerable. Additionally, I have mentioned the possibility that some indices, not least in Europe, may remain rangebound. These patterns have some V-bottom with right-hand extension top formation characteristics (as taught at The Chart Seminar), which will remain a concern until or unless they can sustain moves to new high ground.

You are certainly right about markets "needing to adjust to the worsening earnings & economic outlook first before they can benefit from easier money." Meanwhile, the chasm between high-growth Asian and resources markets, versus the old world and Japan, continues to widen. The former should continue to lead upside moves, although they remain subject to psychological contagion and even some concern over GDP growth.

Tim Price: There's a patch of snow on the ground.. - My thanks to Tim Price for another of his pithy essays, published by PFP Wealth Management. It opens with a section on global property but here is part of a currency section:

UBS? George Magnus, writing on the credit crisis last week, quoted J.K. Galbraith:

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

Magnus concluded that in the midst of this transition, monetary policy "faces stern tests of effectiveness as the credit cycle evolves." That is a polite way of putting it, given that certain individual credits have effectively disintegrated, together with the credibility of monetary authorities

in both the US and the UK. One of the more abundant forms of money recently has been the paper kind, with the words "United States of America" and "Dollar" printed upon it. But not everybody views this form of money as a must-have unit of exchange, much less as a store of value. The Qatar Investment Authority, reputed to have around $50 billion in assets, announced earlier this month that it had cut its dollar holdings from 99% of its portfolio to 40% over the last two years. If other sovereign wealth funds (now increasingly cited as swing participants in the international markets) feel similarly inclined to "diversify" their currency exposures, the implications for US Treasury assets, and for the dollar, are plain. Yale professor Jeffrey Garten was offering advice in last Thursday?s Financial Times about forestalling a dollar rout. But as Yves Smith noted,

"..what is disconcerting in reading Garten?s four recommendations is that they are inadequate for the magnitude of the problem he sets forth. He really has only two remedies (selective central bank intervention to punish speculators and holding off on pressuring China over the value of the yuan); the other two are longer-term measures that won't counteract a rapid, destabilizing slide.. Garten has been thinking about this problem for quite a while. The paucity of his solutions reveals that governments and regulators are pretty powerless in the face of sustained currency moves."

My comment - This is certainly true because even in the event of multilateral intervention, a rare but previously successful activity in the post Bretton Woods era about which I have often commented, other central banks would inevitably find themselves holding even more US dollars. The probable differenced this time, and I do expect multilateral intervention in support of the dollar at some point, is that central banks will almost certainly have fewer opportunities of selling the additional greenbacks on at a trading profit, as we have seen following earlier support operations. Moreover, their intervention would invite freeloading by enabling other central banks, uninvolved in the support operation, to sell some of their unwanted US dollars.

What we are witnessing is the long, slow devaluation of the dollar as the world's primary reserve currency - a process likely to last for decades, just as occurred with Great Britain and sterling in the last century.

To date, this has been an orderly process in that the US dollar's downward steps are punctuated by ranging periods, some of which have been lengthy. Quite unintentionally, this process of periodic short-covering by traders, as we are seeing today, has so far staved off a panicky currency crisis. I do not assume that this will always be the case.

Email of the day (2) - On the infrastructure theme:

"How do you play the infrastructure theme?

"Thanks for everything!"

My comment - Briefly, I think this starts with Fullermoney themes, not least industrial resources companies and funds or ETFs for the leading resources and high-growth markets, led by Asia. All of these, incidentally, are best purchased on reactions, as Eoin and I often emphasise. And if you are active in a specific stock market, you can always drill down and look among the individual charts in the Library.

Needless to say we will continue to discuss these themes every week.

Email of the day (3) - On risk:

"Risk is often lowest when it is the most visible."

"I thought this article gave some theoretical background to the superb way you handled this summer's credit crisis for your subscribers.

"Thank you again."

My comment - Thank you for your kind words and a memorable quote in an interesting article.

Inevitably, not all apparently risky situations are comparable but you have provided one of the wisest and most helpful quotes that I have ever seen. I am sure we will all profit from it in future.

My personal portfolio: Some small profits taken in silver, gold and other positions as trailing stops triggered on trading positions - The triggering of stops commenced on Friday, when I was away from the office. In one account, this started with a silver stop triggered on the 19th at $13.92 for the March position against the purchase at $13.91 on 16th October. That position was repurchased at $13.755 on Friday against a Baby Steps bid. A December silver position was stopped out at $13.53 against the purchase at $13.515 on 5th October. In the same account gold stops have been triggered. First, on Friday a February position was stopped out at $765 against the purchase at $763.8 on 11th October. Today, a December gold position was stopped out at $759 against the purchase at $739.7 on 28th September. So I am currently out of gold futures, although not for long, and my silver futures have been reduced by 20%.

In another account, two palladium stops were triggered this morning at $353 against automatic rollover purchases at $334.15 on 16th August, when I was on holiday. This reduced my palladium longs by 50% Annoyingly, my Aberdeen New Dawn (ABD LN) leveraged long was stopped out this morning at 537.01p for a December spread-bet trade, as the market gapped down through my stop against a purchase at 538.77 on 3rd July. The July purchase was obviously ill-timed and I rode out the downturn only to give up a reasonable trading profit that I thought I had mostly protected after ABD rallied to a new all-time high. This afternoon, a tight stop against my most expensive platinum position was triggered at $1432 against my purchase at $1430.3 on 15th October, reducing my overall position by 16.5%. Lastly, two-thirds of my longs in the Taiwan Greater China Fund (TFC US) were stopped out this afternoon. These were December spread-bet contracts, sold at $771.79 against purchases at $752.90 on 18th September. Stop press: a late rally on Wall Street triggered one of my trailing stops for the DAX shorts. Consequently, one-third of my March position was covered at 7970, against my opening short at 8080 on 16th October.

These prices include spread-bet dealing costs.

Email of the day (4) - On chart reading and gold:

"Hi I took a trial subscription and am now trying to assess the info in the Subscriber's Area. I am looking at your chart library which gives me the charts similar to those I can get through E-Trade or Big Charts. I am a beginner in chart reading. I read your daily comments and listen to your audio.

"A few weeks back you called a buy on gold and you said that when you view the charts whether daily, weekly or monthly etc, the signals all point to a buy.

"My question is how did you derive at this signal?"

My comment - Welcome to Fullermoney. We all start somewhere and I commend you for your interest in chart reading.

If you go into the Library and type 'gold' in the Search facility, it will produce a very large list of charts, many of which I suspect you will not find elsewhere. If you click through those charts, not least gold in other currencies, I believe you will see the answers to your question.

Additionally, look for consistency characteristics, namely how it is performing today relative to earlier in its trend, perhaps best seen on the weekly graphs.

Incidentally, Fullermoney has its own behavioural approach to chart reading, which I have developed over the last 40 years. You can learn a lot about chart reading by reviewing the Archives, particularly at crucial market junctures. Both Eoin and I comment on charts most days.

Email of the day (5) - On understanding the macro:

"I am a perplexed as to the Fed's next response and the market's next consequent action. Has the economic data been sufficiently bad for it cut rates again in November? Obviously, a weaker dollar is better for the US, but what implications does it have for global stability & the 'yen 'carry trade'? If we do see a cut in rates, do we get the same 'Pavlov's dog's' response by equity markets (upward resuming trend) - especially emerging ones? On what basis do global emerging markets go down? I can't think of any - which scares me..."

My comment - Great questions which I will mainly deal with in Audios, For now, briefly and sequentially: yes - many including volatility - probably not initially because they are expected - the same reasons as anything else, sentiment and liquidity.

Email of the day (6) - On "What a week for Fullermoney subscribers:

"What a week for Fullermoney subscribers. The Merrill Lynch report on Sovereign wealth funds and their implications for future capital flows and the Citigroup report outlining the credit/equity cycle were priceless. Pre-subscribers get a lot but they have little idea what they miss out on. Enough of my toadying waffle. I have a question. Firstly, you and Eoin often refer to charts being "over-extended". Is this a qualitative assessment or are you using some quantitative measure (eg percentage rise above 200d MA) to define this. Secondly, although you often allude to significant overextension on various charts you do not appear to often short stocks or commodities in your trading. Is there a reason for this?"

My comment - Yes, those were great reports, thoughtfully contributed by subscribers in the spirit of Empowerment Through Knowledge.

On the question of overextensions, which are mainly short term, it is primarily quantitative. It is both an absolute and relative comparison. The MA will help but if a market is temporarily overextended, rational people should be able to see it quickly on the price charts, without any enhancements which can clutter the picture.

Regarding shorts, if most stocks and commodities were in downtrends, I hope I would be mostly short and sitting on cash. However in recent years most have been in uptrends and I do not wish to 'fight the tape'. However I have added hedge shorts on occasion, and as recently as the 16th of this month, when I felt that stock markets were temporarily overextended and susceptible to reactions and consolidations.

Today's interesting charts - These initial enhancements to the Subscriber's Chart Library have just been posted on a test site which we will be checking from tomorrow. They will be available to subscribers following a short testing period.

Favourites
It is now possible to divide the list of favourites into "sections".
Items and section titles can be easily arranged by dragging and dropping the items on the Favourites page.
It's possible to duplicate an item (so it can appear in one more than section) by holding down the shift key when dragging.
It's possible to view all the charts in a section.
You can rename a section title.
Instruments can be added to the favourites from the Equity Library list (previously you had to click through to the charts page.)

Relatives
There's now a "Other Relative" link on the Charting Settings box to allow any instrument to be selected as a relative (note that only instruments, no ratios or other calculated charts can currently be used).
The "Other relative" box allows selection from both the Fullermoney and Equity Library.
There's an integrated search feature which will look in both libraries at the same time.

China (Shanghai A-Shares) - Four consecutive days on the downside have occurred since last week's high. I don't think we have seen this since the bull-run commenced in 2005, so it is an interesting development and possible warning. Although the actual decline remains small and orderly, a new closing high is required to reaffirm the uptrend.

Hong Kong (HSI) - In a gap-prone market, today's is nevertheless a large downside move following Friday's weak close after the psychologically important 30,000 level was briefly touched. This has probably capped the market for the short term and a close above 30,000 will be required to reaffirm the uptrend.

Switzerland - With its heavy weighting of banks, this Index has been underperforming since February and has now established a lower high. A close above 9250 is now required to check the erosion of underlying support and improve this pattern.

EUR/USD - A downside key day reversal has resulted in an upside failure. Downside follow through tomorrow would increase evidence that the euro's uptrend has been checked for at least the short term. A move to $1.436 is now required to reaffirm the euro's overall uptrend.

US Dollar Index - Upside key day reversal stems the downtrend temporarily.

Congratulations to South Africa - On winning the Rugby World Cup. They were better than England, especially in the lineout. However what was surely the comeback team of the tournament made them fight for it, and England's disallowed try was desperately close. France hosted a fabulous tournament, full of surprises, and inevitable disappointments as there can only be one winner.

Please note - Eoin is away from the office today.

Tuesday 23rd October 2007

Stephen Roach: After nearly five fat years, the global economy is headed for trouble - My thanks to subscribers who forwarded this article, reproduced by John Mauldin's 'Outside The Box'. Given the number of people who have asked us to comment on it, I am happy to do so, not least because it is so well written. There are six main subheadings within Stephen Roach's analysis: "Game Over for the American Consumer - Don't Count on Global Decoupling - A Subprime Dollar - The Failure of Central Banking - The Political Economy of Asset Bubbles", and "A Subprime Prognosis". Here is the second and possibly most controversial segment:

Don't Count on Global Decoupling
A capitulation of the American consumer spells considerable difficulty for the global economy. This conclusion is, of course, very much at odds with notion of "global decoupling" - an increasingly popular belief that depicts a world economy that has finally weaned itself from the ups and downs of the US economy.

The global decoupling thesis is premised on a major contradiction: In an increasingly globalized world, cross border linkages have become even more important - making globalization and decoupling inherently inconsistent. True, the recent data flow raises some questions about this contention. After all, the world seems to have held up reasonably well in the face of the slowing of US GDP growth that has unfolded over the past year. But that's because the downshift in US growth has been almost exclusively concentrated in residential building activity - one of the least global sectors of the US economy. If I am right, and consumption now starts to slow, such a downshift will affect one of the most global sectors of the US. And I fully suspect a downshift in America's most global sector will have considerably greater repercussions for the world at large than has been the case so far.

That's an especially likely outcome in Asia - the world's most rapidly growing region and one widely suspected to be a leading candidate for global decoupling. However, as Figure 3 clearly indicates, the macro structure of Developing Asia remains very much skewed toward an export-led growth dynamic. For the region as a whole, the export share has more than doubled over the past 25 years - surging from less than 20% in 1980 to more than 45% today. Similarly, the share going to internal private consumption - the sector that would have to drive Asian decoupling - has fallen from 67% to less than 50% over the same period.

Nor can there be any mistake as to the dominant external market for export-led Asian economies. The United States wins the race hands down - underscored by a 21% share of Chinese exports currently going to America. Yes, there has been a sharp acceleration of intra-regional trade in recent years, adding to the hopes and dreams of Asian decoupling. But a good portion of that integration reflects the development of a China-centric pan-Asian supply chain that continues to be focused on sourcing end-market demand for American consumers. That means if the US consumer now slows, as I suspect, Asia will be hit hard - with cross-border supply chain linkages exposing a long-standing vulnerability that will draw the global decoupling thesis into serious question. A downshift of US consumption growth will affect Asia unevenly. A rapidly growing Chinese economy has an ample cushion to withstand such a blow. Chinese GDP growth might slow from 11% to around 8% - hardly a disaster for any economy and actually consistent with what Beijing has tried to accomplish with its cooling-off campaign of the past several years. Other Asian economies, however, lack the hyper-growth cushion that China enjoys. As such, a US-led slowdown of external demand could hurt them a good deal more. That's especially the case for Japan, whose 2% growth economy could be in serious trouble in the event of a US demand shock that also takes a toll on Japanese exports into the Chinese supply chain. While less vulnerable than Japan, Taiwan and South Korea could also be squeezed by the double whammy of US and China slowdowns. For the rest of Asia - especially India and the ASEAN economies - underlying growth appears strong enough to withstand a shortfall in US consumer demand. But there can be no mistaking the endgame: Contrary to the widespread optimism of investors and policy markers, the Asian growth dynamic is actually quite vulnerable to a meaningful slowdown in US consumption growth.

My view - My first point is that this is a very good article, which I commend to all subscribers. Stephen Roach is a highly regarded economist, noted particularly for his economic analysis rather than his market forecasts. Since I find much more with which to agree, rather than disagree, in this article, I will address the latter.

I generally find Stephen Roach's views a little too pessimistic. If so, this is not a bad characteristic, at least for the reader, because most of us would prefer to err on the side of caution rather than imprudence.

Regarding the segment above, inevitably there is no complete decoupling in an era of globalisation, except for a few rather sad pariah states such as Burma, which remain largely outside the global economy. However I think Stephen Roach underestimates the speed with which a less US-centric global economy is developing.

I cannot contest the array of statistics he provided, which are presumably dated by the time they are tabulated and published, but I can offer evidence.

In earlier decades and right through the 1990s, the USA was often described as the engine of global economic growth. This was generally true and a credit to the American economy but a rather odd situation for a country of only 300 million people in a vastly larger world population of approximately 6.5 billion today.

Today, with over 56.5% of world population in Asia, and now that China and India have not only embraced capitalism but are also the fastest growing economies, this region is unquestionably the engine of global GDP growth. Yes, China and Asia's 'little tigers' are major exporters to the USA but this is shrinking in overall importance by the day and domestic consumption is increasing exponentially. India, incidentally, is least dependent on exports to the USA, among viable Asian economies.

I too expect global GDP growth to slow - it could only do so under the present circumstances, and risks remain to the downside for the US economy. However the Asian-led expansion and sufficiently stimulative measures by the Fed, which I expect, should just enable America to avoid a recession (defined as two consecutive quarters without growth). And yes, the US dollar will fall further (hopefully range lower rather than plunge). This is inflationary but it will help to shrink the deficits, and it is a boon for America's multinational companies.

Stephen Roach's points on central banking are interesting.

Email of the day (1) - On Victor Niederhoffer:

"You are mentioning Victor Niederhoffer in today's update. May I point out an in-depth recent piece in the New Yorker, titled "The Blow-Up Artist", to be found here.

"As anyone ever involved in markets or trading of any kind knows, lightning can strike and when it does, it can be a profoundly humbling experience. How more so when a trader is in the public's eye....!

"I regularly read Mr. Niederhoffer's blog (dailyspeculations.com) and often find the ecclectic mix of contributions simply amazing. If it is a reflection of the blog host's bend of mind, I would not write him off quite yet. Moreover, I would wish him success.

"With best regards and always many thanks to you and YOUR enlightening evening updates,"

My comment - Thanks for you comments.

Actually, I made no mention of Victor Niederhoffer in yesterday's lead item. However he was mentioned in a section of the excellent FT article by Jonathan Davis that I posted.

I agree that trading can be a "profoundly humbling experience" and many of us have experienced this. Blow ups are part of the learning curve for traders and usually due to excessive leverage. However these lessons should be learned with one's own money, not the investing publics.

Email of the day (2) - On Fullermoney themes, plus messages from the US credit markets:

"After 2 years as a subscriber it's time to write my first mail. Firstly many thanks for opening my eyes to the investment opportunities outside of the straight and narrow. As a result of reading your comments I decided to switch some of my low risk, generic pension funds into some of your long term themes. I switched into the Merrill Lynch Gold and General and JPM Natural Resource funds about 18 months ago and have seen good returns and, even more comforting, I'm much happier to stay in these for the foreseeable future.

"In my role as an interest rate derivative salesman I have been making a lot of noise this week about the price action in rates markets last week. In case you hadn't seen it US 2yr yields fell an astonishing 47bp last week - the biggest weekly fall since 9/11. This can be partly explained by positioning and stock mkt weakness but is still of such magnitude that it has me concerned. Indeed signs of stresses are reappearing in many rates mkts all of which point to another bout of financial worries, not least fresh concerns about Libor rates beyond the end of this year. I also note that the BKX (US bank index) which broke it's 5yr uptrend in July has not made it back into positive territory despite new highs on the S&P, and this week has posted a new cycle low.

"My firm's strategists fear another mortgage crisis is developing related more to interest rate reset concerns rather than credit per se. The initial crisis was driven primarily by credit but the second phase, looming for 2008, should retain the credit problems but with the added pressure from rates i.e. ARM resets. As such they expect the Fed to ultimately cut rates a lot. Overall I would say that the rates mkt is signalling renewed signs of concern that do not yet appear to be reflected in stock prices."

My comment - Many thanks for your feedback and insights on the credit markets. Your first email was certainly worth the wait!

Since we tend to look at longer durations more frequently, I knew that yields had fallen last week but not to the extent shown by this US 2-year Treasury. We share your concerns, particularly over the performance of US bank shares, about which we have been fretting for many months as you may recall.

We also share your strategists' concerns over another mortgage crisis. However the ARM resets problem is certainly known so this will hopefully provide the US Treasury, Federal Reserve and Congress with sufficient time to mitigate the impact. On a best case scenario, Wall Street may be discounting a less than horrific outcome. Meanwhile, I trust you saw my lead item on 18th October: "*USA equities: Now a tale of two stock markets, the moribund versus the magnificent*."

Incidentally, we have published some fine reports from your firm and would welcome a few more, particularly regarding longer-term themes.

Email of the day (3) - On a new Fullermoney investment theme:

"I have been really interested in the return to favour of the Technology stocks as highlighted by Eoin recently.

"The difficulty for me is that all those stocks quoted are American stocks. Investing in these stocks if you are not an American brings you up against the problem neatly stated by David last night (22/10): "What we are witnessing is the long, slow devaluation of the dollar as the world's primary reserve currency - a process likely to last for decades, just as occurred with Great Britain and sterling in the last century"

"It would be really useful to add a list of non-US technology stocks from strong currency areas which are likely to benefit from this technology trend. Would this be possible? Maybe there are no strong candidates?

"I would like to thank you both for your ever insightful and confident analysis that has saved me from the clutches of the doomsters and returned me to sanity and profit."

My comment - Thank you for your generous comments, and I smiled on hearing of your "sanity".

You raise some interesting questions regarding technology.

Chart relative performance and a bit of due diligence will show us the more interesting non US technology companies, and we can all spot the trends if interested in this sector.

However, I generally prefer US technology companies for two reasons: they are often better and are benefiting considerably from the weak US dollar, as I have mentioned before. Leading US technology stocks have the potential to rise much faster than the US dollar falls, despite what I believe will be a long sub-prime hangover for Wall Street.

You have additional options if you spread-bet, since these shares can be purchased in a sterling or euro bet, and presumably A$s in Australia. Today, I opted for the lazy man's play and opened a spread-bet long in the Nasdaq 100 Index. That way I can participate in a diversified portfolio led by Google, which I regard as the god company, without vertigo.

My personal portfolio: JII topped up in my investment account; profits taken on remaining DAX hedge shorts; Nasdaq 100 long opened; gold repurchased and silver longs increased - Commencing with the DAX shorts, I reported that one-third of these had been covered yesterday evening as the lowest of three staggered stops, ten points apart, was triggered. This morning I discovered that the other two DAX shorts had been stopped out later last night as well. These were at 7980 and 7990 for the March position against the short sales at 8084 and 8142 on 16th and 17th October, respectively. I've used this tactic before and profits from the DAX asymmetrical hedge shorts provided partial compensation for the anticipated and hopefully only temporary drawdown on my long-term investments following their somewhat overextended post-August low gains.

I reinvested the remaining cash from my sale of the Investec Global Energy Fund. In line with other purchases following setbacks, I increased my largest investment account position by perhaps 5%, in buying more of the JP Morgan Indian Trust (JII LN), for which I paid 419.5p today. I should have bought it yesterday.

In line with Fullermoney's recent addition of US technology to its favoured investment themes, I opened a trading long in the Nasdaq 100, paying 2224.75 for a March position.

I repurchased some of the gold and silver that had been shaken out of my trading account recently. I paid $13.835 for a March silver position, increasing my overall stake by 25%. In gold futures, I'm starting from scratch once again and paid $769.3 and $767.4 for February positions.

Prices for futures contracts (everything except for JII) include spread-bet dealing costs.

Today's interesting charts - Importantly, there was no follow through to some of yesterday's dynamics, including Hong Kong's HSI (see also Eoin's review below), the US Dollar Index and EUR. This suggests no more than consolidation for the HSI, provided 28,000 holds, and that we have only seen a brief spasm of short covering for the USD. An extension to yesterday's keys would be required to indicate otherwise for the Dollar Index and Euro.

Please note - Unusually, I am away tomorrow and most of Thursday due to a presentation.

Additional Commentary by Eoin Treacy

Email of the day (1) - on oil's secular bull market:

"I followed the link provided by the subscriber covering the problem of oil production capacity but the "solution" is not shown! I was hoping to read something on Canadian oil sands production and oil service companies. Might he be able to enlighten us further?

"Congratulations on your marathon review of markets at this very sensitive time."

My comment - Thank you for your kind words. Identifying the problems with increasing oil supply to meet rapidly expanding demand is much easier than finding solutions. Without doubt, the Canadian oil sands are going to play an increasing role in the global supply / demand dynamic going forward. However it is questionable as to whether this will add enough new oil to the market to offset what is being lost by declining fields in other areas. So we can consider the oil sands a partial solution to global supply concerns.

Drillers have come up with increasingly ingenious ways of bossting the productivity of fields and we can expect further technological advances in the future, particularly as high prices continue to spur R&D. Reliance on future technological breakthroughs, where there is no way of knowing when they will appear is helping to drive this bull market. Technological advances are expected to lower the cost of production and the environmental impact of the Canadian oil sands, and should help to sustain productivity at fields which are past their peaks. However in many cases we are just not there yet and at best, testing new technologies.

We have long maintained that uranium was the best of the energy plays. The number of new reactors in production and in the planning stages is quite impressive and uranium itself is in a bull market having rallied from very depressed levels following the end of the Cold War. Regardless of the environmental concerns, which are serious, nuclear energy will play an increasingly large role in the provision of energy to global consumers. It is estimated that nuclear fusion, which has been panacea for many analysts, is still at least 50 years away before it can be employed on a wide scale so fission looks set to enjoy a revival for the foreseeable future. (Also see Comment of the day on April 13th)

Other alternative energy technologies such as wind, solar and geothermal are all likely to continue to experience growth, driven by high oil prices. However none of these have the reliability and energy return to take on fossil fuels without significant technological development.

The solution to the developing energy shortfall is likely to be piecemeal and will probably rely on some technology which does not yet exist. In the meantime we can anticipate that the oil price will continue in its characteristically volatile uptrend.

Email of the day (2) - on relative charts and South African shares:

"Will you ever sell your software once you have finished your scanning etc.? Secondly, which South African shares and indices do you cover in your Chart Library? Thirdly, do you do charts on the relative performance of individual shares to the appropriate indices?"

My comment - We are currently developing scanning software which will make sifting through the thousands of stocks available in the Chart Library much easier and will hopefully produce some interesting investment opportunities in addition to our current research. However the primary reason for creating the Chart Library and constantly working on enhancements is for the benefit of subscribers and we will preserve all of these enhancements solely for their use.

We currently have 62 South African shares in the International Equity Library as well as the 32 JSE sector indices and a small number of other South African indices. As with other countries, we are happy to add additional equities on an ad-hoc basis as they are requested by subscribers.

It is currently possible to view all of the equities in the Chart Library relative to the Johannesburg All Share. So for example we can see that Absa Group has been underperforming the wider index since mid-2005 while BHP Billiton listed in South Africa has been an impressive out performer over the same time frame.

I am currently testing an enhancement which will allow you to look at any equity relative to any other equity or index

Wheat Rises for Fourth Day as Importers Seek Supplies; Corn Up - This article by Jae Hur and Danielle Rossingh for Bloomberg covers some interesting developments in the grain markets. Here is a section:

Wheat futures in Chicago gained for a fourth day as buyers, including South Korea and Japan, sought to import the grain amid tight global supplies. Corn and soybean futures advanced.

Japan is seeking to buy a total of 48,800 metric tons of wheat this week and South Korea bought 25,000 tons in a tender today. Wheat prices reached a record last month after bad weather damaged crops from Canada to Australia.

``The tender news lent support to the wheat market, which has been experiencing tight supplies,'' said Chikako Inoue, an analyst at brokerage Taiheiyo Bussan in Tokyo. Wheat for December delivery rose as much as 7 cents, or 0.8 percent, to $8.78 a bushel in after-hours trading on the Chicago Board of Trade. It traded at $8.77 at 12:52 p.m. London time. Wheat rose 1.8 percent yesterday on speculation Russia may raise its export tax on the grain to as much as 50 percent. Russia's government this month approved a 10 percent tax, or at least 22 euros ($31) a ton, to curb rising food prices. The levy may be raised to 30 percent, an Economy Ministry official who declined to be named said Oct. 19. Some traders speculated yesterday that the tax may go higher.

Wheat futures reached a record $9.6175 on Sept. 28 after global supplies dwindled and demand increased. Some 82 percent of U.S. winter wheat was planted as of Oct. 21, compared with 73 percent a week earlier and 84 percent last year, the USDA said in a report yesterday.

Milling wheat for November delivery on the Liffe exchange in Paris rose 2.75 euros, or 1.1 percent, to 244.75 euros a ton as of 2:11 p.m. local time.

My view - US traded wheat accelerated to a high near 900¢ in mid-September before encountering resistance. It broke upwards once more two-weeks later and rallied to 961¢ but was unable to hold the gain and declined to just above 800¢ where it found at least short-term support. However it needs to sustain a move to new high ground to reaffirm the overall uptrend.

Milling wheat traded on Matif and Wheat traded on Liffe both experienced much more pronounced accelerations which peaked ahead of the US contract. They have both also experienced more selling pressure and failed to regain their highs. They need to break the short-term progression of lower highs to offset scope for lower to lateral ranging.

Soybeans remain in a relatively consistent uptrend from the lows of a year ago. They are currently experiencing some resistance near 1000¢ but would need to sustain a move below 925¢ to question scope for a break to the upside.

Corn accelerated to a peak earlier this year and has so far failed to regain the highs. It has now posted three lower highs, but found support above 300¢ in late-July, which was close to the top of the long-term base. It would need to sustain a move below that area to question scope for further higher to lateral ranging.

Email of the day (3) - additions to the Chart Library:

"Could you please add the Ukraine Opportunities Trust to the Chart Library? (UKRO) and the warrants (UKRW) please. Thank you."

My comment - These can now be found in the Emerging Europe, Middle East & Africa Funds section of the Chart Library.

I also added the Lyxor Russia and China ETFs which are listed in the UK and denominated in the British Pounds

Eoin's personal portfolio: gold position stopped out - my gold longs were stopped out yesterday at $760 against purchases at $743.20 and $761.60 on October 5th and 15th respectively. I still hold my silver long which was not protected by a stop.

Today's interesting charts - To scan the Chart Library more quickly, go to any section and click on the "View All Charts" link in the upper left-hand corner, then scroll down.

Hong Kong - rebounds following yesterday's downward dynamic but needs to sustain a move to new high ground to reaffirm the overall uptrend.

India - found support near the lows posted on October 17th and has rallied strongly. A sustained move below 5000 would be needed to hinder scope for some further upside in the short term.

Platinum - remains in a consistent uptrend and would need to sustain a move below yesterday's lows to question scope for further short-term upside.

Sugar - found support above the June lows between mid-August and mid-September and would need to sustain a below $9 to question scope for further upside in the near term.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of October 14th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Canada, India, Ireland, Italy, New Zealand, Peru, Singapore, Switzerland, the UK and USA - 10 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the USA, UK and Ireland. Welcome all to the Fullermoney Global Strategy Service.

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

Wednesday 24th October 2007

Commentary by Eoin Treacy

Merrill Lynch Reports Loss on $8.4 Billion Writedown - This article by Bradley Keoun for Bloomberg covers Merrill Lynch's announcement today of its large writedown in some detail. Here is a section:

Merrill Lynch & Co. reported the biggest quarterly loss in its 93-year history after $8.4 billion of writedowns, the most by any securities firm.

The third-quarter loss of $2.24 billion, or $2.82 a share, was about six times higher than the New York-based company estimated on Oct. 5. Merrill wrote down the value of subprime mortgages, asset-backed bonds and loans to finance leveraged buyouts, and Chief Executive Officer Stanley O'Neal said in a statement today that he is ``working to resolve the remaining impact from our positions.''

Merrill fell as much as 3.1 percent in New York trading and now ranks as this year's worst performer among the five largest investment banks, after O'Neal misjudged the severity of the decline in the credit markets since July. Investors who lauded the 56-year-old CEO for chasing higher returns now question his management as the firm became the biggest underwriter of debt securities backed by subprime loans.

``We're very disappointed,'' said Rose Grant, who helps manage about $2 billion at Eastern Investment Advisors in Boston, including Merrill shares. ``I don't think Stan O'Neal will step down, but you do have to look at top management and wonder why they didn't know the extent of this loss.''

Third-quarter revenue fell 94 percent to $577 million, as losses in Merrill's fixed-income division overshadowed gains from underwriting stocks and providing merger advice. At Merrill's retail brokerage, the nation's biggest with a network of 16,610 financial advisers who cater to individual investors, revenue climbed 23 percent to $3.27 billion.

My view - In mid-August one of the largest concerns for investors was uncertainty as to the impact the subprime issue would have on company profits. This uncertainty is quickly being diffused as companies in the USA report Q3 figures. The news isn't too good and we will probably have to wait a while longer for banks in Europe and Japan to report. The fact that the losses incurred by some banks are well above what was expected is impacting the market because it raises the possibility that their will be more high profile hedge fund blowups and weaker earnings generally.

Of course all of this negative news is increasing the likelihood to further rates cuts which should help to bolster the market. The S&P 500 failed to maintain the upward break above 1550 and is currently testing support at 1500. However a sustained move below the 1400 would be needed to question the integrity of the overall uptrend.

On Technology stocks listed outside the USA - The USA remains the leading country globally where innovation is fostered and valued, and furthermore, the Nasdaq continues to be the main exchange where money can be raised for technology companies and it has a large number of world beating companies in its ranks. This is why I have concentrated on US listed technology shares in my reviews on September 20th, October 11th and 12th.

The reason for the current move to outperformance by the technology sector bares little resemblance to that which fuelled the move in the late '90s. Then the market was awash with companies selling an idea and not making any money. This time it is being driven by established, profitable companies which are proven survivors and dominate their niches. These companies are of interest to international investors and sovereign wealth funds who are seeking greater access to high technology for their own countries. (See Comment of the Day on October 15th.) For this reason we have concentrated on the larger technology companies.

The Nasdaq outperformed the S&P in spectacular fashion from 1998 through to its peak in 2000; it then gave up its entire relative gain and moved into a base from the lows in 2002 until late September. Less than a month ago, the Nasdaq 100 broke upwards against the S&P 500, in what could mark the end of a long consolidation and a return to outperformance for this technology laden index. The Nasdaq 100 moved into a consistent uptrend from the mid-

August lows and recently encountered some resistance at 2200. The Index broke upwards yesterday following a two-week consolidation but was unable to sustain the gain today. It needs to hold the gain and improve on it to reaffirm the overall uptrend. .

It can certainly be argued that the Nasdaq is not performing to the same extent in other currencies. These charts of the Nasdaq in British Pounds, Euros, Swiss Francs, Canadian Dollars, Australian Dollars, South African Rand, Singapore Dollars and Japanese Yen show that the Index is in a long-term uptrend in all of these currencies but has yet to perform in the short term against the strongest.

Technology shares globally have had a mixed performance over the last year. Here is a review of some sector indices:

In Canada the S&P/TSX Information Technology Index bottomed in June last year and remains in a relatively consistent uptrend, which has gathered pace following the mid-August lows. It would need to sustain a move below 375 to limit scope for further upside.

The UK's FTSE 350 Electronic & Electrical Equipment Index outperformed its benchmark from the 2005 lows and the break above 2000 was significant. However it has failed to rally from the mid-August lows and is underperforming the wider index and its global peer group. It needs to hold above 2100 to offset scope for a further correction. The FTSE 350 Information Technology Hardware Index plummeted from its 2000 high of 9720 to a low of 96.2 in late 2002. It remains in a base formation and would need to sustain a move above 600 to question scope for this range to continue indefinitely. The FTSE 350 Computer & Software Services Index shares a similar pattern to the latter sector and would need to sustain a move above 500 to complete the base.

The DJ Euro Technology sector fell from a high of 1150 in 2000 to a low of 200 in 2002. It then moved into a prolonged base formation which lasted until August this year. As long as the Index can sustain the move above 400 we can continue to give the upside the benefit of the doubt.

The Swiss SP Tech2 Index broke upwards from its base in late 2006 before encountering resistance at 800. It found support at the top of the base near 600 and is now rallying strongly from this level. It would need to sustain a move below this latter level to offset scope for further upside over the medium term.

The Australian S&P/ASX 200 Information Technology Index sustained a consistent uptrend with a progression of higher lows and relatively similar sized corrections from the 2003 lows near 170 to the high at 700 in late May. The Index led the market on the downside into the July/August correction and has failed to rally from the mid-August lows. A sustained move above 600 would be needed to offset scope for lower to lateral ranging.

The Japanese Topix Electrical Machinery Index bottomed in 2003 and following an initial rally, moved into a consolidation. It broke upwards in late

2005 before encountering resistance at 2500, and needs to sustain a move above this level to reaffirm the overall uptrend.

The South African Electrical Equipment Index broke upwards from a long consolidation in late 2004 and advanced to 30,000 by early 2007. However it lost momentum in this area and needs to sustain a move above it to reaffirm the overall uptrend.

The Taiwan Electronics Index bottomed earlier than most in September 2001 and moved into a base formation. It broke upwards in November 2006 with a sustained move above 300 and a move below the mid-August low at 340 would be needed to offset scope for some further upside in the medium term.

The South Korean Electrical & Electrical Appliances Index rallied to a high in early 2006 and has been ranging since. It is the worst performing sector in the Kospi this year and is currently towards the lower side of the range. IT needs to hold above 4250 to sustain an overall bullish outlook.

The Indian Bombay Teck Index moved into a consistent uptrend from the 2003 lows before encountering resistance at 4000 in the early part of 2007. It needs to sustain a move above this level to reaffirm the overall uptrend.

The Thai Information and Communication Tech Index has been a laggard for much of the last two-years. Peaking in early 2005, it entered a gradual downtrend which appears to have climaxed at the beginning of 2007. A sustained a move below 60 would be needed to question eventual recovery potential.

The Hong Kong Hang Seng Information Technology sector broke upwards from its base in late 2005 and remains in a consistent uptrend. The Index consolidated around 2000 for much of this year but successfully broke upwards following the July/August correction and is currently near 2500. A sustained move below 2400 would be needed to question scope for further upside in the short term.

The Chinese S&P/Citic300 Information Technology Index continues to range beneath the May highs and needs to sustain a move above 2100 to reaffirm upward potential. The S&P/Citic300 Telecoms index broke upwards in early August and accelerated to a high near 3250. It needs to sustain a move above this area to reaffirm the uptrend.

Of all the sector indices reviewed above the Canadian Information Technology Index is by far the best performer and is also denominated in one of the world's strongest currencies. It is closely followed by the Hang Seng Information Technology sector and the DJ Euro Technology sector which are also performing in line with the Nasdaq. I will review some international technology shares, which may be of interest, tomorrow.

Global Mining Investments Limited - Thanks to a subscriber for this interesting report which contains a number of informative charts from the managers of the Merrill Lynch World Mining Trust. Here is a section:

M&A activity in the mining sector on an upsurge due to:

Exceptionally low cash flow multiples & easy access to finance

Escalating capital costs and lengthening lead times

Strong balance sheets & shortage of organic growth opportunities

Cheaper to buy than to build!

Capital expenditure blow outs/ delays becoming commonplace:
- Goro
- Ravensthorpe
- Tenke & other DRC projects

End Result: A Consolidating Industry
- In past 24 months:
o Xstrata: Tintaya, Cerrejón & Falconbridge
o Barrick: Placer Dome
o Norilsk: Lionore
> CVRD: Inco & AMCI Australia
o Freeport: Phelps Dodge
o Rio Tinto: Ivanhoe & Alcan

My view - The fact that it is cheaper to buy a competitor than to explore for and open a mine on a green field site is supportive of the market in two ways: It helps to spur mining equities because there is competition for productive assets and it helps to constrain production growth which helps to keep prices high in a world where demand is growing strongly. This is a situation which is set to continue and we can expect further mergers to take place in the coming years.

Email of the day (1) - on the spread between the Chinese listed A-Shares and the Hong Kong listed H-Shares:

"Hello - many thanks for regular thought provoking insights.

"As you noted in the daily message of 22nd October, the Shanghai index has been quietly drifting down from its record highs. Over the last five consecutive down days the index has drifted off c.8%. Over this same period the Hang Seng has held its value around record highs of 30,000 most notably by recovering over 1000 points today from yesterday's fall. Now I know bubbles normally burst with a bang rather than whimper but...

"There is an article in the FT today (23.10.07) about the arbitrage opportunity between A shares and H shares. When reflecting on its contents it seems that talk of arbitrage, as long as capital controls are in place, could be the catalyst for steeper falls in China and I wonder if you would offer any comments on this speculation.

"Imagine you are day trading in China but the signs from the markets and the chatter of officials points toward the gap between A and H shares being closed by H shares moving higher and A shares lower. What would you do?

"Well you'd want to swap A for H but you're not allowed to do so unless you do it quickly and secure yourself a chunk of the size-limited QDII funds.

"Better sell quick.

"If the valuation discrepancy between the share classes continues to turn into a performance discrepancy and this becomes more widely publicised as the QDII funds begin investing their cash next month then what could be the outcome?

"Could the natives get restless in pursuit of the greener grass next door?

"In a market that is being propelled by liquidity that sort of rush might not be too pretty."

My comment - Thank you for your kind email and thought provoking questions. As soon as the Chinese government announced that it was going to allow mainlanders to invest directly in Hong Kong, the regulator voiced exactly the same concerns you are speaking of right now. They are currently putting in place measures which will stem the flow of official money to Hong Kong in order to avoid a sharp setback in the domestic bourse. Of course, that will not stop individuals from moving money in suitcases to Hong Kong and opening trading accounts. However not everyone can do this and their remains much to recommend the mainland markets.

The Shanghai A-Share index remains in a consistent uptrend with a progression of higher lows. Admittedly, it fell for four straight days in the last week, something it hasn't done since 2005, which is a trend inconsistency. However all of its other consistency characteristics remain intact. The current reaction is no larger than any we have seen before and although it is occurring at a higher level, it would need to sustain a move below 5250 to further question the overall integrity of the uptrend.

Today's interesting charts - Provided our testing is complete, which I am expecting, we will release our multiple Favourites functionality and the ability to look at any individual instrument relative to any other on Friday.

US 30yr Treasuries - approaching the psychological 115 which has been a hurdle on a number of occasions since 2001. However a downward dynamic is needed to question scope for some further short-term upside.

Spain - continuing to experience resistance below the July high and would need to sustain a move above that area to reaffirm the overall uptrend.

US Dollar per 1 Chinese Renminbi - the Yuan breaks upwards from the two-month range, and would need to sustain a move below 0.1325 to question scope for further upside.

Thursday 25th October 2007

Global Macro Trends - This was the title of my 2.5-hour presentation to the Nordic Association of Electricity Traders today. Since they are mostly experienced traders, specialising in Nordic energy, I was invited to talk about big picture fundamental economic investment themes, which I illustrated with charts. This was my second address to NAET this decade, and I was asked back because I had forecast a commodity supercycle in my 2002 presentation.

Now that I no longer do financial TV sound bites and as I will hand The Chart Seminar over to Eoin after November, I will do more of these 2 to 3 hour seminars for institutional subscribers. I find the additional research in preparation beneficial and to justify the short time away from the office to all subscribers, I'm posting my Power Point presentation. This is devoid of text except for Themes and headings, because I just talked for most of the first hour and then did the chart review to illustrate my points and also elaborate on them. However subscribers may find the charts interesting and they mostly speak for themselves, not least some of the currency adjustments. I also included my top-10 personal investment portfolio, by weighting.

Email of the day (1) - On sourcing futures contracts when spread-betting in silver and gold:

"I was just wondering where you sourced and bought the March and February contracts for Silver & Gold (re. yesterdays comment). The only account I've set up so far is IG Index, which just quotes December. I'm very new to the trading game, but have been inspired into action after subscribing your service over the last few weeks...long may it continue!"

My comment - Welcome to Fullermoney and thank you for your good wishes. IG Index is an excellent firm but they are too slow in adding the next contract for most commodities, despite my requests. For the contracts you sited, I used City Index, another excellent firm which I have also used since its inception in the 1970s. For better or for worse, City Index does not have 24-hour protection.

British investors warned of slide in shares - My thanks to a subscriber for this article by Edmund Conway of The Telegraph. It is posted in the Subscriber's Area but here is a brief section:

In an unexpectedly downbeat report on the state of the British financial system, the bank warns that the UK stock market is "particularly vulnerable" to a downturn.

Almost all British workers have money invested in shares - either directly or indirectly through their pensions and life assurance plans - and could lose out if share prices suffer a significant fall.

The bank warns that there is a significant risk of the City and Britain's financial system becoming embroiled in further turmoil as a result of the credit crisis gripping the world's money markets.

My view - My memory can be a sieve at times but I do not previously recall the Bank of England issuing stock market warnings. More importantly, would it have done so recently if the BoE governors had not been rightly hauled over the coals by the Treasury Select Committee of cross-party MPs for being blindsided by the run on Northern Rock bank?

I do not think so.

Should the BoE be issuing stock market warnings?

Again, I do not think so, except perhaps if there was evidence of a mania, confirmed by bubble valuations. That is certainly not the case with the FTSE trading on a current PER of 13.48 and yielding 3.6%, according to Bloomberg.

And where is the evidence that the BoE's view on the stock market is any better than the opinion of any other pundit? I think the Bank should stick to its brief.

Shift Happens - Witty title and my thanks to a subscriber for this informative YouTube video by Karl Fisch, which has good background music. We live in interesting times.

Email of the day (2) - On relative performances:

"I'm beginning to believe your chart library has the ability to resolve past VP Donald Rumsford's dilemma of "not knowing what I don't know". Given your concerns about the performance of Bank indices relative to the overall market and their potential to lead a change in market direction I played around in your chart library and discovered the following:

1. S&P500 Banks relative to the S&P500 indicates that banks have underperformed the market since August 2002 but particularly in periods October 04 to April 06 and July 06 to the present while the overall market has been climbing the wall of fear.

2. S&P/ASX200 Financials (includes the banks) relative to the S&P/ASX200 has been in a downward trajectory since July 03 while the overall Aussie market has been reaching for the stars.

"If we are concerned that Banks are the potential harbinger of a change in overall direction, and they have been underperforming for so long without a subsequent impact on the overall market (as measured by the general direction of the market index) why would we expect any further deterioration in the Bank indices to impact the overall market?

"Alternatively have I erred in my analysis/interpretation?"

My comment - Eoin and I get a warm glow in our hearts on hearing that subscribers make extensive use of the Chart Library. This feeling might even extend to those usually unsentimental folks who programme for us.

Your work would have been extremely useful in keeping you from buying US and Aussie bank shares during the periods mentioned, as relative strength would have kept you in the leaders.

Often being lead indicators, I would look for a firm performance by banks at the beginning of a market upturn, following a persistent bear trend. Thereafter, I would not be concerned to see the financials fall behind other sectors with more interesting fundamentals, for instance resources stocks in this cycle, as long at the bank indices remained in overall upward trends.

What worried me, progressively, was when US banks deteriorated sharply in February and were then not only unable to regain their highs a few months later, but weakened again, establishing downtrends. My ongoing concern is that where banks are extending downtrends, investor sentiment will suffer.

Email of the day (3) - On, am I more of a trader than a value investor? (from a trialist):

"I am reading your daily comments and looking at your position in gold and silver, you are more of a trader than a value or fundamental investor. Am I correct to say this?"

My comment - Welcome to Fullermoney.

I can appreciate why you and others might draw this conclusion, but no, I do not agree.

I have a personal trading account, which is my main source of disposable capital. I also have a personal long-term investment account, mainly in self-administered pension vehicles, from which I do not draw down any capital, although I am of pensionable age.

I am fascinated by the challenges of both trading and investing, not least because they are very different disciplines. The very nature of trading is short to medium term, as you will know, so in reporting every transaction in Fullermoney, as a self-imposed discipline and for your perusal, there will inevitably be many more trades.

This certainly does not mean that I am less interested in my investments, and crucially, in discussing investment themes in Comment of the Day and the

Audios. So I do think of myself as a "value or fundamental investor", but with a contrarian leaning and I use charts for timing.

I have often written about my approach to both trading and investing and this is in the Archives, for which there is a Search facility. I would also refer you to my 'big picture, long-term" Friday Audios. You can always review my top-10 (by weighting) investment portfolio by typing "top-10" in the Fullermoney Search facility.

By coincidence, I spent nearly 2.5 hours today, detailing my long-term views for the Nordic Association of Electricity Traders (see lead item above), emphasising investing as they are experienced trading. I mentioned that traders often make lousy investors because they cannot resist trading their investments. My role model on investing, including temperament, is Warren Buffett.

Today's interesting charts - I'm very pleased to announce that a portion of the new Chart Library enhancements go live tomorrow. Eoin will discuss them in Comment of the Day.

Thailand - A nice upward dynamic today, suggesting that we are seeing no more than a short-term consolidation near the July peak, before extensive underlying trading (weekly, monthly & p&f) supports higher levels. A close below 855 would be required to further delay this outlook.

China (Shanghai-B) - Today's downward dynamic provides further evidence of resistance near the May high; it has eroded initial support and broken the short-term uptrend evident since the July low.

China (Shanghai-A) - Here also we see further evidence of inconsistency in the form of deterioration to the trend since July. An upward dynamic is required to offset scope for a further reaction.

Hong Kong (HSI) - A loss of upward momentum is evident following a temporarily overstretched advance. However the high is being tested and a sustained break above the psychologically important 30,000 level would reaffirm the uptrend.

UK (FTSE 100) - A choppy pattern but has rallied from the increasingly important lateral trading near 6400. A close beneath this level would be required to signal further deterioration rather than a retest of resistance from the highs.

Gold - Testing its high and a close beneath $745 would be required to suggest more than temporary resistance at this level.

Crude Oil (NYME) - Another new high suggests that the recent consolidation, albeit brief, may have been completed. A downward dynamic or close under $84 is required to delay higher scope.

EUR/USD - No follow through to Monday's key within overall upward trend. A break beneath $141.25 is now required to question scope for further gains. This weekly chart best shows the important progression of higher reaction lows over the last year and counting.

Additional Commentary by Eoin Treacy

Morgan Stanley Asia Pacific Strategy: How Stretched? - Thanks to a subscriber for this interesting report by Malcolm Wood, Ryan Tsai and Corey Hg which examines the fundamentals of the Asian equity markets. Here is a section:

Today Versus The Last Boom: Is it More Sustainable?
In our view, Asia appears far more robust today than it was in the early 1990s, while the US looks somewhat similar. As in 1991-93, the US is again working through the aftermath of a credit boom, this time focused on the home mortgage market (particularly sub-prime), housing investment (starts down 47% from peak levels), and the abrupt downturn in the leveraged loan market. Our economists forecast the workout from this downturn could take about 18 months, during which time they expect US growth to average a sluggish 2%, somewhat weaker than the early 1990's.

Second, unlike 1994, our economists expect the Fed to cut rates by a further 50 bps over the next 6 months to 4.25%. In that sense, the outlook seems more reminiscent of 1991-92, when the Fed cut rates to 3.0%. That said, a 50 bps cut would only lower the real Fed Funds rate to about 2.5%, whilst in 1992-93 it was slightly negative.

Third, the risks to US growth appear to be on the downside, with monetary policy unlikely to achieve a vigorous response given a near-record housing inventory overhang, interest burdens that reflect mortgages fixed at yields below current levels, and falling house prices. As such, we believe the risk to our Fed Funds rate forecast is to the downside.

By contrast, Asia ex-Japan appears robust, with our economists expecting a soft decoupling, with growth slowing from 8.4% this year to 7.6% in 2008-09. Growth should increasingly be driven by domestic demand on the back of very positive liquidity conditions. Consistent with this, our Asia leading indicator is strong, as are analyst earnings revisions (Exhibit 7). The consensus earnings growth forecast of 10.5% in 2008, down from 15.8% in 2007, seems undemanding (Exhibit 8).

My view - This is a well-reasoned report which is very much in line with our view that Asia has taken over as the growth engine of the world. The MSCI Asia Pacific ex-Japan Index caused a number of investors to worry following its large reaction during the July/August correction which was of greater magnitude than anything seen in the course of its more than five-year uptrend. However it found support at 400 and has rallied significantly since. It is now looking a little overextended in the short-term, but it would need to sustain a move below 500 to question scope for further upside over the medium term. (Also see Comment of the Day on August 20th)

Interesting international technology shares - Yesterday we looked at a number of technology sector indices from a total of 12 different countries and regions. What we see is that the Nasdaq continues to lead these indices and only a handful of technology sectors in other countries are also outperforming. For the most part they continue to underperform and some remain in long-term base formations showing little sign of significant bullish activity. However a number of companies listed outside the USA and involved in the technology sector are of interest. Here are some of the more notable examples:

Research in Motion has been a leading share in the Canadian Information Technology sector and in the Nasdaq 100 this year. (Also see Comment of the Day on October 12th) It is currently pressuring the upper side of the short-term range and would need to sustain a move below C$100 to question scope for a reassertion of the uptrend.

Emergis remains in a long-term base formation following the long decline from the highs near C$150, set in 2000. It has posted a gradually increasing uptrend within the range for the since late 2004 but needs to sustain a move above C$10 to break upwards from the base.

Nortel Networks is worthy of mention because it has failed to perform despite being a darling of investors during the dot.com boom. It remains in a long base formation and the break below C$20 in August and the subsequent failure to rally in line with global stock markets indicates that the share is fundamentally weak. It needs to hold above C$15 to offset scope for a retest of the 2001 lows.

TomTom, listed in the Netherlands, is the best performing stock in the Dow Jones EURO Technology sector this year. It advanced briefly following its IPO to a high of €40 in 2005 and moved into a consolidation until early July 2007. Following its upward break it moved into a brief pause above €40, it quickly progressed to €60, where it consolidated once more. It broke upwards again yesterday and would need to sustain a move below €55 to question scope for further upside.

Nokia of Finland accelerated to a high of €60 in 2000 and subsequently fell to just above €10 where it found support between 2002 and mid-2004. Following the failed break below €10 it moved into a consistent uptrend which continues to display a steady progression of rising lows. The break above €20 completed the base and it would need to sustain a move below €24.50 to question scope for further upside over the near term.

Business Objects, listed in France, bottomed in 2002 at just under €10 and moved into a ranging consolidation with a progression of rising major reaction lows. It is currently subject to a takeover bid from SAP which is responsible for the share breaking upwards from the 5-year consolidation. A sustained move below €35 would be needed to question upward potential.

ASML, listed in the Netherlands, bottomed between late 2002 and early 2003 and moved into a base formation which had a steady progression of rising major reaction lows. It pressured the psychological €20 level for most of 2006 and broke upwards conclusively in June. A sustained move below €22 would be needed to question scope for further upside in the medium term.

United Internet, listed in Germany, broke upwards from it base in early 2003 and consolidated between €4 and €6 until mid-2004; when it broke upwards once more. It then accelerated upwards to a high near €15 before encountering resistance. Although it has broken upwards to marginal new highs, it has encountered resistance at €16 on a number of occasions this year and needs to sustain a move above this level to reaffirm the overall uptrend.

Tencent Holdings listed in Hong Kong is the best performer in the Hang Seng Information Technology sector this year. From its IPO in 2004, Tencent moved into gradually increasing uptrend which has been steadily gaining pace since. Following the advance to HK$30 in early 2007 it moved into a consolidation with an upward bias. The rally from the mid-August lows has seen the stock double and it would need to sustain a move below HK$53 to question scope for further upside in the near term.

Lenovo Group, listed in Hong Kong, broke upwards from its base in early June with the sustained move above HK$4. It briefly consolidated the gain and progressed towards HK$8, underneath which it is currently consolidating. A sustained move below HK$6.20 would be needed to question scope for further upside in the near term.

ASM Pacific also listed in the Hong Kong, broke upwards from its base in 1999 and accelerated to a high near HK$30 before declining to retest the top of the base at HK$10 between 2000 and 2002. It broke upwards to a new high in late 2002 and moved into a ranging consolidation before breaking upwards once more in January this year. It is currently consolidating below HK$75 and given its past history is likely to undergo another ranging consolidation as it did following its previous major advances. A sustained move above HK$75 would be needed to reaffirm the uptrend.

MediaTek listed in Taiwan, broke upwards in 2005 and moved into a steeper uptrend this year before reaching a peak of just over TW$600 in July. It consolidated this move over the last few months and broke upwards once more today. It would need to sustain a move below TW$575 to question scope for further upside.

Foxconn Technology also listed in Taiwan, broke upwards from its base in early 2005 and over the course of the next two-years accelerated to a high near TW$375. It consolidated that move for much of the last year and is currently pressuring the highs. However it needs to sustain a move above TW$400 to reaffirm the overall uptrend.

Email of the day (1) - an answer from an Albertan oil-man to my email of the day (1) - on oil's secular bull market from October 23rd:

"As of this time, we can't solve the immediate energy global challenges of adding oil right this minute from the Athabasca Region. With a less intricate as well as a combined integrated effort from stakeholders in a fair minded environment conducive to future growth for all, it may certainly be possible for that increasing role to be established.

"It will have to be based on balancing sound technological innovation and logisitics while tackling unidealistic pragmatic constraints for this future resource if the world agreed to and wanted it.

"Indicated and Inferred Reserves for the Tar (Oil) Sands are subjective but the Provincial Government of Alberta Energy Department states in general agreement with producers that " Output of marketable oil sands production increased to 966,000 barrels per day (bbl/d) in 2005. With anticipated growth, this level of production could reach 3 million barrels per day (bopd) by 2020 and possibly even 5 million barrels per day by 2030."

"This was a resource back in 1980 that was barely at 200,000 bopd combined and it is "contained in three major areas beneath 140,200* square kilometres (54,400 sq miles) of north-eastern Alberta."

"The Federal Government National Energy Board http://www.neb.gc.ca/clf-nsi/rnrgynfmtn/nrgyrprt/lsnd/lsnd-eng.html has a publication that was released last year in June with detailed information concerning production challenges with future output projections discussed and versed throughout the website page.

"The industry challenges information is available from CAPP on http://www.capp.ca/raw.asp?x=1&dt=PDF&dn=98992 and it illustrates possible future tar sand potential from their viewpoint in powerpoint form. One can read their comments and reaction to industry issues as well on their main page every day.

"In terms of Canadian based oil sands production and service companies servicing the Tar Sands traded on the TSE exchange, here is a link to the energy sector index not including multinationals http://www.investcom.com/tse300/s&penergy.htm.

"Major players include:

"Syncrude

"Syncrude is currently the world's largest producer of crude oil from tar sands (oil sands), in 2005 Syncrude produced 78.1 million barrels of crude oil from the oil sands. Syncrude is currently completing the Syncrude 21 project which is expected to increase Syncrude's oil production from the Alberta Oil sands to 350,000 barrels per day. Syncrude spends over $40 million dollars on research and development in an attempt to determine more efficient ways to obtain crude oil from the oil sands. Thirty-two percent of Syncrude is owned by the Canadian Oil Sands Trust, 25% by Imperial Oil, 12 % by Petro Canada and the remainder by other oil and gas companies.

"Petro Canada

"Petro Canada's oil sands strategy is to grow the business profitably through phased and integrated development of this world-class resource. Petro-Canada is strategically positioned to capture full value from Alberta's oil sands - the largest such deposits in the world. Petro Canada possesses large lease holdings in the Alberta oil sands in addition to owning a large refinery in the Edmonton area which is in the process of being converted to process oil sands feedstock exclusively. Petro Canada possesses a 12% interest in Syncrude and is has 100% ownership of the MacKay River Oil sands project. Petro Canada is a 55% owner in the Fort Hills oil sands project where they plan to develop an estimated 2.8 billion barrels of bitumen. Total oil sands reserves are estimated at 5 billion barrels. Imperial and Shell also have refinery capabilities in Edmonton.

"Synenco

"Synenco Energy Inc. was incorporated in 1999 to acquire and develop oil sands resources in the Athabasca region of Northern Alberta. Since its inception, Synenco has advanced steadily towards its goal of developing oil sands mining, bitumen extraction and upgrading facilities, together called the Northern Lights Project. The independent best estimate of the Northern Lights Project's resources is 1.49 billion barrels of in-place bitumen.

"In May 2005, Synenco created the Northern Lights Partnership (NLP) with SinoCanada Petroleum Corporation, the Canadian subsidiary of China based Sinopec. Synenco holds a 60% interest in and is the managing partner of NLP. The current cost of the NLP project is $5.3 billion. When fully operational the NLP is expected to produce 100,000 barrel a day of light sweet synthetic crude oil, with first production beginning in late 2010.

"Suncor

"Suncor began crude oil production from the Alberta Oil Sands in 1967 and has produced over 1 billion barrels of oil in its history. Suncor exited 2005 producing 260,000 barrels of crude oil from the oil sands per day. Suncor expects to reach 550,000 barrels of crude per day from the oil sands by 2012.

"List of some of the major oil sands producers include Albian Sands Energy Inc., BlackRock Ventures Inc., Canadian Natural Resourcesces Limited, ConocoPhillips, CanadaDevon Canada Corporation,EnCana Corporation, Husky Energy Inc., Imperial Oil Resources Limited (Exxon/Mobil: Cold Lake deposit) ,Japan Canada Oil Sands Limited, Nexen Inc., OPTI Canada Inc.,Shell Canada Limited and Total E&P Canada Ltd.

"As far as Canadian based oil sands production and oil service companies (not the big three) servicing the Tar Sands traded on the TSE exchange, here is a link to the energy sector index not including multinationals: http://www.investcom.com/tse300/s&penergy.htm.

"Transportation corridor providers such as CP Rail Canadian Pacific Railway (CPR) XXX XXX who have concessions to build future rail spurs in the area are an example of an indirect play to have possibly in one's portfolio for steady revenue growth possibilities.

"Others may include Trans Canada (TRP:NYSE)XXX for continental pipeline transport and Finning (TSX:FTT) XXX for heavy equipment leasing that pay reasonable steady dividends too if that was of interest to subscribers who want indirect tar sand exposure in their portfolios.

"These are mostly if not all well covered as usual in Fullermoney and the Charts Library in detail for all to investigate and discuss on a daily basis in future commentary.

"(P.S. do not own most of these shares other then Suncor/Shell so that's the conflict in terms of mentioning them here, trust this helps that person)"

My comment - Thank you, as usual for your insightful comments. I will add all of the companies you list in this email to the Chart Library in the coming days.

Email of the day (2) - on a Chinese bubble:

"Thank you for all your investment insights and wisdom - you are my primary source of knowledge and learning about the markets and you are surely one of the best investment advisory services in the world (I subscribe to a number of different ones).

"Just a question about the Chinese stock market. I am a member of the Australian Chinese community and just today my mother, who is 67 years old, said she met a middle aged practitioner of traditional Chinese medicine at a local swimming pool in Melbourne and the Chinese doctor recommended that she should fly to Hong Kong to open a stock broking account to buy shares in mainland Chinese companies listed on the HK Stock Exchange. She said the Chinese doctor had done this herself in July this year and so far is up more than 50%.

"I know this is anecdotal, but stories like this scare me. What is the likelihood that the Chinese stock market is in a speculative blow-off at the moment and if so how would that affect the commodities theme (BHP, Rio Tinto, Lihir etc) when it bursts? Would gold perform differently from the base metals?

"Thanks very much."

My comment - Thank you for this interesting email and you are correct to be wary of the repercussions of a Chinese stock market bubble bursting. However also of importance is the question of whether that reversal is imminent or something which may be a number of months or even years away. Higher interest rates are starting to weigh on the Shanghai A-Shares and while the index is still in an overall uptrend, it has entered a more corrective phase. It needs to sustain a move to new high ground to reaffirm bullish potential while a move below 5250 would be needed to further question the integrity of the overall uptrend. Also see Comment of the Day on September 11th.

As we saw in late February, when the A-Share market fell 10% in a day, international markets caught the contagion almost instantly. If economic weakness were the reason for a stock market bubble to burst then yes shares such as BHP Billiton etc would be negatively impacted because they are highly leveraged to Chinese growth. Gold, at least initially would be unlikely to escape the contagion. However if China's stock market goes through a correction with no corresponding weak economic news or threat to long-term growth, we can expect resources shares to carry on oblivious to what goes on in the A and B-Share markets.

Email of the day (3) - an addition to the Chart Library:

"Could you please add DWS Global Equity Agribusiness Fund MGL0019AU to the chart library? This is an interesting fund which targets the food chain. On the presumption that soft commodities will be under increased demand from the emerging middle classes in the developing world this fund may become what the oil/mining support industry is to the oil/mining industries. Thanks as always for providing a safe harbour (advice) in sometimes stormy conditions."

My comment - We already had the Luxembourg listing of this fund but thank you for alerting us to the existence of this Australian version which I have added to the Chart Library.

Email of the day (4) - on another addition to the chart Library:

"Thank you very much for your generous efforts in aiding my understanding and learning in the financial arena - you do make it an enjoyable process.

"Following the technology theme, are you able to add Valcent Technolgy NasdaqBB VCTPF? Thank you."

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

Today's interesting charts - The multiple favourites lists and charting any instrument relative to any other is now live in the Chart Library. This is only a partial completion of the list of enhancements we have planned and we welcome constructive criticism on how to make it better. I will post a piece tomorrow on how to use the new fuctionality.

Amex Goldbugs - continues to consolidate above the previous high at 400. It would need to sustain a move below this area to question scope for further upside in the near term.

Silver - testing the upper side of the one-month range and would need to sustain a move below $13.25 to question scope for an imminent upward break.

Friday 26th October 2007

Implications of the Microsoft sales surge - In case anyone missed it, here is the opening from Bloomberg's report on Microsoft today, written by Dina Bass:

Microsoft Corp. shares soared to their highest level in six years after first-quarter sales beat projections by more than $1 billion, thanks to sales of the Windows Vista system and the ``Halo 3'' video game.

Microsoft, the world's largest software maker, rose $3.87, or 12 percent, to $35.86 at 9:34 a.m. New York time on the Nasdaq Stock Market, the most in seven years. The price is at its highest since July 2001.

Chief Executive Officer Steve Ballmer lured customers to pricier versions of Vista and won new Xbox users with ``Halo 3,'' allaying concern that Microsoft's growth depends on cracking Google Inc.'s dominance in Internet advertising. The results revived investor interest in Microsoft, whose stock gains have trailed Google's this year.

``This is a big deal,'' said Jane Snorek, a Minneapolis- based analyst at First American Funds, which manages $55 billion in assets, including Microsoft shares. ``It will change the sentiment on Microsoft absolutely.''

Net income increased 23 percent to $4.29 billion, or 45 cents a share, beating the 39-cent average of 15 projections in a survey by Bloomberg. Sales advanced 27 percent to $13.8 billion.

``Every division out of their five divisions exceeded expectations,'' said Michael Binger, who helps manage $70 billion, including Microsoft shares, at Thrivent Financial for Lutherans in Minneapolis. ``Boy, if all companies could do what they just did, it would make my job a whole lot easier.''

My view - Technology is an exhilarating and also terrifying industry. No other field can provide a similarly meteoric rise for the successful or rapid obsolescence for those that stumble. Tech makes investment banking look like a village fête.

Tech was the most hated of all industries until a few months ago. Then one by one companies began to rise like the phoenix, following the peerless Google, which I call 'the god company' because it knows more about everything than any other known entity, including more about you than you may realise. And of course there is that other iconic leader - Apple Computer.

Both look temporarily overstretched so we can expect other tech companies to improve their relative performance. Eoin has produced several surveys of the better performers in recent months as we upgraded tech to a favoured sector. And the latest to join the party is Microsoft (monthly, weekly & daily), which completed its base in such dramatic fashion today. We will probably see a brief consolidation, forming the first step above the base, before this share fulfils more of its upside potential suggested by all that underlying trading.

For tech in general, a momentum play is underway and it is likely to be impressive.

Email of the day (1) - On sovereign debt and rigging inflation figures (*my deletions*):

"Once again my thanks for the wonderful service that you and Eoin provide to ##### and me at #######.

"I found this news article posted on Bloomberg today, very interesting. I wonder when we will see the same being written of other sovereign debt issuers, in particular the U.S. The benefits to doing so are well covered below.

"Have a great weekend!"

My comment - Many thanks for the feedback and your good wishes which I return in kind.

Thanks also for a shocking, informative and sadly, predictable article which I have posted in the Subscriber's Area. We know politicians pressure central banks to cook inflation data, usually by changing the CPI constituents, although it is difficult to get away with the degree of deception reported in the article, provided there is a free press.

This story is another example of that moral slide, which starts with a deception by someone who knows he is in a tight corner, who presumably rationalises a deception on the basis that what is good for him is good for the country, and patronisingly concludes that few people would be better off if they knew the truth. Governance is everything, and not just at a national and corporate level. Personally, it is a crucial determinant as to how we develop as individuals.

My personal portfolio: Leveraged trades in gold, silver and platinum increased behind trailing stops - I added new stops and raised earlier ones in gold, silver and platinum today, before increasing these positions. I raised my too small gold futures longs by 50%, paying $786.1 for another February position. My silver holding is larger and I increased it by 20%, paying $1430.5 for another March position. My platinum position is slightly bigger than my silver stake and I increased it by approximately 18%, paying $1462.8 for another January position.

Email of the day (2) - On sentiment regarding gold:

"I'm a relatively new subscriber but have so far been greatly impressed. I think I've nearly paid off my annual sub through recent trades on DAX and GBP/USD, so well done and keep up the good work. I must admit I also liken your work to another publication that I sadly only get to see from time to time called WILTW, I'm guessing you are familiar with that?

"In the meantime, I note comment on Reuters today regarding level of bullishness on gold and I wondered if this was also on your radar screen? I cut and paste below:

"Money also continued to flow into exchange-traded gold funds. The latest data showed that volume in StreetTRACKS gold ETF <XAUEXT-NYS-TT> rose 20 tonnes in the past month to a record high of 597.53 tonnes."

"I also read elsewhere on Reuters there are record longs on Comex re gold.

"Anyway, just thought this might interest you."

My comment - Thanks, welcome to Fullermoney and well done on your trading decisions.

I must confess that you acronym defeated me, but of course not Google, which produced Kiril Sokoloff and "What I Learned This Week". I was drawn to the quotes.

Regarding gold, I would start by stating the obvious - that practically no one owned it in 2001, near the low. Clearly, many more people hold gold today and I would expect their numbers to rise when bullion is performing bullishly, as we have seen recently.

Currently, I'm seeing more bearish than bullish commentary on gold, from Comex figures to a forecast that demand will decline in India due to the recent price rise. These reports are certainly not irrelevant but they also provide behavioural clues, mainly that lots of potential buyers are not yet long and leveraged. I'll be much more concerned when the quantum leap forecasts appear and gold moves from a footnote in financial pages to front page news. Meanwhile, the all-important chart action remains favourable, including commonality, meaning that gold's trend is confirmed by other precious metals such as platinum which led, and silver is now pushing up through previous resistance.

Chart of the Day: Entering a period of seasonal strength - This phenomenon is well known, not least to veteran subscribers. Nevertheless I still find the historic bullish performance from November-April, relative to May-October, breathtaking. I want to make sure that new subscribers are aware if it.

Will the bullish average be repeated over the next six months, or will we see one of the comparatively rare exceptions?

I believe that the bulls, which certainly include Fullermoney, will be vindicated. I also expect that our key investment themes such as resources, Asian-led emerging markets, and more recently technology, will be very much to the fore. The known risks are Western and Japanese banks, which remain a significant drag on their markets.

However in markets nothing moves in a straight line for very long. We can expect some turbulence, to which US dollar weakness, plus the strength of oil and gold, may contribute.

Email of the day (3) - On big-cap technology:

"Thanks for the recent timely comment on Big Cap technology stocks. I was surprised enough by your recommendation to do some chart research. It seemed like Microsoft was the best candidate for a base breakout, so I loaded up. This is the first time in years I've been involved in any tech stocks, having done quite well shorting them earlier in the decade. Keep up the good work!"

My comment - Thanks for your kind words, and everyone should note that it was your diligent and knowledgeable scanning of the Chart Library that enabled you to spot Microsoft's big base, which remained uncompleted until today's spectacular action.

On becoming part of the Fullermoney Collective, subscribers inevitably have varying degrees of experience. But we are all students of the market, who learn from each other and are inspired by the Empowerment Through Knowledge theme.

Jackson Wong: Relative studies on S&P 500 shares, UK FTSE 100 shares, and Taiwan - My thanks to colleague Jackson Wong of Investors Intelligence (*see link upper left*) for these three informative filtering reports covering S&P 500 shares, FTSE 100 shares and Taiwan. The reports are self-explanatory.

Email of the day (4) - On Western banks:

"I understand that one of your major concerns are western banks. What type of chart action would you consider would constitute a more serious situation - have you any levels of potential support in mind?"

My comment - The technical action of Western and also Japanese banks has been worrying since February. We know why and some of the disclosures and write downs have been shocking, so it is a serious situation. Until the price action for these banks clearly improves, it will remain a drag on stock market performance in the countries affected.

Email of the day (5) - On metals supply and demand:

"Global Mining (GMI:ASX) has released an update to the Australian market in conjunction with Evy Hambro of MLW which I thought may be of interest to your subscribers. It highlights the expectation of good years ahead for mining/minerals plus the fact that analysts are beginning to re-rate this sector."

My comment - Many thanks for an interesting PowerPoint.

However one slide - number 9 - contains some stunning information which should be of interest to all investors.

Emerging markets represent 86% of the world's population, 75% of the world's land mass, 70% of the world's foreign reserves; 52% of world GDP, yet only 9% of world equity market capitalisation.

This staggeringly low equity capitalisation of only 9% might conceivably make sense if emerging markets were rapidly declining in GDP relative to the developed world. However the opposite is true. I can only conclude that emerging market equity capitalisation will soar relative to the developed countries over the next several decades, eventually reaching 70% to 80%.

I believe this charge will continue to be led, more often than not, by India and China, the queen and king of emerging markets. I have invested accordingly. My strategy going forward remains buy-and-hold. I expect volatility from time to time - it is the nature of markets - and will continue to increase my positions on setbacks.

Email of the day (6) - On gold and bubbles:

"Quick question...Should the FED decide to stand pat next Wednesday...is this a possible good time to lighten up on GOLD shares? MXN hiked...CHF sounds like they might...Hong Kong is rallying on the 1:1 with the expectation of a match in rate reduction. None of this has been lost on GOLD. But, seeing that the last cut 50/50...the areas in need of assistance received none. The losses are imbedded into the system until such time as they are booked. Every sector of the US markets is responding to its own fundamentals. Does it make sense for the FED to protect the banks at the risk of the USD, OIL, and further inflation in the things we need?

"The rate reduction of last month saw OIL and GOLD skyrocket while the value of the USD fell. At some point would it not seem logical for yields to rise? I'm just hoping they don't adjust all in one day.

"Also, I found this at BCA...is this not the definition of a bubble?"

My comment - Ah, the old adage dilemma of whether to back: 'It's never wrong to take a profit', or 'Let your profits run'.

You could lighten and hope that markets pull back, or you could use trailing stops. I've been looking for a big move on gold as you know, to at least the $800 to $850 level on this run. With bullion strong against all currencies and this move confirmed by other precious metals, I don't see any reason to change my mind. I just hope for less rather than more volatility, as it is far easier to run profits in that environment.

Thanks for this short promotional item from BCA Emerging Market Strategy. You could call it a bubble. I call it another 'supply inelasticity meets rising demand' story, which supports my comments in Email of the day (5) above.

"The moment we want to believe something, we suddenly see all the arguments for it, and become blind to the arguments against it."
George Bernard Shaw

Additional Commentary by Eoin Treacy

Chart Library Enhancements roll out - Last night's release of the improved Favourites and Relative charting packages is the first in a number of enhancements we plant to release in the coming months. While much of what we have added is relatively straightforward, here is a step by step description of how to use the new features which some subscribers may want to print off while using the Library for the first time:

It is now possible to add multiple lists of Favourites. To do this, simply go to your Favourites, which is the top item on the main drop down menu in the Chart Library, and select Add section. A box bill appear where you can enter the name of your new section, then hit 'Add' and the new section will be added to the end of the list. You can create as many sections as you like.

To remove or change the name of a section, hold the mouse over the section name; a red 'x' and a notepad icon appear. To change the name, click on the notepad. A box appears where you can type the new title, then hit Save. To delete the section, click on the red 'x'. All of that section's constituents will be added to the section above.

To add instruments to your Favourites list, select any instrument from the Chart Library and click on the green '+' sign to its left. You will now also see these same green '+' signs in the International Equity Library, which makes adding equities much easier. Any instrument which is already in your Favourites will have a red 'x' next to it on the main menus. You can click on the red 'x' to remove it from your Favourites lists. It is also possible to remove something while looking at your Favourites folders. Simply hold the mouse over one of your instruments and a red 'x' will appear. To remove the instrument click on this red 'x'.

When an instrument is added to the Favourites Folder it will automatically be added to the end of the last section. To move it, simply drag and drop it into the desired section. If you want to drag the same instrument into multiple sections, just hold down the SHIFT key when dragging.

We realise that subscribers will potentially have large lists of securities in their Favourites and that dragging across the page and potentially having to scroll may be cumbersome. To address this issue, you will see a '+' next to the name of each section. Clicking on this '+' will collapse the section in much the same way as a folder in Windows. To open the section just click on the '-' sign which will re-open the folder.

The 'View All Charts' function can be accessed through the icon in the top left of any chart menu in the main part of the Chart Library. You can 'View All Charts' for every instrument in your Favourites by clicking on the icon at the top of the page. You can also 'view all' the charts within each individual section by clicking the 'View All' icon to the right of each section title.

Please Note: While it is possible to hit 'View All', for the instruments in a section when it is minimised, these charts will not show up in the 'View All Charts' compendium until the section has been maximised once more.

Relative performance is something we wish to be able to monitor on an ongoing basis which is why we are intent on developing scanning software but it is also important to be able to view ratio charts of one instrument against any other. This is now possible.

Select any chart and click on the 'Charting' tab, which can be found second from the left in the black bar above the chart. You will see the 'Relative' drop down menu, which has some of the most popular indices and rates an instrument can be plotted against. However you will now also see a green 'Other Relative' tab below the 'Relative' drop down menu. By clicking on this icon, you can pick your second instrument from the main Chart Library menus. The 'Search' box in the bottom right of the selection area, is a combined search of the main Chart Library and the International Equity Section. For example by typing 'bhp' into this search it will return 7 entries. These are NASD-Bloomberg Active high Yield Price Index (NBBHPR), and six different listings of BHP Billiton.

In the past, when one had set parameters for a given ratio and wished to apply the same quotient to another instrument it was quite difficult to do so. This has been simplified. Once a ratio has been created and you want to apply the same analysis to another instrument, just select that other instrument from the menus or the Search and click on the name in the menu. This will apply the same ratio to the new instrument. Clicking on p&f, weekly or daily will only draw those particular charts without the ratio. The intent of these rules is that the "relative" chart will stay until a new different chart type is explicitly selected i.e. picking p&f, weekly or daily.

Next on our development list is the ability to save chart templates so that you will not have to redefine parameters repeatedly. This will be followed by the Filters we have often spoken of. The Chart Library will always be a work in progress and while we are delighted to be able bring you this new functionality we welcome constructive criticism and any suggestions which can help improve the functionality offered.

We will update the Help pages on Monday.

Email of the day (1) - on adding the same chart to multiple sections:

"Superb enhancement to the Library. Just a small point - will you make it possible to add the same chart to different sections of the Library i.e. duplication, as that would help greatly."

My comment - Thank you for your kind email and we are delighted you are enjoying the enhancements. Simply hold down the shift key to drag a copy of an instrument to a new section.

Email of the day (2) - on the 'View All Charts' section:

"In today's daily comment it is mentioned to go to any section and click on the "View All Charts" link in the upper right-hand corner and scroll down to scan the Chart Library more quickly. But I can not find where it says "View All Charts" - in the upper right-hand corner it says Chart Library Help.

"May you give me some more explanation? Thanks a lot in advance."

My comment - I apologise for the typographical error. Upper right-hand should have been upper left-hand. On any chart menu page where you see a list of securities or ratios, just above the list on the upper left-hand side, you will see a 'View All Charts' icon, which allows you to view 8 instruments on a single page.

BNP Paribas Malaysia - Thanks to a subscriber for this report by Michael Greenall which makes some interesting points on the Malaysian market. Here is a section:

Fundamentally, all the earnings drivers described in our January 2007 strategy report
2007 - Malaysia's Koiros Year, when we turned bullish the Malaysian market still remain very much intact. These were:
1. Potential pump-priming ahead of the general elections
2. Malaysian market was at a discount to regional valuations;
3. Expectations of stronger earnings growth going forward, driven by higher loans growth, increased consumer spending and rising disposable incomes;
4. No concerns over inflation and therefore the expected adoption of an accommodative interest rate policy.

While all the factors above remain intact, some are materialising faster than others and the effects are seen in our expectations of corporate earnings growth - for 2007, we expect 24% EPS growth for 2007 (from 15.8% expected in February) and 13.7% in 2008 (from 9.7%).

Based on our chief economist, Chan Kok Peng's views, the Malaysian economy can be described as fundamentally sound. The government is expected to maintain accommodative fiscal and monetary policies to encourage a "feel good" factor ahead of general elections in 2007-08. The broad economy will benefit from the twin drivers of higher oil and crude palm-oil prices. Despite this, the market has lagged the regional market's recovery following the subprime sell-down.

Sectors that showed the greatest earnings growth upgrades in the last six months have been plantations, transportations, telecommunications, constructions, building materials and selected banks, while earnings growth downgrades came in the automobile sector.

We believe that sectors that will continue to enjoy upgrades are those related to key drivers. The sectors are include plantations, the consumer sector, gaming, building material suppliers, property and selected banks. In the following section we update the same parameters used in our previous 2007 - Malaysia's Koiros Year report.

My view - The Malaysian market (p&f, monthly, weekly, daily) broke upwards from a lengthy ranging consolidation a little more than a year ago. It then accelerated to a high below 1300 by late February before experiencing a severe setback in a Type-1 ending as taught at The Chart Seminar; following the Chinese market's 11% single day decline. It recovered quickly from this shock and moved to new highs. However the market started to lose momentum below 1400 and experienced a Type-2 reaction which is a massive reaction against the prevailing trend towards the end of July. Malaysia bottomed in mid-August along with most other markets and has lagged it neighbours in regaining the highs. It is currently consolidating beneath 1400 and would need to sustain a move below 1350 to question scope for a near-term upward break.

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

"Would you kindly add the following Australian companies, all of which are fantastic growth shares?

Ausenco AAX
Sundance SDL
Mikoh MIK
Dominion Mining DOM
Sphere investments SPH
Riversdale Mining RIV
Monadelphous Gold MND
SMS Management SMX
Jabiru Metals JML
Oakton Computing OKN

AED Oil AED
Imdex IMD"

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

Email of the day (4) - on another addition to the Chart Library:

"Could you please add Uranium Energy Corp. (UEC. NYSE) to the Chart Library?"

My comment - This has also been added to the Chart Library.

Email of the day (5) - from a new subscriber:

"Firstly, let me say what a great service Fullermoney offer, I have read your abbreviated commentary every day for the past year or so and the insights gleaned have been profitable ones, thank you.

"I started following the markets three years ago, I've read lots of books on the subject, I've made lots of mistakes. I now realise that value may be just a matter of opinion (cheap companies can keep getting cheaper and dear ones do keep getting more expensive) so you only have the charts to tell you when the tide may be turning. I've also learned that looking for shapes in charts doesn't always work and mechanical technical indicators are mostly useless, apart from MA's.

"I am interested in all the major global markets: forex, stock markets, commodities. I realise the importance of keeping costs low, so I look to gain direct exposure to a particular share, rather than investing in a fund, but ETF's that allow me to gain exposure to foreign stock markets are of interest. Spread betting on shares, commodities, indexes and forex is also of interest.

"I certainly have a long term investment outlook and look for big picture broad investment themes, investing in the UK only I would say is going to lead to underperformance.

"I apologise for wittering on, and look forward to exploring the Fullermoney site further."

My comment - Welcome to the Fullermoney Collective and thank you for taking the time to explain your reasons for joining. You are certainly not alone this month as we have a record number of new subscribers and trialists. Welcome all and thank you for your interest. A keen sense of inquiry will always stand us in good stead when dealing with markets and hopefully you will find plenty to interest you on our site, much of which is contributed by your fellow subscriber's in the spirit of Empowerment Through Knowledge. I hope that if you or any other new subscribers have any questions unanswered by the Help pages, that you will feel free to contact us. We will do our best to respond promptly.

When considering at the longer term, I would particularly recommend listening to the big picture long-term audio which is recorded every Friday. It is a synopsis of our long-term investment themes and should help you to get a quick idea of how current events are gelling with our wider market view.