

Fullermoney

Global Strategy and Investment Trends by David Fuller

www.fullermoney.com

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 29th October 2007

Mike Lenhoff: Double or Quits! - [My thanks to Tony Smith of Brewin Dolphin for this sensible summary by the firm's Chief Strategist Mike Lenhoff. It is posted without further comment because I am in general agreement and have made related comments below and in today's Audio. Here is Mike Lenhoff's introduction:](#)

When it comes to investing in equities, anyone who doubles their money in a four and half year span is doing well. As the chart shows, FTSE's All-World Developed Markets Index has doubled in value since the Spring of 2003.

Those who bought into emerging markets from the start of this bull market would have more than doubled their investment. FTSE's Emerging Markets Index has nearly quadrupled over the period. This makes the performance of the developed markets look pedestrian when in fact it has been anything but.

Who's going to complain about an annualized capital gain of nearly 17 percent, which is what the developed markets have delivered. The 34 percent annualized gain for emerging markets would not have come without a fair degree of volatility and the gains might not have even been accessible in the first place.

Volatility has been a key feature across the board this year. But in spite of the summer's upheaval - not to mention the correction that took place back in February - equity markets are not only up on the year but also higher than many thought likely two months ago. Emerging markets have gained 35 percent this year - just an average year's capital gain for this bull market - while the developed markets have gained about 8 percent. In sterling terms, the latter are up by 7 percent; in US dollar terms they are up by over 12 percent.

Email of the day (1) - [On bear markets, emerging markets and investing outside Australia:](#)

"I must commend you for your very insightful audio presentation today [*Ed: Friday's big picture*]. Keep this up as this only gives assurance for investors like me about the direction of the market. More insightful as you also talked

about when the next bear market will take place. At least I will know when to exercise caution coming closer to those dates.

"Do you consider Malaysia and Thailand emerging markets? You keep talking about emerging market. How does one like myself living in Australia invest in these markets? Anything you can recommend here?"

My comment - Many thanks for your thoughts on the Audio.

You will appreciate that my thoughts regarding the timing of the next bear market for global equities are no more than a road map and that the journey could turn out to be either shorter or longer than currently estimated. Fortunately, I have not felt the need to change my script in recent years. Also, the Fullermoney approach is to observe and listen to the markets, not least in terms of trend consistency and confirmation. Eoin and I have no interest in telling markets what to do, since that is usually a self-destructive display of ego rather than analysis.

I regard [Malaysia](#) and [Thailand](#) as very interesting emerging markets, and both appear to be coming back into form. You will find investment vehicles in the Chart Library, under "Asia & Asia Pacific - Funds, ITs & ETFs". However I do not know what restraints, if any, apply to Australian domiciled investors and you may have local funds of merit that invest in Asia. We would happily add any of these to the Chart Library for the benefit of our many subscribers in the antipodes.

I would also point out that you live in one of the top-performing developed [markets](#), which remains in a long-term uptrend and is certainly benefiting from Asia's boom, not least your mining sector.

Email of the day (2) - On China and India:

"One step ahead with your arguments, as ever! Thank you."

My comment - Thanks for your kind words and a very useful link to BCA Research's [free area](#). Subscribers may wish to add this link to their 'Favourites' list.

Email of the day (3) - On meeting BP Singh of Atlantis India Fund:

"Thank you very much for sending contact details of Mr B.P. Singh (BP) who manages Atlantis India Fund. I had mentioned to you earlier that after having done very well with the Atlantis China Fund, which you had recommended, I had invested in the Atlantis India Fund. As I was going to be in India I was keen to meet with BP.

"I am pleased to report that I had a very good meeting with BP. BP was very gracious in spending a fair amount of time with me going through Atlantis India's investment approach. Although I am fairly familiar with the Indian

scenario I found the views expressed and approach adopted by BP for Atlantis very interesting and useful. According to BP the India story was a growth story, which had only begun. He explained that today only 200 - 300 million people out of a total of 1.1 billion people are partaking in the Indian growth story. However India's real growth will begin when the other 400-500 million people mainly in the rural areas start participating and become significant consumers. The approach adopted by Atlantis India was to find those companies that would partake in the future growth story and form a key part of the future stock index.

"We discussed various risk factors such as the political environment and BP's view was although there would be volatility in the index, over the long term the growth story would take the Indian stock market index to unprecedented levels.

"In conclusion I came out of the meeting feeling pleased that I had invested in the Atlantis India fund. Needless to say that since I have invested in the Atlantis India fund the fund's performance has been very good and I will be looking to add to my position during dips.

"Finally I also want to thank Fullermoney and you for bringing the Vietnam Fund to my attention, which has done very well, and also the Annual IFTA Conference, which I will be attending."

My comment - Thank you so much for reporting back following your meeting with BP Singh of Atlantis [India Fund](#).

I agree that he is impressive and I will certainly be investing in this fund, probably some time after I eventually lighten my substantial gold share investments, which currently occupy 6th and 7th position in my personal long-term portfolio.

I expect [India](#) to be volatile from time to time, as this is a high-performing emerging market and it is the nature of all markets to experience some sharp setbacks within long-term trends. Events occur and markets are emotional. However I cannot emphasize strongly enough for all subscribers that I am not seeking to time short-term fluctuations in my favourite stock market for the very long term, in which I have invested since 2Q 2003. Instead, I often use setbacks as an opportunity to increase long positions and note that you favour the same strategy.

Lastly, I am not sure which Vietnam Fund you purchased but while I certainly like this [market](#) for the long term, I have been concerned by reports from subscribers, regarding excessive charges when taking profits. This has cooled my enthusiasm for Vietnam investment vehicles and should you eventually decide to sell, you should probably do it on strength and also negotiate any exit fee.

Please let us have some feedback on the IFTA Conference, which former colleague Ron William, now at Bloomberg, help to organise.

My personal portfolio: Leveraged long trade opened in ANW; gold long trade increased - Thailand remains an interesting recovery candidate, assuming the electoral problems are satisfactorily resolved in coming months. The Aberdeen New Thai Investment Trust ([ANW LN](#)) is the third largest holding in my personal investment account and I opened two spread-bet longs because ANW is lagging behind the [SET](#) Index which reached a new high for the year today. Also, the discount to NAV has widened to over 6%, according to Bloomberg. I paid 191.72p and 192.73p for March spread-bet futures.

I also increased my [gold](#) futures longs by a third today, paying \$798.50 for a February position.

These prices include all spread-bet dealing costs.

Email of the day (4) - On yearend targets:

"I really enjoy your daily audio.

"Is it possible for you to give your expectation of various indices at certain times? For instance, what is your expectation of Dow at Dec 07?"

My comment - Thanks for the feedback.

We aim to provide succinct views on direction, potential and risk, as you know, for many markets. Targets such as the Dow at yearend or any other arbitrary deadline are pure guesswork and I don't even think about it.

Email of the day (5) - On rugby and a Miami-based French subscriber's methodology in using the Chart Library:

"I am still very happy to be a subscriber (except that you English won this @#\$\$## semi-final), and I would like to give something back today.

"All being very calm in this early Sunday morning in Miami I spent some time trying to assess the long term perspectives of various markets. As we say in French, this work "vaut ce qu'il vaut" and it is a modest attempt, but it is simple enough to be display here.

"I first looked at the monetary conditions of the markets by assessing the trends in long bonds, short bonds, corporate bonds (if any data) and banks indexes. I gave a grade to each trend, looking to the slope and the position of the 40 weeks moving average.

"The first finding is that despite some rate cuts, done or anticipated, the monetary conditions, seen through the bonds markets are telling, seem to worsen in the main markets, and this trend is not so recent.

"The worst market would be New Zealand, followed by Australia, Switzerland, Korea. Eurozone, US and Canada have also negative grades.

"The best markets would be Singapore (maximum grade) followed by Indonesia, and then with a gap Thailand.

"We may have a specific look at the relationship, in each country, between the trend in short bonds and long bonds. Increasing short yields associated with decreasing long rates is worrying; the reverse is a good sign. Here we found that the following countries are exhibiting the worrying pattern: UK, US, Japan, Eurozone, India. On the other hand, who has the good pattern of a long-run steepening curve? Thailand, Brazil, Turkey.

"To go further, we may want to cross the analysis of monetary conditions with the reality of market indexes. There, I took the relative strength of each market on the last 6 months.

"It is interesting to see that no market with a negative grade for monetary conditions show up in the first half of the RS ranking.

"Crossing the two views, we come up with three groups of interesting situations:

1) Countries with bad conditions on the bonds markets, but with high Relative Strength performance. These countries, in this long perspective focus, would be poised to peak soon and are not interesting for the long term: Korea, South Africa.

2) Countries with bad or not-so-good monetary cycle phase, and already having a less-than-average ranking in RS. These countries should be already beginning the peaking phase, not least than New Zealand, Australia, US, Switzerland, Eurozone, Poland. They could be candidates for shorting if they begin to show remarkable weaknesses.

3) Countries which are relatively performing and still have good bond markets. These stock markets could have a long run to go before peaking : Singapore, Indonesia, Thailand, (and then maybe Philippines and Pakistan but the data are not complete for these two). Indeed, Thailand, which in addition shows value, seems appealing.

"That's it. Thank you for reading and forgive my English.

"For all this I used the wonderful Chart Library. But is it possible to add a list with the historical P/E of each market?"

My comment - [Well, we need to be able to beat the French at something. After all, you have the best chef in England, in my opinion, and one of the most charming - \[Raymond Blanc\]\(#\) of Le manoir aux Quat' Saisons, in beautiful Oxfordshire, where Mrs Fuller and I enjoyed a pre-birthday lunch in her honour on Saturday.](#)

Thanks for sharing your approach to using the Chart Library. What I have long noted with interest in the investment game, is that experienced and successful people evolve their own methodology, as you have done, apparently favouring a rating system.

The Fullermoney approach is less formulaic, although we certainly look at plenty of charts. I would also describe it as top-down and very theme oriented. We are interested in where the liquidity is flowing. Also, we are always trying to develop our behavioural awareness because it is people who move markets.

Email of the day (6) - On my top-10 investment portfolio:

"Am I going senile because I can only find 9 of the 10 in your PP presentation?"

My comment - No, you are not going senile but I could be. How embarrassing! Number 8 is, of course, (see *Subscriber's Area*).

Thanks for pointing out the discrepancy.

Email of the day (7) - More on my personal top-10 investment portfolio:

"I am a new subscriber and enjoying your web site.

"I have read about you "top-10" and how to access it via your search facility but have yet to find a list of your top 10 investments. My search simply calls up each commentary where the phrase "top-10" is used. I can piece together some of your top holdings from your comments but would prefer to see the actual list. Is there a list, am I doing something wrong? Sorry to bother you and look forward to hearing from you."

My comment - Welcome to Fullermoney and thanks for the feedback.

There are now a number of references under 'top-10' which will be produced in date sequence by the Search facility. You can usually find what you are looking for by scanning the segments shown and these will become easier for you to assess as you become more familiar with the service through usage.

For the record, I last produced the entire list on 21st September, as you will see from this [link](#). Also, I thought I had reproduced my top-10 portfolio by weighting on the PowerPoint posted last week but I left one out as you may have noted from the email above. And given the interest in my personal long-term investment portfolio, I have reproduced it below and included weekly charts:

David Fuller's top-10 Personal Long-Term Investment Positions, by Weighting

1. JP Morgan Indian Investment Trust ([JII LN](#))

2. Atlantis China Fortune Fund ([ATCHFOR ID](#))
3. Aberdeen New Thai Investment Trust ([ANW LN](#))
4. Rio Tinto ([RIO LN](#))
5. BHP Billiton ([BLT LN](#))
6. Lihir Gold ([LGL AU](#))
7. Merrill Lynch Gold & General Fund ([MRCGLDI LN](#))
8. Merrill Lynch World Mining Trust ([MLW LN](#)) (up from 9 due to top up, following sale of Investec Global Energy)
9. Aberdeen New Dawn Investment Trust ([ABD LN](#))
10. Cameco ([CCO CN](#))

Please note: I emphasise once again that this is a personal portfolio and because it feels right for me does not mean that it is necessarily right for you. For instance, it ignores income as I am still working and trading, and focuses on long-term growth, favouring the big Fullermoney themes of the last five to six years, specifically resources and Asian emerging markets.

For the record, I am pleasantly surprised by the performance since the August reaction lows for most of these investments. It is the exception, rather than the norm, even if we have entered an extended bubble phase for leading markets, in line with projections in the excellent Citigroup [report](#): The Maturing Bull, posted on 16th October. Meanwhile, using the semi-log scales above, several of these positions are somewhat overextended relative to their 200-day MAs, but not excessively so.

Email of the day (8) - *On the strength of our preferred themes (my deletions, see [Subscriber's Area](#)):*

"Your calm and reasoned counsel has been invaluable over the recent turbulence, and I have been especially grateful for your and Eoin's, excellent long term Friday outlooks. Worth the subscription alone!

"One thing puzzles me though. Markets in your preferred themes were generally perceived overextended and nervous prior to the instability of the last few weeks, and now on the prospect of rate cut action suddenly seemed to have calmed - nay bounced back - and carried on as if nothing had happened.

"Sentiment by definition is unpredictable - however I am surprised at the extent to which the graphs in your preferred themes seem to have bounced back; putting concerns about the drying up liquidity markets behind us?.

"QUESTION1: Do you think we've come through an overdue consolidation in these markets? Or is this the calm before the storm?

"QUESTION2: I note you also topped up your investment in JII LN at circa 420p a week ago, 20p short of the all time high reached the previous week when you noted that the graph was overextended. In general when do you perceive a stock to be overextended and what motivated you to purchase in this instance, even though the graph still looks overextended today?"

My comment - Thank you for inspirational feedback.

Regarding our preferred themes, having pointed out that several were temporarily overextended and due for consolidations a few weeks ago, the brief reactions that took place improved the short-term technical picture, evidenced by renewed strength.

I too have more questions than answers, so I prefer to interpret. There is some evidence of bubbles developing, in line with my comments in email (7) above, but I am not too worried about that at the moment because I sense far more caution than euphoria among commentators. Clearly there is plenty of liquidity in the markets, more than offsetting losses from some of the bank write offs that we have also seen. Moreover, stock markets have entered a seasonally favourable period.

I expect more volatility although I do not see the present as "the calm before the storm", as you put it. However when markets are moving this quickly, from resources such as crude oil and gold to the US dollar, not to mention China and India, it is more important for me to remain alert than to pretend that I have all the answers.

Lastly, JII [fell](#) 14.3% from its 15th October high in five days. Suspecting this was an overreaction to the regulatory news, I topped my position up once again as I had a small amount of cash in my investment portfolio. I agree that the chart is still somewhat overextended in the short term, but probably healthier for the reaction. And note all that underlying trading, which I regard as support, established when India's [market](#) was predictably quieter during the first half of this year.

Please note - The missing article link for Friday's Email of the day (1) has been added.

Additional Commentary by Eoin Treacy

Email of the day (1) - [on the impact of a weakening Dollar on US tech companies:](#)

["On the Fullermoney theme: US Tech"](#)

["While I absolutely concur with the basic idea, I would like to draw your attention to production costs. Many US-based high-techs maintain production facilities in countries with rising currencies vs. the USD, i.e. Asia. With a sliding USD their costs will rise squeezing margins. This will probably be neutralised due to higher economies of scale. It thus seems that companies selling intellectual products or US-manufactured goods stand to benefit most."](#)

My comment - Thank you for this insightful email. You are correct that a declining Dollar is a boon for companies which consolidate their earnings in

Dollars. And yes this also puts pressure on manufacturing costs for companies with operations in countries whose currencies are appreciating against the Dollar. This situation creates opportunities for some and challenges for others. All technology companies are not equal and the successful ones dominate their niches. The most successful have products which are difficult to replicate and rely less on manufacturing margins to turn a profit. For this reason we are naturally drawn to those companies in the intellectual field such as Google.

Intel, which is admittedly also a leader in its field, is subject to much stiffer competition and production cost pressures than Google and the share's performance mirrors this difference. Google continues to set new highs while Intel remains in its base and needs to sustain a move above \$30 to reassert the dominance of the bulls

Of course, it could also be argued that currency risk would be eliminated entirely by investing in technology shares listed outside the USA. While this is correct it carries its own risks. The USA remains the centre for global technological innovation and is heavily overweight in global market leading technology companies. Europe has a much smaller number of globally important technology companies. and while Taiwan and Hong Kong have a reasonably large number of interesting shares, they do not compare with the size and relevance to the global economy of those on the Nasdaq. In addition most international technology companies take their lead from how the Nasdaq performs.

Email of the day (2) - on Taiwan and technology:

"I see that technology has become one of your themes.

"We're playing technology in an indirect way. We've bought the Taiwan Fund (TWN, NYSE quote) for clients. It's a US fund. This may put off certain investors.

1. About 2/3 of the fund is Tech related. Taiwanese companies lead in many sub sector areas (ask my Indian colleague Dr Nag Bharatula, who has a doctorate in IT, for details)
2. Tech has inherent problems as an asset class (which is why it's best to buy it when it's bombed out and never when it's trading at a peak). There are clear winners and yapping dogs. Product life cycles can be as short as butterflies' lives. It's not easy to predict the clear winners or the lives. Taiwan has a culture of winners in many tech sub-sectors and understands this aspect well.
3. Most of the other 1/3 of the fund trades cheaply (insurances <10x etc)
4. Taiwan's stock market has been under the gun for some years and there is big potential for attracting foreign flows
5. You can buy TWN at a discount of about 10% to NAV

6. TWN trades daily and liquidity is good

"I also like Douglas Polunin's new emerging markets technology fund (open ended) but there's a high minimum. Douglas is the only manager I have ever seen who has troubled to sub-divide tech sub-sectors within emerging markets.

"Finding good tech funds is not easy"

My comment - Taiwan's stock market ([p&f](#), [monthly](#), [weekly](#), [daily](#)) soared to unprecedented heights in the late '80s in a move which dwarfed the rise of the Nikkei in percentage terms. The market has had a number of false dawns since peaking in early 1990 and is currently approaching the roundophobic 10,000 where it stumbled in 1997 and 2000. However a downward dynamic would be needed for this to be anything other than a temporary area of resistance for the current move.

Political tensions have been behind much of Taiwan's underperformance and the future health of the stock market is probably largely dependent on a friendly resolution to tensions with mainland China. A presidential [election](#) is scheduled for March next year, the current president, Chen Shui-bian, can't run for a third term and the (pro-China) Kuomintang are leading in opinion polls. If their candidate Ma Ying-jeou wins, on his economic recovery platform, the stock market should start to attract greater inflows. If cross-strait relations improve, technology hungry China may be a major investor in Taiwanese companies. This move could also be influenced by their inability to buy controlling stakes in what will often be considered strategically important US companies.

If the election result goes in favour of the Kuomintang, we can probably expect the Taiwanese market to perform much more in line with its potential following its consolidation which has so far lasted 17 years.

The Taiwan fund, the iShares Taiwan ETF, the Taiwan Greater China fund and the Polunin Emerging Markets Technology fund can all be found in the Chart Library.

Email of the day (3) - on Australian Bank shares:

"The index in your Library to which you sometimes refer to in the commentary as the Aussie Banks is in fact the top 200 financial sector index (XFJ:ASX) which includes insurance, real estate and investment companies besides banks. The ASX200 Bank index is XBAJ which only includes banks which are dominated by the big four, viz. ANZ, CBA, NAB and WBC. Could you please include the XBAJ index in the Chart Library?"

My comment - Thank you for this informative email and I have added the [ASX200 Bank](#) Index to the Chart Library. Unfortunately because it is not one of the main ASX indices it only has [closing](#) data. Nevertheless this index shows us that the Australian banking sector is in ruddy health compared to

other Western markets. It broke above the May/June high in late September, consolidated that move and a sustained move below 54,000 would be needed to question scope for an upward break in the near term.

Xstrata Agrees to Buy Jubilee Mines for A\$3.1 Billion - [This article](#) by Madelene Pearson and Brett Foley for Bloomberg covers today's confirmed bid for Jubilee Mines. Here is a section:

Xstrata Plc, the world's fourth-largest nickel miner, agreed to buy Jubilee Mines NL for A\$3.1 billion (\$2.9 billion) to gain access to the metal in Australia.

Jubilee rose 3.6 percent above the A\$23-a-share offer price in Sydney trading, signaling investors expect rival bids for Australia's fifth-largest nickel company. The Perth-based company's board recommended the cash bid after studying several expressions of interest, the parties said in a joint statement.

“It's a pretty prized asset,” said Michael McCormick, who helps manage and advise on more than A\$200 million at Leyland Private Asset Management in Sydney, including Jubilee stock. “If anyone else has run the ruler over it, I am sure there could be a bit of competition.”

Xstrata Chief Executive Officer Mick Davis is pursuing Jubilee after he lost a bidding war for Canada's LionOre Mining International Ltd. to Russia's OAO GMK Norilsk Nickel. Davis spent \$22 billion on mining assets last year as nickel more than doubled, driven by demand for stainless steel in China.

Adding Jubilee would give Xstrata control of the Cosmos mine in Western Australia state and access to eight surrounding nickel deposits. Jubilee expects output of nickel-in-concentrate to rise to 30,000 metric tons in the year to June 30, 2012, from 12,000 metric tons in the current year. Xstrata produces more than 110,000 tons of refined nickel a year.

My view - The Jubilee Mines acquisition makes sense for Xstrata but makes sense for a number of other companies as well. It is far easier for one of the majors to buy an established company, such as Jubilee Mines, than to go out and explore for a reserve which may not be of the same quality. We can probably expect some form of competition to develop for this asset.

[Jubilee Mines](#) opened up [AU\\$7](#) this morning, the share had been consolidating beneath its early June high near AU\$18 but today's move to AU\$24 is attracting speculative interest and a move below AU\$20 would be needed to question scope for some further upside.

[Xstrata's](#) price has been largely unaffected by the acquisition because of its relative size. The share has a rivetingly consistent progression of rising major reaction lows and would need to break those to question the integrity of its overall uptrend.

Email of the day (4) - [on an addition to the Chart Library](#):

"Is it possible to add AUW, TAL and MLB (on the ASX) to the Chart Library?"

My comment - [These companies can now be found in the Chart Library](#).

Email of the day (5) - [on adding a Steel ETF](#):

"The section and relative features that have been added to the Chart Library are invaluable.

"Can you add the steel ETF SLX to the Library? Also I am unable to access the article "Risk is often lowest when it is the most visible" posted on Monday, October 22."

My comment - [Thank you for kind email and I am delighted to hear you are enjoying the Chart Library's new features](#).

I added the [Market Vectors Steel Fund](#) listed in the USA this afternoon. It fell 28.41% during the July/August correction but rebounded quickly from the mid-August lows and moved to a new high by mid-September. It then proceeded rapidly to a high near 85 where it consolidated its impressive gain. The Fund broke upwards once more on Friday and would need to sustain a move back into the congestion area to question scope for further near-term upside.

I'm afraid the Globe and Mail have moved the article you refer to into their subscription area and I don't have access to it. However if anyone would like to send me the article I would be happy to post a PDF of it in Comment of the Day on October 22nd.

Email of the day (6) - [on additions to the Chart Library](#):

"Can you please add these two Canadian mutual funds to the Chart Library:

"Fidelity China A
AGF China Focus Class

"Thank you"

My comment - [I have added both of these funds to the Chart Library because they have both performed impressively over the last year. However the only Fidelity China Fund I could find is listed in Luxembourg. If there is one listed in Canada please send me the details and I would be happy to add it.](#)

ETF Securities launches Exchange Traded Commodities (ETCs) for multicurrency trading on London Stock Exchange (LSE) - [Thanks to ETF Securities for this welcome news release](#) which announces that UK investors

will be able to deal in ETCs in their own currency. Here is a section:

"The launch of this multicurrency trading service means that investors will be able to trade Exchange Traded Commodities in sterling for the first time as well as in US dollars. This will particularly benefit UK investors by allowing them to trade in their home currency, removing the requirement to operate a foreign exchange account. I am certain that this latest innovation will contribute to the growth of our Exchange Traded Commodities segment which performed strongly during its first year, recording nearly £4.5 billion worth of trading".

My comment - This is a welcome development and something I'm sure will be of interest to UK based subscribers.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of October 21st new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Canada, Germany, Hong Kong, India, Ireland, Netherlands, Singapore, Switzerland, Taiwan, the UAE, the UK and the USA - 13 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 Australia. Welcome all to the Fullermoney Global Strategy Service.

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

Tuesday 30th October 2007

Tim Price: A faint dread.. - My thanks to Tim Price for his latest superb [commentary](#), published by PFP Wealth Management. Here is the introduction:

"I've had all the fun I can stand in investment banking"
- Ken Lewis, (current) chief executive, Bank of America.

"Things are going to get a lot worse before they get worse."
- Lily Tomlin, another high profile comedian.

By any measure it was an appalling figure, worse even than Jade Goody's. When Merrill Lynch on Wednesday announced a \$7.9 billion writedown on mortgage-backed securities, it signalled no quick fixes to the carcinogenic impact on the body financial of a credit orgy run amok. That the writedown was \$3.5 billion more than Merrill had foreseen less than three weeks ago points to a systemic failure of risk management and pricing transparency on Wall Street - a trend that the mooted MLEC superfund seems destined to perpetuate, at least to those who can understand it. Merrill's losses also point

to the essential fallacy of full service investment banking: in their case, whatever revenues the retail brokerage brought in, top-of-the-market acquisitions, proprietary trading and "underwriting" managed to dissipate, and then some. While some argued that by "kitchen-sinking" bad quarterly figures, Wall Street could draw a discrete veil over the subprime fiasco and lay the ground for a meaningful recovery, it seems increasingly obvious that Wall Street itself didn't have a clue about the figures, and was going to use vehicles like the superfund to continue to fudge the fact that it simply didn't like and couldn't accept the market's prices (as opposed to its own "marks") for its rotten debts. The FT's Lex put it well: banks "remain worried about unexploded ordinance somewhere in the system".

It will be cold comfort to Merrill shareholders (and employees) that it is not suffering in a vacuum: Bank of America simultaneously announced 3,000 job cuts, primarily from investment banking. But as far as Wall Street is concerned, they are unlikely to be the last. In the face of a deteriorating property, subprime and interbank lending market, investment banking shares during the summer seemed to be floating on a tide of unreality. Indeed, many stocks have rallied off their August lows. But to see anything remotely akin to a "resumption of normality" in financial market conditions is to be blind to the sight of skies darkening with a burgeoning mass of chickens coming home to roost. The days of easy credit are over. By extension, boomtime for private equity lending, new issue underwriting, credit origination and general credence in financial innovation is over, too. Not only is there no shortage of evidence of US economic slowdown, there is no shortage of commentary highlighting it. When Dow component Caterpillar, evidently a major beneficiary of global spending on infrastructure (total return on the shares: + 366% over the past five years), reported its recent quarterly earnings, there was evidence of foreign sales growth but precious little at home:

My view - This introduction gives readers an idea of Tim Price's incisive analysis and he is a master of the art of black humour.

No apologist for the excesses of Western financial industries, he also touches on a favourite Fullermoney theme - relative risk. Mention risk to investment advisors in the West and they will usually cite emerging markets. Well...if risk today is high GDP growth, double-figure increases in corporate profits, large current account surpluses and strong currencies - with risks like that who needs opportunities.

Email of the day (1) - On investment currencies, spotting bear markets and bond / equity correlations:

"Excellent service and am glad to say I have truly benefiting from my investment in Fullermoney. Not just financially but also from educational standpoint. I have some questions for you that I hope you may be able to assist with:

"Having invested in Fullermoney themes via equities over the past year I am very content, however, I am also building up cash but unfortunately in USD...I

would therefore like to diversify some of this USD currency into others...looking at the same FM theme I may move some into resource country currencies or maybe some other ones...could you possibly do a review of world currencies such as Canadian, Australian, NZ, euro etc with longer term perspective and low risk hedge against falling dollar and maybe GBP?

"The other question I have is regarding spotting a bear market and when to get out with profits...You mentioned once being able to accept a 40% draw down on some of the FM themes that could be considered as a correction...I doubt that I have the discipline to handle that type of correction...When a correction of that size happens how do you know that its not actually a bear market taking place?

"And finally, could you explain in some more detail the role bond prices play in your analysis of world equity markets and what is the correlation between bond spreads and equity prices? How are the useful bond spreads calculated?

My comment - Thanks for your feedback on the Fullermoney service and congratulations on your equity performance.

Regarding currencies, Eoin and I review these all the time in Comment of the Day and the Audios, particularly in Friday's big picture outlook. If you Search under 'currencies' in the Archives, you will produce hundreds of entries by date. A quick glance at the accompanying sentence or two will tell you if you wish to review that item. And since your interest is presumably over the longer term, note also my feature reviews on [4th July](#) - "*Currencies: Are we approaching the end of stability?*", and [5th July](#) - "*Implications if currencies are approaching the end of a period of relative stability*". In particular, look at the monthly charts in the 4th July feature, and of course you can see latest developments in the Chart Library. Pre-subscriber's note: these items will be four months old next week and therefore available in the free area of this site.

From an investment perspective, please do look at the very long-term currency charts, up to 50 years if you use the "Charting" feature in the dark bar immediately above the name of each chart viewed. Briefly, we like Asian currencies the most, yen currently excepted, followed by resources currencies.

If I could have only one currency for the next ten to fifty years, it would be the Chinese renminbi (CNY), which unfortunately is not easily acquired as it is not freely traded. I'm not yet aware of renminbi vehicles (feedback from the Collective would be appreciated if I am out of date on this point) although I participate indirectly though my holding in the US dollar-denominated Atlantis China Fortune Fund, which invests in Chinese shares.

For perspective, look at this long-term chart of the [USD/CNY](#), showing data back to 1981. You can see the USD appreciating until early 1994, when China's presumably last ever devaluation (in my lifetime and probably yours as well) occurred. The upward gaps are all devaluations, and the horizontal

lines reflect a peg to the USD. Here is the same time period shown on a [line chart](#). Increasing the magnification you can monitor the renminbi's progress on these charts ([monthly](#), [weekly](#) & [daily](#)), as a managed appreciation occurs against the USD, shown as renminbi per 1 US dollar.

As for sterling, veteran subscribers may recall that it has suited me to hold a fairly significant cash position for several years. For convenience rather than maximum return, I have kept this in a sterling Treasury rollover account and benefited from the UK's rising interest rates. I will have to rethink this strategy over the next few months, even though I am currently less bearish than Max King below.

Regarding the email question concerning my personal long-term investment portfolio, I have emphasised many times that I would continue to ride out reactions and even medium-term corrections, but hope to cash up before the next big bear market crunch becomes obvious.

How will we know? I take nothing for granted but am hopeful that there will not be a major bear market without plenty of prior warning signs. In other words, the clues should become apparent in the latter stages of the bull trend. Meanwhile, my target guesstimate for a bear has been unchanged for several years - 2009-2010, at the earliest.

Lastly, regarding the question on bonds, they play an important role in my equity analysis. The eventual danger signs will be the next spike in long-dated government bond yields. I'll be watching for that, while also monitoring the performance of stock market indices, rather than focussing on spreads mentioned in the email above.

Goldman Sachs JBWere: BHP Billiton - Scope For A Rerating? - My thanks to a subscriber for this interesting and informative [update](#) by Neil Goodwill and Marc Gugliotti. Here is a brief section:

A global stock but cheap by global standards:
BHP is one of the world's largest stocks by market capitalisation (12th largest) and seems ideally positioned to benefit from a rotation of funds from mature economies to stocks exposed to China and the emerging economies.

In this context BHP looks relatively cheap on consensus estimates with a PE of 17.1x on reported earnings and consensus estimated forward PE of 14.0x (Bloomberg) - note that these estimates vary from our own which may be a function of currency translation and the use of average PE from the London and Australasian market estimates. These PEs compare to the average for the world's top 20 companies of 19.8x and 18.3x.

Using consensus Bloomberg numbers BHP is estimated to have 21.9% EPS growth in 2009 (this is well ahead of our estimate) which compares to an average EPS growth rate of 9.4% for the world's top 20 companies.

While strategists and investors fret that the recent PE expansion is becoming a bubble, this analysis, while very simplistic, could suggest that BHP is not only relatively cheap but is also relatively attractive in its strategic position compared to its global peers (peers in terms of large companies).

My view - I have long maintained that [BHP Billiton](#) and other top miners would move from chronic undervaluation to moderate valuation (where we are today), on the way to premium valuation. The market is increasingly aware of BHP's industrial resources and the global demand for them. What it has yet to price in is that relative to so many other top companies in numerous industries, BHP is all but irreplaceable.

BHP is the fifth largest weighting in my personal long-term investment portfolio.

Email of the day (2) - On oscillator indicators (from a trialist):

"I found this to be quite an interesting indicator in identifying the trend of the market (below zero being negative). Have you ever used this as part of your research? A second question - I am noticing that the stocks doing well are getting quite narrow (i.e. less stocks going up) - have you seen this in the past markets and can this continue."

My comment - Welcome to Fullermoney and thanks for the sample service provided, which I do not have permission to reproduce.

Briefly, most oscillators that I have seen and used in past are short-term moving totals of price or volume changes, for the purposes of identifying temporarily overbought / oversold conditions. They are OK but as one becomes more accustomed to working with price charts, one's eye will provide the same reading.

The personal choice in terms of tradeoffs is how many different indicators one looks at for a specific market, versus surveying a larger list of markets of interest. At Fullermoney, as global strategists we prefer to look at more different markets for perspective. As you would suspect with oscillators, oversold readings will work best in an overall upward trend and vice versa.

On breadth, yes, we have noticed a narrowing of leadership and a concentration in big-cap for most markets. It reflects a degree of caution, hardly surprising given the credit problems in some markets, and breadth will need to improve if we are to see meaningful gains from current levels.

Max King: From Boom to Bust - My thanks to a subscriber for this informative and sobering [report](#) by the Global Investment Strategist at Investec Asset Management. Here is a brief section on the UK government's economic policy:

The UK government has made the classic mistake of assuming that a cyclical improvement, enhanced by benign global conditions, was a secular change. Its tax, borrow and spend policies compounded the boom and undermined productivity growth without delivering commensurate value for money. Now, it may well have to apply fiscal restraint in a downturn, risking public sector fury by reducing jobs and restraining pay and conditions of employments.

Any student of UK economic history will be only too aware of what is likely to follow. A sharp slowdown and a worsening fiscal position will reduce domestic inflationary pressures, but global influences, for example on the price of commodities and manufactured imports, will remain. Inflation was well-behaved in the up-cycle, but may prove stubborn in the down-cycle. Still, the demand and supply of credit will eventually come back into balance, and market interest rates will fall, enabling the MPC to guide interest rates lower. At that point, and with the current account still in huge deficit, that familiar event, the Sterling crisis, will become inevitable, with the pound losing 20% - 25% of its value, probably in a short space of time.

If, by then, the UK has been through two or three years of austerity in both the public and consumer sectors, this might, as in 1992, mark the end of the down-cycle and the start of a new uptrend (not that the public saw it as such in 1992). However, the public have a low appetite for austerity and a huge capacity for self delusion; any government that followed such a path would be committing suicide. It is more likely that the government would go on spending, insisting that nothing was wrong and blaming anyone but itself or the electorate. If so, Sterling devaluation would be more similar to the 1960s and 1970s in providing a temporary breathing space that was soon squandered as inflation rose, productivity fell and the economy stagnated.

My view - I commend this report to all subscribers, particularly those in the UK. I suspect that Max King's views are a 'worst case' scenario but investors need to be aware of these risks. For certain, the UK government has painted itself into a tight corner and global conditions over the next few years are unlikely to be so benign, not least in terms of GDP growth in the West. The Prime Minister's reputation for financial probity faces a reality check.

What about the UK stock market?

The bad news is that risks for the UK economy over the next few years are rising sharply. The domestic portion of the economy is particularly vulnerable. The good news is that 60% of UK corporate earnings are derived from overseas, but investors will have to be selective within this sector, avoiding companies overly dependent on the USA and to a lesser extent Continental Europe. However UK-listed companies that derived a significant proportion of their revenue from Asia should continue to outperform.

Email of the day (3) - [On a possible war with Iran:](#)

"Being a relatively new subscriber I wish to thank you and Eoin for your sterling efforts with both the audio and comment of the day. I find them both

interesting and profitable as I recently bought BHP Billiton and Rio Tinto during the August correction and have been delighted with their performance since then. I am also coming to your last Chart Seminar in a couple of weeks and am very much looking forward to meeting you there.

"There is one thorny question which I feel may be being overlooked by many investors and which is weighing on my mind quite heavily at the moment and that is what is going to happen between the USA and Iran. I am of the opinion that an attack on Iran by the US (or possibly Israel which forces the hand of the US) could have extremely serious repercussions for the world economy as I fear that Iran will retaliate by attacking oil and gas interests in the Gulf. Shortages of both oil and gas would cause their prices to rocket (no pun intended) and potentially strangle economic growth throughout the world.

"I spend a considerable amount of time in Israel and there seems to be a general feeling that the country will not tolerate a nuclear armed Iran. There is also a feeling that if war does break out between Israel/US and Iran it will have far wider repercussions than the attack on Iraq as Iran is far better equipped militarily and, through Hezbollah and other organisations, has many more avenues through which it can attack Westerners and their interests. Frankly, I would fear for the health of the world's markets if there is an attack on Iran, which I also feel is looking more likely with each passing week.

"Being such an important matter I was wondering whether you had any thoughts on this as I am wary of investing outside of the energy sector whilst this stand off remains unresolved."

My comment - Welcome to Fullermoney and thank you for the feedback. Also, many congratulations on buying so astutely during the climactic selling in August. I look forward to meeting you at TCS.

I am interested to hear your views on a possible military strike against Iran's nuclear facilities. My gut hunch tells me that it won't happen, but I don't trust it because we are talking about politicians, rather than a market crowd. While it feels surreal to talk about such a potentially serious situation in terms of markets, they would discount a slow and public build up, or respond in knee-jerk fashion to a surprise surgical strike.

However a crucial point to remember about a crisis - any crisis, is that once known, markets adjust so quickly that the situation has to be seen to be deteriorating for those trends to continue. If the worst case outcome does not look likely, they usually bounce back very quickly.

Email of the day (4) - On my top-10 personal long-term investments:

"Re Top 10 - Thanks so much for your full reply in today's commentary to my query regarding your top 10. I am relieved I was not doing anything wrong in not finding the list, other than being too lazy to read all the entries that came up in the search. I of course note your comments that these investments are

personal to you and will not entirely suit others. Keep up the good work, I particularly enjoy your audios each day."

My comment - You are welcome and thanks for the additional feedback.

I also post this to encourage use of the Search facility, particularly subscribers who are less familiar with Fullermoney's investment themes. Pre-subscribers can also Search the Fullermoney Archives, only you will not have access to the last four months' information in Comment of the Day and the Audios.

Additional Commentary by Eoin Treacy

Email of the day (1) - on the rationale behind the technology rally:

"I'd appreciate if you could expand on your relatively recent interest in the tech sector. The price action certainly looks interesting (Microsoft's recent break out especially so). I've used the search function to scan your comments but can't locate a full rationale, only passing comments. Apologies if these were contained in the audio but I rarely find the time to listen to these. My loss, I'm sure."

My comment - You are correct that we have not laid out in one place the rationale behind the recent move to outperformance by the technology sector so let me attempt that here:

We were drawn to the sector by three compelling technical factors. The first began in 2006 when we started looking at big base formations. This was when we originally began to notice the potential of companies such as Cisco. (See Comment of the Day on [August 25th 2006](#)). In the last few months we have seen a large number of technology companies breaking upwards from quite long-term bases. This trading action was enough to attract our attention. Secondly, the relative performance of the Nasdaq over the S&P has been noteworthy and points to a shift in investor sentiment towards technology. (See Comment of the Day on [October 15th](#)) Third, is the fact that not only have many of these shares broken upwards from their bases but they are forming consistent staircase uptrends. The latest review of Nasdaq stocks was on [October 12th](#)

Another important factor is the bearish sentiment which has been associated with the sector for much of the last seven years. Following the bursting of the TMT bubble in 2000 no one believed that technology stocks would attract investor attention for a long time. This was an unloved sector and expectations were low which set the stage for today's rally. (See David's lead item in Comment of the Day on [October 26th](#).)

There are also a number of macro reasons behind this move. Technology generally does well in an environment where US interest rates are falling. That is certainly the case today. (See Comment of the Day on [September 17th](#) for more on this.) Fundamentally we are still in a period of global economic

expansion which is a boon to international trade. This is an environment where global companies such as many of the featured technology firms can prosper. Dollar weakness has also been a positive factor for many of these US companies because they consolidate their international earning in a depreciating currency. (See Comment of the day on [October 18th](#)) I have also heard at least anecdotal reports, that many firms are once again investing in their technological infrastructure, which is helping to drive earnings in these companies. Sovereign Wealth Funds (SWFs) are also likely to become active in attempting to acquire technology firms which will help to support prices. (Also see Comment of the Day on [October 15th](#)).

There are of course risks to the technology sector, it is extremely difficult to pick the winners in what is a rapidly changing field, there is a constant risk of being outdone by a competitor and obsolescence can occur in a very short time. (see Comment of the day on [January 22nd](#) and October 26th above.)

Please note: you will the keywords I used to fund all of the pieces mentioned above highlighted within the text once you click on the links.

Eoin's personal portfolio: investment account positions opened - When in Shanghai in September, Mrs. Treacy, who is a Chinese citizen, opened a share trading account with one of the larger brokerages. Interestingly once the account is set up it is possible to hold any or all of three different currencies; Chinese Renminbi, Hong Kong Dollars and US Dollars. This is because A-Shares in Shanghai are denominated in Renminbi, but Shanghai B-Shares are traded in US Dollars and Shenzhen B-Shares are traded in Hong Kong Dollars.

We did nothing with the account until October 24th, when Mrs. Treacy opened four investment positions. I had done a large amount of filtering and primarily examined Shanghai A-Shares in the CSI 300 index. A large number of these shares have already gone parabolic and while they potentially have further to go I was more interested in attempting to find shares which have not yet risen to the stars.

A large number of companies are listing in on the mainland, following successful IPOs in Hong Kong a number of years ago. The main banks have only been trading in Shanghai for a couple of months and we invested a third of our capital in an equal weighting of three banks which all share a similar pattern. These are [Bank of Communications](#), [Bank of China](#) and [ICBC](#). The positions were purchased at 15.98, 6.69 and 7.95 respectively. I was very keen to have at least one Chinese miner and we eventually settled on [Yunnan Chihong Zinc & Germanium](#), because it has a consistent uptrend and had just broken upwards from lateral resistance at 100. We invested another third of our capital in this share at 109.03.

We held back another third as a reserve to invest in the event of a correction.

Email of the day (2) - on Australian listed funds:

"A response to the subscriber email asking about how to invest in emerging market funds from Australia. Funds and ETFs listed in the UK or USA can normally be purchased through any major broker in Australia. The good news for Australian investors is that Barclays iShares ETFs have recently started trading on the ASX. Initially only 8 funds (including an emerging market fund) but apparently they plan to expand to 32 funds within 12 months."

My comment - Thank you for thoughtful email which I'm sure will be welcomed by Australian based subscribers. I have added the 8 iShares funds to the Chart Library. An easy way to find all of the Australian listed funds in the Library is to use '(AU)' as your search parameter. This will give you 24 results. The same applies for '(US)', '(UK)' and or any of the other country codes which follow the name of any fund in the Library. A full list of the country codes used can be found in the Forum. Here is a [link](#).

Email of the day (3) - [more on Australian listed funds](#):

"With reference to your comments today on Australian based funds specialising in Asia there are at least two high performers already listed in the chart library, viz.

"Platinum Asia Fund up 36% since end Sep 06 Challenger China Share Fund up near 100% since end Sep 06

"These are accessible via any of the Wrap accounts and may be available for direct investment with the fund manager. I'm pleased to say I am in Platinum which is highly regarded here in the land of Oz. Having looked at Challenger I'm now waiting for a dip."

My comment - [Thank you for this thoughtful contribution](#).

Email of the day (4) - [on a US listed Emerging Markets Technology fund](#):

"On the subject of non-U.S. high tech stocks, U.S. investors should take a look at the Matthews Asia Technology Fund, MATFX. It combines the virtues of Asia and tech...A wonderful combination. Here's a [chart](#) from Yahoo, with the Nasdaq included for comparison:

"Keep up the great work!"

My comment - [Thanks for your encouragement](#). I have added this interesting fund to the Chart Library. The annual fee according to Matthews Funds [website](#) is 1.39% net. The [fund](#) bottomed out between mid-2001 and early-2003 before embarking on an impressively consistent uptrend; with an unbroken progression of rising major reaction lows. While the Fund has gathered pace over the last couple of months a downward dynamic would be needed to question scope for further upside in the near term.

Email of the day (5) - on additions to the Chart Library:

"Please add NSU (Nevsun) Toronto symbol. You currently have NSU from Amex in your Library."

My comment - This has been added to the Canada section of the International Equity Library.

I can also confirm that of the members of the S&P/TSX Energy Index (mentioned in my Email of the day (1) in Comment of the Day on [October 26th](#)), only 4 were not in the Chart Library but I added the errant few this morning.

Email of the day (6) - on a US infrastructure play:

"The one small bit of US exposure I have is the US listed ETF Power shares dynamic building and construction portfolio. It's not perfect but there does seem to be some infrastructure play there. Perhaps the Fullermoney Brain Trust can come up with other options in the US and UK."

My comment - I have added this interesting fund to the Chart Library and I will be happy to add any other fund which offers better exposure to the US infrastructure theme.

Email of the day (7) - on how to find instruments in the Chart Library:

"I have a small query regarding the MLWMT chart contained in the Chart Library. The only chart I can find for this is in the section Commodity Indices - Funds IT's & ETF's is the MLWMADS chart but this is a different to the MLWLN chart you featured on 29.10.07 in your Top Ten Investment Portfolio. My question is where can I find the MLWLN chart in the Library and if its not there pleas can you add it."

My comment - Finding instruments using the Chart Library's search can be a little idiosyncratic to start of with. The one piece of advice I would recommend is to remember that less is more when searching for anything. In the example you cite above, if you simply type 'MLW' into the Chart Library's search engine you will come up with four different listings. The first will be GMI AU; this is the Australian listed Global Mining Investments IT. The second will be MLWMADS LX; this is the Luxembourg listed IT. The third is MLW LN, which is the Chart we normally use when illustrating the Merrill Lynch World Mining Investment Trust. It is listed in the UK. The 'LN' stands for London in Bloomberg. The fourth is MLWT; this is a warrant on the London listing of the trust.

If you were to type 'Merrill' into the Search, you would get 10 results and it is relatively easy to select the correct one from their.

Today's interesting charts - The Charting function allows you to create charts of any instrument relative to any other.

Spain - maintaining the [break](#) to new high ground despite the apocalyptic sentiment which surrounded the market in late July. It would need to sustain a move below 15200 to question scope for further upside.

Amex Goldbugs - remains in a [consistent](#) uptrend from the mid-August lows and would need to sustain a move below 400 to question scope for further upside in the near term.

Arabica coffee - finds [support](#) near £120 which was an area of resistance in the past. It needs to hold above this level to offset scope for a further correction.

Wednesday 31st October 2007

Ian Henderson: Boom that could last 100 years - This is an interesting and informative [interview](#) with veteran resources investment manager Ian Henderson of JP Morgan, conducted by Kathryn Cooper for The Sunday Times. Here is the opening:

ONLY a handful of managers have succeeded in gaining entry to the 200% club, and over the next few weeks we will be talking to them to glean the secrets of their success and their views on the market.

To join the elite group, managers must have delivered returns of more than 200% over the past five years according to data firm Citywire. Where they run more than one fund, their average must be more than 200%.

First up is Ian Henderson of JP Morgan Asset Management, with an average of 261%. His £1.4 billion Natural Resources fund is up an astonishing 500% over the past five years, according to Citywire, and is the best performer out of about 2,000 funds over that period. His Global Financials fund has also more than doubled investors' money.

Henderson is a City blue-blood. His great-grandfather, Lord Farrington, founded Henderson Administration, later Henderson Global Investors; the family also set up stockbroker Cazenove.

"It's like coming from an acting family; it's natural to follow the line. I was investing from a very early age," he said.

He firmly believes that the world is only at the start of a "super cycle" that could see commodity prices trend upwards for, he says, "100 years, maybe even 150".

Unsurprising for the manager of a commodities fund, perhaps - except that he has been investing in the sector since starting in the City in the 1970s, and he took over the reins of the JPM Natural Resources fund, which has been

running since 1965, in 1992, when commodities were deeply unfashionable. We talk to him about the outlook for the sector:

My comment - [I commend this article to all subscribers.](#)

Email of the day (1) - [On means of diversifying out of the US dollar:](#)

"I noticed in today's Fullermoney that one of your subscribers was looking to diversify away from US dollar holdings into other currencies.

"One of the difficulties for a "global" investor is the need to hold US dollars simply as the currency of convenience with which to purchase ADR's, commodities, indices and the like (although I note that ETFS have recently started to offer UK investors several commodities in Sterling).

"Personally, rather than suffering the Foreign Exchange charges needed by going into and out of different currencies, I have found being able to park US dollars into Yen and Swiss Dollar ETF's quite useful (tickers are FXY and FXF, I believe). There is also a Euro ETF (probably FXE, I would guess!). There are also dollar-based Gold ETF's such as GLD, which are obviously pretty well known.

"However, forex trading is notoriously difficult, so a very clear view of what you are trying to achieve is obviously very necessary. As a way of diversifying away from excessive dollar exposure when these dollars are not invested in assets such as foreign equities, this approach can be useful. But as a straightforward speculation "caveat emptor" would appear to be the most apposite phrase!

"I am sure many of your worldly-wise readers will already be aware of this (or else are lucky or clever enough to have set up multi-currency accounts) but I have found the above to be a useful stop-gap, especially at times when the thought of excessive dollar cash exposure has been the cause of some agitation on my part!

"Keep up the excellent work - you have certainly been mining a rich vein of content recently, and appear to have been working overtime in the process. Always much appreciated."

My comment - [Thanks you so much for this informative, detailed and thoughtful email, and also for your kind concluding words. You are quite right to point out the hazards of currency trading to less experienced investors. The vehicles you mentioned are in the Chart Library so any subscriber can access them. However I have some reservations.](#)

[The yen had been even weaker than the dollar, until recently, because with no yield it has been the main carry trade currency. The Swiss franc is firmer but also low-yielding and therefore similarly favoured for carry trades. The euro is firmer still, but the French are leading a protest against its appreciation. I](#)

assume that resources currencies will appreciate further but my favourites for the long term are Asian currencies, as often mentioned, yen excepted.

Unfortunately, vehicles for trading these, other than futures, are few and far between. However as mentioned again yesterday, by investing in these markets one is benefiting from the currency as well.

I like your inclusion of bullion funds because gold is currently appreciating against all fiat currencies, even the [renminbi](#), which remains my preferred paper currency for the very long term, even though bullion has no easily realised yield.

Email of the day (2) - On foreign renminbi exposure:

"As part of the Collective, I thought you should know for CNY exposure...

"CME has [futures](#).

"While no Chinese renminbi (CNY) exposure at EverBank, they offer a very interesting way for retail investor to gain FX exposure to several hard to access markets."

My comment - Many thanks for pointing this out. The CME does indeed have a renminbi futures contract but there is very little volume and worse still, a large contango. Consequently anyone positioned long to take advantage of the renminbi's incremental increases against the US dollar would have a very hard time making any money. They would also miss out on the favourable interest rates differentials, which one would normally expect to see in this contract. I certainly will not be trading the CME renminbi contract.

The EverBank [site](#) is interesting and does offer participation in a number of currencies. I just hope that their charges are reasonable and therefore nothing like rates usually charged by banks.

My personal portfolio: Leveraged long reopened in one of my top-10 long-term investments, MLW; silver futures long increased - It looks to me as if the Merrill Lynch World Mining Investment Trust ([MLW LN](#)) is consolidating prior to another upward break, yet the discount to net asset value is nearly 11%, according to Bloomberg. I paid 697.8p for a March position. This evening, I used an intraday pullback to purchase more [silver](#), paying \$14.56 for another March position, increasing my holding by 16.6%. Seeing the luck of a bounce shortly after the Fed rate cut, I raised my stop on this new position to breakeven. These prices include spread-bet dealing costs.

Email of the day (3) - On two of my recent trades:

"I missed getting into the Nasdaq March at 2224 or close to it - now approx 2250 so probably out of 'buy zone', do you agree?"

"Regarding your recent trade on ANW - two spread-bet longs, do you mind me asking what spread you bought & with which brokerage?. I am registered with IG Index who have just now 192.13 to 199.66. Just seems like a wide spread but maybe that's the best to be had (City Index don't appear to carry ANW, although conversely IG Index don't have metal futures into '08!)"

My comment - The [Nasdaq](#) 100 Index has pushed up out of its recent range. Trading very conservatively, I raised my stop to a breakeven level today and thought I would increase the overall position. I have delayed this decision, despite the favourable pattern, just in case there is some 'buy-the-rumour-sell-the-news' volatility following the Fed's rate decision this evening - so far, so good.

I don't remember the spread when I purchased ANW futures online but it would have been very similar. I did this with IG Index and bought a March position because I did not want to face a rollover charge in December. Also, I did not opt for June, which has a larger spread, because I will probably be deleveraging after March in line with seasonal patterns.

Email of the day (4) - [On dealing in one of my top-10 holdings - ANW LN:](#)

"Not long ago I went to invest in Aberdeen New Thai Fund purchasing 75,000 units. The broker said: "Sir, you know that is more than the total turnover for the last two weeks." That is a very small float and one could get caught in there in the event of a falling market."

My comment - [ANW LN](#) is actually an investment trust (closed-end fund). Capitalisation understandably decreased during Thailand's political problems and is currently small, at about £35m and volume is often low, so your broker was right to point that out. And if I calculated correctly, your order for 75,000 shares would have been worth approximately £13.5m at last week's prices - impossible to purchase without moving the market significantly. However volume has picked up once again, at over 97,000 shares yesterday and 79,000 on Monday. I have always built positions incrementally in this IT and will eventually exit on the same basis.

Email of the day (5) - [On Aberdeen's Asian Funds:](#)

"Aberdeen's Asian Funds - like you I hold some of my exposure to East Asia through Aberdeen funds (in my case Aberdeen Asian Smaller (AAS) ANW and Edinburgh Dragon(EFM)). Thank goodness I have exposure to the region through other managers, as Aberdeen's record over the last 12 months has been awful.

"According to TrustNet the 12 month returns are:

AAS +8.7
ABD +18.0
EFM +27.2

Sector Ave +46.1

ANW +15.7

SET - £ +24.9

"I have always had the highest regard for Hugh Young's ability having owned some of his funds for some years, and maybe this is a short-term (but relatively costly) performance glitch.

"I wonder if you or any of the great Fullermoney collective has been in contact with Aberdeen recently or know what's gone wrong. Like you I remain very bullish over the long term for this region, but it's a touch disappointing to be somewhat left behind in this great bull market."

My comment - Thanks for doing your homework, and sharing the results. I knew that Aberdeen's overall performance had lagged recently - one could see it in the charts, but I suspected some of this was due to small premiums to NAV earlier in the year turning into substantial (10%+) discounts as market sentiment began to deteriorate from May onwards.

Do you know if the stats you quote are comparing like with like? For instance, are we comparing Aberdeen's investment trusts with unit trusts? If so, and if we are right on market direction, then discounts to NAV would narrow considerably and probably turn into premiums as investor confidence rose.

I too have a high regard for Hugh Young, by reputation as I do not recall meeting him. However even the best investment managers can stumble from time to time, and do. I will not add to his pressures by contacting him regarding the recent performance but neither you nor other members of the Collective who share the same interests need feel similarly constrained.

Additional Commentary by Eoin Treacy

Forbes.com: Dry Shipping On The Rocks? - Thanks to a subscriber for this [article](#) by Ruthie Ackerman which carries some interesting commentary on the dry bulk shipping sector. Here is a section:

The dry bulk shipping industry was washed ashore on Tuesday as freight rates on the largest vessels dropped for the first time in months and squeamish investors pulled out.

Freight rates on cape size ships, which are the largest vessels, dropped unexpectedly on Tuesday, which some analysts say may be a sign that Chinese steel production has leveled off, causing shipping prices to decrease as less vessels are needed. Others said that Chinese steel producers are downplaying the demand for steel by holding off on chartering ships in order to rattle the shipping industry since a decrease in demand for steel would mean a drop in shipping prices.

The last 12 months have seen enormous gains in the shipping industry as

steel production and demand for raw materials in China has soared. As more ferry loads of coal, steel, grains and other commodities have been chartered it has caused upward pressure on shipping costs. That's good news for the dry bulk shipping industry, which has seen even its worst stocks skyrocket as much as 150% in the last year.

But the Chinese steel industry can't be too happy. Iron ore makes up about 25% of the bulk commodities transported in cape size ships, the largest vessels. The Chinese went from 8% of the global steel production to 35% in the last year, said Charles Rupinski, senior equity analyst at Maxim Group.

My view - The Baltic Capesize index accelerated upwards from its low in June above 6000 to a recent high of 15,515. This is a characteristic it has shared with just about every other Dry Bulk Shipping index as rising demand for ships and congestion around important export terminals have pushed prices higher. The Index lost momentum just above 15,000 going sideways for two weeks, which is a longer lateral move than any seen since the beginning of the uptrend. Yesterday's downward move is not too large in terms of a percentage move but it is the largest reaction and from a higher level than any seen since June. Given the fact that the Index was looking overextended in the short-term a period of consolidation is probably due. The Index would need to sustain a move to new high ground to reaffirm the uptrend.

The Baltic Dry Index, which is more commonly watched, also fell, having encountered resistance at 11,000 but the fall was not nearly enough to register as a dynamic. A move below 9500 would be needed to question the integrity of the medium-term uptrend.

Although the shipping indices declined moderately the impact on shipping stocks was much more marked and is an indication of how nervous the market has become following their impressive performance over the last month. (Also see Comment of the Day on October 5th)
<http://www.fullermoney.com/x/default.html?id=1180&schtxt=diana>

DryShips' uptrend steepened as it approached \$120 but it has since lost momentum and yesterday's downward dynamic checks the advance at least in the short-term. The share posted a statistical key day reversal on October 11th but had no follow through. Another key was posted on October 16th which held the share up for a couple of weeks and although it moved to a marginal new high on Monday, it was unable to hold it. A move below \$100 would break the progression of rising lows and call into question the uptrend from the June breakout.

Diana Shipping has had a much steeper uptrend having moved from \$25 to \$45 in the last six weeks. Yesterday's downward dynamic probably caps the advance at least in the short-term. It needs to sustain a move to new high ground to reassert the uptrend.

Eagle Bulk Shipping is prone to rather violent reactions which have seldom lasted for more than a couple of days. While on this occasion the reaction has also been experienced by a number of other companies in the sector, it would

need to sustain a move below the \$27 to signal the onset of a more serious correction.

[Excel Maritime](#) had been in a much more consistent uptrend with equal sized advances and reactions. However yesterday's downward dynamic broke the progression of rising lows and probably augers a more corrective phase. It needs to sustain a move to new high ground to reaffirm the uptrend.

[Quintana Maritime](#) broke upwards from a three month consolidation in early October and quickly progressed to a high of \$28.70 before moving into a consolidation. It posted a key day reversal yesterday and needs to sustain a move to new high ground to reaffirm the overall uptrend.

The downward dynamics posted by so many shipping companies probably signal that they are about to enter a period of consolidation. However the fundamental drivers which pushed them to their recent highs remain intact and they are worth keeping an eye on for signs that they are bottoming since this is unlikely to be more than a medium-term pause.

BT Investment Roundtable - Thanks to a subscriber for this [roundtable](#) discussion of Asia's prospects. Here is a section:

Anthony: Asian stock markets seem to be in a state of what former US Federal Reserve chairman Alan Greenspan might have called 'irrational exuberance'. There are fears of a US recession, financial markets are in turmoil and oil has shot to an inflation-threatening level of US\$92 a barrel. What is behind the Asia euphoria, and can these markets go higher, or even sustain their current levels in the short to medium term? William, you are a veteran of Asian markets. What is your view?

William: Asian markets have been undervalued as a group for the past decade ever since the onset of the Asian crisis. Not very long ago, good companies were selling at giveaway prices, low single-digit price/earnings multiples and paying dividends that were well above money market rates. In the meantime, the economic story in the region has been strengthening - something which is becoming clear even to Europe and North America with their ageing, overindulged and welfare-cossetted societies. So, it is hardly surprising that markets have woken up to the disparity in value that has existed for too long.

That said, the current pace of change powered by both Western and Chinese monies does give pause for reflection. The confidence that now exists that the region can shrug off a US recession still has to be tested. I am confident the region will suffer only a modest slowdown in its superheated growth rates but, at the very least, markets are likely to become very much more volatile.

Robert: The main factors behind the Asian market boom, especially China and India, are domestic liquidity and confidence. I have never, in 30 years of following Asia, seen the same level of conviction about corporate earnings and accelerating GNP growth in both countries (that we are seeing now).

I do believe that these markets can go higher, although I think China is probably into the 'mania' stage. There are certainly strong parallels with 1985-89, when 'Zaitech' or financial operations were one of the driving forces of corporate profits (in Japan). Once again, in Shanghai today, these may account for up to 50 per cent of earnings.

Christopher: The re-rating of Hong Kong-listed China shares has been the key factor driving the re-rating of the overall Asia (ex-Japan) equity universe. A real US slowdown and further related credit convulsions will raise the threat of short-term corrections for Asian equities. But Asia remains in a secular bull market, led by China and India.

My comment - We have long believed that the Asian story would eventually capture the imaginations of the global investing public and this is beginning to take place. It is also correct that there is a possibility that the next really large equity bubble will take hold in Asia as money flows into the region in an effort to escape economic stagnation in the USA and Europe. However this move is only beginning to take place, so while some Asian equity markets are somewhat overextended in the short-term, they continue to have some of the greatest upside potential of any region in the long term.

'Overheating' Emerging Markets Change Bennett Into Baltic Bear - [Thanks to a subscriber for this article by David Clarke for Bloomberg which primarily focuses on the views of some noted short sellers. Here is a section:](#)

"The Fed keeps going back to easy money as a solution," Bennett said. "It's indicative of what's going on around the world. The Fed sets the tone and the last thing these countries need is a looser monetary policy."

As a hedge fund manager, Bennett also can bet against indexes or by using derivatives, which are financial instruments whose values are based on other securities. Managers of mutual funds generally are not allowed by regulators to sell short.

Bennett expects the governments of Lithuania, Latvia and Estonia may be forced to devalue their currencies because the expanding economies are fueling inflation.

Asking rates for 3-month loans on the Rigibor, Latvia's interbank lending rate, have grown to 12.8 percent this year, the highest level since 1998. Many consumers borrow in euros, because the European Central Bank's base rate stands at 4 percent, according to the Financial and Capital Markets Commission in Riga.

Monetary Policy

Consumer prices in Latvia are rising at an annual 11.4 percent. They're advancing 7.1 percent in Lithuania and 7.2 percent in Estonia, compared with

a 2.1 percent rate for the 13 nations sharing the euro. Inflation will most affect banks and building companies, Bennett said.

In addition to shorting shares of funds that track east European indexes, he's doing the same with some Swedish banks and construction companies that do business in the Baltic region. He hasn't started betting against China yet.

Emerging markets overall still have the potential to rise, and record gains in China overshadow the potential for markets such as Brazil and Korea, according to Claude Tiramani, who helps oversee about \$14 billion in emerging markets stocks at BNP Paribas Investment Partners in Paris.

My view - In the next globally important bear market, which we are not expecting before 2009-2010 at the earliest, we can expect many developing Eastern European markets to fall sharply in reaction to tighter liquidity conditions. However they have been little affected by the recent credit crisis and remain in relatively consistent uptrends.

Lithuania peaked earlier than either Latvia or Estonia. Following the high above 500, it entered a corrective phase in late October 2005 which bottomed a year later at 365. It has been in a consistent uptrend since then and a move below 535 would be needed to question scope for further upside in the near term.

Latvia continues to have a relatively consistent progression of rising major reaction lows but the uptrend has been losing momentum since the peak near 700 in the early part of 2006. It needs to sustain a move to new high ground to reaffirm the overall bullish outlook.

Estonia is the weakest of the three Baltic indices. It peaked in February with a failed break above 1000 and remains in a corrective phase. It is currently testing an area of potential support at the early March lows and needs to hold above 800 to offset scope for a further correction.

While the above article serves to highlight some of the risks to investing in markets which have risen sharply, we will continue to be influenced more by the chart action than any other factor.

Email of the day - on Australian Resources shares:

"I refer to your International Chart Library, the Australian Resources section. You have a number of 'dead wood' in there e.g. ATP BDG HIG KIM among others. Is there a policy to remove these and replace them with some trending stocks?"

"Also, do you automatically make adjustments to stocks after they undergo capital changes e.g. splits? Here is one that needs adjustment: DIO."

"Can you please add the following trending resources' stocks into the library?
BLY IGR NOD RDR SWK"

"Here is one nickel stock(Poseidon POS) with good potential to move up. You may want to add it to the Library: The company is resurrecting the legendary Poseidon mine. I am sure you must have heard the Poseidon story of the last nickel boom of the seventies when POS went up from being a penny stock to over \$200AUD per share. They are now drilling and developing the mine."

My comment - Thank you for this interesting email and assisting in our data housekeeping. Although the shares you list at the beginning of your email have been removed from the ASX resources Index I will leave them in that section of the Chart Library because I have no where more suitable to place them. However I have added all of the additional shares you asked for.

With regard to splits, these are generally done automatically but the system is not full proof so thank you for alerting us to Dioro Exploration, which has had a 1 for 14 split.

Email of the day - on creating sections in the Chart Library's Favourites:

"I'm getting a lot out of the subscription and I would like to start tracking a portfolio of 10 ETF's and equities.

"Is there a way of creating a subsection in the Chart Library called for example "My Portfolio"?"

"Have you any recommendations for keeping track of this portfolio's performance? I'd like to have opening price, value to day, etc."

My comment - Thank you for your kind email and yes, it is possible to create sub-sections in your Favourites. You will see two tabs above the first instrument on your Favourites list. These are 'View All Charts' and 'Add Section'. If you click on the latter you can enter the name of the section, for example, My Portfolio. This section will be added to the bottom of your Favourites list. You can then drag and drop the members of your portfolio into this section.

I'm afraid we do not have the possibility of tracking the performance of a share from a given period although I will add it to our longer-term development list. Personally I'm happy to use my broker's screen for monitoring at present.

Email of the day - on additions to the Chart Library:

"Could you please add the Fidelity Select Technology Fund (FSPTX) and the Fidelity Select Defense and Aerospace Fund (FSDAX) to the Chart Library? These are both US funds.

"Regarding the latter, in Marc Faber's book, Tomorrow's Gold, he mentions that times that stress natural resources tend to coincide with times of war, or at least national tensions. I'd love to hear your thoughts. Thank you.

"And thanks for a very profitable year."

My comment - Thank you for your interesting email and I have added both of these funds to the Chart Library.

Resources Wars have already taken place in Sierra Leone over diamonds and we can probably expect more similar conflicts to play out over the coming decades. There is also the possibility that larger countries will become involved in such activities if resources prices move so high as to threaten their self interests. However for any such conflagration to take place it would need to outweigh the benefits gained from international trade. This latter fact should help to keep resources wars to a minimum in my view.

Eoin's personal portfolio: gold long opened - I opened a long in gold this afternoon paying \$794 for the December contract including spread-bet dealing costs.

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

Heating Oil - broke [upwards](#) from the nearly two-year consolidation in early-September, briefly consolidated the move near \$220 and pushed upwards once more. It is currently testing the psychological \$250 level but a downward dynamic would be needed for this to be anything other than a temporary area of resistance.

Topix Banks - found [support](#) above 300 and rallied well. A sustained move below this level would be needed to question scope for some further upside.

Venezuela - found [support](#) at 36,000 and would need to sustain a move below that level to question scope for some additional upside in the short term.

Thursday 1st November 2007

Rod Smyth's The Week: The Fed-fueled Reflation Trade - My thanks to Rod Smyth, Bill Ryder and Ken Liu for the latest edition of their fine [report](#). Here is a brief sample:

Although the "reflation trade" is likely to boost global equities in the short to intermediate term, we have reservations about its long-term effects. Lower interest rates and dollar devaluation may be needed to prevent a financial crisis from spreading to the wider economy, but a dollar crisis could force the Fed back into fighting an inflation problem at just the wrong time. We believe foreign creditors, both government and private have been generous in the amount and terms of loans extended to US borrowers. In recent years US trade partners have been more than willing to exchange goods and services

for increasing amounts of debt. While this may be the price of development and stability in world affairs, it is only sustainable as long as the US has willing trade partners. The more the US devalues the dollar (or inflates away its debts), the less willing our trade partners will be to finance US deficits, in our opinion.

My view - I agree with this and every US investor, in particular, should see the feature chart in The Week, entitled: The downside of dollar devaluation.

Email of the day (1) - On an exchange-traded product to play rising Asian currencies:

"David, we are global investors based in Canada and have been surprised by our currency's strength against virtually all global currencies. Our government today proposed a slate of stimulative tax cuts which will only fuel the currency higher near-term. We seek an exchange-traded product to play rising Asian currencies. The only thing I can see in the chart library is the Lehman Brothers Asian Currency Warrant which expires in February. Have you knowledge of any other global exchange traded vehicles that provide direct returns to Asia ex-Japan currency returns? I asked the CLSA desk and even they drew a blank!"

My comment - The short answer is no, but the Collective may have some suggestions, if not now, when such instruments become available.

Your question interests me because if you believe that a commodity supercycle is underway, as we do, then the Canadian dollar will remain competitive against most other currencies.

However if you want Asian currency diversification, there are other ways to achieve this.

If you just want the currency, you could open deposit accounts in Asian banks. If you want leverage, you can use the forex markets, including futures. However my preferred means is to invest in the stock markets of Asian countries, which gives you the currency play in addition to their growth and earnings.

Can anyone beat the market over the long haul? - Tom Burroughes, Wealth Management Editor for The Business, asked me this question today. Here is my reply:

In answer to the question: "Can one beat the market over the long haul?"

It depends on whether you are talking about long-only, un-leveraged funds or funds that can use leverage. If you have a bull market, as we have seen since 2003, it is easy to outperform the appropriate benchmark if you leverage up. That superior performance would be due to gearing rather than brains.

However leverage is a double-edged sword and will prove costly in a downturn if the eventual end of the bull-run is not anticipated by the manager.

A handful of managers have outperformed a market over the long term, Anthony Bolton (of Fidelity), for instance. It is not easy and you can attribute it to superior fundamental analysis and also technical (price chart based) analysis for timing, and a very stable personality. So it is possible to outperform a market but extremely difficult because there are fees and dealing costs, not to mention pressure on the manager. Consequently few unleveraged funds can outperform an index tracker over time.

When hedge funds outperform, it is usually because of leverage rather than a long/short mandate.

The people who have the best chance of outperforming a benchmark are global players. I feel that a savvy private investor or total return investment manager can do this because he or she can cherry-pick on a global basis. The example given was high growth Asian emerging markets and resources sectors - both having performed strongly in recent years compared to most other equity markets or sectors.

Asked: "If the rise in use of modern technology has not made markets necessarily more efficient in terms of reducing opportunities to get an edge", I said no, although it is often cited as an alibi for underperformance by hedge funds. Investors who rapidly trade in and out of markets waste money on trading costs and will have a volatile performance if leveraged. Success is due to "the vision thing", as George Herbert Walker Bush put it in another context. Warren Buffett is the best example.

My personal portfolio: Trailing stops triggered in silver futures which were partially reopened lower; platinum long reduced; Nasdaq trade increased - This was not a disaster as I mostly took profits on these trades but it was a disappointment because I let too much paper profit slip away. For those who ask questions on where to place stops, I repeat that there is no easy answer. Selecting stops is part technical and part money control discipline, and the larger the speculation, the more important money control becomes.

When silver was ranging between \$3 and \$5, I was happy to 'Baby Steps' buy on weakness and lighten on rallies, while retaining a core position as veteran subscribers may recall. I seldom used stops on those leveraged positions because silver was so cheap and I was trading within my capital allocated for the exercise.

At \$14, I don't think silver is expensive but I am much more concerned about money control. Also, in anticipating a big move, I was keen to leverage up, provided I could do this behind trailing stops protecting my earlier purchases. I also wanted to give silver a reasonable amount of breathing room for volatility, since it is by far the most volatile precious metal.

One also needs a bit of luck - in this recent instance less volatility would have suited me. It was not to be, as today's shakeout confirms. Consequently, my stops proved to be too loose for the setback we saw, causing me to lose most of the profit, but not loose enough if I had used less leverage and technical stops only. Silver bounced today from where one would expect on the chart.

Anyway, it's all good clean fun and here are the results for seven equal-sized silver ([daily](#) & [weekly](#)) positions, one in the December contract and six in the March position. Commencing with the latter, yesterday's purchase at \$14.56 was stopped out at \$14.60 this morning. I then bought it back, prematurely under the circumstances, at \$14.48. I was then stopped out at \$14.32 against the long at \$14.305 (26th Oct); \$14.30 versus long at \$14.15 (15th Oct); \$14.245 (must have gapped down) against long at \$14.265 (15th Oct), and \$14.20 against the two purchases at \$13.755 and \$13.835 on 19th and 23rd Oct, respectively. I then bought another position back at \$14.24, so my current silver long position is only 28.6% of what it was yesterday. In another account, my one remaining December silver long was stopped out at \$14.06 against my purchase at \$13.90 on 15th October.

Seeing silver plunge and with gold down \$8 at the time, I jammed up my platinum ([daily](#) & [weekly](#)) stops feeling that it might catch the contagion. It didn't, fortunately, but I blush in telling you that I chucked out my most expensive platinum purchase, selling at \$1447.5 against my purchase at \$1462.8 on 26th October. My platinum purchases vary in size over two accounts but I reckon this reduces my exposure to this metal by about 15%.

I increased my Nasdaq 100 Index ([daily](#) & [weekly](#)) long by 50% today, paying 2256.25 for another March position. This does not look clever following Wall Street's sharp decline this afternoon.

Prices above include all spread-bet dealing costs.

Email of the day (2) - [More on Aberdeen funds and ITs](#):

"As if in answer to my e-mail of yesterday, Aberdeen put out the following:

The Company's net asset value rose 27.7% on a total return basis compared to a rise of 40.1% in the MSCI All Country Asia (ex Japan) Index.

Asian stock markets enjoyed major growth conditions, with many exchanges climbing to fresh highs. Strong underlying growth, stable interest rates and global money flows all contributed.

Asian stock markets are at, or close to their all-time highs today. This has bred a certain over-confidence and it remains to be seen how the region would respond to any reversal in sentiment.

The Company has paid for its caution in terms of underperformance, but believes the very high valuations of market leading stocks have not reflected

the possible risks.

"It seems that they are still very cautious about Asian markets...are they right?"

My comment - The market's verdict over the last few months would be no, they have been wrong to date. Presumably they underestimated the speed with which Asian markets recovered from their August reaction lows, and also the extent to which they uncoupled from Western markets.

Presumably they expect (hope) this will change in their favour, but it may not as the uptrends remain. Also, "the very high valuations", referred to in Aberdeen's release would apply mainly to China. It is certainly not a description I would use for Thailand or most other Asian markets in which they invest.

The classic psychological problem for any investor in a bull market is that once they turn cautious, it is not easy to reverse that view if price trends are running away from them. For investment managers, the possibility of being twice wrong - by turning cautious too soon and then buying too late as a 'born again' bull, is the stuff of nightmares.

Personally, when I invest in a thematic or country long-only IT or fund, I would rather that the managers concentrated on maximising performance in their markets. You and I can decide when enough is enough, in terms of risk.

Email of the day (3) - On EverBank foreign currency accounts:

"I felt I had to respond to the e-mail suggesting EverBank foreign currency accounts as a way of diversifying out of the dollar. I just closed my EverBank euro account and was charged 2% in all--1% initially to exchange my dollars for euros and then another 1% to change back to dollars when I closed the account. Pretty stiff, don't you think? And nowhere in their promotional literature could I find these charges spelled out. I had to grill a representative on the phone until he finally admitted that this was their policy.

"Thanks for a great service! Don't know where I'd be without you."

My comment - Thanks for your kind words.

Actually, that is a lot less than many of the charges quoted to me for changing currencies. If you were receiving a market rate of interest, you could have done a lot worse. Hopefully, competition will bring these charges down over time although I would not count on it.

Today's interesting charts - Subscriber's requests for additions to the Chart Library are added where possible and instruments total over 16,000 today.

USA (S&P 500 Banks Index) - Here is Wall Street's [problem](#) and a close above 340 is now required to question lower scope.

USA (Citigroup) - More of the [same](#), although beginning to look somewhat over extended. An upward dynamic and or close over 44 would be required to indicate more than brief support.

DJ Euro Banks Index - [Eroding](#) gains since September low and needs a close above 450 to reaffirm prior support near 400. A breach of this lower level would reaffirm the downtrend that commenced in May.

Additional Commentary by Eoin Treacy

Email of the day - [on semiconductor companies](#):

"Regarding your theme on technology stocks. I have a look at semiconductor foundries. All big foundries such as TSMC, SMIC are traded at almost historic lows. I would assume that foundries are the base for everything.

"Why are they traded so low and how do you value these companies?"

My comment - Semiconductors and integrated circuits is one of the toughest, most ruthlessly competitive fields in the technology sector. The largest are in the USA and Taiwan but most major industrialized nations have at least one company manufacturing them. I'm not an expert on valuing companies, but I think it is fair to say that; seven years after the bursting of the TMT bubble, if a company is not making money, it's in trouble.

[TSMC](#) is the largest company in the Taiwanese exchange, is trading more or less in line with the Index and its [earnings](#) have grown consistently over the last six years. A sustained move below TW\$60 would be needed to question scope for further upside.

[SMIC](#), listed in Hong Kong, has had flat or negative [earnings](#) since 2005. It fell from the onset of trading in 2004 and found support near HK\$1 but has recently broken below this level. It needs to sustain a move back above HK\$1 to question scope for a further correction.

[Marvel Technology](#) made money until the 2006 but as soon as [earnings](#) started to decline so did the price. It has made a loss so far this year. The share broke upwards from its base in late 2003 and accelerated to a high above \$35 early 2007. It then gave up a large percentage of its gain before finding support above \$15 between May and the end of August. It would need to sustain a move below this level to question scope for some further higher to lateral ranging.

[Analogue Devices](#) has relatively steady [earnings](#) but they are not growing. Neither is the share price. It continues to range within its three-year base and needs to sustain a move above \$40 to reaffirm upside potential.

[Maxim Integrated](#) has similar [earnings](#) to Analogue Devices above but is in a downtrend and would need to break the progression of lower highs to offset scope for further downside.

[United Microelectronics Corp](#) has pretty solid [earnings](#) but has suffered from some political scandals in the boardroom and the threat of margin compression. It is testing support at TW\$20 but an upward dynamic would be needed to question scope for a break of this level.

From the performance of the [largest](#) shares in this sector, we can probably gauge that while semiconductors played a major role in the advance of the tech bubble, they are not influencing the market to the same extent this time around. One has to look quite hard to find those that are performing in line with the leaders of this uptrend. (For those interested, here is a list of global semiconductor companies which are [outperforming](#))

I added a number of Nasdaq sector indices to the Chart Library today. Of these the best performers are the [Nasdaq Computer](#), [Telecommunications](#), [Healthcare](#) and [China](#) indices. The China Index is by far the best performer and has almost doubled since the mid-August lows. This sector is rallying in line with other Chinese companies listed internationally and does not partake to any great extent in the technology theme. However it is motivated by another powerful investment trend will most likely be influenced by events in China rather than any activity in the USA. We have written extensively on this subject in earlier Comments of the Day. (Search under Hong Kong for multiple entries.)

Of those which relate to the discussion in hand, the Computer Index is by far the best performer. It remains in a consistent uptrend from the mid-August low and would need to sustain a move below 1300 to question scope for further upside. The Index is made up of companies such as Microsoft, Google, Apple, Intel, Oracle, Dell and Yahoo. These 7 make up 64% of the index.

The main lesson from looking at the semiconductor companies against those which are leading this move, is that it is most likely a much safer bet to back the leaders than to wait for lagging stocks to partake in a belated catch-up move. Alternatively one could have an underweight in the sector and look for top performers in other tech sectors.

Citi Industry Focus: Iron Ore - Thanks to a subscriber for this excellent comprehensive [report](#) by Alan Heap and Alex Tonks which also contains some interesting charts. Here is a section:

The super cycle thesis is central to an understanding of the long term outlook for iron ore and other commodities. Its components are:

An extended (multi-decade) period of trend rises in commodity prices driven by materials intensive economic activity in a major economy as it urbanizes and industrializes.

Super cycles are a demand driven phenomenon but there is also a supply side push. Higher demand necessitates increased supply which is available only at higher production cost.

There have been two super-cycles in the last century or so: one in the late 1800s/early 1900s driven by urbanization and industrialization in the USA, and one which ran from 1945 to 1975 driven by post war reconstruction in Europe, followed by Japan.

The current supercycle is being driven by Chinese demand and the cost inflation element is also evident.

Details of the super cycle thesis have been argued closely in previous reports: Copper - A Super Cycle Sheen: Commodity Outlook dated 22 Jul 2007, China - The engine of a commodity super cycle dated 31 March 2005.

The contribution China has made to global economic activity in the extremely long term is shown in Figure 3. Between 0 AD and 1800 China accounted for 20%-30% of global economic activity, then as the economy closed its contribution declined, to be replaced by the USA. Perhaps this is the true super cycle.

China's importance as a consumer of commodities is even more important than its contribution to global growth, because of the highly materials intensive nature of the economic activity in China (Figure 4).

My view - Previous supercycles lasted for decades. China still has a long way to go on the road to development and India is only getting started. This is not even considering the potential for growth in other high population centres such as the Middle East. We can expect demand for all commodities necessary for the construction of infrastructure to increase for the foreseeable future.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his ever interesting [report](#) which this week concentrates on the tightening of the Cash Reserve Ratio to 7.5%. Here is a section:

The RBI, India's Central bank, as half-expected, raised the Cash Reserve Ratio (CRR), by ½% to 7½%. The CRR, which was 5¼% at the start of the year, is the amount of cash that deposit lenders have to put aside with the RBI which is used by the latter to drain liquidity from the banking system. Unusually heavy foreign currency inflows into India, following the U.S. Fed's interest cut move last month, have increased fears of excess liquidity stoking inflation and creating asset bubbles in the stock market and the property sector. Despite heavy intervention in the forex markets this year by the RBI the Rupee has appreciated by about 12%. Hence, a proactive need to curb liquidity as the Central Bank expects further heavy inflows in the coming months. The RBI's intervention, in which it sells Rupees for Dollars, has contributed to surplus cash in the money market, which it drains out - or sterilises - by issuing interest-bearing bonds. The reverse repo rate, at which the RBI absorbs excess cash from banks, remained unchanged at 6%. The

bank rate, used to price medium and long-term loans remained unchanged at 6%. The RBI left its GDP growth rate to March 2008 unchanged at 8½%. However, the tone was hawkish on inflation as the medium term target has been reduced from 4-4½% to 3%. More CRR hikes are thus possible in the future.

My view - The weakness of the Indian rupee ([p&f](#), [monthly](#), [weekly](#), [daily](#)) was a factor which stayed the hand of many investors throughout the '90s. However, the Rupee has changed direction and is on a gradual upward trajectory against the Dollar which is likely to see the latter make historic lows over the coming decade.

The charts above show the Dollar weakening against the Rupee. I used these charts because the rate quoted the other way around has less history on Bloomberg. We can clearly see where the Dollar topped out against the Rupee in 2002 and entered a period of right-hand extension. The break below R43.50 in April completed the Dollar's extended top formation and marks the beginning of secular downtrend for the Dollar against the Rupee. It would need to sustain a move above 42 to delay this process beyond the short term. This likely to be a long-term move and we cannot expect the decline to continue at the current rate indefinitely, however as long as the progression of lower highs remains intact we can consider the downtrend consistent.

On another topic, I added five new Indian stock market indices to the Chart Library this morning. These are the [BSE 500](#), [BSE 200](#), [BSE 100](#), [BSE Small-Caps](#) and the [BSE Mid-Caps](#).

The Korea Herald Special: Korea to start \$22b fund for resources - Thanks to a subscriber for this [article](#) which covers the growth of Sovereign Wealth Funds in Asia. Here is a section:

Korea will start a 20 trillion won (\$22 billion) fund to invest in global oil and gas projects, vying with China, Japan and India for resources as prices soar.

National Pension Service, Korea's biggest investor with \$235 billion in assets, is in talks with the Commerce Ministry and government agencies to start the fund by the end of this year, the service's chief said in an interview.

South Korea imports 97 percent of its energy needs, and is following China, India and Japan in tapping sources in Asia, Africa and Russia. Shifting pension money from bonds to oil, which rose to a record this week, will also help boost returns.

"We have great interest in resource commodities, such as oil, gas and metals," National Pension Service President Kim Ho-shik said in an interview on Wednesday. "We want to invest a lot in assets with higher risks and higher returns."

Crude oil prices have more than tripled since October 2002, reaching a record above \$93 a barrel this week. Prices for copper on the London Metal

Exchange have jumped more than fourfold in the past five years. Gold, which has more doubled in the past five years, reached \$794.70 an ounce on Oct. 29, the highest since January 1980, while platinum reached a record.

China, the world's biggest consumer of coal, copper and iron ore, said in January it may use its \$1 trillion foreign exchange reserves to buy "strategic" resources.

Oil & Natural Gas Corp., India's biggest explorer, said earlier this month it will seek a stake in an exploration area on Russia's Sakhalin Island. Japanese government and business officials will visit South Africa next month to get supplies of metals for use in automobiles and steel alloys.

"This is all about security of supply, this is all about getting access to supply at a reasonable price," Mark Pervan, a commodity strategist at Australia & New Zealand Banking Group Ltd. in Melbourne, said yesterday by phone. "For somewhere like Korea, which is very much a big consumer of commodities, this would make a lot of sense."

My view - This is an interesting story and is probably the beginning of a trend we can expect to see quicken as the competition for access to resources picks up. Those countries which make the effort today to secure reserves are likely to have a competitive advantage over those that don't over the long term.

Email of the day (2) - on Chart Library enhancements:

"As someone who now follows sectors quite closely will it be possible in future to have more coverage of sectors on a global basis, via the Chart Library and comment of the day - maybe in some kind of table format to indicate, which sectors in which countries are strong or strengthening or which sectors are beginning to weaken. An early heads up on this type of information will then enable subscribers to select positions in the sectors or individual companies within those sectors. Many thanks for your ongoing efforts with the library and I can assure you that the improved library equals improved results."

My comment - Thank you for your thoughtful email and I can assure you that our passion for improving the capabilities of the Chart Library rivals your own. The next enhancement to the Chart Library scheduled will be the roll out of ability to save templates, so that charts don't have to be constantly customised. As soon as that is complete, we will move directly to our filtering project which will certainly incorporate the capabilities you outline above.

Eoin's personal portfolio - gold position stopped out at a loss, silver position increased - I was stopped out of my [gold](#) long purchased yesterday at \$794 today at \$793. I had placed a tight stop because I was nervous about the economic figure released over the last two days, and it was triggered this morning.

Seeing that [silver](#) was recovering from its lows I doubled my long paying \$14.27 for the December contract. I went for silver rather than gold because the latter is approaching the psychological \$800 while silver is much less overextended.

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

Natural Gas - breaking [upwards](#) from its almost two-year base and would need to sustain a move below \$8 to question scope for further upside.

Soybeans - continues to [consolidate](#) around the psychological \$10 level and would need to sustain a move below \$9.50 to question scope for an upward break.

Oman - remains one of the best [performing](#) Middle Eastern stock markets and would need to sustain a move below 7500 to question scope for some further near-term upside.

Friday 2nd November 2007

Deutsche Bank: How Sensitive is Growth in Emerging Markets to a US Slowdown? - My thanks to a subscriber for this interesting and timely [report](#). Here is a brief sample:

Over the past five years emerging markets have been enjoying very high growth rates both when compared to history and when compared to the OECD countries. This impressive performance has been driven by a number of factors including structural reforms, increasing commodity prices and solid growth in export partner countries.

Looking ahead, fears have increased that the US economy will slow significantly as the housing sector problems spill over to the rest of the economy. Under such a scenario the following question becomes important for investors: Will emerging markets be able to decouple and enjoy continued high growth?

The believers in the decoupling hypothesis tend to emphasize two key arguments. First, rapid growth in emerging markets has raised their overall share of world GDP which in turn has reduced the relative importance of shocks in the US to their overall GDP. Second, emerging markets have in recent years experienced an increase in growth in domestic demand, suggesting that they may have become less dependent on net exports.

My view - There are two areas for coupling and therefore also decoupling - economic and psychological.

In a globalised economy there will never be total economic decoupling from the world's largest economy. However developing countries now account for 52% of global GDP growth, and rising fast. Consequently, and with rapidly

growing consumer sectors, they are far less dependent on the US economy than ever before.

In fact, it is the US economy that is now more dependent on the emerging markets. America's best hope for avoiding a recession is the strength of the global economy, which is buying more US exports and also increasing investments in the States. Moreover, the US is the debtor and emerging markets the creditor.

Scope for psychological coupling and decoupling is an equally interesting area for investors.

Market crowds are emotional so shocks in one region can easily lead to contagion elsewhere. In previous decades, the US leash-effect was all-important, although Japan briefly became the lead influence in the late 1980s. Today, the same factors that are causing, if not complete economic decoupling, at least less coupling, are also evident in stock markets.

Although this premise is recent and was most dramatically evident following the July-August stock market correction, more evidence is required. Nevertheless recent performances suggest that the Holy Grail for global strategists - stock market decoupling - is no longer merely a mirage. Here is a stunning example: US's S&P 500 Banks [Index](#) and India's Bombay Banks [Index](#).

Email of the day (1) - [On investment themes](#):

"Just feel like heaping praise on your service once again. Could it be because IFN closed up almost 5 points today? It has moved 50% in what seems like a heartbeat. If you recall I owned IFN in the 60s but trading at a 30-40% premium. That was a good lesson as it fell back to the mid 30s. Today it is moving in tandem with NAV (actually still at a discount). Any of your subscribers that have followed your main themes cannot be anything but thrilled about the last few months. (BHP, RTP, MLW, India and precious metals). One area that perplexes me is your lack of positions in any agricultural equities. Don Coxe's last newsletter called the ag stocks his favorite equity plays at the present time. The moves of Monsanto, Bunge, Syngenta, and their brethren have been breathtaking over the last month. Seeing a hole in my portfolio, I did purchase Monsanto just as it broke its consolidation in the 60s and am thrilled I hit the send button. However, this note is meant to tell you that I read the words of many bright investors/writers but I dare to think where I would be if I had not come across your service some 3 years ago. There seems to be too much theory and not enough practical words in so many newsletters. You should be extremely proud of your willingness to share your insights and maybe more so for your humility. And if that is not good enough, you have good taste in food as I was lucky enough to experience a Raymond Blanc meal when I headed to Oxford after attending your seminar and had the wonderful opportunity to speak with you. By the way, I am grounded and know that tomorrow is another day and the

minute I become arrogant, problems are more than likely to occur. But I can enjoy the moment for now."

My comment - Thank you so much for this generous and inspirational email, and for sharing some of your learning experiences. Noting your important point about being "grounded", in the sense of being a realist, you know that it won't always be this good in the markets. Our patience has been tested before and no doubt will be from time to time in the future. However using a global perspective (investment remains an international beauty contest) we can be reasonably confident that there will be many market opportunities for us in the years ahead, along with risks in other areas which we hope to avoid. Meanwhile, we learn from each other, in the spirit of Empowerment Through Knowledge. Sharing insights is an important part of our individual learning process.

Regarding agricultural stocks, I agree that they remain a very interesting sector, and Eoin in particular has pointed out their powerful trends in recent years. From my own perspective, I can't own everything that looks good. I'm glad to hear that you made a timely purchase in [Monsanto](#) and you will also know that these stocks are not cheap today.

Email of the day (2) - On key day reversal signals:

"A number of years ago, when I attended your seminar, I left with one strong memory: a key day reversal is a trend ending signal. I had it in my mind that it was a stand alone signal to be traded.

"I notice however, that with the recent key day reversals in the Nasdaq and the \$US that you considered these dynamics to be anything but a stand alone tradable signal. With comments like "Downside follow through tomorrow would increase evidence that the euro's uptrend has been checked ", it would appear that a key day reversal is simply just an interesting dynamic and little more. Similar to any large anti-trend dynamic!!! You were of course 100% correct!!!

"I wonder if you could explain a little more fully how one should deal with a key day reversal please."

My comment - I probably did not elaborate enough at the time, although you may recall me saying: A crucial point regarding the key reversal (a big outside day [or week] closing in the opposite direction of the prevailing trend) is its surprise or even shock effect, which can trigger a reassessment by investors and traders. Therefore the more reliable keys will be dramatic and occur at a time when people are either frightened or euphoric. You can see some on most charts and here are a few examples: [EUR/GBP](#), the best being an upside key at the low in January and a downside key in September, checking the euro's rise; [GBP/ZAR](#), sterling just had an upside key against the rand, checking a long slide; Singapore's UOB SESDAQ [Index](#) shows a beauty at the July high and although it had no follow through the next day, a smaller version of the key characteristic is evident following the retest of the high;

[Taiwan](#) had a similarly clear downside key in July following the somewhat overstretched rally. You will find many more in a random check through markets as I have just done to locate these examples.

As for the [Nasdaq's](#) key on 11th October and the [euro's](#) key against the dollar on 22nd October, which prompted your email, Eoin and I have learned that if the key is going to have an immediate effect, it will have follow through the next day. If not, the psychological impact is smaller or perhaps even non-existent.

The important point is to not be too formulaic in our interpretations. This is a behavioural science. The key is a dynamic signal, as you point out. Some will inevitably be more important than others, so they need to be assessed in the context of the trend against which they occur, in terms of emotional extremes, follow through and also possible confirmation by related instruments.

Email of the day (3) - On iron ore and TCS:

"I have attached a research paper that may be of interest. I found it quite instructive.

"I am a financial adviser in Perth, Western Australia "where the action is", where I look after \$A45mill for a group of private investors.

"I find your comments and resources so helpful. I am far away from having a good understanding of the charts , but I find your resources so useful -- very good supplement to so much other information that I receive.
Thank you.

"I must get to the UK for one of your seminars, however I would like you to arrange one to coincide with the Aussie's recovery of the Ashes!! What do the charts say about this matter?"

My comment - Thanks for the informative report, which Eoin posted yesterday.

Thanks also for your thoughtful comments. On charts, I hope you are able to attend TCS at a future date but I appreciate that London is a long haul for you from beautiful Perth. Meanwhile, my suggestion to anyone tackling the important subject of price chart reading, is to focus less on theory (in textbooks on the subject, authors often complicate as a form of self-indulgence, rather than simplify). Instead, think about trend consistency and relative performance. A good trend has a rhythm which you will learn to spot identify.

As for the Ashes, over here we know that they are hard to regain and even harder to retain. The trend is still in Australia's favour.

Quote of the week - On effort:

"It is not that I am smart, it's just that I stay with problems longer."
Albert Einstein

Additional Commentary by Eoin Treacy

GSI Investment Notes: China - [Thanks to a subscriber for this thought provoking report which highlights probably the most important risk to the Chinese equity bull market. Here is a section:](#)

If greed drives a bubble, what causes it to bust? Fear, the antidote to greed. So what might cause fear among investors in Chinese stocks and prick the bubble?

Draconian government policies like capital gains taxes on stock earnings or drastic tightening can create fear, but such policies are unlikely in China. Dynamics within the Communist Party have evolved from leadership by strong, dominating individuals into factional politics. Horse-trading among key government cadres in the party has led to policy paralysis in the last two to three years, making it difficult for the central government to get local officials and bankers to rein in runaway investments and loan growth in their respective localities. Indeed, market psyche contends that the government won't do anything drastic in the run up to the Olympics and, thus, the flow of good news will continue.

What, then, would drive up fear among Chinese investors? Given the several-fold YTD rise in the share price of many small- and mid-cap stocks, insiders must be aware that the worth of their firms is not anywhere near current market value. The incentives for corporate insiders to monetize their non-tradable shares as much as possible must be huge.

The infrastructure for auditing, legal matters and regulatory controls is poor in China. The combination of basic greed for money and the lack of checks and balances is a powerful recipe for corporate fraud, including companies massaging their profits to ramp up share prices (before insiders sell); major shareholders getting around disclosure and regulatory rules on the sale of converted non-tradable shares; and CEOs or CFOs disappearing with corporate cash..

The window for the release of hitherto non-tradable shares is opening up. Many have market valuations several times their real worth. Fraudulent practices by corporate executives and majority shareholders taking advantage of ignorant individual investors and will lead to financial losses for the latter. That's the trigger that will cause a rise in the fear factor to prick the stock bubble.

My comment - [The release of non-tradable shares will significantly increase supply in a market which has so far benefited enormously from strong demand for a relatively small free float. This could potentially deflate](#)

enthusiasm for equities, as stock market returns more closely approximate the global norm rather than an ATM. Regulation and governance are also potential trouble spots but China is attempting to educate people in this regard and have hired some of the most talented people to teach there new breed of technocrat how to manage the market and the economy.

While we should remain vigilant, the chart action is likely to tell us much quicker than any other medium, when the stock market runs into real trouble. At present the [Shanghai A-Shares](#) are in a period of [consolidation](#). The Index moved to a new high in mid-October but was unable to sustain the move and is currently ranging around the 6000 level. This reaction is so far smaller than the May-July and January-March ones and it would need to sustain a move below 5500 to question the integrity of the medium-term uptrend.

Nymex Natural Gas Falls on Outlook Winter Supplies Are Ample - [This article by Reg Curran for Bloomberg covers some interesting views on the Natural Gas market. Here it is in full:](#)

Natural gas in New York declined as inventories rose to a record, indicating supplies are adequate to meet winter heating needs.

Stockpiles advanced 66 billion cubic feet to 3.509 trillion cubic feet in the week ended Oct. 26, the U.S. Energy Department reported yesterday. Supplies were 3.453 trillion cubic feet in the same week a year ago before peaking at 3.458 trillion in the week ended Oct. 20, 2006.

Supplies are sufficient and will probably prompt prices to fall, said Stephen Briggs, managing partner at Intermarket Management LLC in Verona, New Jersey. "There's going to be a pullback," he said.

Gas for December delivery declined 10.4 cents, or 1.2 percent, to \$8.533 per million British thermal units at 10:16 a.m. on the New York Mercantile Exchange. Gas touched \$8.712 in overnight electronic trading.

"It got to resistance at \$8.712," Briggs said. Natural gas received a lift in each of the previous four trading sessions as crude rose to a record \$96.24 in overnight trading Nov. 1. Gas outpaced crude's rise for the week, surging 10 percent compared with 2.7 percent for oil.

Crude oil for December delivery jumped 86 cents, or 0.9 percent, to \$94.35 a barrel in New York.

"There is no doubt about it, yesterday's report was incredibly bearish," Stephen Schork, president of Schork Group Inc. of Villanova, Pennsylvania, said in a note.

"Injections this season have been on an absolute tear," said Schork. The increase reported by the Energy Department was the second highest ever this late in the injection season.

Utilities and other large consumers store the heating fuel during warm-weather months to meet winter heating needs, when demand exceeds production and imports.

My view - Natural Gas ([p&f](#), [monthly](#), [weekly](#), [daily](#)) has been in a base formation since falling from its peak near \$16 in late 2005. Its trading has been characteristically volatile, falling as low as \$4 briefly before ranging between \$6 and \$8 for much of the last two years. In my experience, natural gas has often changed direction following a contract change. The large contango saw the continuation surge upwards to \$8 a couple of days ago when the contract rolled. However since then the price improved and it is holding above this important area. It would need to sustain a move back into the base to offset scope for further upside.

Against [oil](#), natural gas remains quite cheap and well outside of its median level. It must be occurring to energy consumers, that gas was until recently less than 50% of its 2005 and is considerably cheaper than oil. It may, as a result, be a better fuel to buy over the medium term. This could well be supporting prices.

Email of the day (1) - [on access to Asian currencies](#):

"A subscriber is looking for an exposure to Asian currencies. I personally use short-term, local currencies emerging bonds funds which quote in USD and give the local carry plus the appreciation of currencies. I am aware of ING L-Renta Emerging Debt or something like that. Ashmore also runs this type of fund."

My comment - Thank you for these suggestions which I have added to the Chart Library. The [ING Renta Fund](#) does not have any Asian currency bonds in its [Top-10](#) holdings. The Fund remains in a consistent uptrend and would need to sustain a move below 50 to question scope for further upside in the near term.

I also added the [Ashmore Emerging Debt and Currency Fund](#) but was unable to access the factsheet. It is also in an uptrend and recently broke upwards from a brief consolidation. It would need to sustain a move below 137 to question scope for further near-term upside.

Email of the day (2) - [more on access to Asian currencies](#):

"Re: Question in Thursday's comment of the day

"[Asian](#) currency/bond ETF"

My comment - I also added this [fund](#) to the Chart Library. It has a large number of Singapore government bonds in its [Top-10](#) holdings which should help to give exposure to that country's rising currency. The fund consolidated between 108 and 112 between late-2006 and early October but broke

upwards last week and would need to sustain a move back into the range to question scope for further upside.

Email of the day (3) - on [ABX](#), [CDX](#) and [LCDX](#):

"Thanks for your always insightful and far-reaching commentary. In the interest of keeping an eye on risk appetite, is it in anyway possible to add more of the [ABX](#), [CDX](#) or [LCDX](#) indices on the site?

"Your Chart Library is fantastic; please keep up the great work!"

And the clarification.

"Thank you for responding so promptly; I am very impressed by FullerMoney's service.

"Yes, all three are North American indices; the [ABX](#) tracks subprime mortgages, the [CDX](#) tracks CDSs, and the [LCDX](#) is for leveraged loan credit default swaps, like the [LevX](#) I believe.

"I've looked for some links to further clarify:

"The [ABX](#):

"The [CDX](#):

"The [LCDX](#):

"Currently I get prices from [www.markit.com](#) but not in a very user-friendly format! Would be thrilled to have an alternative source, but I have no idea if this is possible or not."

My comment - Thank you for your kind words and this interesting email and your quick reply to my request for clarification. It was an education for me. I've done an extensive search on Bloomberg for indices which may fit you request but I'm afraid I have been unsuccessful. There are a large number of such indices covering a wide variety of tranches but unfortunately we do not have access to pricing data for these indices, so I can't view them. This is because in an OTC market, most market makers preserve their own prices for their customers and it is in their interest not to make it easy to compare prices. If any subscribers know of credit derivative indices which are freely available on Bloomberg, please let me know and I will be happy to add them to the Chart Library.

Eoin's personal portfolio: silver position increased - I increased my [silver](#) position this morning by 50%, buying at \$14.47 including spread-bet dealing costs.

Today's interesting charts - You can change the order of your Favourites by dragging and dropping the constituents to the desired locations.

Gold - breaks above the psychological [\\$800](#) level and would need to sustain a move below \$790 to question scope for further upside in the near term.

Bank of America - [topped](#) out in late-2005 and remains in a somewhat inconsistent [downtrend](#). It needs to sustain a move above 47.50 to question scope for additional downside.

Goldman Sachs - [rallied](#) better than just about any other US bank from the mid-August lows but has encountered [resistance](#) at the round \$250 level. It would need to sustain a move above that area to reaffirm the overall uptrend.

Gasoline - [testing](#) the April, but looking much less overextended on this occasion. A downward dynamic would be needed for this to be anything over than a temporary are of resistance.

Email of the day (4) - [on a satire of financial markets:](#)

["Enjoy!!"](#)

My comment - [close to the bone but very humorous.](#)

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