

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 5th November 2007

How China boom could go wrong - [My thanks to a subscriber for this informative article](#) by Anna Fenech for The Australian, Business. Here is a brief section:

Schroders head of equities Martin Conlon says that while he supports the China growth story, he's concerned about the optimism being built into stocks such as BHP, based on a belief in continued high commodity prices.

"If you're not preaching the word of resources at the moment, then you are somewhat of a heretic," Conlon says.

"All the stocks going up at the moment are in resources -- it's a one-track market."

In fact, a significant portion of the market's rise is attributable to two stocks: BHP and Rio Tinto.

Conlon says BHP made a \$3.5 billion profit in 2004 but this has jumped to a \$15 billion forecast for next year, meaning profit has quadrupled in four years. "And where did it come from? All of it was due to increases in metal prices, not to volumes (production)," he says.

"There is an unprecedented supply/demand imbalance and prices have gone ballistic.

"My argument is you need to be careful about extrapolating these current commodities prices and profits into the foreseeable future, but that is what the market is doing."

And what could go wrong?

Conlon says any change in the supply/demand balance is a risk, that is, if supply accelerates faster than expected or if demand slows a little faster than people expect.

"In the end these are quite deep cyclical companies where profits have gone up three or fourfold in a few years -- I don't think people should kid themselves -- their profits can go backwards just as quickly."

Schroders is underweight on BHP and has been for a while.

Another fund manager, MMC Asset Management, has expressed similar doubts about the market's reliance on a continued rise in commodity price rises to sustain share prices.

In his latest investment commentary, MMC chief investment officer Peter Constable says that "we make no excuses for not owning BHP".

"It is not a stock we feel we can effectively evaluate in the absence of a strong view on commodity prices, something we would challenge anyone that has a medium to long-term advantage in predicting, not to mention the enormous supply response coming down the pipeline to satisfy recent price rises (excluding oil, which is in finite supply)."

My view - When I like a sector, let alone have significant personal investments in it, I never mind having the risks pointed out. In fact, it is reassuring, not least because any realist knows that there are always plenty of risks, including crossing the street every day. A widespread awareness of risk indicates a measured response by many investors - a useful wall of worry in a bull market, and of course not everyone agrees that it still is a bull market.

It is euphoria and the denial of risk that should ring alarm bells for investors, for those emotional extremes tell us that the crowd is long and leveraged. The most dangerous bubbles occur when those who have been issuing risk warnings have been either shamed into silence, or worse still, succumbed to peer pressure and become born-again bulls.

What can we conclude about BHP Billiton and Rio Tinto, mentioned above? I've prepared a brief checklist of questions for anyone who either holds or might possibly consider either investing in these shares, or perhaps shorting them.

1. Can you see clear evidence of a commodity supercycle, and specifically for industrial resources - yes or no?
2. Do price charts confirm your answer to (1) above - yes or no?
3. Do you expect the China-led global infrastructure boom to continue for many years - yes or no?
4. Do you expect the global economy to remain synchronised in a period of economic expansion for at least the next two years - yes or no?
5. Do you think that supply increases or substitution will weigh on resources prices within the next few years - yes or no?
6. Do [BHP](#) and [Rio](#) remain in long-term uptrends - yes or no?

Veteran subscribers may recall that I have long been an advocate of the commodity supercycle, and written extensively on this subject (newer subscribers interested in this theme can access those comments by searching under 'supercycle'). However answers to the questions above are inevitably somewhat subjective. Nevertheless I regard them as a quick reality check. I am sure that each subscriber interested in the top miners can either refine or add to the questions above. I also feel that these or similar questions need to be asked from time to time, so that we keep our analytical feet on the ground, whether bull or bear.

Here are my own brief answers: 1. Yes, I have seen nothing to refute my view of a supercycle, but plenty to confirm it. 2. Mostly yes, with any reservations caused by what I suspect are medium-term corrections for industrial commodities. If so, I would expect to see new highs, mostly within two years of an earlier peak, reconfirming the overall upward trends. 3. Yes, although a global recession, which I do not expect anytime soon, could cause a significant delay for two or three year. 4. Yes, with even the USA likely to avoid a recession in 2007-2008. 5. No, although I assume that it is inevitable at some future point, which could be many years away. 6. Yes, but we can expect further rollercoaster moves for BHP and Rio, and both are currently experiencing some mean reversion in terms of their 200-day MAs. Consequently, I would not pay up for these shares but I continue to regard them as buys following shakeouts. This also applies to other leading miners.

Email of the day (1) - On becoming a technical naturalist and questions on the markets:

"Thank you for the new "updates" in the chart library. I love the new ability to organize the charts. One very important approach that I have learned from you is how to be a "technical naturalist". I now obsessively and routinely look at about a hundred charts every day. It gives me a feel for the world markets that I never had before.

"I have two questions:

"Are we going to have "overlay charts" in the near future? Overlay charts are very useful in trying to see the relationship of one market to another.

"The second question is that I notice something: Copper, Zinc and Nickel are in pullbacks. Nothing scary here. However the Backwardation / Contango charts show that they were in severe backwardation some time ago and this is going away. This does not alter the long term bull hypothesis. However the change in the contango-backwardation charts combined with the severe overextension in both the Commodity and Asian markets should argue that perhaps we should move away from these markets, at least on a short term basis in our trading account. I would greatly appreciate your thoughts on this.

"Another question (sorry, I am asking too many questions). I always had faith in the Fed's ability to re-inflate the markets. Are we now seeing the emergence of "Crude Oil Vigilantes" that are responding to every Fed injection

of money with higher oil prices. If this is so, then is the Fed not limited in its ability to stabilize the American economy and markets?

"Among the Fullermoney themes (Rising Asia, Rising Commodities, American Technology and Rising Precious Metals) which do you think is the safest and highest return play at this time (i.e. 4th Quarter 2007 and 1st Quarter 2008)

"Sorry for the long e mail and the multiple questions. I really do look forward to your comments."

My comment - Thanks for the feedback and some extremely topical questions. You can only be better informed following your routine click through leading charts and I suspect the exercise will prove highly profitable for you over time.

Yes, we will eventually have an overlay facility in the Chart Library but these software projects take time, as you will appreciate, not least because there are many demands on the programmers' time. Meanwhile, the upgraded relative facility enables you to compare any two charts.

I'm disappointed with the timing of my small ETF purchases in copper, zinc and nickel, particularly the former. Consequently, I have not felt that I could add to these positions. However I went for June contracts so I am inclined to give them more time to improve. Regarding commodity backwardations, these are not sustainable beyond the medium term because someone will eventually deliver the material and consumers will secure additional supplies. There is currently a bit of cat and mouse going on with China's demand for metals but I think the Supply Inelasticity Meets Rising Demand theme will eventually support the bulls.

As a relevant aside, when trading I always start with small positions, which I can then leverage up behind trailing stops if they are performing. If not, I can either chop them if the situation has clearly changed, or give a comparatively small position more time if I think the basic story still applies.

Regarding the Fed, I would say its reflationary influence is considerable, albeit finite. You make an interesting point about "Crude Oil Vigilantes" but I think the Fed would worry far more about bond market vigilantes, but they are in hibernation at the moment. The Fed will have more problems when bond investors next anticipate inflation rather than weak GDP.

Currently, I suspect Fed officials are most worried about their growth and employment mandate, and they will have the White House worrying along with them. Officials know that house prices are no longer a self-filling ATM for consumers. They will hope to replace this with the stock market, even if the Nasdaq and other indices appreciate only in depreciating USD. For a debt-ridden economy in need of growth, losing one of those asset reflations looks careless. Losing the stock market uptrend as well would look incompetent and compound White House problems.

Regarding Fullermoney themes, I think Asian equities are the best for the very long term. However they are temporarily overextended and due for some

mean reversion in terms of the 200-day MAs. Precious metals are late bloomers in terms of the current run, and arguably show the best form at the moment. With Western bank shares under extreme pressure, the overall environment can only be more risky and we should expect volatile markets.

My personal portfolio: Platinum long trade halved as trailing stops triggered and then partially repurchased; two-thirds of Nasdaq long trade closed as trailing stop hit; DAX futures hedge short reopened; gold long trade increased by 25% trade increased - The first of these occurred on Friday, when an earlier than usual departure prevented me from reporting details. Unfortunately, some trailing stops in a 24-hour account were triggered in [platinum](#) early in the morning, closing half of my longs in the January contract at \$1439.60. One third of this position had been purchased at \$1318 on 18th September, while the remaining two thirds was purchased at \$1335.0 on 20th September. Interestingly and in the swings and roundabouts department, on this occasion the 24-hour trading, although safer over the long term, worked against me as stops at the same level in another account were not triggered as that firm only operates during NYME trading hours for platinum. By the time the New York market opened, platinum was trading back above my stop. Also on Friday, a tight stop on two-thirds of my [Nasdaq](#) longs was triggered at 2225 for the March contract, versus the purchase at 2224.75 on 23rd October.

Today, seeing the continued weak performance of Western and Japanese bank shares, I reopened a [DAX](#) hedge short (selected for convenience of trading hours rather than anything to do with Germany), although being a little slow on my timing, this is only one-third the size of my last DAX short. I also increased my [gold](#) longs behind trailing stops on earlier positions. I paid \$812.8 for another February position. Today, I repurchased some of the platinum, paying \$1468.8 for more of the January contract and increasing my overall position by a third in the process.

These prices include spread-bet dealing costs.

Email of the day (2) - On UK funds, BHP and The Chart Seminar:

"Before I get onto my point for emailing you today, I must say I am really enjoying the service both you and Eoin are providing and find especially the big picture audio you do on a Friday, both informative and educational, so I would like to say thanks and keep up the great work.

"My first point is both for you and the collective and to do with investing in UK equities / Unit Trusts. As we reach this 3rd phase of the economic cycle, if investing in a UK Unit trust for the long term are there any you would recommend.

"I take on board your point from previous emails, saying that UK companies which have high exposure to the US may see their share price roll over somewhat, and those that have exposure to the Far East will do better. Would

a switch to large caps and utilities serve us better as times of turbulence creep upon us.

"Secondly, BHP Billiton. I have not bought this share as up to yet, but see its potential especially for a long term play. Before investing would you wait for a pullback or still regard it as a buy. Also, with reference to buying shares, is there a broker you can recommend, I do have a spread betting account with IG Index, but have never approached them about share dealing.

"Thirdly, (and I do apologise about this being a long email) the chart seminar. Unfortunately, I didn't get in quick enough to reserve a place, and know of people who have been to your seminars in the past and have thoroughly enjoyed them, but I have reserved a place for the May seminar which I believe Eoin will be taking. My point is, have you ever thought about doing a DVD or CD Rom on the chart seminar, I am sure it would be extremely popular not just for me but the collective also. There are other companies which do CD'Roms, and to be honest with you, that is how I first got into trading.

"Thanks again, from a satisfied subscriber."

My comment - [Thanks for the feedback and your kind words.](#)

[Here is the Fullermoney policy on recommendations, from an earlier Comment of the Day:](#)

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

I personally would not invest in a UK fund at this time, unless perhaps I had a specific requirement such as income, which would include many large-cap shares, including utilities. There is a large selection of UK funds in the Library. If I just wanted FTSE 100 coverage, I would opt for an index tracker such as an ETF. Personally, I prefer UK-listed equities that earn most of their revenue from Asian-led growth. You mentioned [BHP](#), which is in my personal portfolio, but for timing I would only consider purchases following setbacks towards the 200-day MA. Regarding brokers, if you know exactly what you want, the online firms have the lowest dealing costs. If you want some assistance, it is worth paying a bit more for a good private client firm such as [Brewin Dolphin](#) (see [email of the day \(3\) on 14th August](#)). I think you will enjoy Eoin's TCS next May or November and find it very useful. Regarding a DVD I appreciate the request but nothing can match the workshop [environment](#) (please see [Email of the day \(2\) on 13th April](#)).

[Email of the day \(3\) - On China and India funds:](#)

"I'm based in Dublin in Ireland and I started my subscription about 3 weeks ago and I'm learning a huge amount every day from your audios and e-mails. I am trying to decide on my portfolio and I will definitely include an index on Chinese stocks as well as one on Indian stocks. What's the difference between choosing the two ETF's which you have in your portfolio (JP Morgan Indian IT and Atlantis China Fortune Fund) and choosing the type of managed funds which are available on the Irish market for pensions. I'm thinking of Quinn Life's China Freeway fund. Would you describe ATCHFORD and JII as mutual funds?"

My comment - [Welcome to Fullermoney and thanks for the feedback.](#)

I don't know the Quinn Life China Freeway fund and could not find it on Bloomberg, but I would check to see which category of Chinese shares it invests in and I would also check the performance.

China and India are the king and queen of emerging markets, in my opinion, and I think their long-term potential is outstanding. However both have had a very good run recently and China clearly shows bubble conditions although I do not think it is about to burst. However, as a new investor in these markets, I would only consider a partial position at current levels and retain some capital to add following a setback. JII is an investment trust. Atlantis China Fortune is a unit trust (mutual fund) and while fees are on the high side, I can justify this because Yang Liu has proved to be such a good manager. There are a number of entries under her name which you will find by typing it into the site Search facility.

I encourage all new subscribers to actively use the Search facility (you will find it upper left) as the best way to increase your familiarity with the Fullermoney service and to profit from it as have so many of your predecessors.

Credit Suisse Standard Securities: The Future of Gold - [My thanks to a subscriber for this excellent report by Dr David Davis for Credit Suisse. Here is a brief section:](#)

Supply and demand

Our studies indicate that the dynamics surrounding the gold supply and demand has begun to change inexorably towards a diminishing supply of gold and increasing investment demand, which will ultimately impact the gold price.

Our studies indicate in the long term global gold production (primary supply) will begin to decline as the diminishing number of new reserves fails to compensate for dying mines. The decline in global gold production will likely be accelerated, should the gold mining industry continue to incur significant year-on-year inflation rates which are not offset by similar or significantly higher gold price increases year-on-year.

When we strip out the secondary supply of gold to the market, which comes mainly from Central Banks and producer hedging, we find that over the last 18 years, apart from three occasions, the supply of gold has been in deficit. This

primary deficit has been masked by the secondary supply of gold into the market mainly from Central Bank sales and producer hedging. We believe Central Bank sales will likely wither going forward, and the Banks could become net buyers of gold. Producer de-hedging, which has the effect of removing the supply of gold from the market, has accelerated in recent months. This transition, together with increased investment demand (ETF's), jewellery consumption and diminishing mine supply, in our opinion has already begun. Under these circumstances the supply-demand imbalance will begin to accelerate at an ever increasing pace into a net deficit, which in turn, will likely put significant upward pressure on the gold price. The scenario just described is depicted in a graph of our supply and demand model below.

My view - [Gold](#) is already above David Davis' price forecast for the year. However given seasonal strength and more importantly for me, the sustained breakout following a lengthy medium-term consolidation, and most importantly, gold's current strength against all currencies, I continue to expect a big move over the next few months. Targets are guesses but I have often mentioned that I would not be surprised to see at least \$800 to \$850 on this post breakout move, so it has only fulfilled my minimum expectations for this run. However we should not be surprised to see a consolidation or two along the upward path.

More importantly, look at gold in a few other currencies: [EUR](#), [ZAR](#), [GBP](#), [AUD](#) (lagging against this strong currency but it has broken the progression of lower rally highs), [NZD](#) (similar to AUD), [CAD](#) (bullish provided it does not break recent progression of higher reaction lows), [CHF](#) (no longer 'good as gold'), [JPY](#), [CNY](#) (is this the most important currency for gold in the years ahead?), [NOK](#) (stronger than Europe's petro currency), [INR](#) (testing high against another firm currency), [KRW](#), [SGD](#), [RUB](#) and [SAR](#). There are charts of gold in many other currencies in the Library but you probably get the picture.

I don't know about central banks buying gold bullion, although they could do a lot worse, but if I were in charge of a sovereign wealth fund I would definitely invest in gold. We live in a fiat currency world and no country really wants a strong currency, while some countries either actively pursue competitive devaluation or actively intervene to prevent their currencies from appreciating.

Additional Commentary by Eoin Treacy

Dragon Capital: Vietnam Focus November 2007 - [Thanks to a subscriber for this interesting report](#) which covers a number of issues relating to the Vietnamese market. Here is a section:

Our general outlook is quite positive. Inflation for the most part is externally generated and we are not concerned about a liquidity-driven asset bubble (and crash). The huge positive about food goods is that unlike other commodities such as metals, many are highly price-responsive.

A shortage of rice will result in greater production at the next harvest. (And among global producers, Vietnam's farmers are exceptionally price-responsive, indeed sometimes price-destructive -- as Latin American coffee producers and Louisiana catfish cultivators will testify.) Furthermore Chinese food prices may now be moderating -- September showed a drop to 16% you from 18% in August, as hogs (one of the key drivers) were released into the market from Government reserves. Thai food prices have been falling since June. We think Vietnamese food inflation is close to peaking, and although the CPI might pass 10% through the close of the year, after that it will begin to fall.

A concern nonetheless remains that political demands for bold action on inflation will cause the wrong tools be used in dealing with a shock that is mostly external. There is much talk about another 5% hike in capital reserve requirements, for example -- which fortunately we doubt will happen. The last hike had a traumatic effect on bank stocks and a repetition of this might impact the critical SOCB equitizations. Additional non-monetary tools, such as rice export restrictions, are already in effect and could do a lot of harm to markets without necessarily reducing the CPI. Vietnamese farmers need to be producing at full tilt, which will only happen if demand (foreign and domestic) is unconstrained.

Experience over the past year will hopefully lead to a rethinking of monetary policy. Although foreign inflows have mostly been sloshing around in the money market, the banking system is maturing rapidly and the move is on to develop more active and efficient lending (see "Company Profile"). That will power up the transmission mechanism of excess liquidity into inflation and the SBV will want to be able to counter this with a freer hand on monetary policy. In the current regime, the Bank can't simply raise rates. Bond sterilization programs have had a mixed effect, and are becoming more expensive as domestic institutions demand higher real returns. FX policy has the most room for flexibility, and in this context a market-driven VND would give the authorities the control they need over interest rates.

My view - Vietnam's stock market went through an impressive [acceleration](#) in the latter half of 2007 and has so far held the gain quite well. The move ended with a weekly key reversal and following a 23% drop the Index found support at 900. It remains in a medium-term [consolidation](#), where this level marks the bottom of the range. However it needs to sustain a move to new high ground to reassert the overall uptrend.

It remains an open question as to whether the Vietnamese authorities are even considering abandoning their policy of depreciation against the Dollar. However in chart terms, the Dollar is gradually topping out against the Dong ([monthly](#), [weekly](#)). Following a number of rather stiff devaluations in the late '90s, the Dollar's uptrend has been losing momentum. A break below 16,000 would complete the Dollar's top and would indicate a secular change in policy at the Vietnamese Central Bank, Vietnam's currency is lagging its Asian neighbours but it may be starting to catch up and it has a sizeable distance to move.

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

"Re the request from a subscriber for ETFs on Asian currencies I know UBS have a vast number of currency certificates which may be of interest. I have one example as a pdf but as there is no facility in FM to send an attachment I have cut and pasted a short description below.

"Valor/ISIN 2'138'228/ CH0021382285

"Summary This product offers the possibility to participate in an appreciation of Asian currencies against the USD. On the Redemption Date, the investor will receive as a minimum the Capital Protection of 100% of the Nominal plus any positive yield resulting out of the appreciation of the Index relative to the Basket Strike Level. If at Expiration the Index closes below the Basket Strike Level, the investor will receive the capital protected amount, which is 100% of the Nominal, but will receive no additional yield."

My view - Thanks for this interesting [factsheet](#) for a note which has equal weightings in the currencies of India, Singapore, Thailand, Taiwan and Korea; all of which are appreciating versus the US Dollar. I'm afraid the note is not listed on Bloomberg, so I cannot add it to the Chart Library, but I have asked for it to be added to their system. On the face of it, the note seems to be an interesting vehicle, but I would suggest that subscribers do their own due diligence before investing.

Email of the day (2) - [from a new subscriber on Oats](#):

"I have recently took out a month's subscription to your service, I would consider myself new to investing and have tried to open medium to long term positions, but with limited capital its difficult to place stops far enough to avoid volatility without risking too much of my portfolio.

"I have been successful so far in that we are in a medium term bull market and I have leveraged, but this tactic could ruin me in less favourable conditions.

"To pick an example, I have noticed oats closed at 293 on Friday. In your comment of the day on the 3rd of Oct you mentioned it would need to close above 300 to confirm the uptrend, would this breakout be close enough? If so how volatile is this market, judging by the dips below the 200 ma should it be below say 240?

"It's ok if you don't want to commit to exact figures, but thanks for taking the time to read this."

My comment - [Welcome to the Fullermoney Collective](#) and thank you for a thoughtful email. One of the most important things to do before choosing an investment or trade for the medium to longer term is to look at plenty of long-term data.

When we look at the Oats ([p&f](#), [monthly](#), [weekly](#), [daily](#)) chart we see that it is volatile, which is a characteristic it shares with the other grains. In the past it has posted some impressive gains, which have lasted only one and at most two growing seasons. Is the current move any different?

It is, because Oats has sustained the move above the 250¢ level for more than a year, which is something it has not done in the 35-years shown on the monthly chart. In our chart reading terminology, we can view this as a first step above the base. However, it will not have completed this 'step' until it sustains a move above 300¢.

The downward dynamic it posted at the beginning of October didn't see very much follow through and the commodity rallied back to 290¢ relatively quickly. It now has much more underlying trading, which makes an upward break more likely, however this is more of a short-term trading view and it remains a possibility that it may fall back without confirming its bullish potential. The longer-term aspect will not be confirmed until we see a sustained break above 300¢.

Email of the day (3) - [on an agricultural ETF](#):

"Many of your readers might find MOO US EQUITY interesting as it provides diversified thematic agricultural exposure. The same company also provides a number of other thematic ETF funds. I am sure there are better individual stocks but for those wanting diversified exposure in one vehicle these seem reasonable. They may be slightly overly concentrated for some though.

"Caveat Emptor!"

My comment - Thank you for pointing out this interesting ETF which covers the agricultural industry and I'm sure will be of interest to subscribers. We already have it in the Chart Library, as well as 6 other funds from the Market Vectors. While the Top-10 [holdings](#) of the Market Vectors Agribusiness ETF are not cheap, this remains a growth industry which likely has further upside. However it is probably best bought following reactions.

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

"I just had to compliment your "backroom webmasters" for the great job they have done with the library. The ability to sectionalise the Favourites and move the order of selections around within each section is superb. It provides the ability to create a contemporaneous flow of analysis, e.g. move the banks indices up in the order of analysis given their current trajectory and influence of the greater non-commodity driven indices."

My comment - Thank you for this interesting email and I have forwarded your appreciation to our programmers.

Email of the day (5) - [on the Coffee ETFs and the mid-August lows](#):

"Thanks for all the work in developing the new enhancements to the chart library. I have just opened a new section in Favourites and added the heading Toxic Waste. In to this heading went all the financial and banking shares!

"Could I ask you to have a look at the coffee ETFs. When requesting a 5 or 10 year chart, it simply gives the last 12 months, and does not seem to recognise the command.

"And whilst communicating, many many thanks for your support and guidance this year. The other day, my portfolio reached a big fat target for 2007..this would have been inconceivable without your direction and support as otherwise, I would probably have sold the lot on August 16 when I saw Nikkei reach 15200. Luckily Eoin assured us all that this was an ending signal!

"Fantastic work. Many thanks."

My comment - [Thank you for this thoughtful email and we are delighted that you are enjoying the new Chart Library features. The Coffee ETFs was only launched last year which explains why it has so little history. However if you look at either the Robusta or Arabica charts you will get much more history.](#)

Mid-August was an emotional time and the 16th marked the nadir of some extremely bearish action. We are delighted to have been a help over the last year but you are the one who can take credit for staying invested when pressure came to bear and were rewarded when the bears were put under pressure.

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

"Hi there - could you please add Mintails (MLI on the ASX) to the Library"

My comment - [Thank you for your email and I have added this share to the International Equity section.](#)

Today's interesting charts - [The Asian currencies section has a wide range of instruments which are in long-term uptrends against the US Dollar.](#)

Hong Kong - [downward dynamic confirms a high of at least short-term significance and would need to sustain a move to new high ground to reaffirm upward potential.](#)

Silver - [pressuring the 2006 highs and a downward dynamic would be needed to question scope for further near-term upside.](#)

Aluminum - breaking [upwards](#) from the consolidation above 2400 and would need to sustain a move back into the range to question scope for further near-term upside.

Eurobunds - [pressuring the highs](#) near 114 and would need to sustain a move below Thursday's low to question scope for an upside break in the short-term.

Tuesday 6th November 2007

Tim Price: Just an illusion - [My thanks to Tim Price](#) for the latest of his informative and witty [reports](#), published by PFP Wealth Management. Here is the opening:

"Fiat currencies don't float. They just sink at different rates." - Unknown.

Money illusion affects people, and markets, in different ways. The primary form of money illusion, of course, is that we always believe we have more money than we actually do - too much month left, in other words, at the end of our money. Other current examples of money illusion include thinking that a 2 bedroom flat in Chesterford Gardens, Hampstead is worth £1,400,000 in September when it isn't selling in November for £1,200,000 (according to PropertySnake). Or that the fair market value for responsibility for an \$8 billion writedown and the biggest quarterly loss in your brokerage's 93-year history is an early bath bonus of +\$161.5 million. (To be fair to Stan O'Neal, when he promised in December that Merrill Lynch's \$1.3 billion acquisition of subprime mortgage lender First Franklin would provide "revenue velocity", he didn't explicitly state whether those increasingly rapid revenues would be positive or negative, though now we know.) But perhaps the most dramatic form of money illusion is the belief that a 2.6 inch x 6.1 inch 1 gram rectangle of linen and cotton that costs 4.2 cents to manufacture and that represents 'money' without any material backing (other than linen and cotton) is worth *anything at all*.

My comment - [I commend Tim Prices' report to all subscribers.](#)

[Here are two long-term charts, which veteran viewers have seen many times as these trends have progressed. They convey powerful messages that need no technical interpretation.](#)

[US Dollar Index over the last 50 years.](#)
[Dow/Gold Ratio over 50 years.](#)

[What are the Federal Reserve, US Treasury and White House trying to do? More importantly, how should we respond?](#)

[Following their deeds rather than words, I maintain that they will do everything possible to keep the US economy from sinking into a lengthy recession. Their ammunition is a massive reflation and a devaluing US dollar. This will cushion downside in the property market, preventing a crash, and they aim to buy a further uptrend in the US stock market, if only in terms of the shrinking US currency.](#)

This will cause additional asset inflation - take a look at this 50-year chart of silver on both a [semi-log](#) and [arithmetic](#) scale. From an American perspective, I would pursue asset diversification, stocks (in the USA favour big-cap exporters and other companies that earn a high proportion of revenue overseas, not domestic economy shares), high-growth emerging markets, precious metals, art, antiques and other collectibles that you both like and understand. Quality US property will mostly hold its value, but is unlikely to outperform other assets anytime soon. I would avoid US Treasury bonds.

UK investors should follow a similar strategy, and watch out for sterling when the Bank of England eventually signals a lower short-term interest rate policy. And shop in America, for value, as should all Europeans.

Asian investors and those living in commodity exporting countries have the least-worst currencies but developing regions in particular will have higher inflation. However asset prices in your countries and regions should continue to perform well.

As a general comment on stock markets, be prepared for further volatility - there is more on this in tonight's Audio.

My personal portfolio: Platinum and silver long trades increased behind trailing stops, and a day-trade profit taken on the latter; corn long reopened - First, I raised trailing stops on my [platinum](#) trades, including the introduction of a very tight breakeven stop on yesterday's purchase. Then I increased my platinum longs by 50%, paying \$1476.5 and \$1480.5 in the pre-market trading for more equal-sized positions in the January contract. To put this in perspective, my overall platinum position is now 20% above last week's level before it was halved by a trailing stop. I also increased my [silver](#) position by 50%, paying \$15.16 for a March position, which I then day-traded out at \$15.55, on seeing silver up over 60¢ on the day. I should have bought it back on the temporary 20¢ dip that followed. My current intention is to run longs in gold and platinum, which hopefully won't be too volatile, and trade silver a bit more actively as it is very volatile.

I will probably let my December palladium position expire, despite expecting an explosive catch-up move, as it is so expensive to trade on a spread-bet basis. Looking at one of my online accounts, the December palladium bid-offer spread is currently \$5, just over 1.3%, on a commodity currently trading at \$380, so buying and selling costs combined would be over 2.6%. The January platinum spread is also \$5 but it is currently trading at \$1480, only 0.34%, or 0.68% roundtrip. For March silver, the spread is 4¢ against a current price of \$15.45, giving a dealing cost of 0.26%, or 0.52% roundtrip. Lastly, February gold has a \$1.4 spread against a current price of \$830, resulting in a current dealing cost of 0.17%, or 0.34% roundtrip. These spreads reflect competition within the spread-bet industry and particularly volume. However as prices rise, the dealing costs are coming down as a percentage, so firms may increase spreads somewhat, although it would be nice if they did not.

Lastly, having mentioned in last night's Audio that I would probably buy [corn](#) once again, I did so this afternoon, paying 384.5¢ for a December position, no other contract being available within my spread-bet accounts.

Prices above include spread-bet dealing costs.

Email of the day (1) - On trading stops:

"Setting Stops continues to be challenging, as witnessed by the teeth marks in my desk. Just to be clear, when you say leveraging up behind trailing stops, I take this to mean:

- I buy 1 unit in asset "abc" at price 10.
- I buy another unit at say 15 and set two stops at 12.5 or 1 stop a 10???

"Thanks for the all the help & guidance."

My comment - Oh dear, but well done for maintaining a sense of humour. I also genuinely sympathise because the successful placing of stops is certainly tricky. They are meant to keep us out of trouble but can too easily be profit reducers rather than enhancers.

So let us review why we use stops, which I personally confine to leveraged trading, rather than my unleveraged long-term investment portfolio, although I may very occasionally have a mental stop for the latter.

Personally, I use stops for two reasons - money control and also to reduce stress. Interestingly and somewhat counter intuitively, I find that emotional pressure is often greatest when I'm experiencing a good run.

Winning can be exhausting due to all the excitement, expectations, preoccupation and feelings of responsibility. There is more temptation; one has to fight overconfidence; one stays up too late and spends too much time watching the screen. There is also the fear of being an absolute muggins by allowing too much of the profit to slip through one's fingers.

Obviously, all of us would much rather face the emotional challenges of success rather than the humiliating, confidence-sapping and discouraging wakeup margin calls.

Trading is hard work, as I have said before, but certainly worth the effort if we can master our emotions and read the charts. Trading is like the Rocky films, in that we get knocked about much of the time (at least this has a beneficial conditioning affect, being a humbling experience) eventually followed by a sweet triumph which makes it all worth while. Inevitably, those who consider themselves active investors will ride a similar emotional rollercoaster.

So how can we make stops work for us?

I don't use stops on all my trades but I probably should, provided the strategy is mainly technical. In other words, if about to open a new trade, before

pressing the buy or sell short button, look at the chart while you are still objective and decide at what adverse level you would no longer want the position. That is probably where you should place your stop because it will keep you in if your hunch is right, but take you out if the trade clearly deteriorates.

Tactically, I favour starting small, relative to one's capital, and building a position conservatively, behind trailing stops, if you have anticipated the trend correctly. The alternative is to gamble by taking a big bet relative to your capital and then use a financial stop, which is much more likely to be triggered at a loss. Remember, almost all gamblers lose, if not initially, eventually.

One can get therapy for gambling and few of the best traders I've met would even contemplate spending time in casinos, at least not with the hope of making money. They prefer the odds to be on their side, which is a much more realistic possibility in the markets, especially if they know how to improve their chances.

For personal, psychological reasons, I am also a fan of an early move to a breakeven or in-the-money stop on the original position, or when leveraging up, if a new position is performing. Again, one really should look at the chart because while the tighter stop strategy would probably not be a good idea in a trading range, I often use it following a small breakout within a trend.

My rationale is that if the trend is still good, meaning that it is extending the move, then I should get away with the tighter stop following a breakout more often than not. However if the price fails to maintain a breakout, the trend is probably not as good as I had hoped. Unfortunately, there are inevitably many more choppy trends than highly consistent ones, and the latter almost always produce the bigger overall moves.

Another reason for the breakeven stop when you have a little breathing space on a winning trade - it is psychologically debilitating to see a profit turn into a loss.

When running a trend, the most difficult decision is deciding how tight or loose to keep stops, plus whether to bunch them at one price for convenience or to stagger them at different levels. Frankly, there is no easy answer; in descending order of importance, it is a matter of behavioural chart reading, intuition and luck, the latter usually in the form of less rather than more volatility.

Focussing on the charts and this topic, Eoin and I were talking about the short-term characteristics of gold and silver, particularly in terms of trend consistency this morning. Taking [gold](#) first, you will notice what we refer to as a staircase (as in step sequence) uptrend. The last two steps, centred on \$759 and \$789, show reactions of approximately \$27 and \$22, so a technical trailing stop in this environment might be \$30. This would keep you in, in the event of another similar-sized reaction, which would not alarm most participants because they have seen it before recently, but take you out in the event of a bigger pullback, which would be more worrying for the crowd and

could therefore mark the onset of a larger and more volatile range. The latter might even mark the end of the trend although we would not have confirmation until much later. The equivalent strategy for [silver](#), following a consolidation mostly below \$14 and a much shorter step above that level, would be a trailing stop of 70¢ to 80¢, quite loose but only because it is more volatile than gold.

However, if gold or silver have just broken up out of one of those steps, a tighter stop would be justified, initially, because if the trend had further short-term potential, it should maintain upside breakouts. This tighter stop could be at the mid-point danger line (from [The Chart Seminar](#)) being the middle of the previous range. Once a breakout from a clearly identifiable range occurs, a pullback beyond the middle of the range would suggest a diminution of demand relative to supply in an uptrend, in which case one might prefer to be on the sidelines for a while. In other words, if the market has further to go now, it should maintain the breakout.

If the uptrend is extended, with gold the \$30 trailing stop from the high would become appropriate once again. Of course there are variations on this trend-running approach, such as staggered stops to avoid setting too many targets for market makers. Intuition may suggest that you tighten further, or perhaps loosen the stop for some reason. However if the trend clearly accelerates, I tighten stops. The climactic stage of an uptrend is characterised by persistent strength which is unsustainable beyond the short term. Once demand wanes, the price usually falls back quickly.

The best trends end in breathtaking parabolic accelerations, with pundits leapfrogging each other in issuing attention-grabbing bullish forecasts and higher targets. Of course are guesses, and usually represent the triumph of hope over experience. Once dramatically accelerated trends lose momentum beyond a brief pause, and start to react with large downward dynamics, the vacuum of supply on the upside has been replaced by a vacuum of demand on the downside as everyone scrambles to get out. A significant and often lengthy correction follows.

So don't give up on stops because you will certainly need them when trading. However observe the consistency characteristics of the trend, revealed by price charts, and adjust your stops accordingly.

Rod Smyth: The Fed's Dilemma: Why Bernanke's Rebuttal May be Short Lived - My thanks to Rod Smyth, Bill Ryder and Ken Liu of Wachovia for their excellent [report](#).

My comment - Don't miss the terrific chart of diverging trends in the US market - a point emphasised by Fullermoney in recent months.

As an aside, the disclaimer, presumably imposed by Wachovia's Compliance Department, seems dated to the point of being risible.

Email of the day (2) - [On corn, soybeans, the USDA, politics and ethanol:](#)

"As the US corn harvest winds down, it is becoming increasingly evident that the USDA's October crop estimate is too high. Initial anecdotal reports suggested a record yield was in sight, but later yields have dropped off by as much as 10% in many key areas. The market generally expects the USDA to be unchanged on Friday's November report, a sentiment reinforced by recent USDA comments that claim unusual confidence in their data. Strangely, last October they said the same thing, only to drop the crop by some 250 mln bushels subsequently.

"After witnessing multiple crop failures in both hemispheres this year, the one major crop that was living up to expectations was the US corn crop. The magic of triple stacked technology, combined with excellent conditions for most key states promised to keep supplies adequate in the US, offsetting some of the huge drawdowns in the rest of the world, which have plunged world rice, coarse grains, and wheat stocks to 30 year lows. But it now seems that the triple stacked panacea just went up in 3 puffs of smoke. In fact one of the leading seed companies recently withdrew 3 top selling triple stacked varieties because of poor performance.

"Ultimately, I believe that despite conditions that were generally better than last year, the final corn yield will be essentially unchanged from last year's disappointing yield. For the top producing state of Iowa, in September the USDA predicted 182 bushels, and in October 180 bushels. I bet it will end up below 170 bushels. This wager to be settled in US or Zimbabwean dollars, whichever has the greater purchasing power at the time.

"To compound the problem, the USDA appears to have overstated this year's carry in, and understated domestic feed and exports. Ultimately this year's carryout should closely resemble last year's. The implications of that statement are simply mind-boggling. What on Earth happened to the 13.6 mln acre increase in corn plantings this year? 12 mln of those acres came from soybeans, but with demand for US soybeans outstripping supply by almost 400 mln bushels, soybean acreage needs to increase by a minimum of 7 mln acres. The soybean yield is also likely to come down, and the soybean balance sheet is potentially explosive, but that's for another day, another diatribe. With winter wheat acres increasing and cotton acres likely to rise, where can we come up with enough acres for both corn and soybeans next year?

"The alarm bells should be ringing nonstop from Chicago to Beijing, but unfortunately the USDA's alarm clock only has four modes: Unresponsive, Somnolent, Dozing, Asleep. At least Borat, who does the USDA's wheat numbers, has a highly vivid imagination.

"With insufficient acres, the only solution would be to cut back on ethanol demand, which represents almost one quarter of total demand. We will need to rally corn to levels where corn ethanol margins are squeezed so hard that

we shed 25 percent of the grind. Today what could mean at least \$4.50 to \$5.00 corn, but ethanol margins, along with RBOB, are a moving target.

"The trouble with this argument is that the minute the ethanol industry hits the ropes, the politicians will line up to shower them with increased subsidies. Ethanol, green? Yes, green as the colour of dollar bills. All this for an industry that is promoted as a solution to our energy problems, but which in reality is about as energy efficient as a rabid dog chasing it's tail, and thanks to herbicides, fertilizers, and diesel usage about as eco-friendly as a strip mine in a national park.

"For those of you waiting for the Food vs. Fuel fight you better buy ringside seats today.

"The big question obviously, is when does the USDA make the necessary adjustments to the corn balance sheet? The November crop report is on Friday, but I would not hold my breath for any dramatic change on that day. A more obvious date would be the January stocks report, because even for a government, it is difficult to create stocks that do not exist.

"Now that Al Gore is officially in charge of the climate, hopefully he will straighten the weather out quickly, because with a couple more crop problems the grain story will replace the energy story on the front pages of the newspapers."

My comment - [Thank you so much for sharing your considerable insights, in a fascinating and informative email, contributed in the spirit of Empowerment Through Knowledge. In addition to the usefulness of your information for investors and traders, your sense of humour made it a great read.](#)

Additional Commentary by Eoin Treacy

Morgan Stanley: Premier's Comments on QDRI Delay; Buy on Dip - [Thanks to a subscriber for this interesting report by Jerry Lou which raised some interesting china related issues. Here is a section:](#)

Conclusion: The market's strong negative reaction today to the Chinese Premier's comments regarding the QDRI (qualified domestic retail investor) scheme's delay is emotional and offers another opportunity to buy on dip. We believe the Premier's comment looked backward for an explanation of the delay so far, rather than being a forecast on launch timings. We do not believe the QDRI's delay itself will turn the market's strong near term upward momentum, which is driven by 1) strong Corporate China earnings against global earnings slowdown (Exhibit 1); 2) relative small size of offshore China equities market capitalization and scarcity of growth assets globally (Exhibit 2); 3) thriving global liquidity conditions thanks to easing monetary policies. Although already expensive, we think these three drivers will continue to boost the offshore market to overstretched levels before it falls on its own weight.

My view - China is slowly moving towards allowing retail investors to move their assets abroad. However when the announcement was made in mid-August it was perhaps not fully appreciated how much of a step this would be in terms of regulation and risk of capital flight. With that in mind, it remains likely that this change will eventually be allowed, but it probably won't happen until some form of regulatory framework has been put in place to deal it.

In the medium-term, we can continue to look to Hong Kong to benefit from capital inflows from the mainland, although that market is now in a reactionary phase of at least near-term significance. Over the longer-term, this is just one more step on the road to full convertibility of the Yuan.

Email of the day (1 & 2) - on the Emirates:

"Dubai Market: Interesting Fundamentals and Technicals

"There is a big focus on the US markets and BRICs, but I have recently focused on the Dubai market. There is no sub-prime there for sure and the technical charts are showing an interesting breakout. The Dubai market can be accessed easily through Euro based ETFs."

And

"Nice to get your email.

"A number of ETFs in Euro for the Gulf area are:

"Dubai:

S-BOX Dubai Index ISIN DE000DB0JXM1

Dubai Top Select I ISIN DE000DB52810

Dubai Top Select II ISIN DE000DB2DUB9

"Abu Dhabi:

Abu Dhabi Top Select ISIN DE000DB4ABU1

"The performance may be seen on gulfbase.com

"I have recently shifted from Hong Kong H-Shares into these markets as I feel H-shares are overdue for a correction."

My comment - Thanks for your interesting initial email and comprehensive follow up. Many Middle Eastern markets accelerated in late 2005 and early-2006 to highs which were hundreds of percent above where they had traded only two-years earlier. One of the highly publicised reasons for the spectacular performance of many of these markets was the flow of oil money home following nervousness about the safety of assets in the USA as a result of 9/11. The more important reason to be interested in the region, over the longer-term, is that the Middle East has a large, young population and infrastructure has to be built now, in order to cater for these masses as they grow older. This is the key motivation behind the growing interest in the region

The [Saudi Arabian](#) market, which is the regional heavyweight, topped out above 20,000 in early 2006 following a move from below 5000. The Index has since given up most of its advance and is currently on the upper side of its base. It has recently been looking much more steady which is a characteristic it shares with some of the regional peers. It may be on the cusp of breaking upwards, but needs to sustain a move above 9000 to reaffirm its overall bullish potential.

[Jordan](#) didn't fall as much as Saudi Arabia but has a relatively similar pattern. It recently broke upwards from its base and the upside can be given the benefit of the doubt as long as it holds the move. The same can be said for the [Lebanese](#) Index. The [UAE](#) has a similar pattern to these three markets and has also recently broken upwards. [Qatar](#) broke upwards at the end of September and rallied impressively to the current 10,000. A downward dynamic would be needed to question scope for further short-term upside.

[Egypt](#) sustained a correction of nearly 37% from its early-2006 highs but found support above 40,000 and shortly thereafter moved into another medium-term uptrend. It would need to break the progression of lower highs to question scope for further upside.

The [Bahrain](#) stock market hasn't been open for as long as the others and only broke upwards from a rather lengthy consolidation in early June. It would need to sustain a move below 2500 to question scope for further near-term upside.

[Oman](#) remains the leading stock market in the Middle East. It did not rally to anywhere near the same extent as the larger markets in 2005 but held its gain well and reasserted its uptrend in May. A downward dynamic would be needed to check momentum beyond a brief pause.

I can see the logic behind having a position in some of these Middle Eastern markets because some of the leading Asian markets are overextended in the short-term. However over the long-term I would have much greater confidence in China and India's ability to outperform.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his ever interesting [report](#) which this week concentrates on the value of the Rupee. However here is a section on gold:

India, the world's largest gold consumer, faces rising gold costs especially during the country's most important festival, Diwali, the Hindu New Year on November 9th this year. Rising incomes have sustained demand for gold during the run up to Diwali which is then followed by the marriage season. Gold jewellery is traditionally bought for Indian weddings. Gold is trading at \$805 an ounce, its best level since January 1980 when it hit an all-time high of \$850 per ounce. Then investors bought the metal heavily in the face of high inflation linked to strong oil prices, a weak dollar, Soviet intervention in Afghanistan and the impact of the Iranian Revolution. After adjusting for inflation, the level of gold is \$2,079 an ounce at 2006 prices, according to metals consultancy GFMS Ltd. The dollar this month has fallen to record

levels against major world currencies and oil, at \$95.33 today, is within striking distance of hitting \$100 per barrel.

My view - The excerpt above helps to explain why this is a seasonally bullish period for gold. The tradition of giving gifts of gold at Diwali and as wedding gifts coupled with the growing ability of people to be able to afford such gifts is probably enough to support the secular bull market thesis for the yellow metal. However when we factor in declining mine production, a weaker dollar, growing inflationary fears and investor demand, the stage is set for an impressive performance. (Also see David's Comment above.)

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

Western European stock market indices have been some of the worst laggards in terms of performance in the global beauty contest over the last couple of months. However they are now also amongst the cheapest in terms of P/E with Luxembourg, the Netherlands, Ireland, Belgium, Norway, Sweden and the Dow Jones Stoxx 50 in the Top-10 cheapest indices globally.

When sorted by Dividend yield, the FTSE AIM index, FTSE-100, FTSE All-share and the FTSE-350 are in the Top-11 markets.

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

Eoin's personal portfolio: silver position increased, then closed later at a profit - I increased my silver position by 33% this morning paying \$14.98 for the December contract. However in the early afternoon, having seen silver up more than 60¢ on the day, I closed this position at \$15.35, taking a short-term profit. I hope to replace this position on any pullback which may occur over the next days.

Today's interesting charts - The Chart Library has in excess of 16,000 instruments which may be of interest to subscribers.

Spain - breaking upwards from the short-term consolidation above the July high. A sustained move below 15,500 would be needed to question potential for some further upside.

Soybeans - breaking upwards from the consolidation at 1000¢. It would need to sustain a move below that level to question scope for further upside in the short-term.

Tin - breaking [upwards](#) following a more than three-month consolidation. It would need to break the short-term progression of rising lows to question scope for further upside.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of October 28th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Ireland, Singapore, Sweden, the UK and the USA - 6 in total. In descending order, which topped the list in terms of the last three week's new signups? It was the UK, USA with Ireland and Singapore tied for third place. Welcome all to the Fullermoney Global Strategy Service.

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

Wednesday 7th November 2007

How Sensitive is Growth in Emerging Markets to a US Slowdown - My thanks to a subscriber for this very good and topical [report](#) by Peter Hooper, Thomas Mayer, Theodor Schonebeck, Torsten Slok and Mark Wall of Deutsche Bank. Here is the introduction:

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.

To investigate the decoupling hypothesis we take a closer look at the various trade and financial linkages through which a US slowdown could affect

emerging markets. We find that for several reasons, emerging markets economies are unlikely to be less sensitive to a downturn in the US today than they were several decades ago; indeed the sensitivity may have increased. At the same time, the effect may be smaller than some estimates have suggested. Unless accompanied by financial turbulence, a US economic downturn may indeed well have only moderate effects on emerging market growth

My view - Within an increasingly integrated global economy, there can be no complete economic uncoupling, in the event of a significant problem in one important region, namely the USA in this instance. However over half of global GDP now comes from so-called emerging markets, and their proportion of growth is increasing much more rapidly than in the developed countries.

Consequently, the old adage: "When the US sneezes, the rest of the world catches a cold", has given rise to the mildly complacent: "When the US sneezes, the rest of the world goes shopping." Over all, GDP growth trends suggest that the USA will remain an important influence, albeit of gradually declining impact.

I suspect investors may need to consider the possibility of psychological contagion for somewhat longer, although it appears to have diminished this year, in line with trends for growth and profits.

This subject is articulated in the email immediately below, and discussed in my reply.

Email of the day (1) - On an [article](#) by Will Hutton for the Guardian (UK) and coping with volatility:

"I thought your subscribers might be interested in the following article from Will Hutton of the London Observer which illustrates the wall of worry concept in bull markets.

"To my mind the benefit of an FM subscription is a sense of the bigger picture and the "calm karma" that goes with it, i.e. that while we have sensitivity in the US and European credit markets the FM themes of resources and Chindia prevail. From a rational perspective this does make sense but we are talking about a sometimes totally irrational market. I would imagine that a good few of your subscribers are like myself living in resource-centric economies with strong currencies and fully invested in the FM theme of resources and Chindia. They, like myself would often be challenged with the concept of asset allocation rebalancing where we are advised to redistribute our super gains in one area back into those areas that have underperformed as that is where the future super performance may likely occur. From a behavioural perspective this is always difficult to do. As the saying goes "when on a good thing, stick to it".

"Given the increasing number of columnist and newsletter articles like the one above on the transfer of credit market turbulence to equity markets and their

potential impact on market sensitivity I am concerned that the market will get "thumped" in the near future more on sentiment than logic. A good buying opportunity I can hear you say and I agree. The question I am asking myself is should I currently stay fully invested in the major themes or begin to realise super profits and rebalance into cash awaiting a sentiment driven "thumping". As always it's in the timing. Unfortunately when the market gets "thumped" it tends to accelerate to the downside where it is easy to buy and very difficult to sell. I'd appreciate your thoughts on this ubiquitous issue."

My comment - Thank you for a most articulate summary of the analytical challenges that many of us now face. Thanks also for the article by Will Hutton, a most personable and articulate political lefty, who interviewed me on several occasions in his earlier role as a TV presenter in the 1970s and 1980s, for the BBC's former Money Programme, if I recall correctly. It is a reasonable summary although I disagree with his conclusion. I found the letters following his article particularly interesting although I have not read them all.

Regarding one's personal investment policy, I'll start by repeating your point on the dubious logic of rebalancing:

"They, like myself would often be challenged with the concept of asset allocation rebalancing where we are advised to redistribute our super gains in one area back into those areas that have underperformed as that is where the future super performance may likely occur."

At its simplest level, the object of the exercise is often to 'buy low and sell high', especially if all things are deemed to be equal. They are most manifestly not equal in my view. In recent months, some people have advocated buying Western banks and other reckless casualties of the credit crisis. This will be a good idea some day but I have not yet been tempted, because we are at the "known unknowns" stage of disclosure, mentioned by Donald Rumsfeld in another context. I also maintain that there will be a longish convalescence in the form of base formation development before rallies can be sustained by depressed financial and property shares. In other words, those who buy on the way down in hope of picking the low or at least not missing out on the eventual recovery, will have to be patient.

Your other concern: "that the market will get "thumped" in the near future more on sentiment than logic", is a worry shared by most veteran subscribers who have enjoyed portfolio gains in the themes you cite. The risk is real because market volatility is a fact of life. Until the credit crisis is over, presumably indicated by recovering bank and property shares, it is logical to assume that some markets remain susceptible to contagion. My guess is that this risk is higher closer to the source of the problem and could be both economic and psychological. I also suspect that contagion risk, to the extent that it exists, is lower and more psychological than economic further away from the problem.

Meanwhile, we should not overlook the fact that markets had a major throb last August in response to credit problems. The sectors mentioned in your

portfolio did extremely well once central bank liquidity infusions commenced. You will recall the superb quote (unfortunately anonymous): "Risk is often lowest when it is most visible." Today, much more of the story is visible, although the known unknowns regarding full disclosure remain. Net it all out and any feelings of vertigo today are not only understandable, we would be either naïve or complacent in not experiencing them.

I obviously can't know what you and other subscribers should do regarding your own portfolios, and I have reservations about pundits who blithely tell people what to do, often quite subjectively. Some may see this as an easy solution but I believe it retards our development as investors and traders. However I can explain what feels right for me, in context.

If all of my assets were in the stock market, I would almost certainly consider some profit taking, given the gains seen and the factors you mention above. You may recall the old adage: "If you are going to panic, panic early." However I have always retained a not insubstantial (for me) cash reserve, for reasons previously explained. I have also used trading profits over the years to diversify extensively into collectables that Mrs Fuller and I enjoy, which I also regard as inflation hedges. I have increased this rate of diversification over the last two years. Therefore I do not feel under pressure to lighten equity investments in my personal long-term portfolio, which I continue to like for their overall potential.

Email of the day (2) - Some interesting statistics on India:

"Just a quick line to say that last week I was fortunate enough to attend a presentation by an Indian advisory firm, that is now launching a private equity fund.

"Just a few facts (all of which were news to me!) that they came out with, in case of any use to the "Collective"...

- 1) External trade is just 15% of Indian GDP.
- 2) 70% of energy and food needs to be imported, and along with inflation these are the key threats.
- 3) 70% of Indians are less than 35 years old!
- 4) Local ownership of equities is low - just 13 to 14% of the market, and they have been selling.
- 5) Pension funds are not allowed to buy equities yet, and Insurance funds only recently.
- 6) Companies are starting to renegotiate overseas contracts in rupees and euros

"I haven't verified these facts, but equally have no reason to doubt their veracity.

"Most of them, to me at least, seem pretty interesting and relevant, one way or the other..."

My comment - [Many thanks for this contribution. Information on India remains of considerable interest to the Collective.](#)

Additional Commentary by Eoin Treacy

Merrill Lynch Investment Strategy: Guanxi - [Thanks to a subscriber for this interesting report by Mark Matthews and colleagues, which has a number of interesting charts and contains multiple links to other topical pieces of research. It focuses on China's continued robust economic growth, but here is a section on the Pakistani market:](#)

Over the weekend, President Musharraf suspended the constitution and imposed emergency powers, citing an unprecedented level of "violent intensity" in terrorist attacks, including on state infrastructure.

On the surface, this appears to have damaged the tacit understanding between the government and recently returned former Prime Minister Benazir Bhutto, who heads the largest political party, Pakistan People's Party. But Imtiaz Gadar, head of research at our partner KASB Securities, notes that Bhutto is unlikely to pledge full support to the opposition (see his report - Investment Strategy, 4 November).

The National Reconciliation Order, which aims to grant an amnesty to her, has also been upheld, indicating President Musharraf still wants to deal with her. Meanwhile although President Musharraf's actions could threaten relations with the West, we believe Pakistan is too vital an ally to lose against extremists. It appears President Musharraf also introduced emergency powers to remove the chief justice, Iftikhar Mohammed Chaudhry, who had emerged as a serious impediment. In the emergency order, President Musharraf noted "some members of the judiciary are working at cross purposes with the executive and legislature in the fight against terrorism."

At first, President Musharraf vowed to go ahead with parliamentary elections, but gave no timeline. However, he has since told ambassadors in Islamabad that the government intends to stick as closely as possible to hold parliamentary elections in mid-January.

In our view, a substantial delay in general election much beyond January 2008 would not go down well with both Bhutto and the West. The current parliamentary term expires on 15th November, but some extension seems inevitable.

Despite the political machinations in the last few days, the investment case to buy Pakistan stocks remains strong. Pakistan is one of the few equity markets in Asia that offers both a value and growth story. We expect the economy to expand by 6.9% in 2008, the fourth fastest in the region after China, India and Singapore.

Pakistan stocks are currently trading on just 10x 2008E earnings. We see this week's fall in equities as an attractive buying opportunity. We remain overweight Pakistan in our model portfolio.

My view - It has long been a Fullermoney mantra that governance is everything in emerging markets. Pakistan has many of the advantages of other Asian markets but is lacking in this important factor as has been demonstrated over the last couple of weeks.

However the [Pakistani](#) stock market has not reacted too severely to the latest unrest and remains in a consistent uptrend. It would need to break the progression of rising lows to question scope for further upside.

Forbes.com: Credit Crunch: More To Come - Thanks to a subscriber for this interesting and informative [article](#) by Liz Moyer for Forbes which covers some of the potential bad news due in the fourth quarter from the major banks. Here is a section:

Some think Citi and other banks need even more capital. Twice as much, in fact. "The biggest mistake banks made was committing so many of their resources to structured finance," said Christopher Whalen, managing director of Institutional Risk Metrics, which advises firms on risk management.

When bond markets froze up in August and September, it became impossible for Wall Street to put a value on billions of securities on their books. That doesn't even speak to the assets they have off balance sheets that potentially might have to come back on.

Goldman Sachs (nyse: GS - news - people) classified \$72 billion of assets, 15.6% of its trading inventory, as "level 3" in the third quarter, which means it couldn't come up with any way to price them using market data. Morgan Stanley (nyse: MS - news - people) has 15% of its trading assets in the level 3 category, Bear Stearns (nyse: BSC - news - people) 12.6% and Lehman 12.3%, according to research by Sanford Bernstein.

Merrill Lynch (nyse: MER - news - people), which wrote down more than \$8 billion of assets in the third quarter, has yet to disclose its level 3 numbers, but they are certain to increase substantially over the second quarter, said Bernstein analyst Brad Hintz. Ditto for Citi.

Merrill still has \$15 billion of collateralized debt obligations on its books, which is not good, according to Hintz. "We do not believe Merrill will be able to offload these assets in the near future," he wrote in a research note. "With virtually no available liquidity in this market, these assets will likely face negative pricing pressure as the supply of these assets will likely outpace demand."

The fact that ratings agencies keep reconsidering their ratings on the credit derivatives themselves isn't helping. This week, Standard & Poor's added another \$20 billion worth of mortgage-related CDOs to its negative-credit

watch list.

Further write-downs from CDOs and subprime holdings at Merrill could knock as much as 33% off its estimated fourth-quarter book value, figures Hintz of Sanford Bernstein.

My view - US, European and Japanese banks are in trouble as has been well documented over the last 6-months and we continue to see articles on the further potential fallout. However I believe that while it is necessary to be aware of the problem, we should focus more on the solution policy makers are likely to provide, rather than obsessing about the problem which is already being priced into the market.

The Fed has cut by 75 basis points so far, and has attempted to talk down the probability of further cuts at upcoming Fed meetings. However with the increased pressure on the economy, from the housing market as well as the potential for further problems in the banking sector, it may still be necessary to cut rates to preserve the stock market's rally and fend off a recession. The weakening Dollar is something US authorities should welcome so long as it does not accelerate downwards. The pace of the Dollar's downtrend has quicken recently but probably not yet to an extent to where it will have panicked officials into changing their policy of a gradual depreciation.

Email of the day (1) - on long-term charts of the Dollar against the Euro and Deutsche Mark:

"Is there a chart of \$/pound and \$/euro(mark) in the library that goes back beyond 20 yrs? if not can one be generated? I would like to see what technical objectives exist in this currency stratosphere...."

My comment - Thank you for this timely email. The answer is yes, you can go back to 1971 for either the Deutsche Mark spot or the US Dollar quoted in Pounds. To get more than 20-years of history, select the chart you wish to see and click on the 'Charting' tab above the main chart area. Then select 50-year (max) from the Period dropdown menu. If we have the data, you will see much more back history.

We see that the Dollar remains in a downtrend against the Mark and is currently approaching an area of prior support at the 1995 lows at 1.346 Marks. However an upward dynamic would be needed to check momentum beyond a brief pause.

The Pound bottomed against the Dollar in 1985 and by 1991 had almost doubled in value. Following a second test of \$2, the rate fell back to \$1.40 and entered a prolonged ranging phase. The break above \$1.70 in 2003 signalled the end of this consolidation as the Pound rallied toward \$2 once more. However it took another four years for it to break above this level and it would need to break the progression of rising lows to question scope for further upside over the medium term.

Email of the day (2) - [on historical valuations](#):

"You may or may not find this interesting; www.measuringworth.com

"Website of measurement of relative worth over time including financial instruments and data. Even gold prices!!

"On a lighter note for a charity Xmas donation, I drew \$102.40 out of the hat for price of oil on November 21st Dec Nymex."

My comment - [Thank you for this well presented website which I only briefly perused but it is full of interesting comparisons which are of interest for historical perspective rather than timing.](#)

[Good luck with your oil ticket although its looking like your level may be hit any day now if current momentum is maintained.](#)

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

"Can you please add these Canadian mutual funds to the chart library:

AGF Precious Metals (AGF235)
Dynamic Precious Metals (DYN046)
Millennium Bullion Fund (MBF600)

"Also, the Horizon BetaPro TSX Global Gold Bull Plus ETF (HGU on the Toronto Stock Exchange).

"Lastly, the Fidelity China mutual fund I previously mentioned that you could not find has the ticker FID1606.

"Keep up the great work."

My comment - [I've added these funds to the relevant section of the Chart Library. However the acronyms you've added are not Bloomberg tickers. I've been in contact with the Bloomberg help desk today and they don't have the Fidelity China fund listed in Canada at all. I've asked them to add it but I don't know how long that will take.](#)

Email of the day (4) - [on using the Chart Library's search facility](#):

"I was trying to find Lihir Gold in the Chart Library - without success. Maybe you can point me in the right direction?

"Sincere thanks for a fantastic service. Just love the new chart library now - it has come a long way. Keep up the splendid work."

My comment - You can find both Lihir Gold listed in Australia and the ADR listed in the USA in the International Equity section of the Chart Library. Simply select the International Equity section from the drop down menu (it's second from the top) and enter 'Lihir' into the search field. Both entries will pop up.

Email of the day (5) - on using the Comparison function in the Chart Library:

"In the past I have been able to view charts in the International stocks library and on the same screen show each chart's relative performance against an index. Now, I can see the relative line but the chosen stock does not show. Would you explain why this is so? What am I doing wrong, or will you restore this capability? I should add that a European stock in Investors Intelligence can be shown with its relative index performance below."

My comment - There has been a change to how the Chart Library functions, which has solved a long standing bug in how the Library generates relative charts. This has resulted in the comparison feature you refer to only being available through the list of Analysis tools at the bottom of the Charting popup window.

If you choose any instrument, then go to Charting and then to Analysis you will see Comparison. If you select this feature you can choose an index from the resulting dropdown. This second instrument will be displayed in a panel below the original chart. Here is an [example](#) for Lihir gold.

Eoin's personal portfolio: silver position increased and subsequently stopped out - When I switched on my screen this morning, I saw that Silver was up more than 80¢, so I raised my stop to today's open price on my whole position. This was because I deemed the market to be accelerating and wanted to preserve profits should it pull back significantly. Later in the morning, when I saw the market fall 40¢ from the high and begin to find short-term support, I bought another unit at \$16.16 in the March contract and also placed a stop at today's open. This stop was triggered in the afternoon at \$15.80, while my [December](#) stops were triggered at \$15.24 against purchases at \$14.47, \$14.27 and \$13.63 on November 2nd, 1st and October 16th respectively.

I anticipate that Silver will consolidate around current levels and will look to begin building a position once more on a pullback.

Today's interesting charts - The Chart Library has two searches.

Ireland - breaks below the [psychological](#) 7500 level as the Index continues to be priced like a banking index. It would need to sustain a move above this level to question scope for a further decline.

Cotton - [pressuring the highs](#) near 66.70¢ but needs to sustain a move above this level to reaffirm the overall uptrend.

US Treasuries - [continues to pressure](#) the 114 level and would need to sustain a move above this area to reaffirm upward potential.

Thursday 8th November 2007

Global Thematic Investors: A Return to the Gold War - My thanks to Iain Little and Bruce Albrecht for the latest [edition](#) of this terrific investment letter produced by two of the smartest and nicest people in the business. We fans have to wait patiently for issues of GTI - Iain and Bruce both have extremely busy day jobs - but better a rare gem than any number of lesser reports on a regular basis. This issue (it is about much more than gold) is the best yet in my opinion. It is interesting and informative, and written with both perspective and verve. Here are the opening comments on gold:

Let's make one thing clear. We're not temple-throbbing, eyeball-bulging, hand-wringing members of the Gold Conspiracy Cabal. We don't believe that little green men are about to hijack the world's money supply in a spaceship or that Alan Greenspan has taken a wrecking ball to the world's banking system after illicit payments to his Swiss bank account from the World Gold Council, or that we'll all soon be crawling around on our hands and knees scooping up gold nuggets from the dirt to pay for a loaf of bread as the mushroom clouds of monetary collapse loom above our heads. We're not predicting a return to the Gold Standard. But some people believe all of these things, and worse. Gold appeals to the hysterical and paranoiac elements in human nature.

We simply believe that gold will be a very good investment for many years to come. "Belief" is a term that applies almost uniquely to advocates of monetary metals like silver and gold. When folk talk about other asset classes, they use words like "estimate", "forecast" or "calculate". The terminology is revealing. Gold has no yield, costs good money to store, has been demoted as the world's Monetary Standard and has no "functional value" (as compared to oil or timber) except as far as it is "believed in".

We also believe that gold is the simplest and most direct way to play the "Supply Inelasticity" theme, in which the GTI fund has maxed out at nearly 20% of the total fund. We'll try to show that the investment outlook for gold is outstanding. But - whether we're right or wrong - gold has several features which make it unique as an asset class and worth its weight in derivatives as a permanent feature of any portfolio, since it provides diversification from conventional assets which dominate most portfolios. What are these unique

My comment - [There are eight investment themes discussed in this issue, which will certainly interest subscribers.](#)

Email of the day (1) - [On printing money and inflation risks:](#)

"Jim Grant, despite his bearish tone regarding what he calls the "printing money with which to buy money" system, otherwise known as Bretton Woods II, has been prescient in his calling notice 2 years ago to the huge loan problem that was coming. He now sounds the alarm in his most recent column that we are indeed seeing inflation move up quickly, not only in China, but in Russia (where price controls are already in place) and many other emerging market dollar buyers including Mexico, South Africa, Viet Nam and even Singapore. The disturbing thing is that it is mostly being seen in food prices, not surprisingly. At this point, I tend to agree with David that the U.S will muddle through the mortgage mess, but just as they do, could we see China and emerging markets being forced (by an unhappy group of citizens to put it mildly) to pull in the reins strongly. This to me seems like a plausible end to the global bull market, with China, rather than the U.S. leading the world into recession. I wondered first what you think of this scenario, second, could it happen faster than you are currently anticipating, (2009-2010) and finally, whether Eoin saw any first hand evidence of seriously rising food prices in his recent travels--and what was the mood of the people. At this point, I buy that the Chinese will do everything possible to avoid a meltdown before the Olympics. But they sure could get caught between a rock and a hard place."

My comment - [Veteran subscribers will recall that Fullermoney has long maintained that food inflation was all but inevitable, as part of our Supply Inelasticity Meets Rising Demand theme \(please use Search facility for much more on this subject\)](#). It would require perfect growing conditions on a global basis to postpone the food inflation problem but we know that weather is variable.

Eoin says he did not see many unhappy or hungry Chinese, at least not in Shanghai which he visited for a week not long ago. Your economic hypothesis is interesting but I regard a creditor nation with the world's fastest GDP growth as an unlikely epicentre for an economic shakeout. Evidence to date suggests to me that among influential countries, the focal point for risk in the global economy is currently the USA.

BHP Billiton Offered to Buy Rio; Proposal Rejected - [Here is the opening from Bloomberg's article on this dramatic news:](#)

BHP Billiton Ltd., the world's biggest mining company, said it offered to buy rival Rio Tinto Group, a proposal that was rejected.

BHP, based in Melbourne, said in a statement to the Regulatory News Service it "recently" wrote to the Rio board with an outline plan for a merger. BHP has again written to Rio to try to arrange a meeting. Rio stock rallied as much as 25 percent in London, while the company has a current market value of \$161 billion.

"The boards of Rio Tinto have given the proposal careful consideration and concluded that it significantly undervalues Rio Tinto and its prospects," Rio said in a separate statement. "The boards have unanimously rejected the proposal as not being in the best interests of shareholders."

A combined company would challenge Brazil's Cia. Vale do Rio Doce as the world's largest supplier of iron ore as rising demand in China pushes prices of the raw material used in steelmaking to a record. BHP would also gain access to more than 15 million tons of copper and 4.3 million tons of aluminum. Rio Tinto's annual profit rose 43 percent to \$7.44 billion in 2006.

"Rio is a massive cash generator," Joe Youssef, a senior adviser at Macquarie Equities Ltd. in Sydney, said before today's statement. "You can see why it's an attractive proposition based on its cash flows."

Rio Tinto shares rose to as high as 5,425 pence, a record, and traded up 24 percent at 5,385 pence as of 11:47 a.m. in London.

My view - In the interests of full disclosure, Rio is the 4th largest holding in my personal long-term investment portfolio, just ahead of BHP at number 5, and I have an additional interest in these two mega-miners via a fund, in 8th position. I have held these positions for several years.

As an aside, today's news provides another reason for why I am not too worried about my investment portfolio, despite turmoil in US and European banking shares and contagion wobbles in these regions' broader stock market indices.

The BHP-Rio news is in the 'no smoke without fire' category. In other words, it has been rumoured for most of this year. Rio's statement suggests that it is holding out for a higher price, and no doubt management positions for its key personnel should a takeover by BHP take place.

After my momentarily negative reaction to this bid (shades of my dismay at having my Inco position bought out by CVRD, when I preferred Inco's proposal to merge with Falconbridge), I think it makes sense for these two Australian-based mining giants to combine. Veteran subscribers may recall that I have long regarded them as treasure troves of scarce industrial resources, at a time of unprecedented demand due to booming economic growth in emerging markets, led by China, and the related global infrastructure boom.

I continue to expect further consolidation within this industry, above all others. Miners based in genuine democracies seek more than cost synergies and pricing power. Sensibly, and in our interests as shareholders, they also wish to stay not only ahead of but also out of the hands of state-controlled rivals and sovereign wealth funds. If we support them in this effort, I maintain that we will be richly rewarded over the long-term, rather than merely additional short-term profits resulting from hostile takeovers.

While holding onto my [Rio](#), [BHP](#) and [MLW](#), I will look for further buying opportunities in this sector. I maintain it is still underrated by analysts and investors, who are too often preoccupied with a rear view mirror perspective, following the 21-year resources bear market until 2001, resulting in a

desperate struggle for survival by these companies, previously disparaged as 'rustbelt' industries.

A few older analysts also remember how cyclical mining was in the days when up to 800 million people in developed countries were responsible for demand. Today, I conservatively estimate that 5.5 billion people in a world of 6.7 billion and rising, are behind the boom in demand for resources. I maintain that this story will run for decades, punctuated by a global recession or two.

A few subscribers have gently berated me in recent years for not trolling among the mining minnows and mid-caps. Fair point but I don't have the time, let alone analytical expertise, to differentiate between 'fool's gold' and the genuine nuggets.

Miners, I maintain, are best purchased following shakeouts. The better opportunity this year occurred in August and there was a much smaller dip recently. On the next significant pullback for the sector, I will be tempted to buy more and [Xstrata](#) will be on my shopping list. It is big, having grown rapidly through bold but also shrewd acquisitions, but it is not big enough. Xstrata needs a mega-deal to avoid being taken over at some point.

Email of the day (2) - On when the Western banking sector will be a buy:

"I am considering the "Western" banking sector as a buy sometime in the future. Using the chart in your library, the value of the S&P 500 Banks has dropped from 415 in Feb 07 to 306 to date. When would be a good time to buy? I am a new subscriber (2 weeks) and am not sure if this is something you would flag in your daily commentaries.

"In the meantime do you or any subscribers know of a way to "short" this sector, either in the UK or US markets?

"Lastly, how does one sign up to your chart seminars?

"Thanks for all the very informative commentaries and audios you provide."

My comment - Welcome to Fullermoney and thanks for your thoughtful remarks.

Taking your questions in reverse order, here is the [link](#) for The Chart Seminar and you will always find it in the upper-left section of Fullermoney home page. When I enquired on Monday, I was told that the May 2008 TCS is over half full, so I assume that it too will be sold out well before the date.

On shorting the Western banks, which I suspect most people have done via individual shares, I think you would be entering the fray at a late stage of this move. In other words, much of the opportunity has already been realised. Eoin and I watch banking indices closely, because of their frequent role as lead indicators, directionally, and it will be important to identify the next turning

point. Meanwhile, my guess is that there will be some convalescence which would show up as base formation development on the price charts.

UBS' Commodity Connections: Sinking Dollar Commodity Ripples - My thanks to a subscriber for this blockbuster [review](#) by Daniel Berbner and colleagues at UBS. The fundamental background and graphics are very informative. Price forecasts are inevitably more subjective, particularly looking beyond 2008. I'm somewhat more bullish, particularly regarding precious metals.

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

"Many thanks for your highly informative (and educational) insights on the application of trading stops in yesterday's [Ed: Tuesday's] comment of the day. Stop placement is arguably one of the biggest (of many) challenges that leverage traders face and, as usual, your comments provide much food for thought. Your Rocky analogy was particularly amusing too! During my early years as a trader I often felt like the human punching bag, although I am pleased to say that things are different now (although occasionally I still look like Rocky did after Round 15).

"I am also very much looking forward to next week's TCS where I understand stops are discussed in more detail? Upon learning that this would be your last TCS I decided to book early and then take the opportunity to spend some time in and out of London with my better half together with trips to France and Singapore on the way home, although I must confess the prospect of my wife and her credit card loose on Oxford Street for 2 days while I attend TCS makes me a little nervous... But seriously, I consider myself fortunate and privileged to be able to attend your final TCS after 40 years - what a remarkable achievement! I look forward to meeting you then."

My comment - Thank you so much for your kind and thoughtful words. I am honoured by the interest in TCS from so many distinguished and successful subscribers, and will feel justifiably humble in your presence.

I look forward to seeing you.

My personal portfolio: Some stumbles yesterday as stops trigger a few losses - You can't flirt without getting slapped occasionally, particularly when trading volatile markets. I received several slaps yesterday. First, with Aberdeen New Thai IT ([ANW LN](#)), as my leveraged trade in the March contract was stopped out at 179.73p against purchases at 192.73p and 191.72p on 29th October. Needless to say I have no intention of disturbing my long-term investment in ANW. A big outside day in [platinum](#) (weekly chart shown) stopped me out at \$1455 in the January contract against irrationally exuberant purchases at \$1484.3 and \$1480.5 earlier in the day, and \$1476.5 purchased on 6th November. Later in the day, I bought part of this back in another account, paying \$1465.7, and I had also made an optimistic purchase in this same account at \$1480.5 a few hours earlier. Neither this nor my more sensibly

purchased platinum longs had been sold as I used a slightly lower stop. Net it all out and my platinum futures longs have been increased by 20%.

Today (this section is in the form of a running commentary because I updated it as events in these fast-moving markets unfolded) my small remaining [Nasdaq](#) long was stopped out at 2200 for the March contract against my purchase at 2256.25 on 1st November. I bought it back, possibly rashly, at 2157.5 near the close of trading. I doubled my small [silver](#) position early this afternoon, paying \$15.63 and \$15.625 for March positions. I immediately placed loose stops and profit taking orders overhead in line with my new intention to trade silver lightly but reasonably actively without screen watching, for which I do not have time. When it rallied about 15¢ to 20¢ above today's purchase prices, I raised stops to a breakeven level. Following a good rally which got tantalisingly close to my upper levels for taking profits, stops for these two trades are now under threat as Wall Street slumps again. Whoops, they were just stopped out at \$15.64 when the Dow reached minus 200 points on the day. I'm keeping my stops on two earlier silver purchases loose, as I suspect we will see a consolidation in the \$16.50 to approximately \$15.50 region, for March silver. However it could go lower in the event of a Wall Street slump. Lastly, I increased my [gold](#) long by 20% today, paying \$842.9 for another February position. Stop press: I bought the silver back because it had steadied once again and the Dow halved its losses. Hoping for munificence from Wall Street these days is risky but I like silver. I paid \$15.77 and \$15.78, and will use the same stop / target strategy mentioned above. I then purchased two more equal-sized units at \$15.53 and \$15.495, as the Dow weakened again, prior to mostly recovering by the close.

These prices include spread-bet dealing costs.

Please note - [Eoin](#) is away today.

Friday 9th November 2007

The McKinsey Quarterly: Upgrading India's energy and transportation networks: An interview with a leading infrastructure builder - [My thanks to a subscriber for this link, which requires registration. Here is the opening:](#)

Active in airports, roads, and power, India's GMR, led by founder and chairman G. M. Rao, is right in the middle of the country's efforts to build up a weak infrastructure. While Rao expects the economy to remain vibrant, he worries that it can't be developed fast enough to support current economic-growth rates. The chairman, whose roots are in the countryside, is also concerned that not enough has been done to strengthen the rural economy, which above all needs education, roads, and jobs to give villagers a chance to participate in the newfound prosperity.

GMR began almost 30 years ago as a single jute mill in the village of Rajam, in the eastern state of Andhra Pradesh. "Our journey to today's GMR happened just accidentally," Rao says. "Whatever opportunity came up, we have taken that opportunity." Along the way, GMR has been active in banking,

insurance, and breweries but left these industries to consolidate around infrastructure.

Along with minority partner Fraport, which manages the Frankfurt airport, in Germany, GMR is leading the effort to modernize Delhi's international airport. It is also building a new international airport in Hyderabad and expanding the Sabiha Gökçen International Airport, in Istanbul. In addition, it owns three power plants, with projects under way for several others, and has completed 270 miles of highways.

Meeting in the GMR headquarters, in Bangalore, Rao and Gautam Kumra, a director in McKinsey's Delhi office, discussed India's economic prospects, GMR's experience with public-private partnerships, and Rao's passion for best-practice management of family businesses.

The Quarterly: Can India sustain its recent economic-growth rates?

G. M. Rao: In India the whole system is set up for 5 to 6 percent annual GDP growth. The sudden growth of more than 9 percent has surprised everyone, and sustainability is a very big question now. I have doubts that we can sustain this type of growth if two areas—the rural economy and infrastructure—aren't taken up more seriously.

Ours is an agrarian country, and a lot of things have to happen in the rural areas. In villages there is not much connectivity, proper infrastructure, or educational facilities. Not even a scooter or a motorcycle can go on some of the roads; forget the tractor or the jeep. There is not an adequate supply of qualified teachers, and the infrastructure is not there. Many schools teach in local languages, and that's not enough to move upward. Rural people need English schools and vocational schools, and we have to start moving aggressively with public-private partnerships. People in the rural areas are therefore moving to the cities, which are already very crowded. Education is very, very poor. The government must do better at addressing the rural economy.

Growth will also be difficult to maintain without large improvements in infrastructure. The government is putting a lot of focus on that, but there are still a lot of challenges. For instance, getting skilled labor is a very big problem now for infrastructure projects. Because of this, most of the projects are being delayed. We should look at something like Singapore's Building and Construction Authority Academy, which was set up by the government to ensure that there's a continuous supply of skilled labor for all the projects. At GMR, we're also thinking about setting up our own training center, with courses of 90 days or six months.

The Quarterly: Has the government been effective in addressing these problems?

G. M. Rao: The government has initiated several positive changes, and private players are also more and more interested in participating in infrastructure development. However, we need increased momentum to

maintain these high growth rates. For example, the demand for housing, cold storage, and power outstrips supply-even considering planned capacity additions.

There are also problems with disbursing funds and implementing these improvement projects. The government is spending a lot of money to improve roads, but, ultimately, a lot of that is not reaching the people, and this has been happening for the past 60 years. Unless you change this, that allocated money is not going to do much good.

Implementation is also a problem. The government is not organized for this kind of growth or for speedy implementation of projects. It has to strengthen the whole system. For example, the National Highways Authority [of India] has one system for the whole country, but it should be regionalized into four sectors: south, north, east, and west. They could each call for their own tenders and monitor their own projects, while reporting to Delhi. Under the current system, we have so far only completed about 10 percent of the planned national road improvements-for instance, widening roadways from two lanes to four.

The Quarterly: What can the government do to improve the rural economy?

G. M. Rao: The government should encourage manufacturers to set up their factories in the villages. I read recently that a big multinational mobile-phone maker designs its phones here in India but manufactures them in China. This company makes millions of pieces a year, and about 2,000 people have jobs there. Why can't we have the manufacturing as well? One reason is the Labour Act.¹ We cannot expand the manufacturing industry without the right to hire and fire. We have the capability to manufacture, but we have to change our labor policy.

We also need to expand microfinancing further into rural areas. So many people in villages fall into the debt trap. Their family land is subdivided among brothers into plots too small to cultivate effectively. Then they go to the moneylenders to get by. When they can't make payments, the moneylenders take away their land. Families that were once respected landowners are now laborers, and they migrate to the cities.

My view - As either an investor or potential investor in India, it is quite possible for one to read this and be on the one hand, terrified, and on the other hand, elated because India's emergence as an economic power has only just begun.

I hold the latter view and India remains my favourite stock market for the very long term. However governance is everything, in terms of the speed of India's development, and many of the risks are outlined in this article. Fortunately, India's entrepreneurs are often the key influence and leading the way forward.

Email of the day (1) - [On the banking sector:](#)

"Knowing how much attention you pay to how the banking sector is doing I thought you might find this [article](#) from today's FT of interest."

My comment - Thanks, it is a good article.

The most scary part of all this, not least for markets, is that while there is nothing new about credit crises, we have not been in this particular situation before; the losses are difficult to calculate although we know that they are large; we do not know where all the problems lie, or the ramifications for the global economy except that they are not good, and we don't know for how long this problem will drag on.

However before we jump out of the window over these uncertainties, we should recall that the stock market is a discounting mechanism. Western banking shares, at the epicentre of this quake, have already fallen very substantially and show accelerated trends. In other words, we have most likely reached the latter stage of this meltdown.

This does not mean that bank shares have reached their lows - there is little evidence of that to date, but we are getting there very quickly. In other words, we are now into the selling climax, after which we will probably see a large bounce, as traders cover their shorts.

With a pistol at my head, I would rather buy bank shares today than sell them. However I find them resistible because they will probably go somewhat lower before a significant rebound occurs. Moreover, that bounce will most likely be followed by a pullback and right-hand extension base development phase, which will eventually support a sustainable recovery. Depressed property and house-building shares will probably form similar patterns.

How can there be a sustainable recovery after such a crisis? The news will improve. After the write-downs, there will be some write-ups, as banks discover that part of their 'toxic waste' is not a write-off.

Banks have always committed excesses, occasionally to the point of bankruptcy. However they are ruthlessly efficient when in survival mode. Bank overheads are being slashed and the sector will be much leaner during the recovery. Also, in a worst case scenario, which this probably isn't, governments no longer let their banking sectors go bust, although they occasionally allow a small to medium-term financial institution to fail, just to remind the industry that there are consequences.

Instead of allowing a Darwinian mass extinction within their financial sector, central banks now recapitalise them through the yield curve, at the taxpayers' expense. I do not complain about this; it is probably in the best interests of us all. Viable economies require stable banking sectors.

We have had financial shock and awe. We have enjoyed a bit of righteous indignation. Now it is time to hug a banker.

Jonathan Davis: Not such a dynamic outlook... - [My thanks to veteran commentator Jonathan Davis of Independent Investor for his latest and always interesting assessment of economic developments and the outlook for markets. Here is a brief section:](#)

Most equity markets have rallied strongly and some personal favourites of mine (such as the Brazilian stock market, which has been up by a third or so) have produced spectacular recoveries from their lows in the summer. My view about the credit crunch is not that it is unimportant - clearly it is anything but - but that the crisis of confidence and liquidity that is part of it is not inherently a permanent problem, however alarming it may seem at the time.

One thing that I have noticed is that the bankers whom I know well, being right at the centre of the storm, are in general even more alarmed about the future than those looking at the situation from outside. It is their jobs, bonuses and careers after all that are now at risk, as the recent high level departures at Merrill Lynch and Citigroup have demonstrated. The scale of the losses at these two banks, and the scale of the risk-taking that they represent, are genuinely shocking, even to those of us who thought we had seen the folly of bank herding all before.

It is clear that we have not reached the end of the bad news from the banking sector. The most recent Financial Stability Report from the Bank of England was one of the most gloomy I can remember, and there are obviously still further writedowns and losses to come out. I remember reading somewhere that the combined losses of the big banks in the 1980s Third World debt crisis exceeded their combined profits for the previous decade. This time round we could be looking at something almost as bad.

Without wishing to be complacent about the scale of the fallout, there are times however when ignorance as an investor can also be bliss. It is true that we have still to see the economic consequences of the slowdown that contracting credit must produce, but I have yet to be convinced that the impact will necessarily be as bad as many think. Investors in general pay a heavy price for underestimating the resilience of the American economy. The sub-prime crisis and the deeper slump in the housing market will not on its own bring the country to its knees, as it well might do in other less robust economies (eg Spain).

My comment - [This overlaps with my response to Email of the day \(1\) above.](#)

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

"Am I seeing straight? Just woke up at 5:00 am PST (California), turned on my real time screen and saw the Dow up \$110. But wait! That's not the Dow, that's RTP [Ed: Rio's ADR]. I have them on next to each others on thin rows. Checked quickly and saw the BHP news. Had heard that rumor before but never believed it. My only thought is that this is huge, regardless of the results, as investors, especially the commodity bubble variety, must be

shaking their heads in disbelief, but will have a difficult time denying that this sets up a potential additional re-rating for large miners. For the ad nauseumth (new word) time, great work, David."

My comment - Thanks and congratulations on holding Rio, but I really think you should try to get a good night's sleep. (See also yesterday's item on the bid).

My personal account: A leveraged trade in MLW closed - The Merrill Lynch World Mining Trust (MLW LN) ([weekly](#) & [daily](#)) is one of my favourite top-10 long-term investments, best purchased following setbacks. I also opened an opportunistic trade on 23rd October, purchasing a March position at 698.7p. BHP's surprise move for Rio gave me the opportunity, so in today's choppy markets I decided to take the trading profit and sold at 723p this morning. I have absolutely no intention of selling any of the MLW in my unleveraged investment account.

In precious metals, which are my main leveraged trades at present, I am risking a fair amount of paper profit, and the possibility of losses on most recent purchases, by using loose stops. I'm doing this because I maintain that consolidations have commenced and that these markets, although in generally good form, are also riled by Wall Street, although less than before as I discussed at some length in yesterday's Audio.

Email of the day (3) - [On some economic questions:](#)

"I first subscribed to your excellent service in the mid 80's and attended The Chart Seminar in both London and Hong Kong at that time. Your logical approach to technical analysis struck a very sympathetic cord with me and I have never forgotten that valuable education. Unfortunately I stopped all activities in the markets many years ago after some rash, leveraged losses (I was not emotionally equipped to be a leveraged trader) and was not with you when you first notified subscribers of the then coming resources boom. Nevertheless, I returned to the fold about 18 months ago as I near retirement and have had some nice profits since then, most recently in Aussie gold shares, for which I thank you and your team. Apart from that bit of personal background, however, the reason for my email is that I have a general, big picture, economic question on which I would appreciate your comments as I am very much an amateur in economics and may have this wrong.

"You quite rightly state that the US Federal reserve appears to be prepared to do its utmost to prop up the US stock markets and maintain adequate liquidity in the system so as to prevent a US recession, their preferred tools being to cut interest rates and inject massive amounts of liquidity as needed. These steps will naturally weaken the US\$ with subsequent rises in gold and oil, as well as other commodities priced in dollars, and lead to inflation in the USA. One problem, of course, that seems to be a new worry for US markets, is that increasing oil costs are inflationary but could also cause a slowdown and perhaps a US recession.

"The question for me, though, is how long will foreign governments, especially China, be prepared to hold their reserves in a depreciating US\$. News released today says that China has stated they may shift some of their US\$1.4 trillion reserves into strong reserve currencies, meaning out of the US\$. Presumably these reserves are mostly held in US Treasury bonds so a flow out of them would cause a T bond price drop and an increase in US interest rates, working against the Fed's intentions and possibly leading the US into the dreaded recession. This, in turn, would cause a slowdown in China and other exporting countries and thereby a slowdown in resource economies like Australia and Canada. This may not happen, of course, as infrastructure spending in China is presumably mostly a government function and they certainly have lots of cash to spend, and I would think it is primarily infrastructure spending that creates such high demand for iron ore and other industrial metals.

"Personally, I feel a USA recession is most likely unless China shows restraint in baling out of the dollar because of its no doubt strong vested interest in keeping a healthy US economy.

"Sorry this is all a bit long but I would appreciate your comments and perhaps other subscribers have wondered about these things too."

My comment - Thank you for your kind words. Your humility becomes you. Also, congratulations on your investment recovery.

Trading is a steep learning curve, often in the form of trial by fire, best left to the minority who start young and manage to survive. Also, trading is much more difficult than long-term investing, as I have said before.

Thanks also for a good summary of the questions so many people are debating.

As I see it, the China diversification of reserves story has been with us all year, if not longer. In other words, they have almost certainly lightened positions in US Treasuries somewhat and channelled more new money elsewhere. This is only sensible and logical, and it is in their interests to show restraint by moving at a measured pace.

Meanwhile, we have not seen T-Bonds drop in price because others are buying, possibly although not necessarily including the Fed. I think bonds will weaken at some future point, as you know, but probably not until the fear of recession is replaced by the fear of inflation. A soft USD increases America's future inflationary risk and it reduces the global purchasing power of those who hold dollars. However it is also good thing in terms of rebalancing, since the US deficits will decline and American consumers may save more in future.

The risks are that the dollar's decline spirals out of control and the oil price spikes. Either event could easily trigger another stock market correction, at a time when US and European investors are understandably very nervous due to the banking problems.

Quote of the week - [On thinking](#):

"When all men think alike, no one thinks very much."
Walter Lippmann

Additional Commentary by Eoin Treacy

UBS Investment Research Asian Focus: It Was a Nice Rally - [Thanks to a subscriber for this interesting report which sounds a cautionary note on potential for further gains in Asian stock markets. Here is a section:](#)

The first point to make is that emerging Asian markets have steadily outperformed over the past decade; starting in 2000 the ratio in Chart 2 rose steadily from around 0.8 to an average of 1.3 last year. However, what happened so far in 2007 brings the story to a completely new level; as you can see, since April the ratio suddenly shot up to nearly 2.0. In other words, Asia ex-Japan has outperformed global markets more in the last two quarters than it did over the previous seven years.

What's going on? Looking back at Chart 1, developed G3 markets did slow a bit - but it's clear that the real story is the significant recent rally in emerging Asian indices. In fact, with the exception of Taiwan, Thailand and Japan, every remaining country we cover saw indices reach an absolute record high in October 2007.

And this brings us to the big question: Does Asia deserve it? Of course we remain constructive and upbeat on regional macro trends: independent growth in India and China, visible domestic recoveries in the rest of Asia, solid balance sheets, high surpluses, increasing resilience to a US slowdown, few signs of macro financial fragility, and room for further dynamism (please see this year's Return of Asia series for further discussion). So we've never had much doubt that Asian fundamentals warranted market outperformance.

But this much outperformance? Based on what we've seen in the past weeks, our strategy and asset allocation teams are starting to step back and say "no". From a macro view, as well, there are some good reasons to become more cautious at this point in the asset cycle.

Here's a summary of the relevant strategy and macro points:

1. It really is expensive now. Regional equity strategist Sakthi Siva uses a multi-factor valuation model to "price" Asia ex-Japan markets, and according to her data there were only three times in the past 20 years when the model showed aggregate regional overvaluation of 30% or more: 1990, 1994 and 2000 respectively. And in each case the market fell visibly in the following 12 months.

For most of the past four years the model consistently showed emerging Asian markets as undervalued, and Sakthi and team were quite comfortable with the growing interest in regional equities. Indeed, even as late as three months ago regional markets still showed up as undervalued by around 7%, with some countries actually trading close to past troughs on a valuation basis.

Guess where we are now, after the September/October rally? As of last week, markets were 26% overvalued, i.e., just shy of the traditional strong sell signal for Asia (see 4% Shy of 30% Overvalued "Sell" Signal, Asian Equity Strategy, 29 October 2007 for more details).

My view - [Here is what the subscriber wrote in addition to sending the report:](#)

"One source of liquidity that UBS did not raise in this report is that global passive, benchmark funds have yet to increase weightings in Asian markets. I think it's a matter of time before MSCI World Indices need to accurately reflect that MSCI Non Japan Asian economies are now 15%-20% of world GDP and cannot stay weighted at less than 5% of MSCI World Index.

"I reckon when the adjustments are made, forget about the much touted liquidity provided by QDII funds to support Asian markets, the equally sizeable global passive/index benchmark funds will have to react accordingly to new weightings."

[I agree with your sentiment expressed in the above paragraphs. When companies such as Morgan Stanley start to re-weight their indices to reflect the increase in the size of Asian stock markets and where the bulk of the world's GDP growth is coming from, we are likely to see a massive influx of capital to the region. This will probably dwarf anything due from the Chinese QDII program. However it remains an open question as to whether they have any intention of making such a move in the near future. On the other hand investors are presently voting with their feet and are already reallocating funds to this high growth region. This is a trend which is only beginning and is likely to continue for some time.](#)

[The MSCI Asia ex-Japan index \(p&f, monthly, weekly, daily\) bottomed in 2001 and broke upwards from its base in 2003 with a sustained a move above 200. The Index encountered resistance at 500 in late July and posted a weekly key reversal. It was also more extended relative to its 200-day moving average \(MA\) that it had been at any time since 2001. The resulting correction saw the Index fall in excess of 20% but it found support once more near the 200-day MA and rallied impressively before encountering resistance once more below 600. The Index is overextended relative to its MA once more and is consolidating around 550. A sustained move below 535 would be needed to suggest that a more serious correction is in the offing.](#)

[Citi Metals and Mining Insights: What Impact of Volume and Costs on Margins? - Thanks to a subscriber for this report by Craig Sainsbury and colleagues focusing on margin compression in the mining sector. Thanks also](#)

for this related [report](#) by Alan Heap for the same company, which has a large number of charts relating to industrial metals. Here is a section from the former:

Volume misses: Volume misses from the mining companies has been a recurrent theme through the super cycle. Indeed, volume shortfall has been a major driver of higher metal prices. Since 2004, copper volumes have come in on average 3.7% below our forecasts, roughly mirroring other base metals. In contrast, iron ore volumes have come in 4.4% ahead of expectations, reflecting the control that the major producers have over their market

Costs higher: Another feature of the super-cycle has been rising costs driven by higher energy prices and increased labour and raw materials costs. Since 2004, the average unit cost for mining production has increased by 44%, from 72c/lb to 104c/lb. With global inflationary pressures still at large (energy, labour), we expect cost creep to continue in to 2008 at c2-4%.

Prices so far have offset operational disappointment: The impact of the increasing cost base has been offset by rising commodity prices. Sector earnings are up 323% since 2004. However we are now forecasting relatively flat commodity prices in to 2008 and expect sector earnings to rise 20%.

But where to in 2008 on flat prices? Our concern is that, if we see continued production disappointment and cost increases, without the safety net of price increases, we could be in for a period of margin compression. We have run a model for a generic copper mine to gauge the scale of potential margin compression. If we saw a 4% fall in our expected volumes and a 4% rise in our cost base, the copper price would need to increase by c4% to \$3.65/lb to maintain our profit forecasts. The current copper price is \$3.30/lb

Margin compression a theme for 2008: With our forecast of relatively flat commodity prices into 2008 and the continual evolution of production issues and cost inflation, we believe that the UK mining sector could be susceptible to margin compression. We continue to prefer equities with either volume growth (First Quantum and Xstrata) or operational improvements (Norsk Hydro) to mitigate these negative issues.

My view - Margin compression is a challenge for the management of every mining company and they have a number of ways to deal with it. There are the direct methods of controlling inventory, labour negotiations and hedging energy costs among others. However astute management will also be looking for strategic synergies with other companies where they may be able to lower total costs by making acquisitions. The mining sector is already in a period of consolidation as the large players compete for the choicest reserves, margin compression is only likely to fuel this race.

Email of the day (1) - on [Bill Miller's commentary](#):

"I read the recent Bill Miller [Commentary](#) (Legg Mason) with interest, and believe some of his comments regarding his expectation of a change of

market leadership away from the 'global growth trade' to financial and consumer to be 'interesting', if not a little contentious.

"After a fabulous track record of out-performing the S&P500 for many years, Bill Miller's more recent performance has been less than impressive, fuelled in part by large bets on housebuilders and the avoidance of energy stocks.

"Despite these mistakes, he's undoubtedly very talented, and I think he's someone worth keeping an eye on, hence my interest in this week's commentary from him.

"Quote from the article:-

"The stock market rally has been led by the same groups that have led for 5 years: energy, materials, industrials, and technology. The same laggards, lagged: consumer, financials, and healthcare. Growth stocks continued to shine and traditional value stocks did not.

"This market has been remarkably serially correlated. In plain talk, what has gone up keeps going up, and what has not, does not. Valuation has not mattered at all.

"What has mattered is price momentum. This is very similar to what we saw with tech, telecom, and internet names in 1999. It is not yet that extreme, but it is pretty extreme."

and:-

"If credit is becoming harder to come by, if spreads are widening, if growth is slowing, then it seems to me the leadership is about to change. The same strategies that led when the global economy was emerging from fears of deflation and entering a period of accelerating growth and synchronized recovery are very low probability bets to lead if the global economy is peaking, the US is slowing appreciably, and credit spreads are widening, not narrowing.

"Where will the new leadership come from? The same place it usually does: the old laggards. I think the new leadership will be US, large-cap, dollar-based, and grow to encompass what no one wants to own today, especially financials and consumer. I also think so-called growth stocks will continue to do fine. When growth becomes scarcer and the discount rate becomes lower, growth becomes more valuable."

"As someone who invests primarily in the UK Oil Exploration & Production (E&P) sector, his comments regarding valuation not mattering have no resonance with me. E&P companies (mid-tier, not the majors) are most usually valued on a risked Net Asset Value (NAV) basis; currently, companies seem to be being valued (i.e. their risked NAVs calculated) using an oil price of around \$60-\$65. This is not the stuff of bubble valuations; far from it. In bubble conditions, I'd expect to see companies valued using an oil price in excess (possibly, well in excess) of current prices. It's quite possible that

crude itself is seeing some significant speculative froth, but E&Ps are not currently priced on this basis.

"Also, his view that now is the time to act the contrarian and back financials and the consumer sector seem somewhat early, to put it mildly, with seemingly a bear market under way in financials. Of relevance here, perhaps, is the excellent Citi report of last month regarding how the bull market for credit has likely ended, but the equity bull market may continue ("Phase 3" going on "Phase 4" in Citi parlance). This would suggest that financials equities would turn bearish first, reflecting the credit cycle turning, and this is quite possibly what we are seeing currently. Equally, when the credit cycle eventually turns back upwards ("Phase 1"), it'd be the financials equities we might well expect to see turn upwards first, leading the start of the next immature equity bull. So, I can absolutely see the logic of Bill Miller's contrarian calls on financials, but suspect his timing is much, much too early.

"I'd be interested in any comments you may have on his note, since its stance is so clearly at odds to your own."

"Would it be possible to add Aminex (AEX) to the chart library? AEX has a dual Dublin / London listing, which seems to have caused it to be omitted from the library currently.

My comment - Thank you for this well reason email which raises some interesting questions. I thought the Bill Miller report does a good job of identifying the problem but I agree with you that buying financials right now seems too early. His report was very US centric and I read nothing that would dissuade me from our Wobbly West versus Enterprising East theme.

Email of the day (2) - on US listed China focused closed-end funds:

"CHN, CAF, GCH - US based China funds are approaching 50% year retracements and are trading between 20-30% discounts to NAV."

My comment - Thank you for this insight. These three funds have had extremely different performances over the last year. The Morgan Stanley China A-Share fund outperformed the other two by a wide margin. It lagged the performance of the Shanghai A-Share market for much of the last year but progressed in the same general direction and in absolute terms performed excellently. The Fund peaked ahead of the high in the Shanghai A-shares and remains in a corrective phase which has so far deteriorated much faster than the A-Shares. It found support at 50 yesterday, but needs to hold above this level to limit potential for a further correction.

Email of the day (3) - on Agricultural ETFs:

"Would you be able to answer why there have been such huge swings in agricultural ETF's today, i.e. ETF Agricultural was up 15.44%. And yet ETF wheat was down 12%. There were also huge swings on ETF oil and gold. Am I

missing something here as I thought that these ETF's were supposed to track the underlying commodity? As it happens I am long the Ag. ETF but am glad that I was not long some of the others."

My comment - I would suggest looking at the ETF Securities [website](#) for details of what the weightings are in the broad based funds. In the Agricultural fund; Soybeans makes up 25%, while wheat is only 16%. Wheat remains in a weak technical condition following its peak above \$9 whereas soybeans and corn are in uptrends. The AIGA ticker on the London exchange also looks to be quite illiquid and seems to be prone to rather large swings. Yes these funds are designed to track the performance of a commodity but they also factor in contango / backwardation and management costs in addition to price action which is something one needs to be aware of.

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

"Could you please add the these sterling denominated ETCs to your chart library - AGAP, AGCP, AGGP, NGSP, BULP, PHGP, PHSP, PHPP, OLBP, OLWP."

My comment - Thank you for the suggestion and while they still have very little price data, they have all now been added.

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

"Could you add Fortis Indonesia Equity Fund in us\$ to the Chart Library?"

My comment - Thank you for this interesting suggestion and I have added it to the Chart Library.

Email of the day (6) - on adding Asian Small Cap indices:

"Could we please add a general Asian smaller co's index to the Chart Library?"

"Thanks"

My comment - Thank you for pointing out this gap in our coverage. I added the Dow Jones Asia/Pacific Small Cap Index and the [FTSE Asia Pacific Small Cap](#) indices to the Chart Library this morning. The FTSE index is the better performer, having moved to a new high following the August correction. It would need to sustain a move below the 200-day MA to question the integrity of the overall uptrend.

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

Nickel - remains in a well defined range between \$30,000 and \$35,000 and needs to sustain a move above the latter level to reaffirm the bullish outlook.

US Dollar per 1 British Pound - The Pound posts a large key day reversal which probably caps the advance in the short-term and it would need to sustain a move to new high ground to reaffirm the short-term uptrend.

Topix Banks Index - breaks below the August lows, reaffirming the overall downtrend and would need to sustain a move above 340 to question potential for further downside.

This report has been produced and compiled by Fullermoney, a division of Stockcube Research Limited which is regulated and authorised in the UK by the Financial Services Authority, according to the requirements of the Financial Services and Markets Act 2000. It is distributed by Stockcube and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time Stockcube and any of its officers or employees may, to the extent permitted by law, have a position or otherwise be interested in any transactions, in any investments (including derivatives) directly or indirectly the subject of this report. Also Stockcube may from time to time perform other services (including acting as adviser or manager) for any company mentioned in this report. The value of securities can go down as well as up, and you may not get back the full amount you originally invested. Derivatives in particular are high risk, high reward investment instruments and an investor may lose some or all of his/her original investment. If you make an investment in securities that are denominated in a currency other than that of GB Pounds you are warned that changes in rates of foreign exchange may have an adverse effect on the value, price or income of the investment. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Stockcube who are expected to make their own investment decisions without reliance on this report. Neither Stockcube nor any officer of Stockcube accepts any liability whatsoever for any direct and consequential loss arising from use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Stockcube.