

# Fullermoney *Highlights*

Global Strategy and Investment Trends compiled by Eoin Treacy

[www.fullermoney.com](http://www.fullermoney.com)

**12<sup>th</sup> November 2007**

David & Eoin's personal portfolio trades	Page 3
18th October USA equities Now a tale of two stock markets, the moribund versus the magnificent	Page 4
October 23 <sup>rd</sup> Stephen Roach After nearly five fat years, the global economy is headed for trouble	Page 5
October 25 <sup>th</sup> Global Macro Trends	Page 7
November 5 <sup>th</sup> on becoming a technical naturalist and questions on the markets	Page 8
November 6 <sup>th</sup> on the Fed's action	Page 9
November 9 <sup>th</sup> on the banking sector	Page 11
October 29 <sup>th</sup> More on my personal top-10 investment portfolio	Page 12
October 25 <sup>th</sup> on, am I more of a trader than a value investor? (from a trialist)	Page 13
November 1 <sup>st</sup> Can anyone beat the market over the long haul?	Page 14
October 22 <sup>nd</sup> on DAX shorts and stock market risk	Page 14
October 24 <sup>th</sup> On Technology stocks listed outside the USA	Page 15
October 25 <sup>th</sup> Interesting international technology shares	Page 18
October 26 <sup>th</sup> on Technology's advance	Page 20
October 29 <sup>th</sup> on Taiwan and technology	Page 20
October 30 <sup>th</sup> on the rationale behind the technology rally	Page 21
November 1 <sup>st</sup> on semiconductor companies	Page 22
October 29 <sup>th</sup> on the impact of a weakening Dollar on US tech companies	Page 24
November 5 <sup>th</sup> on Gold in other currencies	Page 25

October 30 <sup>th</sup> on investment currencies, spotting bear markets and bond / equity correlations	Page 25
November 7 <sup>th</sup> on long-term charts of the Dollar against the Euro and Deutsche Mark	Page 27
October 23 <sup>rd</sup> on oil's secular bull market	Page 27
October 29 <sup>th</sup> on meeting BP Singh of Atlantis India Fund	Page 28
November 1 <sup>st</sup> on the Indian rupee	Page 30
November 8 <sup>th</sup> BHP Billiton Offered to Buy Rio; Proposal Rejected	Page 30
October 31 <sup>st</sup> Forbes.com Dry Shipping On The Rocks?	Page 32
November 5 <sup>th</sup> How China boom could go wrong	Page 34
October 19 <sup>th</sup> on China's leadership	Page 36
November 6 <sup>th</sup> on the Emirates	Page 37
October 23 <sup>rd</sup> on grains	Page 38
November 5 <sup>th</sup> from a new subscriber on Oats	Page 39
November 6 <sup>th</sup> on corn, soybeans, the USDA, politics and ethanol	Page 40
October 26 <sup>th</sup> Chart of the Day Entering a period of seasonal strength	Page 41
November 7 <sup>th</sup> on an <a href="#">article</a> by Will Hutton for the Guardian (UK) and coping with volatility	Page 42
November 6 <sup>th</sup> on trading stops	Page 44
November 2 <sup>nd</sup> on key day reversal signals	Page 46
November 6 <sup>th</sup> World Equity Index Valuations Tables	Page 47
October 26 <sup>th</sup> Chart Library Enhancements roll out	Page 47

David	Silver		CL 19/10 \$13.92 Mar08
	Silver	Long 19/10 \$13.755 Mar08	
	Silver	20% reduction	CL 19/10 \$13.53 Dec07
	Gold		CL 19/10 \$765 Feb08
	Gold	total position sold	CL 22/10 \$759 Dec07
	Palladium	50% reduction	CL 22/10 \$353 Dec07
	ABD LN		CL 22/10 537.01p Dec07
	Platinum	16.5% reduction	CL 22/10 \$1432 Jan08
	TFC US		CL 22/10 4771.79 Dec07
	DAX	33% reduction	CS 22/10 7970 Mar08
	DAX		CS 22/10 7980 Mar08
	DAX		CS 22/10 7990 Mar08
	JII LN	Long 23/10 419.5p	
	NDX	Long 23/10 2224.75 Mar08	
	Gold	Long 23/10 \$769.3 Feb08	
	Gold	Long 23/10 \$767.4 Feb08	
	Silver	Long 23/10 \$13.835 Mar08	25% increase
	Gold	Long 26/10 \$786.1 Feb08	50% increase
	Silver	Long 26/10 \$14.305 Mar08	20% increase
	Platinum	Long 26/10 \$1462.8 Jan08	18% increase
	ANW LN	Long 29/10 191.72p Mar08	
	ANW LN	Long 29/10 192.73p Mar08	
	Gold	Long 29/10 \$798.50 Feb08	
	Silver	Long 31/10 \$14.56 Mar08	
	Silver		CL 01/11 \$14.60 Mar08
	Silver	Long 01/11 \$14.48 Mar08	
	Silver		CL 01/11 \$14.32 Mar08
	Silver		CL 01/11 \$14.305 Mar08
	Silver		CL 01/11 \$14.30 Mar08
	Silver		CL 01/11 \$14.245 Mar08
	Silver		CL 01/11 \$14.20 Mar08
	Silver	Long 01/11 \$14.24 Mar08	total reduction 71.4%
	Silver		CL 01/11 \$14.06 Dec07
	Platinum	15% reduction	CL 01/11 \$1447.5 Jan08
	NDX	Long 01/11 2256.25 Mar08	
	Platinum		CL 02/11 \$1439.60 Jan08
	NDX		CL 02/11 2225 Mar08
	DAX	Short 05/11 7918.5 Mar08	
	Gold	Long 05/11 \$812.8 Feb08	
	Platinum	Long 05/11 \$1468.8 Jan08	
	Platinum	Long 06/11 \$1476.5 Jan08	
	Platinum	Long 06/11 \$1480.5 Jan08	20% increase over 3 trades
	Silver	Long 06/11 \$15.16 Mar08	
	Silver		CL 06/11 \$15.55 Mar08

	<b>Corn</b> <b>ANW LN</b> <b>Platinum</b> <b>Platinum</b> <b>Platinum</b> <b>NDX</b> <b>NDX</b> <b>Silver</b> <b>Silver</b> <b>Silver</b> <b>Gold</b> <b>Silver</b> <b>Silver</b> <b>Silver</b> <b>Silver</b> <b>MLW</b>	<b>Long 06/11 384.5¢ Dec07</b>  <b>Long 08/11 \$1465.7 Jan08</b> <b>Long 08/11 \$1480.5 Jan08</b>  <b>Long 08/11 2157.5 Mar08</b> <b>Long 08/11 \$15.63 Mar08</b> <b>Long 08/11 \$15.625 Mar08</b>  <b>Long 08/11 \$842.9 Feb07</b> <b>Long 08/11 \$15.77 Mar08</b> <b>Long 08/11 \$15.78 Mar08</b> <b>Long 08/11 \$15.53 Mar08</b> <b>Long 08/11 \$15.495 Mar08</b>	<b>CL 08/11 179.73p Mar08</b> <b>CL 08/11 \$1455 Jan08</b>  <b>total 20% increase</b> <b>CL 08/11 2200 Mar08</b>  <b>100% increase</b> <b>CL 08/11 \$15.64 Mar08</b> <b>20% increase</b>  <b>CL 09/11 723p Mar08</b>
<b>Eoin</b>	<b>Silver</b> <b>Gold</b> <b>600497 CH</b> <b>601328 CH</b> <b>601988 CH</b> <b>601398 CH</b> <b>Gold</b> <b>Gold</b> <b>Silver</b> <b>Silver</b> <b>Silver</b> <b>Silver</b> <b>Silver</b> <b>Silver</b> <b>Silver</b>	<b>Long 19/10 \$13.63 Dec07</b>  <b>Long 30/10 ¥109.03</b> <b>Long 30/10 ¥15.98</b> <b>Long 30/10 ¥6.69</b> <b>Long 30/10 ¥7.95</b> <b>Long 31/10 \$794 Dec07</b>  <b>Long 01/11 \$14.27 Dec07</b> <b>Long 02/11 \$14.47 Dec07</b> <b>Long 06/11 \$14.98 Dec07</b>  <b>Long 07/11 \$16.16 Mar08</b>  <b>total position closed</b>	<b>CL 23/10 \$760 Dec07</b>  <b>CL 01/11 \$793 Dec07</b>  <b>50% increase</b>  <b>CL 06/11 \$15.35 Dec07</b>  <b>CL 07/11 \$15.80 Mar08</b> <b>CL 07/11 \$15.24 Dec07</b>

### 18th October USA equities: Now a tale of two stock markets, the moribund versus the magnificent

Not since the new economy fad versus the so-called old economy in the late 1990s, have we seen such a divergence between two distinct groups within the US stock market. Only back then much of the new economy was based on hype and pipe dreams.

Today, investors seeking performance in US equities need to be aware of another developing stock market divide, which has been under reported. Veteran subscribers will be familiar with this theme. However new subscribers join Fullermoney on a daily basis and there are a record number of trialists this month (welcome all) so I need to spell out the Wall Street divide.

In the moribund corner are companies that primarily serve the domestic (within territorial USA) economy. They are suffering because of a significant economic slowdown, due to the burst housing bubble and its effect on overstretched and indebted consumers, not least during the recent credit crunch. There is little reason for American consumers to be optimistic, other than the fact that most are gainfully employed. However, unemployment is likely to rise and this will weigh further on consumer sentiment.

In the moribund corner we also have the US financial sector, particularly banks, even those with substantial overseas operations. Cowboys within the banking securitisation and marketing business have shot themselves in the foot with sub-prime and related products. It will take time for this toxic waste to be cleared and the stench will linger for longer.

Arguably, moribund economy stocks are shorts, subject to chart patterns. I would not consider buying any primarily domestic US stock, unless it had an exceptional chart pattern. There will be bullish exceptions but they are in the distinct minority. I would not bottom fish among the clearly moribund, at least not anytime soon, because their convalescence is likely to be lengthy.

Previously, we could generalise by saying that what was bad for the banks was also bad for the rest of the market. But this risk of contagion is being increasingly offset by another influence - the sliding US dollar. This is a bonanza for US multinational companies, as I have said before, since they consolidate their earnings in US dollars. The dollar's decline also has a secondary benefit in that it makes promising US shares cheaper for non US-domiciled investors.

If I were investing in the US stock market, I would be trolling among multinational companies that are relative strength leaders. One could start by scrolling through the S&P 500 in the Library, looking mainly at the weekly charts. Big-cap tech will increasingly be among the magnificent.

### **October 23<sup>rd</sup> Stephen Roach: After nearly five fat years, the global economy is headed for trouble**

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

#### **Don't Count on Global Decoupling**

A capitulation of the American consumer spells considerable difficulty for the global economy. This conclusion is, of course, very much at odds with notion of "global decoupling" - an increasingly popular belief that depicts a world economy that has finally weaned itself from the ups and downs of the US economy.

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

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

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

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

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

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

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

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

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

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

Stephen Roach's points on central banking are interesting.

## **October 25<sup>th</sup> Global Macro Trends**

This was the title of my 2.5-hour presentation to the Nordic Association of Electricity Traders today. Since they are mostly experienced traders, specialising in Nordic energy, I was invited to talk about big picture fundamental economic investment themes, which I illustrated with charts. This

was my second address to NAET this decade, and I was asked back because I had forecast a commodity supercycle in my 2002 presentation.

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

### **November 5<sup>th</sup> 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.

### **November 6<sup>th</sup> on the Fed's action**

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.

### **November 9<sup>th</sup> 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.

### **October 29<sup>th</sup> More on my personal top-10 investment portfolio:**

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

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

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

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

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

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

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

Please note: I emphasise once again that this is a personal portfolio and because it feels right for me does not mean that it is necessarily right for you. For instance, it ignores income as I am still working and trading, and focuses

on long-term growth, favouring the big Fullermoney themes of the last five to six years, specifically resources and Asian emerging markets.

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

**October 25<sup>th</sup> on, am I more of a trader than a value investor? (from a trialist):**

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

My comment - Welcome to Fullermoney.

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

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

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

This certainly does not mean that I am less interested in my investments, and crucially, in discussing investment themes in Comment of the Day and the Audios. So I do think of myself as a "value or fundamental investor", but with a contrarian leaning and I use charts for timing.

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

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

## **November 1<sup>st</sup> Can anyone beat the market over the long haul?**

Tom Burroughes, Wealth Management Editor for The Business, asked me this question today. Here is my reply:

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

It depends on whether you are talking about long-only, un-leveraged funds or funds that can use leverage. If you have a bull market, as we have seen since 2003, it is easy to outperform the appropriate benchmark if you leverage up. That superior performance would be due to gearing rather than brains. However leverage is a double-edged sword and will prove costly in a downturn if the eventual end of the bull-run is not anticipated by the manager.

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

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

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

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

## **October 22<sup>nd</sup> on DAX shorts and stock market risk**

"Well done David for your timely DAX shorts. When I look at MACD which has been very helpful since the July peak in equities, it is quite possible that we could test the August lows again. Or perhaps we'll go sideways from around current levels and indicators such as MACD will come back down. How strong do you think is the possibility that the present pull-back becomes more severe and we go back to those lows? The markets rallied in a V shape and while expectations are growing of more rate cuts in the US, they need to adjust to the worsening earnings & economic outlook first before they can benefit from

easier money. I know this is a favourable seasonal period, but as we know, that doesn't guarantee a rally in this quarter."

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

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

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

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

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

### **October 24<sup>th</sup> On Technology stocks listed outside the USA**

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

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

The Nasdaq [outperformed](#) the S&P in spectacular fashion from 1998 through to its peak in 2000; it then gave up its entire relative gain and moved into a base from the lows in 2002 until late September. Less than a month ago, the Nasdaq 100 broke upwards against the S&P 500, in what could mark the end of a long consolidation and a return to outperformance for this technology laden index. The Nasdaq 100 moved into a consistent uptrend from the mid-August lows and recently encountered some resistance at 2200. The Index broke upwards yesterday following a two-week consolidation but was unable to sustain the gain today. It needs to hold the gain and improve on it to reaffirm the overall uptrend. .

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

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

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

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

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

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

The [Australian S&P/ASX 200 Information Technology](#) Index sustained a consistent uptrend with a progression of higher lows and relatively similar sized corrections from the 2003 lows near 170 to the high at 700 in late May.

The Index led the market on the [downside](#) into the July/August correction and has failed to rally from the mid-August lows. A sustained move above 600 would be needed to offset scope for lower to lateral ranging.

The [Japanese Topix Electrical Machinery](#) Index bottomed in 2003 and following an initial rally, moved into a consolidation. It broke upwards in late 2005 before encountering [resistance](#) at 2500, and needs to sustain a move above this level to reaffirm the overall uptrend.

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

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

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

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

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

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

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

Of all the sector indices reviewed above the Canadian Information Technology Index is by far the best performer and is also denominated in one of the world's strongest currencies. It is closely followed by the Hang Seng Information Technology sector and the DJ Euro Technology sector which are

also performing in line with the Nasdaq. I will review some international technology shares, which may be of interest, tomorrow.

## October 25<sup>th</sup> Interesting international technology shares

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

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

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

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

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

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

[Business Objects](#), listed in France, bottomed in 2002 at just under €10 and moved into a ranging consolidation with a progression of rising major reaction lows. It is currently subject to a [takeover](#) bid from SAP which is responsible for

the share breaking upwards from the 5-year consolidation. A sustained move below €35 would be needed to question upward potential.

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

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

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

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

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

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

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

## October 26<sup>th</sup> on Technology's advance

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

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

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

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

## October 29<sup>th</sup> on Taiwan and technology:

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

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

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

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

"Finding good tech funds is not easy"

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

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

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

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

### **October 30<sup>th</sup> on the rationale behind the technology rally:**

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

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

We were drawn to the sector by three compelling technical factors. The first began in 2006 when we started looking at big base formations. This was when we originally began to notice the potential of companies such as Cisco. (See

Comment of the Day on [August 25th 2006](#)). In the last few months we have seen a large number of technology companies breaking upwards from quite long-term bases. This trading action was enough to attract our attention. Secondly, the relative performance of the Nasdaq over the S&P has been noteworthy and points to a shift in investor sentiment towards technology. (See Comment of the Day on [October 15th](#)) Third, is the fact that not only have many of these shares broken upwards from their bases but they are forming consistent staircase uptrends. The latest review of Nasdaq stocks was on [October 12th](#)

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

There are also a number of macro reasons behind this move. Technology generally does well in an environment where US interest rates are falling. That is certainly the case today. (See Comment of the Day on [September 17th](#) for more on this.) Fundamentally we are still in a period of global economic expansion which is a boon to international trade. This is an environment where global companies such as many of the featured technology firms can prosper. Dollar weakness has also been a positive factor for many of these US companies because they consolidate their international earning in a depreciating currency. (See Comment of the day on [October 18th](#)) I have also heard at least anecdotal reports, that many firms are once again investing in their technological infrastructure, which is helping to drive earnings in these companies. Sovereign Wealth Funds (SWFs) are also likely to become active in attempting to acquire technology firms which will help to support prices. (Also see Comment of the Day on [October 15th](#)).

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

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

### **November 1<sup>st</sup> on semiconductor companies:**

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

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

My comment - Semiconductors and integrated circuits is one of the toughest, most ruthlessly competitive fields in the technology sector. The largest are in the USA and Taiwan but most major industrialized nations have at least one

company manufacturing them. I'm not an expert on valuing companies, but I think it is fair to say that; seven years after the bursting of the TMT bubble, if a company is not making money, it's in trouble.

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

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

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

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

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

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

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

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

subject in earlier Comments of the Day. (Search under Hong Kong for multiple entries.)

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

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

### **October 29<sup>th</sup> on the impact of a weakening Dollar on US tech companies**

"On the Fullermoney theme: US Tech"

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

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

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

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

most international technology companies take their lead from how the Nasdaq performs.

### **November 5<sup>th</sup> on Gold in other currencies**

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.

### **October 30<sup>th</sup> on investment currencies, spotting bear markets and bond / equity correlations:**

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

"Having invested in Fullermoney themes via equities over the past year I am very content, however, I am also building up cash but unfortunately in USD...I would therefore like to diversify some of this USD currency into others...looking at the same FM theme I may move some into resource country currencies or maybe some other ones...could you possibly do a review of world currencies such as canadian, australian, nz, euro etc with longer term perspective and low risk hedge against falling dollar and maybe gbp?

"The other question I have is regarding spotting a bear market and when to get out with profits...You mentioned once being able to accept a 40% draw down on some of the FM themes that could be considered as a correction...I

doubt that I have the discipline to handle that type of correction...When a correction of that size happens how do you know that its not actually a bear market taking place?

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

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

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

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

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

For perspective, look at this long-term chart of the [USD/CNY](#), showing data back to 1981. You can see the USD appreciating until early 1994, when China's presumably last ever devaluation (in my lifetime and probably yours as well) occurred. The upward gaps are all devaluations, and the horizontal lines reflect a peg to the USD. Here is the same time period shown on a [line chart](#). Increasing the magnification you can monitor the renminbi's progress on these charts ([monthly](#), [weekly](#) & [daily](#)), as a managed appreciation occurs against the USD, shown as renminbi per 1 US dollar.

As for sterling, veteran subscribers may recall that it has suited me to hold a fairly significant cash position for several years. For convenience rather than maximum return, I have kept this in a sterling Treasury rollover account and benefited from the UK's rising interest rates. I will have to rethink this strategy

over the next few months, even though I am currently less bearish than Max King below.

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

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

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

### **November 7th 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.

### **October 23<sup>rd</sup> on oil's secular bull market**

"I followed the link provided by the subscriber covering the problem of oil production capacity but the "solution" is not shown! I was hoping to read

something on Canadian oil sands production and oil service companies. Might he be able to enlighten us further?

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

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

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

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

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

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

### **October 29<sup>th</sup> on meeting BP Singh of Atlantis India Fund**

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

had invested in the Atlantis India Fund. As I was going to be in India I was keen to meet with BP.

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

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

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

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

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

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

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

Lastly, I am not sure which Vietnam Fund you purchased but while I certainly like this [market](#) for the long term, I have been concerned by reports from subscribers, regarding excessive charges when taking profits. This has cooled my enthusiasm for Vietnam investment vehicles and should you eventually

decide to sell, you should probably do it on strength and also negotiate any exit fee.

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

### **November 1<sup>st</sup> on the Indian rupee**

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

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

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

### **November 8<sup>th</sup> 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.

### **October 31<sup>st</sup> Forbes.com: Dry Shipping On The Rocks?**

Thanks to a subscriber for this [article](#) by Ruthie Ackerman which carries some interesting commentary on the dry bulk shipping sector. Here is a section:

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

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

The last 12 months have seen enormous gains in the shipping industry as steel production and demand for raw materials in China has soared. As more ferry loads of coal, steel, grains and other commodities have been chartered it has caused upward pressure on shipping costs. That's good news for the dry bulk shipping industry, which has seen even its worst stocks skyrocket as much as 150% in the last year.

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

My view - The Baltic [Capesize](#) index accelerated upwards from its low in June above 6000 to a recent high of 15,515. This is a characteristic it has shared with just about every other Dry Bulk Shipping index as rising demand for ships and congestion around important export terminals have pushed prices higher. The Index lost momentum just above 15,000 going sideways for two weeks, which is a longer lateral move than any seen since the beginning of the uptrend. Yesterday's downward move is not too large in terms of a percentage

move but it is the largest reaction and from a higher level than any seen since June. Given the fact that the Index was looking overextended in the short-term a period of consolidation is probably due. The Index would need to sustain a move to new high ground to reaffirm the uptrend.

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

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

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

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

Eagle Bulk Shipping is prone to rather violent reactions which have seldom lasted for more than a couple of days. While on this occasion the reaction has also been experienced by a number of other companies in the sector, it would need to sustain a move below the \$27 to signal the onset of a more serious correction.

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

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

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

## November 5<sup>th</sup> 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.

### **October 19<sup>th</sup> on China's leadership**

In the 1990s Jiang Zemin maintained an iron grip on power. His power base was and to some extent still is situated in and around Shanghai he succeeded in padding top posts with people loyal to himself. There is a humorous anecdote, which was popular at the time, surrounding Jiang's Prime Minister Li Peng: On arriving home from a meeting of top officials, his wife asked him what had been decided. He answered that he hadn't understood a word because everyone was speaking in the Shanghai dialect.

Jiang's successor, Hu Jintao spent the majority of his political career in the economic hinterland of the south west. In the last five-years he has attempted to shift the emphasis of development from the coast to the interior, which also helps to boost his popularity amongst his own supporters. This is quite likely to continue over the next five years. These measures have also helped to develop China's domestic consumption which is seen as imperative to China's development plans.

In any political system, those in power reward their own supporters and China is no different. The difference between Shanghai's infrastructure relative to Beijing's is marked and can at least in some part be attributed to Jiang looking after his home town while in power. President Hu is doing something similar for his home region.

This [article](#) from the Irish Times by Clifford Coonan discusses which of the two leading candidates are most likely to succeed Hu at the next Party conference in five years time. Here is a section:

The presentation of Li Keqiang, the 52-year-old party head of the industrial province of Liaoning, and Xi Jinping, the 54-year-old party chief in China's financial capital Shanghai, was perfectly orchestrated.

The Chinese love symmetry and there was great balance and harmony in the way the industrial problem solver, Li Keqiang, and the representative from the commercial megalopolis, Xi Jinping, presented themselves to the rank-and-file and the foreign and state-run Chinese media.

Both are children of the revolution - the Cultural Revolution, that is, the period of paranoid political upheaval and chaos orchestrated by Chairman Mao Zedong between 1966 and 1976. This period saw the careers of many

ambitious communists destroyed in a flurry of anti-rightist campaigns and crackdowns on "capitalist roaders". Both also bore witness to the battle for China's soul between the old guard and the reformists, as well as the bloody crackdown on the democracy movement in Beijing and other cities in 1989.

The "fifth generation" of leaders will most likely follow closely in Mr Hu's footsteps, focusing on stability and consensus within the party itself, not yielding an inch on broader democracy but aiming for conformity and unity.

Li Keqiang is seen as a front-runner to succeed Mr Hu, his political mentor who also hails from the immensely influential Communist Youth League, Mr Hu's main power base.

It is likely that one of these men will be China's next President. Depending on which one is given the post of vice-President, will be a good indication of the direction policy will take following 2012.

### **November 6<sup>th</sup> 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](http://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.

### **October 23<sup>rd</sup> on grains:**

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

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

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

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

### **November 5<sup>th</sup> 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¢.

### **November 6<sup>th</sup> 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.

### **October 26<sup>th</sup> Chart of the Day: Entering a period of seasonal strength**

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

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

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

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

**November 7<sup>th</sup> 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.

## November 6<sup>th</sup> 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.

### **November 2<sup>nd</sup> on key day reversal signals:**

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

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

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

My comment - I probably did not elaborate enough at the time, although you may recall me saying: A crucial point regarding the key reversal (a big outside

day [or week] closing in the opposite direction of the prevailing trend) is its surprise or even shock effect, which can trigger a reassessment by investors and traders. Therefore the more reliable keys will be dramatic and occur at a time when people are either frightened or euphoric. You can see some on most charts and here are a few examples: [EUR/GBP](#), the best being an upside key at the low in January and a downside key in September, checking the euro's rise; [GBP/ZAR](#), sterling just had an upside key against the rand, checking a long slide; Singapore's UOB SESDAQ [Index](#) shows a beauty at the July high and although it had no follow through the next day, a smaller version of the key characteristic is evident following the retest of the high; [Taiwan](#) had a similarly clear downside key in July following the somewhat overstretched rally. You will find many more in a random check though markets as I have just done to locate these examples.

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

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

### **.November 6<sup>th</sup> 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.)

### **October 26<sup>th</sup> Chart Library Enhancements roll out**

Last night's release of the improved Favourites and Relative charting packages is the first in a number of enhancements we plan to release in the

coming months. While much of what we have added is relatively straightforward, here is a step by step description of how to use the new features which some subscribers may want to print off while using the Library for the first time:

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

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

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

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

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

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

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

Relative performance is something we wish to be able to monitor on an ongoing basis which is why we are intent on developing scanning software but

it is also important to be able to view ratio charts of one instrument against any other. This is now possible.

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

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

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

We will update the Help pages on Monday.

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.