

# Fullermoney

Global Strategy and Investment Trends by David Fuller

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

Monday 26th November 2007

**Jason Zweig: Don't be a Footsie neurotic - [My thanks to a subscriber for this terrific article published by The Telegraph. Here is the opening:](#)**

**Neuro-economics can help you understand your reactions - and get richer, says Jason Zweig**

**What goes on in your brain when markets are crashing? The new science of neuro-economics - a hybrid of neuro science, economics and psychology - has begun to shed light on that question. Within 12 milliseconds, or one-25th the time it takes you to blink your eye, upsetting financial news can activate the amygdala, a structure in your brain that generates emotions like fear and anger.**

**That bad news can come in many forms - a headline in this newspaper, a market bulletin on your iPhone, a stock chart on a trading website, a price update or a market pundit preaching doom on television.**

**Plunging stock prices ignite the same circuits in your brain that respond to the snarl of a lion. Just a flash of the red colour that symbolises a downtick is enough to excite the circuitry in your brain - and to make reflective thinking more difficult.**

**Merely reading the words "stock market plunges" in this sentence will raise your pulse, quicken your breathing, increase your blood pressure and tense your muscles.**

**If you needed to make a snap decision about a stock immediately after reading those frightening words, you would involuntarily have been propelled toward selling. Yet, because emotions can often be unconscious, you might well believe that you had made a reasoned decision at the very moment you were in the grip of a primordial fear.**

**My comment - [I agree with this and have mentioned it before.](#) [Humanoids are hardwired to jump at shadows and noises; otherwise our ancestors would have been eaten. As a consequence, when we think we are being analytical under pressure, we are more likely to be emotional.](#)**

**[There is wisdom in this article and I commend it to you.](#)**

Email of the day (1) - [On investing in India:](#)

"I'm in Australia and am considering gaining my purely Indian equities exposure through the (relatively newly) US listed iPath MSCI India Index Exchange Traded Note which appears to have performed well since launch.

"Can you see any significant advantages/disadvantages in investing in India equities via this vehicle, compared with, say, the UK listed JP Morgan India fund or the HK listed iShares BSE Sensex India?"

"I understand that the MSCI India Index is broader than the Sensex Index. However, I'm not sure whether an ETN has any advantages - or disadvantages - over an ETF?"

**My comment** - Unlike 2Q 2003, when I commenced investing in India, one is now spoiled for choice. The increased competition is good and should help to keep costs down.

For the record, here are the Library [headings](#) produced by a Search for 'India'. Briefly, I have not seen any negative copy on ETNs (Exchange Traded Notes) and their flexibility in terms of operation may be a net plus. They are run by divisions of Barclays PLC, which is a top UK bank with global operations. Here is their iPath information [link](#). I noticed that the [India ETN](#) you mentioned currently has a capitalisation of just over \$1bn.

Basically, an ETN does not purchase the shares but uses swaps and other derivatives instruments, in an unleveraged way, to achieve the same results, possibly with lower dealing costs.

You don't get investment management skills with an ETF or ETN, but then history suggests that few managers will outperform them over the long term, after fees. Investment trusts (closed-end funds) can have timing advantages, if one purchases them at attractive discounts to NAV and sells them at premiums.

I personally would have no qualms about purchasing an ETN or ETF, if I really liked the underlying market. India remains my favourite stock market for the very long term. However it will be volatile from time to time, just like any other market. Therefore the best buying opportunities will occur following setbacks.

**AIR: Don't Worry About China** - [My thanks to a subscriber for this excellent and mainly factual report](#) on China by Australian Investment Review. Here is a brief section:

**o Strong productivity growth on the back of privatisation, deregulation**

and the application of new technology.

o Rapid urbanisation which is sustaining investment, contributing to productivity growth and keeping labour costs down via the supply of cheap labour. The argument that China has run out of cheap labour seems weak - its urbanisation rate is still only 40%.

o Huge competitive advantages built around low unit labour costs, scale advantages and good infrastructure.

Average salaries of manufacturing employees are 5% of US and European levels. Unit labour costs are a fraction of those in developed countries. Manufacturing unit labour costs are falling despite rising wages.

Consumer demand is growing strongly and will be boosted by Government policy to re-establish a social safety net (with plans to double the percentage of the workforce covered by pension plans and medical insurance by 2010 to just below 70%).

Consumer spending is coming from a low base. E.g., there are less than 20 cars for every 1000 people which is where the US was in 1918 and this compares to about one car for every two people in Australia and the US. Living space per person is 10% of US and Australian levels.

o China's rate of investment is likely to remain strong on the back of urbanisation, the low level of capital relative to the population, strong profit growth and a high level of retained earnings and policies to narrow the income gap between the eastern and inland provinces.

With per capita income levels in China still way below rich country levels China's rapid growth phase has decades to go. This means China's export penetration into developed country consumer - & increasingly capital goods - markets has a lot further to go and so does the resources boom.

Growth is very strong, but no sign of overheating

There is no doubt that Chinese economic growth, running above 11% so far this year, is a bit too strong.

As a result we are likely to see more attempts to slow it down to 9% to 10%. It is also the case that monetary policy in China is unnecessarily stimulative with the one year benchmark borrowing rate of 7.29% extremely low relative to nominal GDP growth of around 15%. Keeping the Renminbi cheap is leading to economic distortions and adding to the difficulties of monetary management.

Rapid growth is also creating social and environmental tensions. However, there are several points to note about all this. Firstly, the normal signs of overheating are not present.

o Non-food inflation is just 1.1%.

The current account is in surplus and as such China is not reliant on foreign capital inflow.

o While property prices are rising strongly, in aggregate Chinese property prices have been rising at a slower pace than nominal GDP (which is running around 15%).

o Investment running at 26% year on year remains too strong, but retail spending has been accelerating and recent strength in investment growth reflects strength in the inland provinces, both targets of Government policy.

These considerations suggest that while further measures are likely to slow growth down a bit, there is no need to crunch it so policy tightening is likely to remain measured.

Secondly, while Chinese interest rates are low relative to nominal GDP growth it should be borne in mind that China is not yet a fully developed laissez faire economy.

Unlike in most developed countries where interest rates are the key policy lever, China also actively uses a range of approaches including the use of administrative controls (such as restrictions on investment projects or putting pressure on banks to slow loan growth like now).

o In this regard, it should also be borne in mind that loan growth of 18% per annum is not strong in relation to nominal GDP growth of 15%. It has been running at much higher levels relative to GDP growth in rich countries recently including Australia. Thirdly, while China may speed up the appreciation of the Renminbi, it is unlikely to go too fast given the authorities' fears that it could stifle exports and make it hard to absorb rural workers. Their approach is likely to remain gradual.

Finally, while China has big environmental problems and problems with product standards (such as the recent furore with product recalls from toxic tooth paste to excessive lead in kid's toys) this is arguably just a stage in its economic development. Industrial revolution London did not look too flash either and the US had similarly lax product and intellectual property standards in the 1800s -

Charles Dickens was extremely annoyed at seeing pirated copies of his books in Boston book stores!

**My view - China, you will have noticed, is an extremely emotive subject, not least in the West where it is admired and especially feared. We do not have to look far for reasons.**

**China is admired for its meteoric rise over the last decade, not least by investors who share the Fullermoney view that it is the king of emerging**

markets, capable of outperforming, albeit sometimes in a volatile fashion, most other stock markets and economies for many decades.

China is feared for its rapidly growing economic and military power, and potential to dominate eventually in a way the world has not seen since the 17th century. China currently has the world's largest population, fastest growing economy, will soon overtake Germany as the world's third biggest economy, and could easily become the largest within 20 years.

Consequently, it is easy to be irrational about China. For this reason I appreciate AIR's perspective, based on the interesting comparative statistics provided. They remind me of why I do not want to take profits on my long-term investment in China. Instead, I should consider adding to it following corrections. Here is the Library's China [link](#) for your perusal.

**Email of the day (2) - On gold participation:**

"When looking at the sterling gold etf's BULP & PHGP can you comment on why you would choose one over the other? Would there be any particular advantages/disadvantages with the physical option?"

**My comment - This is not dissimilar to email of the day (1) above.**

Both of these ETFs are new and I am not aware of any important difference between them. However I am not certain of the extent to which a sterling-denominated gold fund will take off.

Here is the Library [link](#) on gold.

**Email of the day (3) - On a Christmas rally, India and Brazil:**

"I'm waiting with bated breath (and some new exposure) to see whether your expectations of a good December come true. (I presume that's what you meant, when you ended your audio on Friday by talking of a good January?). And in particular whether India and Brazil, which did not correct much, will start up again, or whether they will first have to correct some more to get closer to their 200-day moving averages.

"Since Sensex futures will be available on the US Futures Exchange from February, in addition to the Nifty futures currently available in Singapore, I thought this [article](#) on the difference between the two indices might be of interest to some readers. The author's conclusion is that the Nifty is a better long-term play, so since it's also more liquid I'll stick with that."

**My comment - Time clearly flies when I'm recording Audios, particularly if it is late in the evening. Thanks for the article above.**

The latest on BHP for Rio battle - These [two articles](#) from Bloomberg provide the latest developments and opinions.

**My view** - I favour the takeover for reasons of synergy and global clout, but not at the cost of required disposals if regulators dig in their heels. Meanwhile, there is some danger that egos and personal power struggles dominate strategy, which would not be in shareholders' interests.

I have no intention of selling either share and maintain that they are best purchased following setbacks. I am certain that China Investment Corp, the \$200bn and rising sovereign wealth fund, would love to take over Rio and BHP, but this would certainly not be in Australia's long-term interests. However there is nothing to prevent SWF from becoming minority shareholders, which is what I expect.

**Email of the day (4) - On restrictions for retirement account:**

"As US-based subscriber of four years, I long ago shifted the majority of my holdings into Fullermoney themes. Unfortunately, I'm unable to take similar steps with my retirement account. That account has a very limited number of choices of where one might park one's funds -- all of them are much less than ideal. So, please forgive me if I put aside any notion of being a sophisticated investor and ask a really basic question. Where would you put your money if you had to choose from one of the following indexes: S&P 500, US Small Cap, International Stocks (heavily weighted toward European and Japan big caps), US Bonds, Short-Term US Government Bonds (essentially the cash equivalent)? I'm currently in the Short-Term Bonds fund, but with inflation (and perhaps stagflation) on the horizon, would the S&P 500 index be better on a Zimbabwe theory? Your thoughts would be most welcome."

**My comment** - I'm incensed on your behalf since there is no sensible reason to have such limited choices regarding where you can direct investments your retirement account. In your shoes, my choice would be between International Stocks, and the S&P 500, but not before bank indices in those regions clearly show a firmer tone. My medium to longer-term concern is that I would prefer the overseas earners in both categories, but not the mainly domestic economy companies. So I would be lobbying for a wider choice.

**Email of the day (5) - On using TCS:**

"Thought you might like to know that the recent knowledge from your seminar is being put to good effect. Just been looking at the DJ grains index for trend consistency. We have had 3 pullbacks since the Sept 06 lows each of which has been smaller. In addition the pullbacks have been of a shorter duration with the last one being 2 weeks. I had

previously bought prior to the last shakeout and nearly sold but after looking at the trend consistency I therefore knew what to expect if the trend was to remain consistent. Your seminar was superb and the elements of it remain as a checklist for me before any investment or trade.

"PS the long term agricultural and grains relative to the S&P500 and their inflation adjusted ones tell a story."

**My comment - Thanks for your comments. The Chart Library is a fantastic tool and I am delighted by your enthusiasm in using it for your analysis and strategies.**

**Email of the day (6) - On Dow Theory:**

"Thanks for the great work. Your perspective and insight has done me no end of good in steadying my nerves during this period of volatility.

"My question is that Richard Russell of Dow Theory Letter has just indicated that a primary bear market is now in place. Would be grateful for your views on this."

**My comment - I have had several emails on this subject. I was somewhat surprised to hear that Richard Russell called a Dow Theory bear market signal on 21st November, because although Transports are beneath their August low - just - the Dow is still above its intraday low established on the 16th of that month.**

**Every analyst has their preferred methodology and while I respect the initial premise of Dow Theory, not to mention Charles Dow who was a great and highly successful pioneer of technical analysis, time moves on and I think it is a less critical indicator today. Also, if I interpret it correctly, did we not have a duff Dow Theory sell signal in April 2005, when both the Transports and the Dow briefly reached lower lows, with the latter bouncing off 10,000?**

**Personally, I remain much more concerned by the weakness of Western bank indices, represented here by the S&P 500 Banks Index (weekly & daily). Banks were signalling a problem when Transports and the Dow were touching new highs. Although the Banks Index looks somewhat climactic, it has yet to maintain a rally and remains weak today.**

**Email of the day (7) - On a review of banks:**

"Could we possibly have a review of the banking shares best recovery candidates in your view?"

"Thanks for an excellent service and looking forward to renewing my first yearly subscription next month."

**My comment - Thanks for your comments, continued interest and a useful suggestion.**

**Today, we are not able to make that call because the world is still divided between banks that are in steep downtrends and either barely steady or still reaching new lows, mainly although not exclusively in the West, and banks that have little or no sub-prime and have remained much stronger.**

**Today, it would be helpful to see more fundamental valuation rating of the banks in terms, similar to Nick Train's comments posted last Thursday, although with broader coverage. I appreciate this involves perhaps too much guesswork since we have at least a few more weeks and perhaps even months of write-downs.**

**Also, there may be no hurry. If bottom fishing, one could nibble on weakness among major banks. However there is unlikely to be a major liquidity problem with these actively traded shares. The less stressful route would be to wait until we see some base development, not least because we may also see some lengthy convalescences, as I have mentioned before. This would most likely include a bear squeeze rally, with support encountered above the low on the next reaction, followed by some ranging right-hand extension. The ending signal would be either Type-1, 2 and 3, or Type-2 and 3, as taught at The Chart Seminar.**

**Please note - Eoin is in Dublin today and tomorrow, conducting TCS.**

Tuesday 27th November 2007

**Jonathan Davis: Bears and bulls' battle is finely balanced - This is certainly a topical [column](#) by veteran commentator Jonathan Davis for the Financial Times. Here is the opening:**

**The struggle for supremacy between stock market bulls and stock market bears is turning into a titanic battle in which both sides can still periodically claim victory, thanks to the much increased volatility of market movements. It is hard to recall a time in recent years when market sentiment was so polarised, or when convictions on either side of the fence were so strong. It is making for a fascinating but stressful period for professional investors, some of whom, noted one weary hedge fund manager of my acquaintance, "may have to earn their fees this year".**

**There is no question that after the last couple of weeks the bulls are on the back foot. As the credit crisis unfolds, the banking sector is in full retreat and many commodities are showing signs of weakness. To do exceptionally well this year, benchmark-driven fund managers have had to call two sectors right - short financials and long commodities. Where appropriate, it clearly helped to be short the dollar as well.**

It may be no accident that in both the financial and mining sectors earnings forecasts are prone to error, in the case of the banks, because of the difficulty in forecasting the level of write-offs and losses from the credit crisis, and in the case of commodities, because of both their inherent volatility and the uncertainty about the impact that a slowing US economy will have on global economic activity.

**My view** - Bears have certainly had the upper hand recently - emotionally, technically and fundamentally. Animal spirits have waned as investors' fears are reflected by a bearish media. Western bank shares remain weak. Stock market rallies have mostly stalled following a number of failed upside breaks in October and there are many short-term downtrends. Global GDP growth has been slowing for months, yet central banks continued to raise interest rates against that background and have been slow to cut rates recently, putting them behind the curve of events.

This raises the question: Is this a reaction, correction or bear market? And what bull factors can we site?

The answer to the first question is frustratingly varied. For a shrinking minority of stock markets, what we have seen to date barely qualifies as a reaction. A number of others are technically in corrections, at least by my [definition](#). Unquestionably, this has been a bear market for most Western bank shares, and both house building and property companies have been similarly weak.

Bullish factors are inevitably less obvious during a market retreat. However increasing bearish sentiment and the anxiety that some of us undoubtedly feel is usually a good contrary indicator. Arguably, many stock markets are as short-term oversold today as they were overbought in mid-October. The big growth themes, represented by Chindia and resources markets such as Australia and Brazil have not shown the downside beta, at least not to date, that one might expect in a bear market.

Lastly and most importantly, look at this 5-year [chart](#) of the S&P500 Index compared to US 30-Year Treasury prices. Bonds usually lead. We saw this in 2003, again following the 2004 dip, similarly in 2005 and dramatically in mid-2006. Bond prices also led the summer correction and are probably signalling a yearend rally.

The counter argument, I should add, is that some people fear a sharp slowdown in the global economy, including deflationary pressures. This would be an overreaction in my view, not least because the global economy is still synchronised in a period of expansion, albeit at a slightly slower rate than twelve months ago. However this could change if the Fed, through an act of stupidity, refused to cut short-term rates significantly.

What about inflation, some will say. It is mostly from food and energy prices, and therefore a global problem, exacerbated by the rising cost of government services in countries such as the UK. Therefore a too tight monetary policy is a crude and ineffective club with which to tackle a problem of supply inelasticity and rising demand, not to mention the cost of government services. Instead of wringing these price increases out of the system, it would only beat up on consumers and businesses.

Even if an expansionary monetary policy did push up inflation slightly over the next year, this would be a small price to pay for avoiding a damaging recession. A more worrying inflationary problem is unlikely to occur before global GDP growth is surging once again. Significantly weaker prices for long-dated government bonds will provide ample warning.

Lastly on stock markets, I'll feel a lot better when Western banks improve but regard their market action as climactic. The current environment is obviously not without risks, not least because one can never be certain about the timing of central bankers. Also, Asian stock markets have temporarily lost the previously bullish China leash.

Nevertheless, I would rather be a buyer than a seller today. I continue to favour the Fullermoney themes, led by Asian emerging markets and resources. These are best purchased following setbacks and have enormous long-term potential. Among newer themes, mainly but not exclusively found in Europe and especially North America, which are good for at least the medium-term, I like big-cap multinational companies that derive a significant proportion of their earnings from Asia. I also like technology, and the recent market setback has made high-yielding equities interesting once again.

For additional buy ideas, see Mike Lenhoff comments below.

**Email of the day - On 'Behavioral Trading':**

"I was wondering if anyone that just attended TCS has read the book 'Behavioral Trading' by Woody Dorsey and would like to comment on it. I'm mentioning this because I believe it is linked to Jan Bylov's analysis technique. Also any other recommendations on Technical Analysis reading material by TCS attendees would be very much appreciated for those of us who are unable to attend the seminar at this point in time. Keep up the great work.

**My comment - Thanks for the feedback.**

I haven't read the Woody Dorsey book but suspect that a number of readers have. Also, you can find plenty of books on technical analysis, plus reader's ratings, via the Bookshop link above left. Alternatively, use Amazon. Personally, I have long felt that most books on technical

analysis were too mechanical, which is why I have called TCS a workshop on Behavioural Technical Analysis for the last 38 years.

**Mike Lenhoff: Crash, Bang - Bargains Galore! - My thanks to Tony Smith of Brewin Dolphin for his colleagues latest interesting [report](#). Here is the opening:**

Those who puzzle over why the UK equity market is not down by more than it is should consider that the peak-to-trough drop of sectors like Household Goods, General Retailers, Support Services, Pharmaceuticals and Banks has exceeded 25 percent. For Real Estate the drop has been in excess of 40 percent. Collectively these sectors account for between 25 and 30 percent of the market cap.

**Flash report from Christopher Wood of *GREED & fear* - My thanks to a subscriber for this short item, certain to be of interest to many readers:**

What about gold? Gold, like other commodities, is tactically vulnerable in a commodity correction. Still *GREED & fear* would not sell gold and would buy more bullion on weakness. It is also the case that an oil-led commodity correction would be a fantastic buying opportunity for gold shares whose profit margins have been hammered by rising production costs in recent years. Remember gold is a hedge against the increasingly inevitable collapse of the US dollar paper standard and is not abet on the economic cycle. Indeed structured finance will prove the catalyst to accelerate the demise of the paper dollar standard since it is the best reflection of the total lack of discipline in that system. *GREED & fear* maintains the long-term gold bullion target of US\$3,360/oz by the end of this decade.

**My view - Well done Christopher, especially for reminding people that there is quite a bit at stake here.**

I've been a big long-term bull of gold and its sister precious metals since 2001, as veteran subscribers may recall, although I have always expected the main upside move to play out more slowly, over at least a couple of decades with price acceleration occurring in the latter stages. However if Christopher Wood's timing forecast is closer to the mark, I'll doff my hat in his direction and hopefully reap the benefits. My personal long-term investment portfolio has significant positions in gold shares.

**My personal portfolio: Some silver and gold long trades stopped out and partially replaced lower - Some breakeven stops were triggered today in my [silver](#) and [gold](#) futures positions. Consequently I was stopped out of two equal-sized units of March silver at \$14.75 and \$14.735, against purchases made at \$14.74 and \$14.725 on 20th November. I repurchased these at \$14.715 and \$14.665. I was stopped out of two-thirds of my February gold longs at \$820 and \$815, against purchases at \$819.4 and**

\$814 on 14th and 13th November, respectively. These prices include spread-bet dealing costs. I'm not finding it easy to make money in these markets at the moment, which is a signal to do less.

**Today's interesting charts** - Use the 'Send to a friend' link in the upper right-hand corner when you wish to show specific charts to friends and colleagues.

Today's review will focus on weekly candlestick charts with 200-day moving averages.

**Ireland (ISEQ)** - Somewhat steadier following overstretched decline, numerically and relative to MA, but a period of support building may be necessary before this pattern can sustain more than a technical rally.

**India (Nifty)** - Impressive relative strength but still overextended versus MA, and consolidating. A sustained break above psychological 6000 level is required to reaffirm the overall upward trend. This will require a firmer tone on other stock markets.

**Australia (ASX 200)** - Corrected overextension to MA, evidence of support here would be impressive.

**China (Shanghai A)** - Correcting overextension relative to MA; watch for an eventual upward dynamic to signal a short-term trend change.

**China (Shanghai B)** - Same as above.

**UK (FTSE 100)** - Testing lower side of trading band near psychological and lateral trading around 6000; needs a rebound from here to allay qualms.

**Germany (DAX)** - Lengthy correction of overextension relative to MA; now a rebound is required to signal that this pattern is a consolidation within the overall upward trend rather than a top area. (Note: the same can now be said for many other indices.)

**USA (S&P 500)** - Testing lower side of range following upside failure in October; needs upward dynamic to reaffirm support near current levels.

**USA (NDX 100)** - Steadied near psychological 2000 level following reaction to correct overextension relative to MA; upward dynamic would reaffirm support near current levels.

**Please note** - Eoin Treacy is conducting TCS in Dublin but will return tomorrow.

Wednesday 28th November 2007

**James Paulsen: The Crisis is "A Mile Deep, but Only an Inch Wide"!!!? - My thanks to a subscriber for this refreshing and very interesting [report](#) by James Paulsen of Wells Capital Management. Here is the opening:**

**The most dominating characteristic of the contemporary crisis is not the housing industry, subprime contagion, Wall Street banking losses, Fed actions, crude oil prices or the sliding U.S. dollar. Rather, the single factor which stands out more than any other is "Fear!" The epicenter of this crisis, the housing industry, has been in decline for two years. Its collapse was obvious by the spring of 2006 and "fear" has been constant ever since. That the housing collapse would spread out and take down the entire economy was the fear in June 2006 and it remains a fear more widespread and riveting than ever today. And yet, although the housing industry has gone from bad to worse, there is still very little evidence of actual "economic damage" to other parts of the economy! As it was when housing first collapsed 18 months ago, the premise of major and broad-based economic fallout, while almost universally accepted, is still today largely a story "on the come!!"**

**No doubt the housing industry is a mess. Single family housing starts are off by almost 50 percent from peak levels in 2005! Throw the automobile industry in the same category. Together these two sectors comprise less than 9 percent of real GDP but have declined by about 10 percent in real terms during the last year. Nasty indeed! However, the remaining 91 percent of real GDP has risen by 3.8 percent in the last year! Hardly crisis-like character! This crisis is 9 percent collapse and 91 percent "fear of collapse!" It is a mile deep but only an inch wide. However, if one is on the inch, for example homebuilders or subprime borrowers and lenders, it's the worst conditions seen in decades. Made to feel even worse since this 9 percent of the economy gets about 95 percent of the media coverage. Fortunately, although largely ignored, most of the economy remains at least a foot away from this epicenter inch and at this point still appears healthy.**

**My view - The market is a crowd in motion, so it hardly surprising that mob psychology rules, for at least the short term. The pendulum of sentiment swings in an arch between extremes of apocalyptic fear and rapacious greed. You may have noticed that the needle has been twitching in fear territory recently.**

**Yes, but this is the worst meltdown or fry-up since the Great Depression, some will say. Really? Well, I have heard that before and it proved to be a tad hyperbolic. However I appreciate that for debt derivative salesmen it may look like the end of capitalism, if not the world. They will reinvent themselves.**

**I am not implying that the credit crisis and US housing slump are not serious. Nevertheless they are containable and should have no more than a limited global impact.**

Having seen innumerable reports detailing all the things that might go bump in the night, I find James Paulsen's analysis refreshingly sensible. I commend it to you.

If you are really pressed for time, just read his conclusion on page 4. Even if one does not agree with everything in this optimistic report, and I don't, it is an effective riposte to some of the extreme pessimism heard recently.

Meanwhile, some firm and positive leadership from central banks, particularly the Fed, would help prevent people from talking themselves into a recession. Also, we need lower interest rates, as I have mentioned daily.

Technically, today's stock market rebound is providing some encouraging upward dynamics from an oversold condition. This evidence is not conclusive (it never is until markets are much higher) but most good rallies commence in a similar fashion.

*(See also yesterday's feature on global stock markets, plus Eoin's chart review below.)*

**My personal portfolio: A gold futures long trade stopped out and yesterday's sales repurchased - For certain, this is not ideal trading but I had a breakeven stop on my remaining [gold](#) futures position and was in a meeting all morning. The stop was triggered at \$811 for February gold during early trading, against my purchase at \$809.4 on 13th November. However gold had rebounded from a \$20 loss this morning when I returned to my desk. Consequently I bought back the two equal-sized units of gold sold yesterday at \$820 and \$815, paying \$813.9 and \$812.9 this afternoon. Subsequently gold slipped back a bit but I suspect it is in a buying range despite the US dollar's rally.**

**Prices above include all spread-bet dealing costs.**

**Please note - This is an abbreviated comment from me as I have been away for most of the day. Normal service resumes tomorrow, although Eoin will be travelling to the London Money Show, where he is speaking.**

**Additional Commentary by Eoin Treacy**

**U.S. Stocks Rally for Second Day; Citigroup, Google Shares Gain - [This article](#) by Elizabeth Stanton for Bloomberg covers some important developments in the US markets today. Here is a section:**

**U.S. stocks staged the biggest two-day rally in four years, led by financial shares, after Federal Reserve Vice Chairman Donald Kohn**

reinforced expectations for another interest rate cut.

Citigroup Inc., Goldman Sachs Group Inc., Lehman Brothers Holdings Inc. and Morgan Stanley rose more than 6 percent. Ebay Inc. and Amazon.com Inc. helped push the Nasdaq Composite Index to a 2.6 percent gain after Sanford C. Bernstein & Co. forecast "a strong fourth quarter" for both companies.

"Kohn's comments just add to a perception that the Fed is embarking on a sustained path of easing," said Michael Metz, the New York-based chief investment strategist at Oppenheimer Holdings Inc., which manages \$60 billion. "There's also huge relief that the worst of the financial crisis may be behind us." Metz in May predicted declines in U.S. stocks by year-end.

The Standard & Poor's 500 Index added 30.43, or 2.1 percent, to 1,458.66 of 12:49 p.m. in New York, bringing its two-day gain to 3.6 percent, the most since April 2003. The Dow Jones Industrial Average increased 264.76, or 2 percent, to 13,223.76. The Nasdaq Composite gained 66.69, or 2.6 percent, to 2,647.49. Shares in Europe jumped, with the Dow Jones Stoxx 600 gaining 2.8 percent to 364.09, the biggest gain since 2003.

Stocks gained after Kohn said market "turbulence" may reduce credit to businesses and consumers, suggesting he sees higher risks to economic growth than a month ago. A bigger-than-expected decline in orders for U.S. durable goods added to speculation the Fed will cut rates to spur the economy.

### Rate Cut Odds

Traders boosted wagers that the Fed will cut its benchmark lending rate when it meets Dec. 11. Odds of a half-point cut rose to 8 percent today from 2 percent yesterday, while the likelihood of a reduction of any size remained 100 percent.

U.S. stocks extended an advance spurred yesterday after Citigroup received a \$7.5 billion cash infusion and JPMorgan said Intel Corp. will benefit from "robust" computer demand. The S&P 500 hasn't risen two days in a row since Oct. 29.

The S&P 500 Financials Index dropped as much as 16 percent this month on concern that subprime-linked losses will sap profit growth. The gauge on Nov. 26 traded at 10.6 times earnings, the lowest since at least 1995, data compiled by Bloomberg show.

Citigroup added \$2.14 to \$32.46. The Wall Street Journal today reported that an investment banker this month suggested a merger with Bank of America Corp. The informal approach was dismissed by Citigroup and no talks took place, the paper said, citing a person familiar with the situation.

**My view** - Today saw upward dynamics posted on all of the main US indices. The Dow Industrials ([weekly](#), [daily](#)), S&P500 ([weekly](#), [daily](#)) and Nasdaq ([weekly](#), [daily](#)) all posted impressive moves today and the upside can be given the benefit of the doubt as long as they hold above their recent lows. Also of note will be the weekly key reversals which are developing on the Dow and S&P. If these hold and we see follow through next week, we may have seen an important medium-term bottom. Importantly, the Nasdaq had the shallowest reaction so far, and the largest percentage rise today, which suggest that the Index should continue to outperform its peers.

5 of the Top-10 best performing companies on the S&P today were financials. Of the large brokers, [Merrill Lynch](#), [Lehman Brothers](#) and [Citigroup](#) were all up in excess of 7%. The S&P Banks index ([weekly](#), [daily](#)) found at least short-term support above 260 and would need to sustain a move below that level to question scope for some further upside in the short-term. However the Banks Index remains in a medium-term downtrend and this move is not larger than similar advances we have seen during the course of the decline. To scare the bears out of their positions and indicate to investors that it has bottomed, the Index will have to rally further than it has in previous distributions, successfully find support above the low and subsequently build support above that level.

While it is too early to state the wider markets have bottomed, we have seen lows of at least short-term significance, which would need to be taken out to indicate scope for further weakness.

**Deutsche Bank Research: 450 bn reasons to invest in India's infrastructure** - Thanks to Deutsche Bank for this interesting [report](#) by Eric Heymann and colleagues on India's infrastructure growth. Here is a section:

Infrastructure planning is high on the political agenda, with the Committee on Infrastructure being chaired by the prime minister. Infrastructure has always been an important part of India's FYPs (since independence in 1947 nearly half of the total outlays of the FYPs have been allocated to infrastructure<sup>13</sup>) and the current 11th FYP includes several significant national infrastructure programmes (see Appendix 3). Some national programmes are already underway, like the National Highway Development Programme (NHDP) thanks partly to private participation, while the Pradhan Mantri Gram Sadak Yojana (PMGSY) programme, which aims to connect 1000+ habitations with all-weather roads by 2008/2009, follows the public route and is lagging behind its planned targets.

Despite these national infrastructure development programmes, India does not have one overall infrastructure plan. This has resulted in a wide variety of formats, bidding processes and agreements, and this delays the urgent developments. India's national government is

concerned that some states are less efficient and active in developing their necessary infrastructure and is starting to put pressure on the state authorities. India's road network, for example, is the responsibility of the states, but given the urgency of expanding the network, the national government stepped in and introduced the NHDP to connect India's major cities.

The planning authorities of the different states and cities have different responsibilities and authorities. Appendix 4 tries to capture most of the administrative and planning functions for India's major cities.

**My view** - Those of us who are bullish on India over the long-term look forward to when India has a first rate infrastructural system, which should encourage further rapid development. This is a process which, in the past, has encountered resistance from the entrenched bureaucracy and failure to form coherent policy, in terms of the bigger picture, by regional governments; however this is changing. The well publicised desire of the government to invest hundreds of billions in Indian Infrastructure projects has attracted a large number of investors who anticipate Chinese style growth rates and wish to profit from this advance.

Companies such as a Larsen & Toubro, which is the largest of company in the Indian engineering and R&D sector, have outperformed the market on expectations that they will be some of the main beneficiaries of this investment. Here is a [list](#) of companies in that sector.

Many of these shares have posted impressive gains and were looking somewhat overextended in the short-term. However most are now unwinding their overbought conditions and would need to break their progression of rising lows to question scope for a reassertion of their primary uptrends over the medium term.

**Email of the day (1)** - on an addition to the Chart Library:

"Please could you add this recently launched equity fund to the Library?

"UBS Emerging Markets Infrastructure B (Lux) fund.

"Thanks as always,"

**My comment** - Thank you for this interesting suggestion which I have added to the Chart Library. However I should also point out that according to the fund's Bloomberg page, it has a front end load of 6%, redemption fee of 2% and a management fee of 2.34% which sound extraordinarily high.

**Email of the day (2)** - on a further addition to the Chart Library:

"Would you put an undated gilt [e.g. war loan or 21/2 consols] in the Library?"

"There has been quite a move which would be interesting to examine."

My comment - Thank you for suggesting these interesting vehicles. I added the War Loan as well as the Royal Sun Alliance 6.7% perpetual bond to the Chart Library.

Today's interesting charts - Today's action saw a large number of indices posting upward dynamics which can all be found in the Chart Library.

Dow Jones Euro Stoxx 600 - The Index has been lingering near the bottom of the range over the last two weeks which was inconsistent with the smart rallies it has had from the 350 level over the last year. However, it posted an impressive upward dynamic today and would need to sustain a breakdown from the range to question scope for some further upside in the short-term.

UK (FTSE-100) - the downtrend lost momentum above 6000 and today's upward dynamic marks that as a low of at least short-term significance. The Index would require a move below this level to question scope for some further upside in the short-term.

Japanese Yen per 1 US Dollar - The Dollar rallied well from short-term support near 107 and would need to close below that level to offset scope for some further upside in the short term.

Gold - rallied well from the intraday lows and would need to close below \$800 to question potential for at least a test of the high near \$850.

Thursday 29th November 2007

Email of the day (1) - On opportunities in high-yielding shares following the market shakeout:

"My Global Thematic colleague Dr Nag Bharatula has screened (see attached) this list of European stocks now trading at:

- 1 Earnings Yields of 7%+ (ie historic PERs of 14.2x or better)
- 2 Dividend yields of 3.5% or better
- 3 Market caps of USD 750mn or better

"It is implied mathematically that dividend cover must be greater than 2x (and this is detailed on the spread sheet). Some comments:

- 1 Obviously, it throws up a lot of banks and insurances and property companies.
- 2 There are crazy anomalies. Northern Rock doesn't trade at 78%

earnings yield, but probably has NO earnings yield....this year!

3 Some dividends will be cut (though this is less probable than earnings per share being cut; a suffering bank that is Basel 2 compliant may be able to still pay out an uncovered dividend, though we have not checked this).

4 Even allowing for a 50% earnings cut across the board (including a "write down" that may become a "write up" in later years), banks still trade cheaply.

5 Small cap trades expensively relative to large cap, so -interestingly- lowering the market cap to \$500mn does not produce many more small caps.

"The point is that Nag's screening also produces Unilever, Electrolux, AstraZeneca, BT and Vivendi...not bad long-term franchises I would have thought if they are yielding more than a depositor gets in a bank, however riddled with sub prime slime it might be!"

**My comment** - Emails generally appear anonymously in Fullermoney although I have on occasion altered this protocol when original research has been contributed. This one is from Iain Little of Global Thematic Investors, who also works at Butterfield Asset Management in Switzerland (don't miss his outstanding [letter](#), co-written by Bruce Albrecht).

A couple of days ago, Iain and I were talking about high-yield opportunities. Since Eoin who usually does the Fullermoney searches was at TCS in Dublin, I had the bald-faced cheek to ask Iain if his team could produce a pan-European list of high yield shares. He had mentioned that his colleague, Dr Nag Bharatula, a portfolio manager and also with Butterfield in Switzerland, was a wiz at that kind of search.

Readers who have not been driven to high ground by the credit derivatives folly or taken to ark building, and who suspect that forecasts of a global financial tsunami may be not only premature but also a contrary indicator, and who would welcome some high-yield opportunities as a cyclical recovery complement to Fullermoney's secular themes, may be interested in this list, generously contributed by Iain and Nag, in the spirit of Empowerment Through Knowledge.

Here is Dr Nag Bharatula's [list](#). It arrived in an Excel spreadsheet which I had to turn into a PDF file for posting on Fullermoney. This has compressed a letter or two in the headings but their meaning is obvious and the list of shares is complete.

In the caveat emptor department, please note Iain's points above. Also, I have not had time to view the price charts for these shares. However I thought it more important to get this list to subscribers asap, knowing that most of you are very good at conducting your own due diligence and any additional research required. For the record, Earnings Yield is the earnings per share divided by price per share.

Clearly, high-yielding shares are best purchased following market corrections such as we have seen recently. Whatever happens to stock markets going forward, and I am more optimistic than the general consensus as you probably know, I think this list of shares will, on average, prove to be competitive within Europe over the next couple of years.

**UBS Bubblewatch: Is Shanghai finally deflating?** - My thanks to a subscriber for this informative [report](#) by Sakthi Siva for UBS Investment Research. Here is the opening:

### Shanghai Composite down 20% from its high

While investor focus is largely on US sub-prime and the risk of recession, we highlight that an equally important issue for Asian investors (particularly given most are still Overweight China) is the 20% fall in the Shanghai Composite from its 16 Oct high of 6093. The key question is whether this is the start of the Shanghai bubble finally deflating (see our AES of 3 Oct "Bubblewatch").

**My view** - Sakthia Siva's report makes a useful contribution to the usually dismal science of *Bubbleology*, not least because of its comparative statistics.

Unquestionably, China has been trading at significant bubble valuations this year, so let's have a look at charts for the Shanghai Composite Index ([monthly](#), [weekly](#) & [daily](#)). For the record, Fullermoney has been monitoring the loss of uptrend consistency at frequent intervals, commencing with 4 consecutive days on the downside in [October](#).

The current weekly graph above shows 4 similar-sized steps on the upside since the first higher low for this overall move in October to early December 2005. However the current correction is considerably larger, as Sakthi Siva has pointed out. Thus we have certainly seen at least a medium-term peak. Nevertheless the decline has been orderly to date, therefore less traumatic, so there is a good chance that the high will be retested.

The daily chart above shows a small upward dynamic today, near the psychological 5000 level. While hardly conclusive, upside follow through on Friday would increase prospects for a technical rally.

A potentially important difference between China's current bubble and some of the other examples cited in the UBS report is its short duration, not least relative to the size of its base. The most dangerous bubbles inflate for many years.

Lastly, and this has always been pure conjecture, I have long suspected that China would want a showcase stock market during its Olympics year. Having managed a partial deflation and decline closer to the 200-

day MA, China is in a position to influence stronger action for its stock market in coming months.

Email of the day (2) - On Japan's banks:

"David: Have you been (silly question?) watching the banking shares in Japan, seem to be acting well, even before the recent rally in Western banks, seems Japan may be set for some relative strength?"

My comment - Eoin and I have been discussing the Topix Banks Index ([weekly](#) & [daily](#)) almost daily in our global market review.

It has certainly improved recently, evidenced by an increase in upward dynamics, following a significant percentage decline taking it back to the first area of psychological and lateral potential support near 300. Note also the 200-day MA, which we use entirely as a 'regression to the mean' tool. In other words, the decline was almost as overextended relative to the MA a few weeks ago, as the rally was on the upside at the peak. And while I generally eschew pattern labels, you may notice a falling wedge characteristic caused by the steep downtrend from about 415, and marginally less steep tangent connecting lows in September and November. One does not need to draw lines to see this. It indicates that demand, having been conspicuous by its absence for a while prior to late September, is now increasing relative to supply.

Michael Lewis: The Evolution of an Investor - My thanks to a subscriber for this interesting [feature](#) by Michael Lewis of *Liar's Poker* fame, published by Condé Nast Portfolio. It has rather too much on efficient market theory for my tastes but here is a brief passage from a salutary section on sales:

The older brokers in the office all threw around Buffett's name, so Blaine did too. Buffett was useful because everyone knew who he was and everyone thought he had made his money picking stocks. Blaine was picking stocks just like Buffett but using different criteria. The traders in New York would accumulate a block of shares, driving the price up, and then get brokers like Blaine to unload the shares quickly at the higher price-whereupon the price would, often as not, fall. "Seven months in at Lehman, I was one of the top rookie producers," Blaine says, "but every stock I bought went down." His ability to be wrong about the direction of an individual stock was uncanny, even to him. At first, he didn't understand why his customers didn't fire him, but soon he came to take their inertia for granted. "It was amazing, the gullibility of the investor," he says. "When you got a new customer, all you needed to do was get three trades out of him. Because one of them is going to work. But you have to get the second one done before the first one goes bad."

It wasn't exactly the career he'd hoped for. Once, he confessed to his boss his misgivings about the performance of his customers' portfolios.

His boss told him point-blank, "Blaine, you're confused about your job." A fellow broker added, "Your job is to turn your clients' net worth into your own." Blaine wrote that down in his journal.

**My view** - Since the broking section speaks for itself, I'll confine my brief comments to efficient market theory, which claims that one cannot beat the market because most information is discounted immediately.

I have always felt this was nonsense because markets run on emotion and are therefore infinitely more volatile than any changes in the underlying fundamentals. However whether one agrees or disagrees with this, I think there is a much more important issue for investors.

The object of the game, I suggest, is not to beat the market but to invest in the right market at the appropriate time. After all, there are lots of different markets out there and investing is a global beauty contest.

**Email of the day (3) - On ITs versus unit trusts (closed-end funds):**

"I observe that in investing in your FM Themes you have used more Investment Trust vehicles than Unit Trust Funds notwithstanding that there are obviously more of the latter available to invest in. I know that IT's can generally be bought at discounts, but it would also seem that these discounts do not easily convert to premiums so I am not sure what the perceived advantage is to use IT's. Costs can no doubt be a consideration and your comments on the difference (assuming you use a Fund Supermarket to buy Unit Trusts) would be appreciated. My feeling is that Unit Trusts are more strictly controlled and monitored and as such are more transparent. I look forward to your comments."

**My comment** - I'm not sure about the "more strictly controlled" aspect but agree with your other points. Personally I have always liked a discount to NAV, on the basis that if I am interested in a market and can buy £1 for 90p, that's not too bad an idea. That discount may persist or even increase, but if animal spirits run high, will occasionally turn into a premium for a while. However there is more choice with unit trusts (mutual funds) and we also have low-cost ETFs and more recently ETNs.

The crucial factor for subscribers, I suggest, is whether or not you like the investment theme. If so, you have a growing choice of vehicles, which we are happy to list in the Fullermoney Chart Library. Subscribers can then do their own due diligence in terms of checking relative performance, and also use the www to establish what the fees are, along with any other terms and conditions.

**My personal account:** A gold futures position repurchased - I replaced a [gold](#) position stopped out yesterday, paying \$804.85 for a February position, including spread-bet dealing costs. All I have done in the last week is replace some gold and silver positions at slightly lower levels

than where they were stopped out.

**Email of the day (4) - More on crowd psychology:**

**"For the subscriber interested in a book I would suggest: Trading with Crowd Psychology by Carl Gyllenram. He quotes some bloke called Fuller a few times in the text and still it is a good read!!"**

**My comment - Nice one. Carl is a terrific guy, a towering Swede, passionate about TCS commencing in the 1980s, who has written at least one book on Behavioural Technical Analysis.**

**Additional Commentary by Eoin Treacy**

**Email of the day - on the Dublin Chart Seminar:**

**"I was fortunate to attend the TCS seminar in Dublin over the last two days.**

**"I would like to compliment Eoin on his presentation and for making the whole subject so relevant and interesting. Fullermoney participants at future chart seminars can look forward to the experience.**

**"How ironic that after concluding there was no bottom in sight for Irish banks or the ISEQ that we should awaken to such an upward dynamic this morning. Early days but a little ray of light."**

**My comment - I'm delighted to hear you enjoyed the seminar which included some lively discussions of the Irish banking sector and how it was impacted by global events.**

**It was a privilege to speak to such an interesting and experienced group of investors and I'm eagerly looking forward to our London seminar in May 2008. Incidentally, the May seminar is more than half full already which means that one is probably well advised to book early.**

**As of Tuesday, we had not yet had a signal that the ISEQ was finding meaningful support, although we had identified the accelerating profile of the trend and agreed it was an ending signal of unspecified duration. We also discussed that institutional investors wishing to build a position would already be nibbling, while retail investors had the luxury of time.**

**Scripting how this move would end, we concluded that the market needs to experience a rally large enough to stop out many of the shorts, consolidate that move above the lows and rally from that congestion area.**

The ISEQ rallied well yesterday led by the banks and the short-term upside can be given the benefit of the doubt as long as it can sustain the move above the recent lows.

The World Money Show London November 30th and December 1st - I will be taking in part in a panel discussion which forms part of the conference's opening ceremonies. This is entitled "Scanning the Globe for the Best Investment Opportunities" and runs from 9:45 to 10:30am. I will also be taking part in The "Hottest Markets and Sectors to Invest in Now" panel discussion on December 1st from 9:30 to 10:30am.

In addition to these engagements, I will also be recording a Money Show university class concentrating on global strategy which will be available on the Money Show website following the conferences and an interview for Money Show TV which will also be posted on their website.

Friday 30th November 2007

**Bernanke Says Fed to Judge Market 'Turbulence' Impact - [Here is the key comment from the Fed Chairman's speech last night, reported by Bloomberg:](#)**

**The outlook has been ``importantly affected over the past month by renewed turbulence in financial markets," Bernanke said in remarks at an annual meeting of the Charlotte Chamber of Commerce. The Fed is paying ``particular attention to the question of how strains in financial markets might affect the broader economy."**

**My view - To paraphrase Oscar Wilde's quote from *The Importance of Being Earnest*: To lose one market, Mr Bernanke, may be regarded as a misfortune; to lose both looks like carelessness.**

The weak housing market is already a problem for the beleaguered US economy. If the Fed killed off Wall Street's moderate bull run since 2003, by falling too far behind the curve of events during the credit crisis of confidence, that would look like carelessness, to put it mildly.

Successful completion of a course on behavioural psychology should be a requirement for all wannabe central bank officials, particularly aspiring CB chairmen. Greenspan understood that investors would pour over every utterance; therefore as Fed Chairman his comments were often torturously obscure, except when he was trying to reassure markets.

Investors, seeing the bank sub-prime write-downs, were looking for additional assurances in October. Instead, the FOMC statement following its 25 basis points cut last month was interpreted as neutral to hawkish. A sharp sell-off followed, wiping many more billions off share prices than were forecast from sub-prime losses.

The prospect of further losses on Wall Street, in addition to the house price slump, would be doubly problematical for the US economy. Consequently, in his comments last night Ben Bernanke followed an earlier lead from his more experienced deputy, Donald Kohn, in acknowledging risks and signalling further rate cuts.

What next for stock markets?

This week's back-from-the-brink rally is encouraging but I would still like to see a 50 basis points cut to underpin it, with an unequivocal statement from the Fed that further reductions will follow if necessary. Upside risks to inflation are most definitely not roughly in balance with the downside risk to growth, as the Fed indicated a month ago.

Current inflation in the USA, as I have emphasised repeatedly, is coming mainly from energy and food prices. This is not something that the Fed should be tackling with monetary policy since it is a global problem. Meanwhile, house price weakness has obviously introduced new deflationary pressures for the US economy.

A number of stock markets, including the USA and within Europe, have established lows of at least near-term significance during the last two weeks, evidenced by upward dynamics from those lows (*see Today's interesting charts below*). Weekly key reversals for the Dow and S&P 500 Index are encouraging developments.

However, where short-term to medium-term downtrends have been established in recent months, significant rebounds are required to offset prior technical damage. After all, periodic rallies are a feature of most downtrends. The Fed should not be complacent, as it clearly was following the September and October rally.

**Today's interesting charts** - This extensive review focuses on 36 weekly charts for stock market indices, with a look at regression in terms of the 200-day moving averages. The US Dollar Index is also reviewed. In addition to the perspective that these graphs provide, this global assessment should help those who are less accustomed to charts with their interpretations. The Fullermoney approach, taught at The Chart Seminar, is based entirely on chart facts rather than theory.

**Global (DJ World Stock Index)** - Rebounding following 4-week correction and still within long-term uptrend characterised by higher reaction lows. A break beneath last week's low near 290 would be required to offset current scope for sideways to higher ranging, and instead, suggest overall top development.

**Asia (MSCI Asia Pacific)** - Rebounding following recent reaction; would require move beneath last week's low near 152 to question current scope for sideways to higher ranging.

**Australia (ASX200) - Upward dynamic to check 4-week reaction; would require close under recent lows near 6320 to question outlook for sideways to higher trading.**

**China (Shanghai-A) - Correction towards MA approaching psychological 5000 level but needs upward dynamic to signal a new floor.**

**Hong Kong (HSI) - Rebound checks slide but further ranging between the high and recent low may be seen over the near term as still overextended relative to MA.**

**New Zealand (NZSE50FG) - Overall, extensive loss of uptrend momentum; currently drifting towards psychological 4000 once again and needs upward dynamic to reaffirm support near this level.**

**India (Sensex) - Impressive relative strength versus most other stock market indices but still overextended relative to MA and beneath important psychological area at 20,000. A sustained break above this level is required to reaffirm overall upward trend.**

**Indonesia (JCI) - Similar to India above and requires sustained upward break to reaffirm uptrend however another downward dynamic would suggest further reaction towards MA.**

**South Korea (KOSPI) - Rebounding following acceleration towards MA; would require break beneath last week's low near 1750 to offset scope for sideways to higher ranging.**

**Malaysia (KLSE) - Steady near June-August highs having corrected overextension to MA. A close beneath 1340 would be necessary to question scope for an upward break.**

**Pakistan (KSE 100) - Maintaining sequence of higher reaction lows - amazing considering the political distractions.**

**Philippines - Steadied following reaction after failed upside break; would now require a close beneath 3450 to suggest additional correction rather than sideways to higher ranging.**

**Singapore - Rebounds to check correction; would require a close beneath 3300 to offset sideways to higher ranging.**

**Taiwan (TWSE) - Same as above, with 8200 and particularly 8000 being the important levels to check recovery scope if breached.**

**Thailand - Bounced from 800 and would require a close beneath this level to suggest further test of extensive underlying trading rather than sideways to higher ranging.**

**Vietnam (VNINDEX)** - Still in extensive mean reversion consolidation process; decline slowing but needs upward dynamic to confirm higher low.

**Japan (NKY)** - Upward dynamic checks slide for this underperformer since 2006; a closer under 14,660 is now required to signal renewed weakness. This appears unlikely give recent upside leadership from Topix Banks, not to mention many other sector indices in Japan (see *Library*).

**Europe (Euro Stoxx 50)** - Clear upward dynamic to check slide from 4500, and a close above this level would further reduce the prospect of top formation development within this broadening pattern. Conversely, a close beneath 4170 would indicate an additional test of prior support between that level and 3800.

**France (CAC)** - Rebounding from above August reaction low, and clearance of 5900 would help to offset top development characteristics. Conversely, a break beneath 5200 would clearly look bearish.

**Germany (DAX)** - Impressive weekly key sets stage for test of prior resistance just above the psychological 8000 level. A break beneath 7400 would be required to offset a test of the upper region and suggest top formation development.

**Ireland (ISEQ)** - Last week's climactic acceleration ending in a tail and this week's upward dynamic indicate a low of at least near-term significance. A close beneath last week's low for this overstretched market would be required to offset further recovery scope.

**Switzerland (SMI)** - Last week's tail and this week's strong rebound indicate support near 8000 but a break of the October highs near 9260 is required to offset top development concerns.

**Netherlands (AEX)** - Bounced from August low and a close beneath 480 is now required to offset sideways to higher ranging.

**UK (FTSE 100)** - Last week's tail and this week's successful test of the psychological 6000 level, followed by a strong upward dynamic have reaffirmed underlying support. A close beneath 6000 would now be required to reverse prospects for sideways to higher ranging.

**Norway (OMX)** - A close under 390 is now required to offset current scope for at least a test of the upper boundary of this pattern.

**Sweden (OMX)** - A small upside weekly key reversal has checked the slide for this recent underperformer. A close beneath 1050 is now required to offset scope for sideways to higher ranging.

**Italy (SPMIB)** - Steadier action by this underperformer but a move above the October high is required to break the downtrend and partially offset

top formation characteristics. Conversely, a close beneath 37,200 would reaffirm the downtrend.

**Spain (IBEX)** - Impressive relative strength within Europe following upside key in September. A sustained break above 1600 would reaffirm the overall uptrend. Conversely, a close beneath 15,170 would suggest an upside failure and the possibility of overall top development.

**Please note** - prices for the next series of indices below were taken at least an hour before today's closes.

**Brazil (IBOV)** - Failed break beneath psychological 60,000 level and impressive relative strength overall. Still somewhat overextended relative to the MA so further sideways ranging is possible before the uptrend is reaffirmed by a sustained upward break.

**Mexico (MEXBOL)** - Upside weekly key reversal checks slide; a close beneath 27,550 is now required to signal renewed weakness rather than the current prospect of an additional rally towards the range highs.

**Argentina (Merval)** - Slightly steadier following small upside failure but shows overall relative strength; a move back beneath 2000 would be required to indicate significant pattern deterioration.

**Canada (SPTSX)** - Weekly upside key reversal checks recent slide; a close beneath 13,200 is now required to offset current scope for sideways to higher ranging.

**USA (S&P 500)** - A good upside weekly key showing two hours before today's close, reaffirming support in the 1400 region. A breach of this level would now be required to offset scope for sideways to higher ranging and provide renewed evidence of top formation activity.

**USA (TRAN)** - Possible downside failure beneath 450 but needs to sustain break back above 5000 to further challenge top development hypothesis.

**USA (NDX)** - Rebounding from psychological 2000 level to maintain relative strength within USA; would require close beneath 1980 to offset scope for sideways to higher ranging.

**US Dollar Index** - Overstretched (weekly & daily) relative to 200-day MA and has lost downside momentum. The short-term downtrend has been broken, as would the recent succession of lower rally highs on a move above 76.20. This looks like an oversold rally, which could last for a few months, within the longer-term downtrend.

**John Ritchie: Global Metals & Mining Review** - My thanks to esteemed colleague John Ritchie of Stockcube for this excellent report, containing some fascinating comparative graphs which most of us have not seen

before. Here is a brief comment from John, amidst the graphs which mainly speak for themselves:

Within the metals and mining sector, we favour industrial metals over precious metals. The S&P Metals & Mining Index has rallied from support and reasserts its long-term uptrend against the Philadelphia Gold & Silver Index.

**My view** - I agree with this, although the two are not mutually exclusive. However in terms of timing, industrial metals and the shares that mine them are likely to outperform their equivalents in the precious metal sector on average. Personally, I will continue to hold both because they have plenty of unfulfilled medium to longer-term potential.

**Mike Lenhoff: Gearing Up for a Year End Rally in Equity Markets!** - My thanks to Tony Smith of Brewin Dolphin Securities for this [report](#) by his colleague Mike Lenhoff, who remains on form. Here is a brief section on the Fed:

The Fed's Vice Chairman Donald Kohn said in a speech this week, that '... we (the Fed) should not hold the economy hostage to teach a small segment of the population a lesson', and he concluded by saying that, in what has become an unusually uncertain environment, flexibility and pragmatism are required in policymaking.

Did flexibility and pragmatism apply when the Fed last cut rates in October by a quarter point? If by that is meant recognizing the risks and uncertainties, as the Fed surely does, and responding assertively, as the Fed surely did in September with its half point cut, the answer is no! Certainly the markets weren't persuaded. Spreads in the corporate bond market widened on the cut and equity markets collapsed.

The next test of the Fed's flexibility and pragmatism comes on December 11th when the FOMC meet. A quarter point cut is on the cards but if flexibility and pragmatism apply, the Fed may even cut by a half point.

**My view** - I agree.

**UBS: Thermal Coal and Global Mining Strategy** - My thanks to a subscriber for this informative [report](#) by Daniel Brebner and colleagues at UBS. Here is a brief sample:

**Marginal supply - the US**

Over the next several years we believe that the marginal supplier for the seaborne thermal coal market could be the US.

**Going East:** Appalachia exports of thermal coal are expected to rise significantly in 2008 as coal mining companies such as CONSOL Energy increase utilisation of eastern US ports. Nevertheless, this infrastructure will be competing with coking coal shipments as well. Given our forecast for high contracted coking coal prices for 2008E, at US\$140/t, our forecasts for a further 12mt of thermal coal exports could be optimistic.

**Going West:** Incredible as it sounds, we understand that some Japanese and Korean buyers have been exploring the possibility of sourcing coal from the western US. This includes the sub-bituminous coals of the Powder River Basin (PRB) and bituminous coals of Colorado/New Mexico. We believe that it is the prospect for exports from western US which could ultimately help to define the upper range for pricing over the next year. Our rough calculations suggest that western US exports start becoming economic at about US\$90-95/t fob.

Western US coals would be shipped by rail west and north, into Canada where the necessary bulk terminals can take coal into the Pacific; this would likely be a combination of Union Pacific or Burlington Northern in addition to Canadian National and/or Canadian Pacific railways.

There are two Canadian ports with the necessary bulk terminals, Vancouver and Prince Rupert. We understand that there is excess capacity at both ports, particularly Prince Rupert which if further north.

**My view - Coal is obviously a key source of energy and the USA has often been referred to as the Saudi Arabia of coal. This [chart](#) of Low Sulfur Compliance Coal, also known as Big Sandy Barge, shows that the price is moving upwards once again, following a significant medium-term correction.**

**Please note - Eoin was at the London Money Show today but returns on Monday.**

**Quote of the week - On beautiful theories:**

**"One of the greatest tragedies of life is the murder of a beautiful theory by a gang of brutal facts."  
Benjamin Franklin**

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