

Fullermoney *Highlights*

Global Strategy and Investment Trends compiled by Eoin Treacy

www.fullermoney.com

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David	PEIX US	Long 28/12 \$7.4880 Mar08	CL 28/12 \$7.288 Dec07
	Platinum	Long 28/12 \$1540 Apr08	CL 28/12 \$1535 Jan08
	Silver	Long 28/12 \$14.915 Mar08	20% increase
	PEIX		CL 31/12 \$7.6 Mar08
	Platinum	Long 31/12 \$1532.2 Apr08	
	Silver		CL 03/01 \$15.44 Mar08
	Silver	Long 03/01 \$15.29 Mar08	
	Gold	Long 03/01 \$860 Feb08	33% increase
	DAX	Short 03/01 7975 Mar08	
	Gold	1 unit	CL 04/01 \$861 Apr08
	Silver	1 unit	CL 04/01 \$15.31 Mar08
	Gold	Long 04/01 \$860.8 Apr08	1 unit
	Silver	Long 04/01 \$15.31 Mar08	1 unit
	DAX		CS 08/01 7965 Mar08
	Silver	7.4% sold	CL 08/01 \$15.65 Mar08
	Wheat	Long 08/01 \$9.21 Mar08	1 unit
	Wheat	Long 08/01 \$9.2075 Mar08	increased by 2 units
	Wheat	Long 08/01 \$9.11 Mar08	doubled total position
	Silver	20% sold	CL 09/01 \$16.25 Mar08
	Silver	Long 09/01 \$15.72 Mar08	repurchased above unit
	Gold	Long 09/01 \$880.5 Feb08	
	Gold	Long 09/01 \$876.5 Feb08	50% increase in total
	Corn		CL 09/01 \$4.77 Mar08
Wheat	total position sold	CL 09/01 \$8.9475	
Silver	Long 10/01 \$15.56 Mar08	Mar08	
Cash reserve change 11/01 Long 1 month Treasury at NZD2.5085			
Silver	16.6% sold	CL 11/01 \$16.25 Mar08	

Eoin	Nasdaq `		CL 12/12 2142.75 Mar08
	Silver		CL 12/12 \$14.79 Mar08
	Soybeans	Long 12/12 1135.75 Jan08	
	Corn	Long 17/12 444.25¢ Mar08	
	Wheat	Long 17/12 1005¢ Mar08	
	White Sugar	Long 20/12 \$314.5 Mar08	
		Long 21/12 1180.65¢ Mar08	CL 21/12 1159.25¢ Jan08
	Soybeans		
	Gold	Long 03/01 \$868.15 Feb08	
	Gold		CL 10/01 \$869 Feb08
			CL 10/01 1267.25¢ Mar08
	Soybeans		
	Corn		CL 10/01 475¢ Mar08
Wheat		CL 10/01 893¢ Mar08	

December 31st My personal top-10 long-term investment portfolio, by weighting

A review of this portfolio is appropriate on the last day of the year and I will also outline my latest thoughts regarding possible changes in the year ahead. All of these positions are sterling-denominated, unless indicated otherwise:

1. JP Morgan Indian Investment Trust - I commenced buying JII ([weekly & daily](#)) in 2Q 2003 and it soon became my largest position by far. I have been relieved and impressed to see how well JII has held up during some market turmoil this year. I have always expected a degree of volatility and my long-term strategy is unchanged. India remains my favourite stock market for the very long-term and I favour a buy-and-hold approach, occasionally adding to this or other India investment vehicles following setbacks, of which there will be many.

2. Atlantis China Fortune Fund - (USD-denominated) ([weekly & daily](#)) - This looks like a medium-term consolidation, which I have every intention of riding out because I regard China and India as the king and queen of emerging markets. I could be tempted to add to this holding, or perhaps the somewhat more volatile Atlantis China Fund, except that I am not adding further capital to my investment account. Therefore I would have to sell something else in the portfolio to free up funds, and am not prepared to do so at this time.

3. Aberdeen New Thai Investment Trust - ANW ([weekly & daily](#)) has been a disappointment because I had hoped for the political problems to be solved more quickly and easily, paving the way for Thailand to fully participate in Asia's strong economic growth. I believe this prospect is drawing closer, and will therefore hold the position but my long-term plan has always been to lighten this holding on significant strength, as I have done before.

4. Rio Tinto - This world class miner has exceeded my performance expectations for 2007 ([weekly](#) & [daily](#)), with the help of BHP's interest, but I have no intention of selling. It remains a core holding and I am always tempted to increase the position following setbacks.
5. BHP Billiton - The world's biggest miner has also had a good year ([weekly](#) & [daily](#)), despite underperforming recently due to its takeover interest in Rio. Consequently, BHP is probably the best value today among quality shares in this sector.
6. Merrill Lynch Gold and General Fund - I have held this for a number of years and am hopeful that further rewards ([weekly](#) & [daily](#)) beckon over at least the medium term.
7. Lihir Gold - Gold shares are certainly not for the fainthearted! Lihir (A\$) ([weekly](#) & [daily](#)) was slammed following a profits downgrade recently - hopefully a temporary problem. I am expecting it to perform as gold bullion moves higher, at which point I may consider lightening as I am currently overweight in gold shares and other Fullermoney themes beckon. I will probably participate in these via funds and / or ETFs.
8. Merrill Lynch World Mining Trust - I am even more overweight industrial mining shares, in comparison to gold equities above, but feel this exposure is justified. I am always tempted to add to my position in MLW ([weekly](#) & [daily](#)) following setbacks.
9. Aberdeen New Dawn Investment Trust - This underperformed ([weekly](#) & [daily](#)) due to a cautious investment policy by Aberdeen this year but has improved recently. I'll stay with these highly experienced managers.
10. Cameco - This is the sole loser ([weekly](#) & [daily](#)) in 2007 among my personal top-10 investments. That is careless given my views on uranium shares once the metal price peaked. I'm holding because it was an initial foray into an important miner. However in the global beauty contest I am in no hurry to increase my Cameco holding (*see also my comments in response to Email of the day (1) below*) but I am mildly encouraged by the recent weekly upside key reversal shown on the [USD ADR](#).

January 2nd On not adding to my personal long-term equity investments:

"Thanks for your first class service and help throughout the last few years. I'm about to re-subscribe for what I think will be my fourth year. The return on investment can probably be stated in thousands of percents!

"Reading your comments on your personal top ten, I am curious as to your view on introducing additional funds. (You mention that you do not wish to introduce more funds at this stage)

"Could you explain why this is your current position? Are you currently also concerned about the medium term outlook, or do you just see better value

elsewhere? Or is it just personal preferences that are driving your current approach?"

My comment - Many thanks for your kind words and continued interest in Fullermoney. Also, congratulations on your successful investment application.

There are several reasons why I am unwilling to top up my personal equity investment account at this time.

The first reason is tax. My personal long-term equity investments are in the form of UK tax-efficient SIPP's and ISA accounts for Mrs Fuller and me. I am not topping up my pension, except for a separate Stockcube scheme which matches 5% contributions from my modest salary. However I will continue our annual ISA investments.

As I understand the tax situation, and I am notoriously shaky on this subject, the UK Capital Gains Tax will fall from 40% for income tax payers at the same rate, to 18% after 6th April 2008. If so, CGT rates will be less punitive and that may tempt me at some point.

Additionally, while I have been gratified by the performance of my personal equity portfolio over the last five years, and am content to hold current positions, I no longer regard global stock markets as a bargain, although the Fullermoney themes remain attractive. Also, risks have increased somewhat, not least regarding contagion from the USA.

Consequently my main diversification in the last two years has been in the field of collectibles, which Mrs Fuller and I enjoy for their yield to the spirit. Somewhat cautiously, I also retain fairly large cash reserves, not least because if I wish to leverage up, I can do so through my spread-bet accounts.

January 4th On Fullermoney themes:

"Happy, healthy and prosperous New Year to you and Eoin. I am very pleased with your service having been a subscriber for a few months now. I listen to and read your comments daily. I carved out a share of my portfolio for Fuller Money Themes (FMT) and that is doing very well - making my subscription well worth the money. I am considering increasing my allocation to FMT, beyond letting it grow naturally. My only hesitation is that as always the buying is relatively easier than the selling. Because of my short membership of your services I have not experienced (as far as I am aware) a sell signal on a FMT. When was the last time you gave a sell signal or comment on a FMT and what was that long term theme. I look forward to your reply.

"Thanks for all your good work in these volatile times."

My comment - Thanks for your kind words and good wishes, which we return in kind. Also, congratulations on your investment application.

You make an interesting observation regarding: "...the buying is relatively easier than the selling". I suppose this is true although emails reveal

discussion regarding possible inflection points, indicating that it can be difficult to run with a good theme, not least because no trend persists in a straight line for very long.

Also, with this reply I will focus on long-term investing rather than trading, which I also do within the Fullermoney themes. Investing and trading are different disciplines, best not confused, as you will appreciate.

As an example, some people have arbitrarily described a bear market as a decline of 20%, for reasons best known to them, and are unwilling to hold an investment position that declines beyond that amount. Personally, if I had sold out of Fullermoney themes in my personal long-term investment account every time they reacted by 20% over the last five years, I would be a lot poorer today. If the themes are good, and this is where analytical judgement becomes a factor, corrections of that magnitude are more likely to be buying rather than selling opportunities. Would Warren Buffett lose sleep over a 20% correction in some of his core investments?

However if I allowed many substantially leveraged trades in the same instruments to move against me by that magnitude, I would certainly have cause to lament, and perhaps insufficient remaining trading capital to buy for the recovery.

None of Fullermoney's current and secular long-term investment themes date back prior to 2002-2003. Fortunately, none appear to be over, although they are inevitably prone to some significant medium-term corrections. However there is always a risk that the time to exit a long-term theme may not be apparent without hindsight. None of us can predict the future, although as investors we need to think about it analytically rather than emotionally. We also need to understand the past, and I strongly recommend that we use charts as our reality check.

When selling, ideally, I would like to anticipate by lightening a position into strength. I did not do that when selling my holding in the Investec Global Energy [Fund](#) last year, and I was not getting out because I no longer liked the energy theme. I remain a high-conviction long-term bull of energy but had reservations about big oil's ability to replace reserves. The subsequent performance of this well-managed fund has been good.

While Asian emerging markets, led by Chindia, are an even higher-conviction theme for me, I have mentioned that I hope for the opportunity to lighten my Thai [holding](#) on strength. I am optimistic that there will be similar opportunities with gold shares, which remain notoriously volatile.

The only advice I will give you is to use Fullermoney, not least what the Collective provides and to which you have contributed with this email, to empower yourself.

January 3rd Joseph Stiglitz: Stagflation cometh

My thanks to a subscriber for this interesting, albeit somewhat political [article](#) by Joseph Stiglitz, published by Project Syndicate and Guardian Unlimited. Here is the opening:

The world economy has had several good years. Global growth has been strong, and the divide between the developing and developed world has narrowed, with India and China leading the way, experiencing GDP growth of 11.1% and 9.7% in 2006 and 11.5% and 8.9% in 2007, respectively. Even Africa has been doing well, with growth in excess of 5% in 2006 and 2007.

But the good times may be ending. There have been worries for years about the global imbalances caused by America's huge overseas borrowing. America, in turn, said that the world should be thankful: by living beyond its means, it helped keep the global economy going, especially given high savings rates in Asia, which has accumulated hundreds of billions of dollars in reserves. But it was always recognised that America's growth under President Bush was not sustainable. Now the day of reckoning looms.

America's ill-conceived war in Iraq helped fuel a quadrupling of oil prices since 2003. In the 1970s, oil shocks led to inflation in some countries, and to recession elsewhere, as governments raised interest rates to combat rising prices. And some economies faced the worst of both worlds: stagflation.

Until now, three critical factors helped the world weather soaring oil prices. First, China, with its enormous productivity increases - based on resting on high levels of investment, including investments in education and technology - exported its deflation. Second, the US took advantage of this by lowering interest rates to unprecedented levels, inducing a housing bubble, with mortgages available to anyone not on a life-support system. Finally, workers all over the world took it on the chin, accepting lower real wages and a smaller share of GDP.

That game is up. China is now facing inflationary pressures. What's more, if the US convinces China to let its currency appreciate, the cost of living in the US and elsewhere will rise. And, with the rise of biofuels, the food and energy markets have become integrated. Combined with increasing demand from those with higher incomes and lower supplies due to weather-related problems associated with climate change, this means high food prices - a lethal threat to developing countries.

Prospects for America's consumption binge continuing are also bleak. Even if the US Federal Reserve continues to lower interest rates, lenders will not rush to make more bad mortgages. With house prices declining, fewer Americans will be willing and able to continue their profligacy.

My view - There are some good points in this article, although I find the anti-US comments needlessly gratuitous. No doubt they will play well in some quarters but we should be wary of schadenfreude over America's or any other country's problems. It is unconstructive.

For many years the USA was the engine of global GDP growth, and a good thing too. The global economy needed US consumption. Yes this led to many excesses, from government to corporate and even a personal level. This is unfortunate and a problem, as has been well documented, but it is certainly not unique in the cycles of nations.

Fortunately, as economic governance had dramatically improved in many other countries, the world has moved with astonishing speed from unipolar to multipolar, with Asia now the lead but by no means sole engine of global GDP growth. Resources economies from Brazil to Russia and the Middle East are growing rapidly, and their development is intertwined with that of Asia and other regions, in a self-feeding and self-reinforcing process.

In fact, it is now far easier to list the countries that are not participating in globalisation's capitalist expansion - mainly Burma, North Korea, Cuba, Zimbabwe and a few other unfortunate countries riven with conflict.

Most of the inflation that Joseph Stiglitz refers to is from energy and food prices. The latter is particularly emotive but neither can be sensibly controlled by tighter monetary policy. They are part of what Fullermoney has referred to over the last 6 years as the Supply Inelasticity Meets Rising Demand story.

Most other inflationary pressures in the West have been either capped by US credit problems which have induced economic slowdown, or offset by renewed deflationary pressures resulting from the correction in house prices, tighter loan conditions, and slump in consumer spending.

Given continued economic growth, most governments can temporarily subsidise food and energy prices for their poor, if necessary, to prevent escalating commodity prices from becoming a socially divisive issue. Some already provide this support.

I maintain that the USA's credit problems, which have spread further a field, have slowed and extended the economic cycle. Consequently the next serious outbreak of wide-spread inflation is unlikely until sometime after the global economy is surging once again. This will not be in 2008.

Meanwhile, the greatest danger for investors, I maintain, is that the Fed has fallen behind the curve of events. It needs to cut rates more aggressively, as I discussed in some detail in yesterday's Audio, and publicly state its intention to fight recession with all the tools at its disposal. In other words, a variation on Bernanke's "Deflation - Making Sure It Doesn't Happen Here", speech on 21st November 2002, is required.

As I see it, this is the bottom line: either Bernanke is decisive in fighting recession and Wall Street steadies, allowing Fullermoney themes to resume their uptrends, or he prevaricates, in which case strong markets churn and the weaker ones sag. The former would be quite bullish for 2008. The latter would probably not be a disaster but it might be more uncomfortable than we would like.

January 4th On possibly telling markets what to do:

"I may be a fool rushing in, but I'm puzzled.

"I have listening to the audio since they started, and reading FM since long before that, and they've always been about analysing what's been happening, predicting what will happen, and telling us how you are responding with your own investments. I remember you saying, more than once, "What I'd like is this, however markets don't care at all what I want, so let's see what they're actually doing." You've never been in the business of telling markets or policy makers what they ought to be doing, instead of analysing what they actually do.

"Until now.

"For a long time now you've been expending a lot of time and energy being cross with the FED for being behind the curve, and explaining why what they are doing is wrong. I don't doubt that you are entirely correct, but somehow I would find it more in keeping with your usual style if you would say "What Bernanke has done in the past is this, therefore what he is likely to do in the future is this, and therefore what stock markets are likely to do is the following".

"Now I know this is presumptuous of me. It's your show, and you can talk about whatever you like (including opera and cycling) and I will continue to listen with pleasure and doubtless with profit. And so will thousands of others.

"I'm just puzzled, that's all."

My comment - [Thanks for this thoughtful email.](#)

[I trust that I will never succumb to the pointless arrogance and frustration of telling the markets what to do, because as you accurately summarise, they don't care. I am a self-described technical naturalist, who observes the crowd.](#)

[Similarly, I hope that I will never tell you or any other investor what to do - Fullermoney is about Empowerment Through Knowledge.](#)

[However I am not immune to my occasional 'Lear on the heath' moment and have been known to rage against what I consider to be bad governance, the absence of ethical standards, blunders by central bankers, and careless drivers who endanger law-abiding cyclists.](#)

[If I have raged too much at central bankers recently, and particularly Mr Bernanke, I plead guilty but with mitigating circumstances which I respectfully ask you to consider.](#)

[Briefly, I maintain that the Fed is behind the curve of events and that the consequences are potentially severe. You ask me to predict what Mr Bernanke will do. I suspect not even Mrs Bernanke would accept that challenge with confidence.](#)

A problem is that he has not been Chairman of the Federal Reserve for very long. Unfortunately, there is a long, sad history of blunders by new and therefore on-the-job trainee central bankers. You will recall Yasushi Mieno in the early 1990s, Alan Greenspan in 1987 and now Ben Bernanke in 2007-2008. I fear he is doing too little, too late.

December 13th The Bull Case for Banks

My thanks to a subscriber for this interesting and controversial [report](#) on US banks by Richard Bove for Punk Ziegel & Company. Here is the opening:

These Stocks Are Oversold

In the past two months, investors have simply made the decision to sell bank stocks en masse. This was probably a rational response to the uncertainty that has developed concerning the industry. However, it is an overreaction. This selling has left many of these issues with unusually attractive yields on well protected dividends. Moreover, there seems to be a significant amount of misinformation in the markets concerning these issues. For example,

- o The majority of these companies are better capitalized now than they have been for decades.

- o Moreover, while their loan losses are likely to rise, for most companies the increase will not result in negative earnings year-over-year.

So, consider the facts. These companies are, in the main, well capitalized; their earnings are going to rise; and they offer very attractive yields. Additionally, one must go back two decades to find a period when they were selling at lower valuations than they are now, and this was a period of much greater stress than the current times.

My view - I sort of agree that banks are a buy, but wish to qualify this statement.

Banks are good at creating new ways to make money, using practices which eventually 'sail close to the wind', to put it kindly. Then they overdo it to the point of self-destruction perhaps every 10 to 15 years.

It is all rather distasteful and then the banks are bailed out, often via the yield curve. Governments no longer allow their banking sectors to go bust, knowing that the consequences would be worse for the economy than a rescue.

Incidentally, I had lunch earlier this week with an old friend and former CEO of a major UK investment management firm, now retired, who said: "If this [the banking scandal] had occurred in China, some bankers would have been shot." I suspect he is right.

I fear Richard Bove underestimates the extent to which banks have been damaged by their cavalier lending and securitisation policies but I hope, for

the greater good, that I am wrong on this and that he is right. I am sure that he knows far more about the sector than I do, but this is also a market timing call.

Meanwhile, the bank share dividends are tempting, in Europe as well as the USA, perhaps even if not all of the indicated payouts are maintained. The shares remain influential assets selling well beneath their earlier highs. Earnings will be poor in most instances but it will suit new managements to write-off everything possible. They can blame the former management and in the case of an overshoot, write-up next year's figures, no doubt paying themselves large bonuses in the process.

For timing, this is still 'catch a falling knife' territory. Therefore buying should perhaps be on an incremental basis, on down days. Investors who do not mind missing the bottom but would like to have some clear technical evidence before considering purchases, could wait for evidence of base formation development. I have previously mentioned that the sector may have a lengthy convalescence. This would start with various banking indices such as the S&P 500 Banks ([weekly](#) & [daily](#)) either maintaining their lows, and / or experiencing downside failures, and breaking the progressions of lower highs on daily charts.

December 14th Libor Fails to Drop From 7-Year High; Crunch Persists - This [article](#) by Gavin Finch for Bloomberg covers the bearish sentiment still evident in the credit markets. Here is a section:

The interest rates banks charge each other for short-term loans in Europe failed to decline from the highest levels in seven years a day after central banks joined forces to break a logjam in money markets.

The cost to borrow for three months remained at 4.95 percent, the British Bankers' Association said today. That's 95 basis points, or 0.95 percentage point, more than the European Central Bank's benchmark interest rate, compared with 57 basis points a month ago. The difference averaged 25 basis points in the first half of the year, before losses on securities linked to U.S. subprime mortgages contaminated credit markets.

The highest short-term rates since December 2000 suggest that the first coordinated central bank action since the Sept. 11, 2001, terrorist attacks may not be enough to revive interbank lending. The cost of borrowing dollars fell 7 basis points to 4.99 percent, about half what was anticipated, based on prices of Libor futures contracts.

``It's not going to help us find an exit to this crisis," said Cyril Beuzit, head of interest-rate strategy at BNP Paribas SA in London. ``These measures aren't going to address the root cause of the crisis. Banks are still reluctant to lend money to each other because there are serious concerns about potential further bad news."

Reacting to Losses

Central banks in the U.S., U.K., Canada, Switzerland and the euro region agreed yesterday to coordinate efforts to promote lending and restore confidence in money markets. Policy makers are reacting to more than \$66 billion of losses announced by banks this year and estimates of about \$300 billion more on securities linked to subprime mortgages, collateralized-debt obligations and structured investment vehicles, or SIVs.

The measures won't succeed in bringing down borrowing rates until next year, futures trading in Europe suggests.

Implied yields on Euribor futures contracts expiring this month through June 2009 rose today, with the December contract climbing 6 basis points to 4.92 percent. The implied yield on the March 2008 contract gained 6 basis points to 4.6 percent.

“The markets don't expect spreads to go down,” said Alexander Titsch-Rivero, head of derivatives and structured products in Frankfurt at BHF-Bank AG, a German private bank.

“The actions by the central banks were just a placebo, a tranquilizer that doesn't solve the problem of the mistrust among banks on one hand and the potential for more losses in credit on the other.”

My view - These spreads of Libor over short term bonds for the [US Dollar](#), [British Pound](#) and [Euro](#) indicate that sentiment within banks remains extremely distrustful. However we should also recognise that these are accelerating trends and are looking overextended, so we could see some reversion in the not too distant future.

The Fed and a number of other central banks are attempting to kick start the credit markets with concerted injections of liquidity and while they are making quite considerable policy shifts, they continue to mess up on the PR front. A phrase so often used by the media with reference to Afghanistan or Iraq also applies here; "the battle for hearts and minds." Or to use another metaphor, the Fed and BoE might think they know what is best for the patient, but they seriously need to work on their bedside manner.

Ben Bernanke remains an on-the-job trainee and he has allowed the Fed to fall behind the curve of events. We have heard, since Wednesday, that the Fed is looking at other tools to help alleviate the stress in the credit markets. However, one tool they don't seem to be considering is simply making more public appearances and talking with confidence about the banking sector. These actions would cost nothing and would send a signal that they are serious about dealing with the problem.

So far they've adopted a reactive stance, with only sparse commentary from Fed officials, which has resulted in traders interpreting their inaction as a vote of no confidence in the market. Personally, I believe that the bearish argument is overdone. However, the banking sector's troubles are not going to be fixed overnight and they will take much longer to rectify, if central bankers don't take a more active role in helping to restore confidence.

December 20th on defining a bear market:

"Good morning! I have been following your work for the past 2 years and I wanted to know what is the difference between a medium term correction and a bear market. To be honest, when a market is down more than 20% over at least 6 months, in my book this is a bear market. For example, base metals like zinc and nickel are down 60% + from their highs and copper is down sharply from its high in May 2006. To me, it looks like a bear market. In addition, many markets are turning into a bear market: Japan is down 18% from its high, Hong-Kong is also down 17% from its high, Shanghai is down 20%+ from its high. We also had big declines in Singapore, Canada, and some European indices. All in all, I see more markets in a bear market than in a bull market, and don't forget that we are in what is supposed to be the best quarter in the best year of the presidential cycle.

"Thank you very much."

My comment - Thank you for this email which raises some important questions. Initially I would like to refer you to Email of the day (1) in Comment of the day on [September 27th](#) where David defined our terminology with reference to the difference between a medium-term correction and a bear market.

I think that essentially yours is a question of the difference between a cyclical and secular move. The industrial metals went through a secular, as in very long-term bear market between the 1980s and 2003. As you can see from this long-term chart of [copper](#); trading prior to 2003 looks like one long base formation. Unquestionably copper, [zinc](#), [nickel](#) and the other industrial metals experienced accelerated moves which took them to levels well beyond the imaginations of most investors. I would argue they are consolidating those impressive gains.

If you are of the opinion that the commodity secular bull is over, then you would be justified in saying that this is a bear market. However if you believe, as I do, that this move has further to go and that what we are seeing now is nothing more than a protracted medium-term correction above their long-term bases; you would not classify this trading action as a bear market.

Looking at your stock market examples: Japan's [Topix](#) was undeniably in a secular bear market between its euphoric peak in 1989 to when it bottomed following an almost 70% decline in 2003. Since then the market more than doubled and it remains in a prolonged consolidation of that move. I agree that it is certainly not setting the world alight with relative outperformance, but its decline to date has been relatively orderly and it remains within the range which has extended for the last two years. Although it is at the lower side of that range right now and could potentially go lower, the chances remain good that this is still a large consolidation which will eventually be completed with a reassertion of the overall uptrend, rather than a return to the outright bear market.

Hong Kong has certainly accelerated recently and the move to 30,000 was quite startling in how fast it occurred. Is this market in need of some consolidation? Absolutely. Could it be potentially lengthy? That is a possibility. However is it in a bear market? I sincerely doubt it. This move, although overextended, is well underpinned by a lengthy trading range which lasted for more than 10 years. It can certainly be volatile and it could potentially come lower than it already has, but I think the odds are better than even that this market will reassert its uptrend in the medium-term.

China's stock market is a relatively new phenomenon and is still largely closed to foreign investment. It went through an impressive move in the late '90s and gave most of it up by late 2005. The move since the beginning of 2006 dwarfed the performance of the index previously and this market is displaying more bubble characteristics than any other globally today. The current reaction is larger than any we have seen in the last two years and this is a cause for concern, but the decline so far has been quite slow and since markets mostly fall faster than they rise, there is probably no need to panic right now. If this is a bubble, I suspect it has further to run. Most bubbles take a number of years to play out and the biggest ones are truly global phenomena, such as the TMT bubble. China's bubble may still be in its early stages and although the central bank is tightening, the stock market remains reasonably steady.

Singapore, similar to Hong Kong, went through a long consolidation between 1993 and 2003. It broke upwards in early-2006 and rallied impressively. It is now in a medium-term correction of that impressive gain and this could potentially be lengthy, but for it to turn into a more serious correction it would need to sustain a move below the August lows which is a considerable distance from where the Index is trading today.

Canada accelerated into the 2000 peak and gave up almost the entire move before bottoming in 2002. Since then it has been in a remarkably consistent uptrend and the present reaction is larger than the previous consolidations, but currently looks like more of a loss of momentum rather than an outright reversal. I believe a further ranging consolidation is much more likely than an extended downtrend.

The Irish, Icelandic, Swedish, and Italian stock markets have been Europe's worst performers this year. Ireland in particular has performed in line with the banking sectors of many western nations and was down 37% at the November 22nd low. So we could class the Irish market as having been in a bear market, because it has broken all of the consistency characteristics of its uptrend and has yet to show conclusive signs that it has bottomed. However, the downtrend has lost momentum and the Index has been steadier recently. It would need to sustain a move to new lows to question scope for further base building and an eventual recovery.

As a trader one might make money by shorting, although even that would be difficult given recent volatility. As an investor in the above markets, you would have enjoyed strong performance over recent years but many have now entered more corrective phases. However, I believe it is premature to call

these bear markets because the technical evidence does not justify that call, although their convalescence might be quite lengthy. Once the current uncertainty passes, most of the markets above should reassert their overall uptrends and patience is likely to be rewarded.

January 7th On "a classic bear market for US stocks":

"Good afternoon! Well, we are only 7 points or so from the August 2007 bottom on the S&P 500. To me, it looks like a classic bear market for US stocks and a strong bull market for government bonds. We are already 6 months in this bear market, it should last another 6 months to 1 year if history is any guide and the Dow Jones should drop an additional 10%-15%."

My comment - I agree that the S&P 500 Index's technical picture ([p&f](#), [weekly](#) & [daily](#)) deteriorated in July and the first half of August, evidenced by the biggest setback since the 2003 low, followed by a failed upward break in October. The deterioration dates back to February if we take sectors that usually lead at turning points, such as [banks](#).

Moreover, the S&P 500 Index's technical action remains poor, with a medium-term downtrend established and last year's reaction lows under pressure.

An additional decline of 10% to 15%, which you mention, would certainly be significant although little more than half of what we saw in the last bear market shown on this monthly [chart](#). I will add what I believe to be obvious - there is currently no technical evidence to refute your bearish outlook.

However I think the further decline you mention is avoidable, given the right policy mix in terms of monetary and fiscal stimulus. We have yet to see this, although I gather from news over the last few days that something is under discussion. From a practical standpoint, we should assume that Wall Street remains weak, until we see evidence to the contrary.

The correction to date of just over 11% does not yet qualify as a bear market by my [definition](#), although it has the potential to turn into one. I would expect Treasury bond [prices](#) to remain firm while the US stock market is under pressure.

Meanwhile, the crucial point for me, and perhaps a number of subscribers, is the extent of the Wall Street leash effect. It has not really damaged Fullermoney's long-term investment themes to date, although I would certainly expect some contagion in the event of another 10% to 15% decline by the S&P 500. However even in this event I would still expect the Asian growth, resources and global infrastructure plays to lead the subsequent recovery.

December 14th Citi Industry Focus: Gold - 'Tis The Season To Be Jolly - Thanks to a subscriber for this well reasoned [report](#) on gold by the team at Citi Smith Barney. Here is a section:

The gold price has risen ~23% in the second half of CY07 compared to the 2% rise in the first half of the year. H2 outperforming H1 is a relationship now

witnessed in 21 of the last 34 years, since the collapse of the Bretton Woods fixed exchange rate that pegged gold at US\$35/oz - US\$40/oz.

Over the same period, the average gold price rise in the first half of the year has been ~1% compared to ~7% in the second half.

With the speculator net long positions remaining close to record levels and the seasonally weak period approaching (February through to July) the prospect of an opportunistic dip in the gold price during Q1 '08 looks a real possibility. Other short-term risks to the gold price could emanate from potentially reduced fabricator demand from India, which has experienced price sensitivity, increased scrap supply as a result of higher prices and a slowdown in producer de-hedging as the global hedge book dwindles.

However, with the prospect of ongoing pressure on the US dollar, uncertainty brought about by the ongoing credit meltdown, continual inflationary pressures, oil hovering around US\$85 barrel and limited new production from mines, the underlying fundamentals remain positive. Subsequently, any potential dips in the gold price should be used as an opportunity to buy gold equities or the underlying metal through an ETF. Newcrest remains our preferred large cap gold stock and Equigold remains our preferred small cap gold stock.

Central bank sales are capped through the Central Bank Gold Agreement (CBGA II) and we maintain that a major sell down of the IMF bullion reserve remains unlikely with the US holding 16.7% of the IMF voting rights - enough to ensure the 85% required majority for any gold disposal is not achieved. We also assume that given the IMF has a systemic responsibility to avoid causing disruptions to the functioning of the gold market that if it were to dispose of any gold then it would be dealt with in conjunction with the existing CBGA.

My view - [Gold \(p&f, monthly, weekly, daily\)](#) rallied to a high near \$850 in early November which was a more than 30% increase in less than 3 months. It has since moved into a relatively volatile consolidation, which has taken on a triangular shape.

In behavioural terms this indicates that sellers are progressively lowering the price at which they are willing to offer their supply and buyers are only incrementally raising their bids. This situation will not go on interminably because this decision making process by both buyers and sellers is thinning out supply above and demand below the market; creating vacuums. Once the weight of opinion moves enough in one direction we are likely to get an explosive move.

The [Goldbugs](#) Index is testing support from the top of the prior range, but would need to sustain a fall back below 370 to question the overall upward bias.

[Platinum](#) continues to lead the precious metals sector generally and posted a marginal follow through on yesterday's upward break today. It needs to sustain this breakout to maintain its bullish outlook.

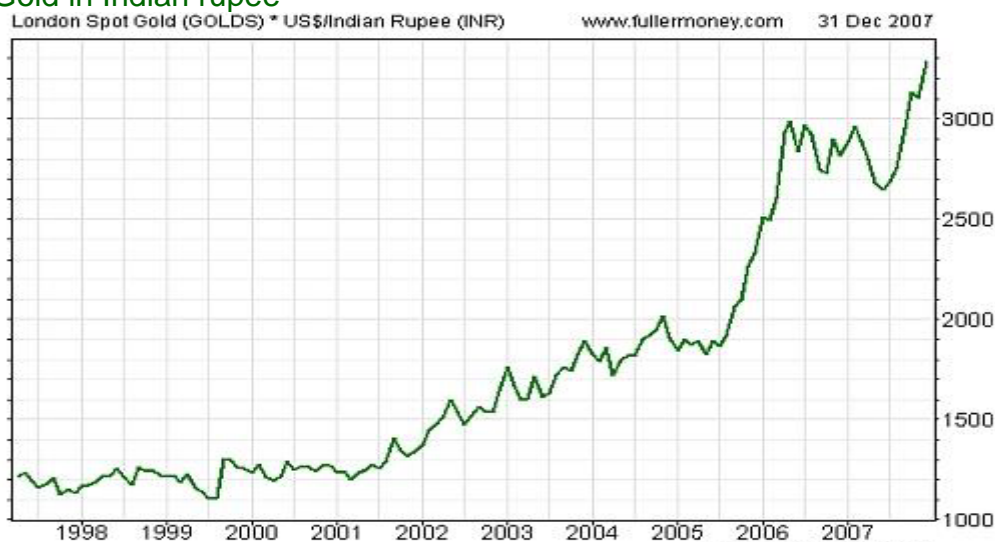
Given the generally positive commonality across the sector I believe that the outlook remains bullish for gold but it needs to sustain a move to new high ground to reaffirm the overall uptrend.

January 2nd Gold glitters brightly at start of 2008

My thanks to Prieur du Plessis of Plexus for the [latest](#) in his Investment Postcards from Cape Town. It is posted in the Subscriber's Area but here is a brief section on gold in currencies other than the US dollar, selected by Prieur from the Fullermoney Subscribers' Chart Library:

Further to the table published in my previous article, gold has now entered record territory in terms of most currencies other than the US dollar. This includes the currencies of the two largest consumers of gold, namely the Indian rupee and the Chinese renminbi as illustrated below. (China has just overtaken the US as the second largest gold consumer after India, according to the World Gold Council.)

Gold in Indian rupee



Gold in Chinese renminbi



Other central banks pursuing a policy of increasing their gold reserves relative to fiat currencies include Russia and Saudi Arabia. The following charts show the gold price in their respective currencies:

Gold in Russian ruble



Gold in Saudi riyal



Source: Fullermoney.com

I have debated the fundamental case for investing in gold on a number of previous occasions, but let's recap the implications of the inflation/deflation scenario by means of an excerpt from Richard Russell's Dow Theory Letters. (I should add that he has been reading the gold cycle with painstaking accuracy.)

My view - For the record, subscribers are always welcome to use Fullermoney charts in their reports, or to email them directly from the site to friends and

colleagues, adding a message if you wish. And in one of our latest upgrades, subscribers can produce the charts of gold (or other instruments) in other currencies on a variable time basis as you can see with this sequence in Australian dollars - [since 1971](#), [20 years](#), [10 years](#), [5 years](#), [3 years](#), [2 years](#), [1 year](#), [6 months](#) and [3 months](#). One can also change from daily plots, as shown above, to weekly, monthly or quarterly.

Those of us with an interest in gold have found it to be rewarding over the last six years because it is in an overall upward trend. We have also found it to be exasperating on occasion because the move has often been choppy, punctuated by lengthy setbacks and consolidations.

A continuing refrain heard over the last many years is that: "Gold is not doing what it is supposed to do", whatever that means. Gold's value is in the eye of the beholder. Therefore sentiment will wax and wane, just as it does for any other market.

Consequently, a mantra at Fullermoney is that gold and its sister precious metals are best purchased following setbacks. Psychologically, this is not easy because the chart action may raise concerns and sentiment will have deteriorated.

Gold's new all-time (numerical) high [today](#), in USD and most other currencies, is just a minor step within the overall upward trend. Its main significance is that it reaffirms the uptrend. It may also improve sentiment and another momentum run is possible.

I maintain that gold is in a secular bull market, for all the reasons previously not mentioned, and not least because in this era of ultra competitive pressures from globalisation, no country wants a strong currency. However some countries need a weak currency more than others, and these include the USA.

January 8th Financial Times: Gold is the new global currency

This is an interesting [editorial](#) from the Financial Times. Here is the opening:

There was a time when gold was money. In today's uncertain world, the yellow metal is back in fashion. Bullion prices rose to a record nominal high after the assassination of Benazir Bhutto in Pakistan added to nervousness about the world economy. Part of gold's allure is its traditional status as a safe haven. It is seen as a store of value when everything else seems risky. But the bigger drivers behind the rising spot price are a depreciating dollar and the prospect of negative US real interest rates.

A better way to think of gold may be as central bankers used to before America dropped the gold standard: not as a commodity, but as another currency. As long as the dollar stays weak, gold's bull run will last.

The arguments for further gains in the gold price are compelling. It looks cheap, despite climbing from a low of about \$250 a troy ounce in 1999, when central banks were selling reserves. The UK's decision back then to sell 60

per cent of its official holdings looks particularly poor judgment.

My view - Points made in this editorial will be familiar to veteran subscribers; nevertheless I regard it as one of the more influential comments on gold that I have seen in years. After all, the prestigious Financial Times could hardly be accused of representing the views of gold bugs. While gold was already showing evidence of becoming a momentum play, I am certain that this editorial from the FT is at least partially responsible for bullion's strength ([weekly](#) & [daily](#)) today.

The FT adds:

If gold is a finite currency, its value against not just the dollar, but sterling and the euro too, should rise.

Indeed, but I would not stop there. Gold has resumed its advance against all of the world's fiat currencies, in a process which actually commenced in September-October 2005. Here is gold priced in two strong reserve currencies, the [Australian \\$](#) and the [Canadian \\$](#), and also against the [Chinese renminbi](#), certain to become one of the world's main reserve currencies once it is allowed to float freely.

Fullermoney subscribers can view gold in the Chart Library against any of the world's other currencies, customising the time sequence to suit.

Wall Street may look as sick as John Cleese's parrot in a famous Monty Python skit but the Amex Gold Bugs Index ([p&f](#), [monthly](#) & [weekly](#)) is resurgent, not surprisingly. It could have a good run, although I regard gold shares, which are seldom cheap, as far more speculative than bullion.

A good fund is safer, despite the additional costs, and I assume that the Merrill Lynch Gold and General Fund ([MRCGLDI LN](#)), the sixth largest position in my personal long-term investment portfolio, reached another new all-time high today. A number of other gold share funds are listed in the Library.

I also trade gold futures through UK tax-efficient spread-betting firms. Generally, it has paid to purchase gold following setbacks and trailing stops should be used when markets are running.

January 9th Mineweb.com: The world's sexiest gold stocks

This [article](#) by Barry sergeant covers some interesting data regarding gold shares. Here is a section:

Six years into a protracted bull market for dollar gold bullion, and there are dozens of new listed gold stocks around the world. Gold mines are being found - or re-found - across the planet, from Kazakhstan to Nunavut, from Egypt to Romania, from Alaska and the Yukon to Guyana. But with the bullion price tracking to new records above \$870 an ounce on Tuesday, the evidence shows a significant variance in the ratings of gold

stocks.

In recent weeks, the biggest gold "stock" of size that has consistently outperformed the global universe of gold stocks does not mine gold: it's the world's biggest gold bullion ETF (exchange traded fund), Streettracks (GLD US, \$86.30 a unit), which boasts a value of more than \$17 billion. Streettracks is trading right up at highs, like gold bullion. Amongst the nine stocks that may be classified as global Tier I gold stocks, five clear leaders can be identified: Goldcorp (GG US, \$38.60 a share), Barrick (ABX US, \$49.35), Newcrest (NCM AU, A\$36.84), Kinross (KGC US, \$21.27), and AngloGold Ashanti (AU US, \$47.83). These five stocks are at, or close to, record highs. The clear laggards in the Tier I classification, by a large margin, comprise two of the big three South African gold majors: Harmony (HMY US, \$12.09), and Gold Fields (GFI US, \$16.68).

The recent relative outperformance of the Streettracks ETF, marginal as it may be alongside the five leaders among the Tier I group, has an element of déjà vu, from the realms of silver metal and silver stocks. The official launch of the silver ETF (iShares Silver (SLV US)) in May 2006 cast a pall over the silver stocks sector. Up to that point, silver stocks had been trading at premiums to both North American gold and base metal stocks. By the end of 2006, the ETF had attracted more than 120m ounces of silver, about 50% more than analysts had anticipated. Demand calmed somewhat during 2007, with about 140m ounces of silver in the ETF by year-end.

My view - Gold shares which are closely tracking the gold price are worth keeping an eye on and more especially those which have performed better than the bullion price, because they are offering additional leverage in a bullish environment.

Many gold shares have rallied significantly from their December lows as has the gold price. [Gold](#) has gained 11.78%, but [Newcrest](#) is up 39.7%, Barrick 33%, Goldcorp 25.6%, Kinross 33.35% and AngloGold 18.05%. All of the figures are in US Dollar terms.

[Barrick Gold Corp](#) has surged upwards from its December lows and is looking somewhat overextended in the short term, but it would need to sustain a move below \$46.75 to question potential for some additional upside.

[GoldCorp](#) remains in a lengthy medium-term consolidation following its impressive gains in late 2005 and early 2006. However it is now testing the 2006 high near \$40 and a move below \$35 would be needed to question potential for a sustained break above that level.

[Kinross Gold Corp](#) broke upwards from a lengthy consolidation in September and remains in a consistent uptrend. It would need to sustain a move below \$18 to question potential for further upside.

[AngloGold](#) remains in a ranging consolidation in Dollar terms and needs to sustain a move above \$50 to indicate that the bulls are gaining the upper hand.

[Newcrest Mining](#) broke upwards from its lengthy consolidation in September and remains in a consistent uptrend. A sustained move below AU\$30 would be needed to question potential for further upside.

December 20th Investec Currency Views: Divergence or re-convergence?

- Thanks to a subscriber for this interesting [report](#) which looks at decoupling between the USA and Europe. Here is a section:

Chart 1 shows US states renamed for countries with similar GDPs. We have omitted six major countries, namely the UK, Italy, Germany, Japan, India and China and it is true that the latter two are the principal reason for optimism to believe in divergent growth, but it certainly puts the rest of the world into perspective.

We are extremely sceptical of this divergence notion and believe it has significant implications for G10 currencies. In fact, we believe that currency markets in November have actually been showing signs of that very theme. Indeed, we are far more likely to see a reconvergence of the higher-growth world to that of the much slower US economy. But we must first assess the true scale of the problems (or not) in the US.

The average annualised quarterly growth of the US economy in 2006 was 2.6% So far this year, the figure stands at 3.1%. Even if the US economy grows at a measly 1% rate this quarter, 2007's growth rate will match that of 2006. A key driver of this statistic will be net exports. We discussed the improving US deficits last month, but this theme is starting to gain some traction at a time when relative rate expectations between the US and rest of the world look stretched and the greenback is floundering near all-time lows

The unconditional weakness of the US dollar seen in previous months looks to have ended in November, at least for now. In fact, looking at G10 currencies in the last month, the dollar has rallied relative to six of them and fallen against three.

My view - I can well imagine that one would be sceptical of decoupling if one only looked at European economies. However to my knowledge no one was suggesting that decoupling was occurring between the USA and Europe. Rather between the USA and Asia's high growth economies; namely China and India.

In this regard, it remains unlikely that growth in these economies will slow meaningfully as a result of a US slowdown. Both the India Rupee and the Chinese Renminbi are in secular uptrends relative to the Dollar which is reflective of their robust high growth trajectories.

The [Rupee](#) had been a powerful inhibitor to investment in India, because it was in a prolonged downtrend relative to the Dollar between 1980 and 2002. However that is no longer the case. Following the Dollar's peak near R49 in 2002, the currency ranged below the high for nearly 5-years and the break below R43 earlier this year marks the beginning of a prolonged Dollar bear market against the Rupee. Of course this will not be a linear move and will be

punctuated by some significant Dollar rallies. However there is a strong likelihood that the prevailing overall trend will remain downward for much of the next decade and more. This should prove to be a significant tailwind for inward investment going forward.

The [Renminbi](#) has been a much more managed currency and this is proving slow to change, although the Chinese authorities have intimated that they will gradually allow the currency to appreciate against the Dollar. They have been even slower to allow their currency to appreciate versus the [Euro](#), which is a cause for growing distress in the Eurozone. Even so, we can take it as a given that the Chinese will allow their currency to appreciate versus a broad basket of currencies over the long-term. However they are unlikely to be hurried in this endeavour beyond a speed with which they are comfortable.

This move by two of Asia's fastest growing economies is also allowing greater flexibility across the Asia region and the [Asian Dollar Index](#) remains in a secular uptrend. Following the Asian Financial Crisis, this index fell precipitously and moved into a long base formation. From 2001, the Index displayed a progression of rising major reaction lows and the successful break above 105 in early 2006 completed the base. The upside can be given the benefit of the doubt as long it maintains the progression of rising lows and over the long-term this index is likely to head back towards its 1995 highs which will also be a significant tailwind for Asian investment.

The [Dollar Index](#), which is largely weighted in favour of the Euro, continues to rally from all-time lows near 74.50 and a move below 76 would be needed to question scope for further upside in the short-term. Longer term, at previous important turning points, the Index has tended to range in the region of the respective top or bottom and there is no reason to suspect this case will be any different. So while the Index is rallying currently, a retest of the lows at some point next year is not beyond question.

December 27th Morgan Stanley: The Return of the Dollar

My thanks to a subscriber for this interesting [report](#) by the Global Macro Team at Morgan Stanley. Here are some opening bullet points:

The US dollar is cheap

Our calculations show that the median fair value of the dollar is 1.18 against the EUR (latest 1.43), 1.64 against the GBP (latest 1.98), and 101 against the JPY (latest 113). The dollar is cheap against EUR, GBP and several other G10 currencies, though it is still rich against the JPY and some EM currencies.

The dollar smiles in a US recession

We believe the risk of a recession in the US, and the concomitant fear in the financial markets, will be supportive for the dollar. Further, a healthy recovery following the prospective slowdown in the US economy will also be USD supportive. This is our 'Dollar Smile' idea.

My view - Fullermoney has a long tradition of posting reports with which it does not always agree, particularly if they are well written, as in this case.

The US dollar is at one of those interesting crossroads when informed people can make a credible case for or against a recovery. I believe that subscribers should be familiar with both sides of the argument, to remain objective. Meanwhile, the chart action remains our arbiter and reality check.

For these reasons and following the US Dollar Index's steepening decline ([monthly](#), [weekly](#) & [daily](#)) to its October low, which generated extreme pessimism among many currency pundits, we have spoken of a technical rally and pointed out a number of short-term technical levels against the Index and also several other leading currencies.

More recently and both before and after my pre-Christmas holiday in Squamish, I have mentioned repeatedly in Audios that the dollar had probably seen the best of its rally, at least for the short term. However I also mentioned in my Audio on Monday that we had yet to see a downward dynamic by the US Dollar Index. That occurred yesterday and there has been some follow through today, as you can see from the daily chart above.

I do not argue with Morgan Stanley's point that the USD is cheap on a purchasing power basis, particularly against the EUR and GBP. However the USD needs to be cheap because the US economy remains a focal point of risk and will skirt very close to recession, perhaps avoided only with the help of an accommodative Fed and considerably stronger global economy led by Chindia.

As an aside, there is now a two-tier US economy, as I have mentioned before. This consists of a moribund domestic consumer sector and a comparatively robust multinational / export sector. If there was ever a time to bet against the near legendary resilience of the US consumer, it is now. All those chickens of folly - teaser mortgages, 'pay nothing until 2009' enticements for cars and other big ticket items, 'cheap rate' loan shark advertisements, soaring credit card debt arrears - are coming home to roost.

With the US economy overly dependent on consumerism, the USA faces stagflation - the stagnation portion led by banks and overstretched consumers, and the inflation coming mainly from food and energy prices. I fear this combination will feel considerably worse for middle class and blue collar Americans than the 2001-2002 recession.

The financial sector's multiple own goals will make it a most unlikely candidate to take up the economic slack and lead the next US recovery. The good news, albeit for the longer term, is that US households may increase savings. Meanwhile, the Fed will be forced to remain accommodative. This will be a headwind for the USD but it might just prevent Wall Street from slumping, with food and other resources companies to the fore, along with quality multinationals and tech.

The Wall Street leash-effect will remain a factor for all other stock markets, albeit not so powerful as it used to be. Weakness by the major US equity indices will exert a downward pull but Fullermoney themes such as Asia and resources will not necessarily be high-beta, except that they are likely to recover more quickly, as we have seen this year. Steadily ranging to rising US indices would allow the fundamentally bullish markets to extend their outperformance.

Returning to the Morgan Stanley report, I continue to regard bullish dollar commentary as a contrary indicator. However chart action usually tells the real story, far more effectively than any forecasts. Therefore, as I see it, the [DXY](#) short-covering rally is now being retraced and a move over 78 is now required to revive it. Even if the DXY is forming a significant base, which I doubt, the process would take many months and possibly years, as Eoin explained in Friday's Audio. Meanwhile, the dollar may not attract more than occasional short-term demand before the trend for US short-term rates eventually reverses to upwards.

I agree that GBP ([weekly](#) & [daily](#)) is no longer a hard currency, due to a weak UK economy and the likelihood of lower short-term rates. However it has steadied following a somewhat overstretched decline and would need to fall beneath \$1.97 to indicate renewed weakness.

The EUR ([weekly](#) & [daily](#)) also faces a somewhat weaker economic headwind but has been involuntarily upgraded in terms of reserve currency status by the USD's weakness. Moreover, the EUR has failed to maintain its break beneath \$1.45 and would need to fall under \$1.43 to indicate renewed weakness.

I agree with Morgan Stanley that Asian currencies ([monthly](#), [weekly](#) & [daily](#)) remain attractive, generally, although I would exclude the low-yielding yen, which remains a carry trade vehicle. For instance, there is no compelling evidence to buy EUR/JPY ([weekly](#) & [daily](#)), although the euro may encounter some resistance near its former highs, particularly if there is renewed political pressure within Euroland to stem its strength. However, the dollar's rally might just have peaked against the yen today, although the [key day](#) reversal is too small to be conclusive.

Resources exporting countries do not want their currencies to appreciate (Who does? This remains one of the gold bull points) but they face a headwind in the form of strong economies. AUD ([weekly](#) & [daily](#)) has not maintained its latest downward break although it needs to takeout the recent sequence of lower reaction highs to show significant improvement. This is likely, since the Australian currency continues to show extensive underlying support against the greenback.

It continues to look as if the politically induced short-covering rally in CAD ([weekly](#) & [daily](#)) has reached at least a temporary peak. Another upward dynamic is required to check the latest slide beyond a brief pause.

Lastly, if the US Dollar Index ranges at best, as I suspect, one half of Morgan Stanley's reasons behind a bearish forecast for industrial metals will have

been undermined. I also think they underestimate global infrastructure and consumer demand, led by Chindia and booming resources countries. It seems a bit late to be bearish of zinc ([weekly](#) & [daily](#)), which I believe is now in a buying range, although technical evidence of a firm floor remains tentative. However it is quite overextended relative to the 200-day MA.

January 10th Deutsche Bank US Integrated Oil Team: The conspiracy of ignorance about oil?

Thanks to a subscriber for this excellent, matter-of-fact [report](#) by Paul Sankey, Ryan Todd and Rich Voliva which covers a number of essential points on the oil industry. Here is a section:

The first element was the need for the market to reflect better the massive growth in returns, which came as a result of lower investment. The second phase, which we are in now, is a battle between falling returns because of limited opportunities, aggressive governments, and higher costs, and the attendant enormously high prices that those bring.

One simple way to play it is through service companies such as Schlumberger, which are beneficiaries of the need to spend more, but not subject to the tax increases that governments under-take on names such as ExxonMobil. Indeed, Schlumberger is the first company to get hired by a government that has recently nationalised.

By contrast the major oils trade relatively cheaply, at discounted P/Es, because of the returns pressure they face. This can be seen in any of the following charts of valuation that we publish on a regular basis as valuations shift. The overall picture remains the same: the market is reluctant to pay highly for a group that will eventually be subject to falling demand, assuming oil supply investment is insufficient. Example 1) - the oils trade at around \$10 per booked barrel of reserve (proven, or 1P) and around \$5 per barrel of likely reserves (proven and probable, or 2P).

On a more sophisticated measure, keeping in mind that ConocoPhillips makes around \$10 per bbl produced less than Occidental, is a full net asset value, but even then companies are discounted against this measure.

By inference, if we are using around \$70 long term oil, and the oils appear to be trading at a discount to that valuation, the oils are discounting less than \$70 per barrel against a strip that is over \$80 per barrel. That is the logical market response to falling returns and weak growth.

This chart also illustrates the market's valuation on management skill and risk, being a discount or premium to the value of the existing asset base, a discount implies that management will destroy value going forward.

Growth is doubly important, not only because it implies a successful company in itself, but also because in oil it implies rising returns. With heavy up-front capex, oil fields produce no growth under the majority of the capex phase is over. At that point, growth starts, and so does growth in returns. A company

with growth has its capex behind it, and rising returns in front of it. The next question becomes whether there is sufficient projects down the queue to maintain growth. We like Marathon for its strong growth AND its long term inventory, notably in Angola. Oxy, Hess and Suncor are similar, and all of them, again, are the smaller, more nimble mid-caps.

This chart serves to illustrate the declining returns problem, with the oils making more-or-less the same net income per barrel produced now at \$90/bbl as they were making in early 2005 at \$60 a barrel. Regardless, we prefer the companies with the highest profit per barrel, which implies the lowest costs per barrel. Consistent winners here are ExxonMobil and Occidental.

My view - The problem, which we have talked about in the past and which is made in no uncertain terms in this report, is that the large oil companies are becoming less exposed to the oil price as it pushes upwards. This is for a number of reasons but chief amongst them is the drive towards nationalisation in some oil rich countries and long-term contracts which give greater revenue share to some governments above a threshold in the oil price. The charts in this report excellently illustrate this point.

This means that the medium-sized companies have more manoeuvrability in terms of access to resources, particularly those with properties in the Canadian oil sands. It also means that the oil services industry should continue to benefit as a niche player, because regardless of a trend towards nationalisation, they are needed to expand production.

Schlumberger remains in a well defined uptrend. The acceleration in early 2006 was an ending of medium-term significance and it ranged for most of the year. It broke upwards from this consolidation in April 2007 and advanced to its October high of \$113 in a relatively orderly fashion. However the weekly key reversal from the high probably signals a high of medium-term significance and the share needs to sustain a move above that area to reaffirm the overall uptrend.

Occidental Petroleum broke upwards from its more than year-long consolidation in May, briefly returned to test the top of the range in August and has been in a very consistent uptrend since. It would need to sustain a move below \$70 to question scope for further upside.

Hess Corp was in a ranging consolidation between October 2005 and April 2007 which was characterised by a number of failed upside and downside breaks and generally whippy trading activity. However following the test of the old highs in August, the share exploded upwards and was looking overextended when it failed above \$100. However, it found support in the last couple of days near \$90 and would need to sustain a move below that level to question potential for some further steadying in this area.

Marathon Oil continues to post higher lows which have been a hallmark of its uptrend over the last 5 year. However it reacted sharply from its high near \$67 and has so far failed to retest it. It needs to sustain a move to new high ground to reaffirm upward potential and re-embolden the bulls.

[Exxon Mobil](#) remains in a consistent uptrend and within only a couple of dollars of its all time high. A sustained move below \$83.50 would be needed to break the progression of rising lows and question further upside potential.

December 18th on alternative energy stocks:

Drama and tears in Bali as US finally gives in - [This article](#) by Frank McDonald which ran in yesterday's Irish Times covers some of what can be expected from the next two years of negotiations. Here is a section:

Adoption of the "Bali Roadmap" sets the agenda for two years of negotiations on ways to cut greenhouse gas emissions - though without specifying the range of reductions required to avert "dangerous" climate change.

However, it explicitly endorses the latest assessment by the Intergovernmental Panel on Climate Change (IPCC) that global warming is "unequivocal" and that delay in reducing emissions would increase the risk of more severe impacts.

Due to conclude in 2009, the negotiations will ensure that a new deal can enter into force by 2013, after the "first commitment period" of the Kyoto Protocol expires. They will also cover adaptation to negative consequences of climate change.

Delegates decided that funding for adaptation projects in developing countries would be managed by the Global Environment Facility. But delegates could not agree in Bali on additional practical measures such as how to integrate adaptation into national policies.

Important progress was made on the issue of technology transfer, one of the key concerns of developing countries, with a decision to kick-start a strategic programme to scale up the level of investment for concrete demonstration projects and incentives.

The Bali conference also reaffirmed the urgent need to take further meaningful action to reduce emissions from deforestation - responsible for 20 per cent of the total - and adopted a work programme for demonstration projects in this area.

Small-scale afforestation and reforestation projects are to be expanded in scope under the Kyoto Protocol's Clean Development Mechanism (CDM) and, for the first time, the CDM may also be broadened to include "carbon capture and storage" projects.

My view - Two years of tough negotiations probably mean that the final agreement will have very little of what was agreed over the weekend in it. However what seems likely is that new energy technologies should benefit from an increased willingness by governments and consumers to partake in cleaner energy generation. They should also benefit from developing country markets being opened up to them. Of course what has not been addressed is the increased cost of getting new energy projects off the ground, as a result of

rising labour, raw material and transport costs, but this is an issue faced by the entire basic resources sector globally.

Finding a list of companies that are wholly dedicated to renewable energy is not an easy prospect because a great many companies produce renewable power in an effort to improve their green credentials. In the end, I looked for interesting chart patterns in the members of the [Bloomberg world Alternate Energy Index](#). Here are my results:

[Renewable Energy Corp](#) (Est P/E 68), listed in Norway remains in an overall uptrend with an unbroken progression of rising major reaction lows. It would need to sustain a move below Kr230 to question scope for further upside.

[First Solar](#) (Est P/E 185), listed in the USA, has performed remarkably well since its IPO, at least in part because it garnered significant media attention for its thin film semiconductor technology. However it is looking overextended right now and has lost momentum near the \$250 level. It needs to sustain a move above that level to reaffirm the overall uptrend.

[Solarworld](#) (Est P/E 46), listed in Germany, remains in an overall uptrend with a rivetingly consistent progression of rising major reaction lows. It reacted quite violently in November but has since found support near 35 Euro and would need to sustain a move below that level to offset scope for further higher to lateral ranging.

[Covanta Holding](#) (Est P/E 34), listed in the USA, remains in a relatively consistent uptrend although looking slightly overextended relative to past performance right now. However it would need to sustain a move below \$20 to question scope for further upside.

[Areva](#) (Est. P/E 38), listed in France, remains one of the largest uranium companies with operations in both the production of concentrated uranium fuel and constructing nuclear reactors. It reacted violently during the July/August correction but has since found support near 625 Euro and would need to sustain a move below that level to question scope for further upside.

[Vestas Wind Systems](#) (Est P/E 52.9), listed in Denmark is also worthy of mention although not a member of the Bloomberg index for some reason. It broke upwards from its base in early-2005 and remains in a consistent uptrend and would need to sustain a move below Kr400 to question scope for further upside.

None of these shares are fundamentally cheap and a large amount of growth has already been priced in. However, all remain in primary uptrends and provided conventional energy markets remain at historically elevated levels, the outlook for this sector should be quite positive. If further government incentives were to flow to the sector, a number of these companies should be significant beneficiaries.

January 4th Pequot Capital: The Surprises of 2008

Thanks to a number of subscribers for this interesting [report](#) by Byron Wien which sets out what he expects from 2008. Here is a section:

6. Agricultural commodities remain strong. Corn rises to \$6.00 a bushel and cotton to \$.85 a pound. Gold reaches \$1000 an ounce as disillusionment with paper currencies spreads across Asia.

My view - Agriculturals have been in a momentum play for much of the last month and this is a sector which has the potential to make significant gains into the latter parts of the year, subject of course to weather events. Importantly the grains are currently making new all time highs but we are also seeing commodities such as sugar, cocoa, coffee, orange juice, rice and palm oil breaking upwards, some from quite depressed levels. This move is significant because it is occurring right across the food, livestock excepted, sector and arguably investors are only now beginning to realise this fact. The grains are leading the move so they will also be useful as a lead indicator for when this trend is entering its endgame.

Gold has also recently broken upwards from a consolidation which followed the impressive performance from the mid-August lows. It would need to sustain a move below \$830 to question scope for an extension of this upward break.

I think number 9 in the report is also worthy of note:

9. Infrastructure improvement becomes an important election theme for both parties and construction and engineering stocks rally in anticipation of huge programs beginning after the new President's inauguration. Water becomes a critical problem world-wide and desalination stocks soar.

Infrastructure development has been a theme at Fullermoney for a number of years already, but came to the fore in the USA this year, particularly following the tragedy of the Minnesota Bridge collapse. The Construction & Engineering sector was the second best [performing](#) S&P sector last year and given that there are only a small number of companies which are likely to benefit from any government investment in infrastructure it is likely to remain in the upper quartile of performer this year.

January 10th On BRICs:

"[I have] read recently [of the] Bovespa index trading on p/e low teens compared to India high twenties and China way beyond that."

My comment - This is true, the Brazilian [IBOV Index](#) currently trades on an historical p/e of 14.87 and yields 2.61%. In contrast India's [Sensex Index](#) has a p/e of 29.66 and yields 0.83%, while Hong Kong's [Hang Sing Index](#), where an increasing number of mainland companies are listed, is lower at a p/e of

17.70 and yield of 2.4%. Additionally the Hong Kong China Enterprises [H-Shares Index](#) companies, which are also easily accessible to non-PRC citizens, trades at a p/e of 24.26 and yields 1.44%. Lastly, China's Shanghai [A-Share Index](#) stocks, which are still mainly for PRC citizens, trade on a much higher current p/e of 49.47 and yields 0.35%. (*Note: there are many other China related indices in the Chart Library.*)

Inevitably, there are reasons for this disparity.

I have often referred to China and India as the king and queen of emerging markets, for their current and especially long-term growth potential. China's A-Share valuations, which the government has gently deflated somewhat since the peak, reflect not only earnings growth but also China's high savings rate and very limited access to other stock markets. India's appeal is also earnings growth, which is currently seen as more secure since exports account for only 15% of GDP. In theory, the Indian economy is less susceptible to the US economic slowdown.

My view is that China's and India's stock markets will inevitably be volatile from time to time, for all the usual reasons, but remain extremely attractive for the long term. I have no intention of reducing my holdings in these markets but have often said that I prefer to buy following setbacks. Currently, of the two this only applies to China.

Brazil is highly regarded for its industrial and agricultural resources. However most analysts and investors continue to view commodities as highly cyclical, which is the main reason why the IBOV Index still trades on a considerably lower PER. My view is that while commodity prices have a cyclical past, they are more of a growth story today due to the supercycle.

Consequently, Brazil should also have a bright long-term future, subject to governance, particularly if global GDP growth picks up once again following the US economic slowdown, as I suspect. No country is better positioned to benefit from the agricultural boom than Brazil, with its large and fertile landmass, absence of any desertification and ample supply of fresh water. Brazil is also self-sufficient in energy, not least because of its sugar-based ethanol.

I intend to invest in Brazil, via an ETF, ideally when I next make a switch in my personal long-term investment portfolio. Since I am not adding cash to my equity funds, this would currently require a sale within my portfolio, which I do not wish to make today. However if gold fulfils some more of those bullish forecasts (always a chancy assumption as they can be a contrary indicator) the choice would be easy. Alternatively and somewhat less likely anytime soon, if Thailand romped higher following the establishment and also nationwide acceptance of a new and democratically elected government, I would lighten that holding.

Fortunately, I have another alternative, albeit temporary. I could open a spread-bet long in a Brazilian ETF, which I would be inclined to do if it

continues to shrug off Wall Street contagion and breaks up out of its current trading range.

January 2nd on investing in the Arabian Gulf:

"Do you know of an investment vehicle that offers exposure to the Gulf Cooperation Council (GCC) equity markets?"

My comment - Here are some references to Middle Eastern markets which appeared in Comment of the Day on [February 8th 2007](#), [November 6th 2007](#) and [December 11th 2007](#) and may be of interest. There are also a number of funds which might also be of interest in the Emerging Europe, Middle East & Africa section of the Chart Library.

From a search on Bloomberg I found one fund which specifically mentions the Gulf Cooperation Council. This is the [National Bank of Abu Dhabi UAE Growth Fund](#) which is listed in Abu Dhabi and is currently outperforming the broader UAE index. However it has a front end load of 1%, a redemption fee of 2%, a management fee of 2% and a Performance fee of 10%.

January 7th Gulf Shares Gain on Earnings Outlook; Egypt's CASE 30 Climbs

This [article](#) by Zainab Fattah for Bloomberg covers the emerging relative strength in Middle Eastern stock markets. Here is a section:

Persian Gulf shares advanced on speculation of fourth-quarter earnings growth. Saudi Basic Industries Corp., Aabar Petroleum Investments Co. and Gulf Cable and Electrical Industries Co. led the gains.

Egypt's CASE 30 Index rose to a record as Gulf investors, flush with petrodollars from record oil prices, bought shares.

In the Persian Gulf, ``expectations of strong fourth-quarter earnings and dividends are helping the stock markets' as are low interest rates, Rami Sidani, vice president for asset management at Shuaa Capital PSC, said in an interview today.

``People are realizing that putting their money in banks is eroding their purchasing power as deposits earn between 4 to 4.5 percent, while inflation is at 10 percent."

Most Gulf Arab countries follow the U.S. Federal Reserve's interest-rate policy to maintain their currency pegs to the dollar. The Fed has been cutting rates to stop the credit squeeze from curtailing economic expansion. These lower rates, during oil-driven economic growth in the Gulf, are fueling inflation in the region. Kuwait dropped the dollar peg in May.

Saudi Arabia's Tadawul All Share Index added 2.6 percent to 11,712.58, bringing the three-day gain to 8 percent. The measure surged 41 percent last year. The Abu Dhabi Securities Market Index climbed 1.6 percent today, while

the Kuwait Stock Exchange Index increased 1.4 percent.

The U.A.E.'s real gross domestic product expanded at 8.9 percent in 2006. Saudi Arabia's economy grew at 4.3 percent. In the U.A.E. annual inflation reached a record 9.3 percent in 2006, while Saudi Arabia's inflation accelerated to 5.4 percent in October, also a record.

My view - The relative strength of many Middle Eastern markets is helping this area to garner attention along with a small number of Asian markets, at a time when many Western bourses are experiencing a high level of anxiety. This is associated with uncertainty as to the effectiveness of central banks responses to the credit crisis to date. In this environment, Middle Eastern petrodollars are finding security by staying at home and this is helping to support local stock markets.

All of these markets exploded out of their bases and reached bubble proportions in a very short time, many peaking in late 2005. This was the first major move in the history of these markets as they are a relatively new phenomenon in the region. Most of last year saw them falling from the highs to which they had accelerated and they have only recently started to move upwards. Country indices such as those for [Saudi Arabia](#), [Qatar](#), [Lebanon](#), [Jordan](#) and the [UAE](#) all share similar profiles and would need to fall back into their bases to hinder potential for further upside.

[Oman](#) was later than its neighbours in setting up a stock market, so it had less of a run up in 2005 and consequently much less of a decline. It is now the regions top performing market and its uptrend has been steepening following the break above 6000. A downward dynamic would be needed to check momentum beyond a brief pause. The [Egyptian Hermes](#) Index accelerated to a high in early 2006 near 70,000 before declining to almost 40000, but it was one of the first markets to begin its recovery and has since more than doubled from its reaction lows. It is beginning to accelerate once more but a downward dynamic would be needed to check momentum beyond pause.

[Bahrain](#) was also slow to open a bourse and the wider correction in 2007 looked more like a ranging consolidation in this market. It broke upwards to new high ground in April last year and has been gently trending upwards. It would need to sustain a move below 2600 to question scope for some further upside. [Kuwait](#) also had a relatively shallow reaction, broke upwards to new high ground early last year and moved into another range. A sustained move below 12,000 would be needed to question scope for some further upside.

January 2nd If Soy Is Expensive, Why Does Goldman Say Nevermind?

This [article](#) by Saijel Kishan for Bloomberg covers some interesting forecasts in the agricultural sector. Here is a section:

Selling soybeans at their highest prices in three decades and corn while it flirts with the 1996 peak is a money-losing trade, according to Goldman Sachs Group Inc. and Deutsche Bank AG.

Corn at \$4.55 a bushel is ``cheap," Frankfurt-based Deutsche Bank says. Goldman Sachs in New York expects soybeans to rise 29 percent in 2008, the best investment in commodities. Investors who followed the banks' advice and bought raw materials last year profited as the Standard & Poor's GSCI Index advanced 33 percent, beating the 3.5 percent gain in the S&P 500 Index and the 9.1 percent return from U.S. Treasuries, according to data compiled by Merrill Lynch & Co.

Rising wealth from Shanghai to Sao Paulo is leading to better diets and straining corn and soybean supplies just as record energy prices boost sales of biofuels. Even after rising 17 percent in 2007, corn costs about \$2 a bushel after adjusting for inflation, compared with a \$7.80 high in 1974.

``We are in the early stages of a rally that could last 20 years" in agriculture, said Christopher Wyke, product manager at London-based Schroders Plc, which manages \$3.5 billion in commodities and is buying more corn and soybean contracts while reducing energy holdings. ``Prices are historically cheap."

Not since the Soviet Union harvest failures of the 1970s have food prices risen so quickly. European Central Bank President Jean-Claude Trichet said Dec. 19 that the region faced a ``more protracted" period of elevated inflation than expected because of food and oil prices.

Falling Inventories

World soybean inventories will plunge 23 percent in the 2007-2008 marketing season to 47.3 million tons from a record 61.1 million the previous year, the U.S. Agriculture Department estimates.

Soybean consumers face a ``large deficit" in supplies because of increasing sales to China and production of biofuels, according to Goldman Sachs, the world's biggest securities firm.

``There are still good investment opportunities in the oilseed," Goldman analysts led by Jeffrey Currie said in a Dec. 11 report.

My view - We are currently seeing a unique situation developing in the grain markets, with international inventories at record lows and demand at record highs. This is not a short-term phenomenon and although these markets are characteristically volatile, they are also in the midst of a powerful bull market.

In previous cycles, individual grain markets spiked for a season, but they did not sustain the gain beyond a growing season, because farmers planted additional acreage the following year to avail of high prices. However we are presently seeing record demand for a number of grains contemporaneously and intense competition for land.

The demand side is unlikely to diminish anytime soon as median incomes continue to rise in the developing world and the drive for more biofuels increases globally. Farmers are racing to get as much grain planted as they

can but with demand high for all grains, their ability to increase the entire crop yield remains limited.

Soybeans are leading the current move and remain in a consistent uptrend. They would need to sustain a move below 1100¢ to question scope for further upside.

Wheat also had a powerful move earlier this year but it has encountered some resistance at 1000¢ and needs to sustain a move above that level to reaffirm the overall uptrend.

Corn consolidated for much of 2007 but recently broke upwards to new high ground and the upside can be given the benefit of the doubt as long as it can sustain the move above 400¢.

January 7th World Equity Index Valuations Tables

Here is the monthly list of 96 global indices ranked in descending order by dividend yield and then in ascending order by P/E.

Two points continue to emerge from these tables. One is that European stock markets continue to have the lowest P/Es in the world with a large number in the Top-10 markets by this measure. Admittedly, we can expect valuations to rise as earning forecasts are cut back later this year but this is a phenomenon which will also affect a number of other markets and not European stocks in isolation.

The other fact is that UK shares are also amongst the highest yielding, globally. This is in spite of the lower interest rate expectations of the market.

(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. I have also deleted the FTSE AIM Index from the list because it does not seem to have very reliable figures.)

January 9th On Overlay charts and Preset functions

These are two significant enhancements from a long list of developments in our programming pipeline and are now live on the site. The Chart Library will always be a work in progress and the next couple of weeks should see the first iteration of our filtering software coming online.

To create a chart which has two components in the Fullermoney Chart Library you will always follow the same routine. This will apply whether you are creating a spread, ratio or overlay. First, select one of the two instruments you want to compare. Once you have selected the instrument click on the 'Charting' tab in the black bar at the top chart area. This will open a new

window with a wide array of options. In the upper third of this window you will see two dropdown menus side by side, next to the Relative heading. Using either the left-hand dropdown menu or the 'Other Relative' combined search facility, choose the second chart for your comparison. The right-hand dropdown then allows you to choose whether you wish to create a spread, ratio, multiple or overlay chart. When you have selected which operation you require, hit Apply.

Here are examples of the Dow / gold [ratio](#), the Dow [spread](#) over gold and the Dow, Gold [overlay](#).

The Presets function allows you to create as many different chart templates as you like. In the past you would have had to recreate you preferred chart settings every time you opened the Chart Library, but now you can save multiple different settings as individual preset templates. All of your presets are then available from the main Chart dropdown menu in the grey bar at the top of every page in the Chart Library.

You can use the Chart Library to set as many different chart templates as you wish. Here is an example of BHP on a 5-year candle with a [log scale](#), or on a five year candle with a [200-day moving average](#), or on a daily bar chart with [stochastics](#). All of these options can be created easily using the Charting tool which can be found in the black bar at the top of every chart. See the Chart Library [Help](#) for more details.

Once you have selected all of the options you want to use in a particular preset. Hit the Save button in the blue bar at the top of the Charting window. Give the Preset a name and from then on you will be able to select it from main Chart dropdown menu in the grey bar at the top of the page.

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