

Fullermoney

Global Strategy and Investment Trends by David Fuller

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

Monday 3rd March 2008

Puru Saxena's Money Matters: Inflating A New Bubble? - [My thanks to Puru Saxena for the latest issue of his excellent letter. Some of you may have seen him on CNBC this morning, at around 0915 \(GMT\), or on earlier occasions. He is one of their most articulate guests and a big bull of Fullermoney secular themes. Here is a sample:](#)

It is interesting to note that despite China's dependence on the ailing US, its economy continues to charge ahead. Recently, it was announced that China's real GDP grew by a fantastic 11.2% in 2007. There is no doubt that China's economy is booming and in 2007, its trade-surplus doubled when compared to a year earlier. Moreover, retail sales in China have been growing at 14% per annum for many years and in the past 12 months, total sales reached almost US\$1 trillion. Interestingly, the number of US Dollar billionaires in China jumped almost 10-fold in the past year from 14 to 106 individuals. All of the above leads me to conclude that the Chinese consumer will be an extremely influential factor in the years ahead.

Elsewhere in the region, India's economy is also growing rapidly with real GDP growth clocking in at roughly 9%. Its industrial production has slowed down somewhat in the recent past but production of capital goods continues to soar.

As far as the Asian region's dependence on the US market is concerned, Singapore, Hong Kong and Malaysia are the most exposed to the American consumer. Their exports to the US are equal to roughly 20% of their GDPs, compared with only 8% in China and a miniscule 2% in India.

Due to the slowdown in the West, exports to the US from Singapore and Malaysia have declined by roughly 15% from their peaks. Yet, it is worth noting that both these nations' total exports have still managed to grow by 6% due to surging exports to Europe and the other emerging nations. This data suggests to me that we are slowly but surely moving away from a US-centric world.

Skeptics of the bullish Asian story should take note of the fact that the cash-rich region intends to spend a mind-boggling US\$1 trillion on infrastructure projects over the coming year alone! This development will create additional employment in the rural areas and lift hundreds of thousands out of poverty.

Furthermore, given the great economic prospects of Asia, I find it absurd that the region's market capitalisation (excluding Japan) accounts for less than 10% of the money invested in equities worldwide. Conversely, I find it equally strange that America's share of the pie comes in at roughly 50%! Call me biased but I believe that in the future, a significant amount of capital will flow out of the US stock market and head towards Asia.

My view - I expect the capitalisation of Asia's stock markets (excluding Japan) to exceed that of the USA (excluding ADRs) in fifteen to twenty years. I think this will owe far more to wealth creation in Asia than capital outflows from the US and European stock markets.

Email of the day (1) - [On TCS and P&F scales](#):

"As a recently renewed subscriber, I am once again enjoying your strategic market advice. Facing the daunting weekend task of tidying countless piles of paper from eons past, I was very pleasantly surprised to find my 1992 Investment Seminar tapes. The problem is, with all things digital these days, I now need to search for a tape recorder! Sadly, my umbrella from the same seminar, recently departed active duty.

"David, may I trouble you to please check the P&F charts for Aussie stocks (RIO or BHP say) as the scaling appears askew."

My comment - [Welcome back to Fullermoney](#).

Nice to hear the tapes have survived but even if you could find an old tape recorder I would not try to play them as they are undoubtedly fragile. For a very modest fee a pro shop would put the Seminar on a CD for you. I hope 1992 was a good year.

The P&F scales default to 1%, which may or may not be appropriate, depending on the sensitivity of scale required. However if you click on the "Charting" link above the graph, you can customise to whatever scale or scales that suit you, and save those in one of your "Favourites Lists", where they will update each day.

Marc Faber: What's Ahead in 2008 - [My thanks to a subscriber for this superb interview of Marc Faber](#), conducted by Jim Puplava of Financial Sense News Hour. It occurred in January but is no less compelling today in its panoramic sweep and candid assessment of events emanating from the US credit bubble.

It takes two to make a great interview - a highly experienced interviewee who, crucially, is free to speak his mind and an interviewer with an excellent grasp of the subject. Marc Faber is a familiar name to veteran subscribers and held in high regard at Fullermoney for his global perspective and candour. Jim Puplava is one of the very best interviewers in the business. Here is a sample:

JIM: You bring up an interesting point about liquidity in the world which has a genesis in much of the US trade deficit. As we look around the globe today, Marc - I have a screen on my Bloomberg that has year-over-year money supply growth rates around the globe and what is surprising as I look at this table is to see double digit money supply growth around the globe out of 18 of the top 20 central banks. I think Europe reported last week it's money supply is growing at over 12%, yet Trichet is talking about being tough on inflation. You know, the inflation rates that we're seeing here in the United States, are they not global in nature? Are you finding that, for example, in China where you have the inflation rate going at 6 or 7%, that this is a global phenomenon?

MARC: Yes, I mean that's the point. I mean when recently people were very negative about the US dollar and so forth - and of course, long term you cannot be optimistic about the US dollar - but the US dollar has declined quite substantially, especially against the euro in the last couple of years; and the Europeans are also good money printers. It's not just Mr. Bernanke that is the chief money printer. The others are not much better either. So basically, you have this excess liquidity being created in order to support asset markets and so forth.

But the point about this excess liquidity is that an eternal boom is out of the question. So what the Fed and the other central banks can do is kind of stimulate, through easy monetary policies, credit growth; but the private sector if it becomes, say, risk adverse can withdraw liquidity and a) not lend and people can also refuse to borrow, and so the credit does not accelerate but actually contracts. And that leads to what I call a relative illiquidity (it's not an absolute illiquidity, it's a relative illiquidity) and that then has some negative implications on some asset markets. But to come back to the first question you raise about making predictions, I think the difficulty today is that under normal conditions, say under a gold standard, we would be in a massive deflationary recession at the present time. Now, the central banks are all intent to prevent that and they print money like crazy and throw liquidity at the system by cutting interest rates and taking extraordinary measures. And so the question arises: How did you measure really economic growth and how do you measure your wealth? Say, as I mentioned, if the Dow goes from here to 26,000 - it doubles in value - if at the same time the gold price goes up 5 times, you lost out by being in financial assets. And I think this is what has happened since year 2000. In year 2000, as you know, you could buy with one Dow Jones, 44 ounces of gold. And now you can buy less 15 ounces of gold.

Now, I'm not saying that gold cannot have a meaningful correction, but I think that the central banks have created actually a state which I would almost call a hyperinflation where asset prices go up very substantially and they don't make you really richer. I mean say in 1980, there were six billionaires in the world, and today you have thousands of billionaires in the world, everywhere. And money - the value of money - the purchasing power of money has depreciated very considerably. And I'm not speaking here of the US, because I was recently in New York and I saw that the price level in New York is actually quite reasonable compared to, say, the price level in Europe and in other countries. But usually when you have a situation like the US that has

achieved relatively low prices levels through currency devaluations - and the US has pursued a policy to lower the value of the dollar - what usually follows (and not every time - usually what follows) is high and accelerating inflation rates. And the US government of course they will understate inflation, but the pocketbook of the consumer will notice this increase in inflation and what you will then get is essentially prices going up and the standards of living of people going down - in other words, stagflation. [25:08]

JIM: Isn't this one of the signals that gold is giving to the financial markets? When you look through this period of time where we have seen nominal increases in assets and stock markets around the globe, yet if you look at the summer of 2001 when gold was at 255, and here we're looking at gold heading towards \$900 - do you think this is what is being recognized around the globe, that everybody knows that money is dying, it's losing its value so gold is becoming the ultimate currency to hold?

MARC: Basically, my view is this: Normally, the safest investments in a society is cash, deposited in a bank or in Treasury bills. But the Western democracies and governments in general have created over time an environment where actually cash is a disastrous investment because you're losing out to inflation like in the 70s as a result of consumer price increases or in the last couple of years as a result of asset price increases. Now, I'm not suggesting that there cannot be times - three months, six months, one year - when cash does better than, say, stocks or better than real estate. Say, in the last nine months it was better to be in cash than in stocks that depreciated or in real estate that depreciated. But basically, if you print money like the Fed or other central banks do, the value of money - of paper money - goes down and then it's reflected in an increase in the value of assets such as gold that cannot be multiplied at the same rate. I mean someone could say, "oh, the gold price has gone up a lot since 2001." I can turn around and say: "No, the gold price is the same. It's the dollar the dollar that has collapsed against the price of gold." And why did the dollar collapse against the price of gold. You call up Mr. Greenspan and Mr. Bernanke and you ask them about it. Of course, they will never give an answer. Each time Ron Paul asks them a sensible question they just evade the question and they move on to something else because, as I explained, they are a bunch of liars. And actually, if there was a court for honest money, both Mr. Greenspan and Mr. Bernanke should be hanged.

JIM: You know, it was interesting - you mentioned Congressman Ron Paul. The last time Bernanke was on Capitol Hill, he asked him about curing inflation with more inflation, and asked him about what was happening to the dollar. And Mr. Bernanke responded - which I was horrified - and he said, "well, actually if you live in the United States and you pay for things with dollars it really doesn't affect you."

MARC: He's out of his mind. Go to Zimbabwe and ask the citizens there: If you pay in Zimbabwe dollars it affects you that the currency has collapsed? Of course it affects you.

My view - Subscribers will recognise many Fullermoney themes in this interview. In my opinion Marc Faber is unrivalled in terms of his long-term panoramic vision. For timing, I suspect that he and every other investor / trader would agree that it is difficult to be travelling extensively and also remain at the top of one's game.

Here are a few additional thoughts:

The printing of money by central banks will ensure that we avoid outright deflation, short of an ecological disaster of biblical proportions. In countries experiencing strong economic growth, Australia for instance, CBs will try to keep a lid on inflation by increasing short-term interest rates until growth weakens and / or inflation subsides.

In the weak US environment, the Fed is targeting the economy and stock market, ignoring inflation other than mild jawboning, until GDP growth is stronger. Today, Bernanke and Co are more concerned about deflationary pressures from the credit crunch, burst housing bubble and decline in consumer spending.

Most of today's global inflation is from commodity prices, of which the surging cost of food is particularly emotive. However this has not sparked the wage inflation seen in the 1970s, because of competitive pressures due to globalisation, particularly in manufacturing. In countries where tax revenue is falling due to slowing growth the cost of government services is often the next highest inflationary component after commodities.

Regarding stock markets, Marc said:

And so the big bubble is probably in emerging markets; and these markets, obviously if the S&P goes down, will be hit very hard. And I would argue, if someone puts a gun to my head, and says, "Marc, you must buy stocks," as much as I dislike saying this but I would probably rather buy US stocks today, than say some of the emerging markets that are selling at 30 to 50 times earnings.

I'm not sure which markets he is referring to but I do not see bubbles in Fullermoney themes. China's [Shanghai A-Shares](#) Index, which rallied today in contrast to most other stock markets, has seen its PER decline from a high of 63.16 on 17th November to 37.34 currently. However the [Hang Seng](#) Index is on PER of 14.70 with [H-Shares](#) at 18.99 today - far from bubble territory given the strong growth potential. India's [Nifty](#) trades at 21.16 times earnings but here also growth in corporate profits is likely to remain strong. These are not bubbles today although they are candidates to become future bubbles as central bank liquidity chases the best returns.

With the US stock market, I see the domestic and financial shares in deep recession, while many multinational companies are doing quite well, thanks to strong growth elsewhere and the weak USD. If I were to buy US shares, they would certainly be selected from the latter category.

Regarding the [dollar](#), with US short-term interest rates declining, the economy weak and the Fed printing, I see very little upside other than periodic bouts of short covering within the overall downward trend. The next medium-term recovery for the dollar is unlikely to occur much before the US economy is firming and the Fed indicates that short-term rates will rise. However I would begin to turn bullish of the greenback in the event of multilateral intervention.

Email of the day (2) - On uranium, analysed Friday on a basis of Commonality:

"Thank you for a wonderful analysis of the future of Uranium and for the research report posted on Friday. The chart library does have a chart for the negotiated uranium prices, however I understand that now the NYMEX futures exchange has a futures contract on Uranium. Is it possible to get a graph of this?

"A related question is that Toronto has a company called the Uranium Participation Corporation (U.TO, also in the chart library) which is a holding company for physical Uranium. I noticed that the price of this company moves up or down before a change in the negotiated uranium prices. Could you please give us your opinion about U.TO. I am also interested in knowing how the price of U.TO fluctuates in relation to the uranium futures in NYMEX, hence the request for a graph of uranium futures."

My comment - Thanks for your kind words on a feature that morphed into a thought process on how I use Commonality (an observation of related instruments) for additional insight regarding the interpretation of a specific chart.

Uranium Participation Corp is in the Library, as is the futures contract (3rd month) - just type uranium into the Library's Search facility and you will find them, and other entries of potential interest. The futures contract is too thinly traded to provide much additional insight in my view. Uranium Participation Corp should lead more often than not, since the equity, or in this case fund, can function as a discounting mechanism. You will also see a UK-listed vehicle. There is some obviously dodgy data on the chart (the red spikes) but they are on Bloomberg as well so until they correct their data base, it will be on our chart as well.

My personal portfolio: Another profit taken in silver's runaway uptrend - [Silver](#) (chart shows official close but 20¢ higher after hours) has been a nice little earner and as the acceleration continues I am content to lighten positions during this rally, especially as my same sized "Baby Steps" units have considerably more bang at \$20 than they did when I started trading this metal in the \$4 range.

Using trailing stops and linked targets, another of the latter was reached today, enabling me to sell a May position at \$20.60, against my purchase price at \$17.455 on 14th February, including all spread-bet dealing costs. I'm

down to one remaining unit of silver which I will continue to protect with a trailing stop of less than \$1 from the high but no linked target for profits. I expect to be stopped out at any time, after which I hope I will have the sense to turn my attention to other markets, staying away from silver (this will be the hard part) until it has completed a big correction. Having confided in you, and knowing that I'll be reporting back on all trades / investments, I should have a better chance of being sensible about it, human foibles notwithstanding.

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

"Really enjoyed the article on uranium...ie: What is the best way to play this story?

"CCJ? or perhaps the NLR etf where one can get some exposure to the companies building the new generation of power plants in addition to the miners?

"I already own CCJ but Cigar Lake at best won't produce anything until 2011...and who knows what else could go wrong there...appreciate your view."

My comment - This is a collaborative effort and while I'm delighted that subscribers liked my Commonality discourse, which happened to be focussed on [uranium](#), the same approach has been used, although not in a teaching format, to highlight opportunities in other resources which are currently ahead of uranium in the performance queue.

Remember the global beauty contest. [Nickel](#) for instance, where I am represented through various big-cap miners and MLW, and directly via an ETFS futures contract with IG Index.

Meanwhile, a contrary indicator in uranium's favour - at its highs last year, we were inundated with reports. I have only seen one in recent weeks. For participation, I like funds provide they are priced for the customer rather than the vendor. My same mining shares give me uranium cover and I have the CCO (Canadian \$) version of CCJ. It produces plenty of uranium without Cigar Lake. Subscribers know a lot more about the other uranium shares than I do, although I intend to learn more, and some of the uranium reports in the Archives (search under "uranium" - 186 entries but you will find them) remain educational.

Additional Commentary by Eoin Treacy

Email of the day (1) - [on using the new Filter system](#):

"Simply to say: One thousand kudos for the new Filter features. It's a terrific tool for trolling the vast markets looking for gems.

"Some comments if I may. I have a Favourite folder listing Gold against all currencies. The Filter feature does not seem to work against this list (or the Relative Charts, for that matter).

"Time period for 1w -4w would be quite useful, given the rapid rate at which market sentiment can change these days.

"Another useful feature would be to indicate, above each % column, the % of stocks in the list that are positive (or negative). I have found this breadth indicator to be quite useful for a proprietary list of stocks, especially at market extremes. In the case of my Gold list above it would tell me what % of currencies the precious metal is appreciating against other currencies, and to monitor the progress of Gold against other currencies over time. It helps assessing the impact of Commonality.

"But mostly I want to say how impressed I continue to be with FM's dedication to improving the quality and quantity of the service for subscribers."

My comment - Thank you for such a complimentary email and we are delighted that you are enjoying the new filtering system. I will add your suggestions to the list of future enhancements. In the meantime, I was thinking about your suggestion about how to track the performance of gold in different currencies. It is not possible to filter relative charts in the system at present, but we can do it the other way around. Instead of seeing how gold is performing in currencies, we can track how various currencies are performing relative to gold.

To do this, go to the Chart Library drop down menu, you will find a large number of Spot currencies in the various Spot currency sections. Add all the Spot currencies you require to a folder in your Favourites. Make sure that for currencies such as the Euro and British Pound, which are normally quoted in US Dollars per 1 unit, that you select them the other way around. You can find the tickers USDEUR and USDGBP using the Chart Library's Search facility.

Once you have all of the currencies you are interested in saved to a folder in your Favourites, click on the Filter button on the top right of the Chart Library. Select your Favourites folder from the 1st dropdown menu, then select Gold from the Relative to: dropdown, next hit Run.

Your results should look something like [this](#). We see that all of these currencies have depreciated in terms of Gold over the last 1-month, 3-months, 6-months and 1-year. What it does not tell us is for how many months in a row gold has been outperforming. This filter will be interesting to monitor going forward because it may offer a timing clue for when gold reaches a high of significance, fending the current rally.

Email of the day (2) - on a question about the results from the Filter:

"I may just not be using the filtering correctly. When looking at the chart of the Ecofin Water Fund Capital shares (ECWC) which is denominated in GBP, I

see that the close a year ago was 545. The close this past Friday was 739.5. When filtering commodity funds, ECWC shows a 12-month return of minus 1.7%. How do those different results of chart vs. filter reconcile?"

My comment - Thank you for this insightful question and no you are not using the filter incorrectly. However the reason for the confusion is that Ecofin has two different listings one is [ECWC](#), the other is [ECWO](#). The ECWC listing is exactly as you quote above. ECWO was down 1.7% as of Friday.

Email of the day (3) - on the Chart Library filter and suggestions for future enhancements:

"On the new filter: it is simply outstanding. Eoin's video is very clear. In my first search I immediately uncovered a number of securities which I had not tracked before, but are available on my broker's platform.

"The relative strength ranking module will be core, but if there is scope for any further filtering in the future I would suggest the capacity to filter in relation to any indicator which might indicate a degree of overbought or oversold.

"David has been absolutely correct in his asset selection and timing (often on "pullbacks"). The identification of a pullback can simply by stochastic or RSI whichever the IT department says is easier for the servers.

"If they were able to also filter on a daily bar and also a weekly bar you could also show degrees of oversold where the daily and weekly indicator are nested in a similar position."

My comment - Thank you this well thought through email and I'm glad you enjoyed the [screencast help pages](#). Many of your suggestions are already on the development list and I will add the others. We are looking forward to being able to apply some of these in future releases and are actively lobbying for more development time with our programmers, to make sure we can get them to you as soon as possible.

Email of the day (4) - on the Chart Library Filter Help pages:

"Wow! Excellent improvements to the chart library!!

"Also like the demo facility....is there somewhere I can download and print the instructions with examples?"

"Fullermoney is a staggering work and combination of investment genius! Long may it last and continually educate us."

My comment - Thank you for this email. The help pages are only available, at present, in the screencast format, but I will prepare a pdf version this week and add it to the main Chart Library Help pages.

Email of the day (5) - [on the steepening yield curve](#):

"Today's Ft says "the yield curve is steepening again " (Lex column)

"PI what does this mean ? and what implications for T Bonds

"Thank you and keep up the good work. It is well appreciated."

My comment - [This definition of a steepening yield curve comes from financial-dictionary.com](#)

"A change in the yield curve where the spread between the yield on a long-term and short-term Treasury has increased."

Today, expectations are for short-term rates to stay below the long-term rate and probably go lower. This [chart](#) of the curve 3-months ago and now shows us that the curve is has steepened considerably and ascends from bottom left to top right. This shows us that banks can borrow cheaply at the short-end of the curve and lend longer-term at higher rates.

When we comment on the banks being bailed out via the yield curve, we are referring to just this situation. The Fed, by aggressively lowering interest rates, is facilitating the banking industry by making it easier for them to make money. Also see Comment of the Day on [November 25th](#).

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

"Could you please add these to the Chart Library:

["First State Global Resources A \(UK\)](#)

[JP Morgan Asia Fund](#)

[JPM New Europe](#)

[Jupiter Emerging European Opportunities](#)

[JP Morgan Indian IT](#)

"And very grateful thanks for your excellent service. I do agree with the subscriber's comment reported a week or two ago that the chart library alone makes the subscription worthwhile - and we get all the brilliant advice and tuition from you and Eoin too!"

My comment - [Thank you for such an inspiring email, all of the funds not already in the Chart Library have been added. We are delighted that you find such value in the Chart Library and are dedicated to making it even better.](#)

Email of the day (7) - [on additions to the Chart Library](#):

"Could you add U.S. High Yield Credit Default Swap Spreads and U.S. Investment Grade Credit Default Swap Spreads to the chart library?"

"Thank you for your time"

My comment - Thank you for this suggestion but, I'm afraid that I can't find any CDS spread charts in US Dollars. However, if you know of any that may be available on Bloomberg, I would be happy to add them.

Email of the day (8) - on additions to the Chart Library:

"First a thank you for the wonderful upgrade to the Chart Library, it's so simple to use, a pleasure. Can you please add Rosenergoatom and Guangdong National Power Company to the Chart Library.

"Thank you."

My comment - Thank you for this interesting email and we are delighted that you are enjoying the Chart Library Filter. Rosenergoatom is a private company so there is no chart available. I couldn't find a company called Guangdong National Power Company, but I did find one called China Guangdong Nuclear Power which I thought might be what you were looking for, considering Rosenergoatom is a nuclear power operator. Unfortunately, China Guangdong Nuclear Power is also a private company.

Email of the day (9) - on trading LME metals via spread-betting:

"Could you kindly let me know where I can take spread betting positions in zinc & nickel - IG Index doesn't appear to have the futures contracts available."

My comment - IG Index will make quotes for LME metals but only over the phone and it is not possible to place stops on these positions. They also quote spreads on the ETFS zinc and nickel funds where it is possible to place stops.

Email of the day (10) - on an addition to the Chart Library:

"Do you know of the UBS Warburg Index of China Private listed companies - P Shares - referred to in the Atlantis China Fund newsletter you posted on Thursday? P shares seem to make up 49% of the China Fund portfolio. I can't find this index in the Library.

"Many thanks for your wonderful service."

My comment - This sounds like a very interesting index which I would be delighted to add to the Chart Library, but so far I have been unable to find the ticker. If any subscribers know the ticker for this index please let us know.

Email of the day (11) - on Chart Library back history from a pre-subscriber:

"How far back do your commodities charts go, and do they cover all commodities that can be traded with futures and options?"

"How far back do your country charts go, and do they cover all countries that have stock markets?"

My comment - The Chart Library has extensive lists of commodities for all of the major and a large number of the minor commodities. We may not have some of the more esoteric commodities, but are happy to add any that subscribers suggest.

We have country index charts for just about every country in the world and if we are missing any, I'd be happy to add them in. The same goes for bonds and currencies.

We have as much history as Bloomberg supplies. In the case of the major indices and commodities such as gold this can be as long as century. There is no easy way to answer this question because every instrument has varying lengths of back history. .

Email of the day (12) - on the Chart Library Filter:

"Bravo, superb, magnificent, the new filter is great. Well done!"

My comment - Thank you. The Chart Library is a labour of love and will always be a work in progress, because we cannot hope to keep up with the Collective's buzzing imagination.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of February 24th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Brazil, Canada, Greece, Ireland, New Zealand, Norway, Taiwan, Thailand, the UK and the USA - 11 in total. In descending order, which topped the list in terms of the last week's new signups? It was India, the UK and the USA.

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

Tuesday 4th March 2008

Buffett's Annual Shareholders' Letter: A Mine of Wisdom - My thanks to Prieur du Plessis for this informative [item](#), via his Investment Postcards from Cape Town. Here is a brief section from the Oracle of Omaha's opening witticisms:

Some major financial institutions have, however, experienced staggering problems because they engaged in the "weakened lending practices" I described in last year's letter. John Stumpf, CEO of Wells Fargo, aptly dissected the recent behavior of many lenders: "It is interesting that the industry has invented new ways to lose money when the old ways seemed to work just fine."

You may recall a 2003 Silicon Valley bumper sticker that implored, "Please, God, Just One More Bubble." Unfortunately, this wish was promptly granted, as just about all Americans came to believe that house prices would forever rise. That conviction made a borrower's income and cash equity seem unimportant to lenders, who shoveled out money, confident that HPA - house price appreciation - would cure all problems. Today, our country is experiencing widespread pain because of that erroneous belief. As house prices fall, a huge amount of financial folly is being exposed. You only learn who has been swimming naked when the tide goes out - and what we are witnessing at some of our largest financial institutions is an ugly sight.

[Note also the beginning of a brilliant section on businesses:](#)

Businesses - The Great, the Good and the Gruesome

Let's take a look at what kind of businesses turn us on. And while we're at it, let's also discuss what we wish to avoid.

Charlie and I look for companies that have a) a business we understand; b) favorable long-term economics; c) able and trustworthy management; and d) a sensible price tag. We like to buy the whole business or, if management is our partner, at least 80%. When control-type purchases of quality aren't available, though, we are also happy to simply buy small portions of great businesses by way of stockmarket purchases. It's better to have a part interest in the Hope Diamond than to own all of a rhinestone.

A truly great business must have an enduring "moat" that protects excellent returns on invested capital. The dynamics of capitalism guarantee that competitors will repeatedly assault any business "castle" that is earning high returns. Therefore a formidable barrier such as a company's being the lowcost producer (GEICO, Costco) or possessing a powerful world-wide brand (Coca-Cola, Gillette, American Express) is essential for sustained success. Business history is filled with "Roman Candles," companies whose moats proved illusory and were soon crossed.

Our criterion of "enduring" causes us to rule out companies in industries prone to rapid and continuous change. Though capitalism's "creative destruction" is highly beneficial for society, it precludes investment certainty. A moat that must be continuously rebuilt will eventually be no moat at all.

Additionally, this criterion eliminates the business whose success depends on having a great manager. Of course, a terrific CEO is a huge asset for any enterprise, and at Berkshire we have an abundance of these managers. Their

abilities have created billions of dollars of value that would never have materialized if typical CEOs had been running their businesses.

But if a business requires a superstar to produce great results, the business itself cannot be deemed great. A medical partnership led by your area's premier brain surgeon may enjoy outsized and growing earnings, but that tells little about its future. The partnership's moat will go when the surgeon goes. You can count, though, on the moat of the Mayo Clinic to endure, even though you can't name its CEO.

Better still, in my view, don't miss Warren Buffett's section on currencies, commencing halfway down page 17. Also, his item: "Fanciful Figures - How Public Companies Juice Earnings", commencing on page 18. Here is a sample:

"Beware the glib helper who fills your head with fantasies while he fills his pockets with fees."

Email of the day (1) - [On charts and bear markets:](#)

"Unless you filter out the other critical e-mails it seems that it falls to me (again) to be the only one to take issue with the tone of the recent Fullermoney audios. I don't feel too bad about this role as everyone else is invariably effusive in their praise and I too value the service highly and appreciate your endeavours, work-rate and experience.

"Nonetheless, various stock markets are at or very close to levels that have traditionally been described as bear markets. Some of your favourite markets such as Australia, Hong Kong, China and India are included and yet ironically the bete noir of your broadcasts is not yet among them (the S&P 500). You may disagree with the terminology but the percentage declines are not in dispute. I won't accuse you again of being nonchalant (though I stand by my interpretation of the December "rangeing" audios) but I do question your stubbornness to recognize that this is fundamentally different to the prior corrections over the last several years both in its severity and in its likely longevity (the latter of which you clearly agree with).

"As I have acknowledged I am no chartist but there seems very little to like about any of the above charts and I wonder at what point does a chart ever say "sell" to you? My conclusion is that your chart-assisted commentary is at its sharpest when applied to those instruments in which you have a trading position, eg precious metals currently. In these cases you display the nervous risk-taking of a trader and sound appropriately cautious in the face of accelerating trends and parabolic moves. In contrast you are overly relaxed in your analysis of those instruments in which you have long-term investment positions, eg China and India, where it is clear that you won't sell even on a 30-40% "correction". Nothing wrong with that but it would still be good to know when a chart says "sell" before we get there.

"Your call on copper was a good one and I remained fully invested in copper

names even as I harangued you but the recent moves in nickel and zinc are not supported by inventory drawdowns and I remain unconvinced. Again, Louise Yamada gave a very convincing chartist's view of why the S&P 500 is in a classic bear market and why oil is headed to \$124, gold to \$1050 and the dollar trade-weighted index to 60, much of which you (and I) probably agree with.

"If this is indeed a traditional bear-market in the S&P 500 and many other indices then it is definitely not too late to short the rallies, or at least to short many indices as hedges for long-term investments which is what I choose to do. As you are a decade older than me you will remember better than I the grinding water-torture decline of a true bear market. I also find it hard to believe that the UK (with its highly indebted consumers) and Germany (with the export-crippling Euro strength) will escape bear markets."

My comment - Thanks for the feedback, taken in the spirit of well meant constructive criticism, which we would not wish to filter out. The only real filter employed at Fullermoney is the new charting system for the Library, designed and detailed by Eoin, which in my view justifiably received some effusive praise yesterday. We don't post all emails, because there are more than we could respond to, but we try to post most of general interest.

At the risk of tempting fate, we don't receive many critical emails. Perhaps most whom we disappoint remain silent, as heaven knows, no one is beyond criticism, not least myself. Or perhaps they know that we give our best effort, try not to let ego get in the way, and bare our souls in the personal investment and trading sections.

Your points are duly noted and on re-reading the market assessment sections of your email, I see far more areas of agreement than disagreement, and am therefore surprised by some of the comments. I'll save my market analysis for the Subscriber's Area and Audio, except to repeat a technical point emphasised daily in the broadcasts: Following the selling climax on 22nd January, stock markets must close beneath last month's intraday lows to reaffirm their downtrends.

Meanwhile, you may be interested in this item by Nigel Hankin of Investec, kindly forwarded by a subscriber: "Buying from the fearful and selling to the greedy", posted in the Subscriber's Area.

Europe: "Buying from the fearful and selling to the greedy"

Nigel Hankin, European portfolio manager at Investec Asset Management, looks at whether the European region is heading for a recession or a rebound. Sir John Templeton, the eminent investment guru, famously observed that the key to investment success was to buy from the fearful and sell to the greedy. In Europe at the moment, there is certainly plenty of fear around.

For some months, the markets have been living in terror of the seizing up of the banking system and the impact that this might have on the wider

economy. Some commentators who were prophesying the end of the world earlier this decade have dusted off their copies of Nostradamus and are once again gleefully foretelling financial doom. Meanwhile, central banks around the world have taken swift action to alleviate the strains in the world financial system and, in Europe at least, the evidence points towards liquidity conditions having normalised. Although it is too early to say whether any lasting damage has been done to the European economic outlook, recent business surveys suggest that companies have yet to see any sign of a slowdown and that company managements have been aggressive buyers of their own stock - usually a good indication of the true state of affairs.

It is also important to remember that the economy and the markets are not one and the same. The market fall has been driven by tightening liquidity conditions, which may or may not presage an economic slowdown. The monetary authorities are anxious to provide additional liquidity and, if history is any guide, periods when US interest rates are falling are usually good times for European equities. Moreover, European dependence on trade with the US is not what it was, with exports to China, India, Russia and the Middle East now being more important. The continuing strength in commodity prices does not suggest that these parts of the world are suffering a major slowdown. European companies exposed to demand for infrastructure spending in these regions - be it railways, power stations, or general construction - should continue to see good demand.

European equity markets have had their worst start to the year in a quarter of a century. Consequently, an awful lot of gloom is already discounted in share prices. Even allowing for the fact that analysts' official forecasts could still be wildly optimistic, valuations are looking much more appealing, suggesting that the market is already running ahead of both the analysts and the current economic reality. Valuations in some of the most loathed corners of the market - banks, construction, retailers - had reached such low levels that the merest hint of good news was enough to trigger a substantial rally from the middle of January. Indeed, the possibility of a 1987-style scenario (market dislocation followed by rapid monetary response and equally rapid rebound) should not be ruled out. Even if this turns out to be a more conventional bear market, we are already getting much closer to previous trough valuations, both in absolute terms and relative to other assets. As a result, although volatility is likely to remain high, investors with a longer-term horizon and a stomach for the ride should be seriously considering heeding Sir John's advice.

My comment - [Nigel Hankin makes some good points, although I would prefer European equities for income rather than growth, which is more readily available elsewhere.](#)

Email of the day (2) - [On Fullermoney investment themes:](#)

"I'm a Danish citizen based in Vietnam for the past eight years. I'm not only a new subscriber to Fullermoney, but also to the art of investing and trading in general (and certainly a very small investor).

"About two years ago, I by chance came across an article in a Danish newspaper with reference to Marc Faber. I started to study his reports, which at the time could still be accessed on his website free of charge, and became fascinated with his global and historical perspective, analysis and views. Consequently, I cashed out of stocks (far too early unfortunately) and into short-term Danish bonds, cash and fortunately also some gold and silver - I'm quiet sure his viewpoints are not as dramatically reflected in his own portfolio.

"It's also Marc Faber's recommended websites that recently led me on to Fullermoney. I have spent some time running through your most recently published highlights, which I presume is the best way to get an overview, and I have to say I'm very impressed with your service, themes, analysis and commentaries - and not least find them very educational. Prior to subscription, I anticipated that spending 10 minutes daily copying your personal trades, would quickly turn me into a millionaire! But as always in life, once you dig a little deeper, the easy solutions tend to evaporate quickly. Now, I understand that as I'm not a financial professional and not interested in devoting extensive amounts of time to trading, I will be better off sticking to investing.

"Looking at the charts of the current Fullermoney themes since 2003, when I understand they were taken aboard is truly amazing - 3-400% gains!! I'm of course very keen on hoping onboard, sooner rather than later, and have some what given up waiting for Marc Faber's doom - afraid that I will miss out on too much while standing on the sideline. On the other hand when I look at the charts, I also ask myself if it's not due time for some serious corrections after these breathtaking gains during the last years, and worry if I'm hoping onboard too late. I clearly understand (and respect) that you as a principle don't give recommendations. So let me ask in this way: if you were currently 75% in cash (including bonds maturing by the end of the year) and 25% in precious metals (in the form of a kitco pool account), what would your strategy be regarding investing your family savings in the Fullermoney themes? I understand your general approach would be to buy the dips, and that China currently looks like a buy. Maybe you could be a bit more specific? Can we expect to see a flag raised as other buying opportunities arise?

"It's not clear to me how or if the global infrastructure development theme is represented in your personal portfolio. You have also mentioned the technology sector more recently, but also here, I don't see it in your personal top ten. Maybe it can't compete with Chindia and industrial metals in the beauty contest? It appears that you only play the agricultural sector by trading commodity futures. Would you consider it attractive to invest in the sector through eg. the DB agriculture fund? I guess it would at least require a correction from the present level. I have to say I'm also getting a little attracted to Japan, maybe because I lived there for 4 years there as a child. What about the energy sector including oil service companies - become too pricy?

"As I live in Vietnam, I of course think it could be fun also to play the local stock market, and have opened a trading account. The market has now declined almost 50% now since the high last year, and is starting to look more attractive now even though P/E in many cases are still high. What do the charts tell you??

I use the Saxo Bank on-line trader platform, and am fortunate that investment and trading profits are currently not taxed in Vietnam. I'm wondering if there are attractive more easily traded alternatives to the Atlantis China Fortune Fund, or if you personally consider the fund manager worth the extra work.

"A very long e-mail with a lot of questions from the new kid on the block. Hope you find time to address some of them - especially the one regarding how to get into the Fullermoney themes at present. Once again, thanks for an outstanding service!"

My comment - Welcome to Fullermoney. I'm impressed with your enthusiasm, curiosity and ability to process information and think analytically. For someone relatively new to the field, you certainly show the potential to become a successful investor, provided you can understand and control your emotions. I hope this does not sound patronising. I mention emotions only because controlling them is an important and ongoing battle for most of us, not least me.

I'm delighted that you find the Fullermoney service educational, as that is very much in line with our theme - Empowerment Through Knowledge, with which you will be familiar. I should emphasise that this is a collective effort. I hope to empower subscribers through my experience, behavioural / technical approach and passion for global strategy. I know that subscribers, often referred to as the Collective, help to empower me through their experience, enthusiasm, comments and reports, as does Eoin whose very considerable contributions to this site increase daily.

New arrivals are understandably keen to catch up by leaping into Fullermoney's secular themes. I am optimistic that these will serve us well over the longer term but there are plenty of uncertainties at the moment, to put it mildly. Therefore I am relieved to note your analytical brain kicking in within the same paragraph, in asking yourself "if it is not time for some serious corrections after these breathtaking gains during the last years." When someone as capable and visionary as Marc Faber is cautious, it is prudent to take heed.

The investment environment has changed for an unspecified period. Patience is a virtue at such times and those who aim to get rich slowly and prudently are more likely to succeed. I would neither chase any fashionable investment at this time, nor be overly fearful when others are panicking. Note Sir John Templeton's quote above.

Sell-offs provide the best buying opportunities in Fullermoney themes, or other markets of interest. China becomes more interesting by the day, but regarding "can we expect to see a flag raised", it depends on what the markets provide. In other words, some situations are less difficult to analyse than others.

Global infrastructure development is currently represented in my investment portfolio by Rio, BHP and MLW. Technology was never viewed by us as more than a cyclical theme and my timing was poor. It is more interesting today but if the author of Email of the day (1) above is right (neither he nor I nor anyone

else knows for sure) we could be spoiled for choice. I would not chase an agricultural or energy fund today. Japan is interesting after a 50% fall but is unlikely to perform on its own.

Vietnam is becoming interesting but illiquid markets usually overshoot in both directions, due to weight of money, on the way in and on the way out. I hold the Atlantis China Fortune Fund, as you know, but there are plenty of ways to play China, as you will see in the Library, and more will no doubt be added as discovered and / or requested.

My personal portfolio: Gold futures trade increased; gold and silver stops subsequently triggered - While I have been reducing leverage recently, partly to have a rest, I am making an exception with [gold](#). This is despite my conviction that the medium-term cycle is maturing, and the prospect of another short-covering rally in the USD is increasing, and a test of the psychological \$1000 milestone is imminent.

I have increased my gold position for three reasons. It is the only futures-traded precious metal that has not accelerated recently; platinum, the cycle leader, resumed its uptrend yesterday; the resources sector remains red hot. Gold does not have to accelerate, of course, but commonality and the evidence of its other medium-term cycles suggests that it probably will.

I paid \$987.85 for another April gold position, including spread-bet dealing costs. This increased my moderate position by 50%. I'm using tight stops on most of my precious metals positions, greatly increasing the risk that they will be triggered in the event of another normal reaction within the uptrend. If so, I would hope for another opportunity to repurchase gold futures a little lower, provided the medium-term trend did not appear to be under threat.

Less than an hour later - That's the way I wrote it, just before prices caught a bit of contagion from Wall Street and triggered my stops. Talk about bad timing! Here are the results:

Today's April gold purchase at \$987.85 was stopped out at \$975, as was my purchase at \$943.35 on 25th February. I went against one of my often mentioned rules of thumb with today's purchase: "Don't pay up." Or I did not heed the more frequently stated: "Best purchased following reactions." My last long in April gold was also stopped out, at \$960, against my purchase at \$919.8 on 1st February.

I was also stopped out of my remaining [silver](#) long. This was sold at \$20.10 this afternoon, against my purchase at \$17.15 on 15th February.

Prices above include spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Credit Suisse: Embracing China's Consumption Boom - [Thanks to a subscriber for kindly contributing this blockbuster 198-page report by Vincent Chan and colleagues which concentrates on consumption growth in China.](#) Here is a section:

When Chinese consumption will take off has become a topic of great interest to investors globally. Based on the experiences of other major economies like the US and Japan, we think that the shift is probably already taking place. Private consumption as a percentage of China's GDP has declined consistently since the mid-1980s onwards. However, it is logical to expect that when a population starts to get rich (as mainland Chinese have in the last 20 years), they will seldom spend all their money consuming. Instead, most of the extra income is saved for investment and future consumption. Indeed, this was the case in the US and Japan in earlier decades. In both countries, private consumption as a share of GDP actually declined in the earlier stages of their development, and consumption growth only started to surpass that of GDP when per-capita income reached a certain level. In the case of both countries, that magical turnaround point came when per-capita income reached around US\$2,000 p.a. (1951 in the US and 1970 in Japan).

Given China's sharp rise in GDP in recent years, it seems that the country has been in the same development stage as the US before the 1950s and Japan before the 1970s .a time when a country has a high propensity to save and invest. However, with China's per capita GDP already surpassing US\$2,000 in 2006 (and estimated to have reached US\$2,500 in 2007), the country may also have reached the tipping point at which economic growth will increasingly be driven by domestic private consumption.

Coincidentally or not, growth in Chinese retail sales surpassed 20% in December 2007. the strongest in the last decade. Indeed, before 2007, while economic growth may have been strong, consumption (as represented by retail sales) seemed to have difficulty surpassing the 15% growth level. Accelerating retail sales growth might be partly due to stronger inflationary pressure, but the underlying sales momentum is still very strong. Indeed, even as China was struck by probably the strongest snowstorm in decades during the first two months of 2008 . creating huge disruptions to many consumers. holiday plans and unquestionably hurting consumption sentiment . the Ministry of Commerce revealed that retail sales were still up over 16% during the Chinese New Year holiday. This reveals strong underlying consumption growth momentum.

My view - The development of the USA and Japan into major consuming nations changed the world and China's accession will be no less important. It is only a matter of time before per capita consumption of goods and services in China approximate those in the West. However since the population of China is more than double that of the combined American and Japanese populations, the potential impact of China's growth is multiplied. The future size of the consumer economy in China, 50 years from now, outstrips the potential of either of those markets. Companies which succeed in China and India over time, are likely to be good long-term investments. .

Citi Iron Ore - Oligopolies Attract - Thanks to a subscriber for this interesting [report](#) by Alan Heap which covers the international iron-ore market. Here is a section on India:

The debate over whether the east Indian iron ore deposits should be developed for export or preserved for domestic consumption continues, but the mood at present is to restrict exports. The moves to impose export taxes on iron ore are a reflection of the same policy.

Bureaucratic delays and social disruptions may delay the development of the iron ore deposits in eastern India, but elsewhere, production for export has increased sharply. Exports have more than doubled since 2000. In the states of Goa and Karnataka (especially the Bellary-Hospet area) ore production is expanding rapidly. Ore for export is produced by large companies (MMTC, Sesa Goa) and a profusion of small producers. High profits will make consolidation plans by the majors difficult.

Producers are increasing output, induced by compelling economics:

Mine production cost of US\$2/t;
Transport to Goa port (trucking 400km) US\$50/t;
FOB price US\$150/t (Just five years ago fines were US\$5/t); and
Ore grades average around 60%.

Official statistics for 2007 show a rapid fall in exports of high Fe (62%) content ore - down 23%. But official statistics are probably distorted as a consequence of the introduction of export taxes in March 2007. The rates are Rs300/t for ore more than 65%Fe content, and Rs50/t for lower grade ores. It appears that shippers are diluting high grade ore with lower grade material, to bring the Fe content into the lower tax threshold. Further increases in taxes are under discussion, despite the limited success of the current arrangements. The latest proposal of increased royalty rates and export taxes could add US\$10/t to the cost of iron ore export.

Total exports fell a more modest 3%. Port bottlenecks may be more of a constraint than tax imposts.

My view - India remains one of the best growth stories in the world, but that growth is contingent on the ability of infrastructure to supply what is needed for the economy to flourish. The government remain committed to maintaining and improving upon the record growth of recent years and is allocating resources to build new roads, sewage, electricity capacity, airports and cities. This is highly intensive on steel, so it is little wonder that they want to hold onto their iron-ore instead of exporting it. India's infrastructure growth is only getting started and has a number of decades to run. The stock market, as with so many other high growth stories, is best bought following reactions.

Email of the day (1) - [Chart Library](#) questions from a new subscribers.

"Can I chart US and ASX shares e.g. [OXR](#) [BHP](#) [ANZ](#) and more? where do I go to find them?

"I have been reading the comments for a while now, 12-months, so I hope the money is worth it."

My comment - Welcome to the service and yes, you can access charts for all of the shares you mention along with 16,000 others, across a whole host of countries. Here is a link to the Chart Library Help Pages.

To access the Chart Library, click on the Chart Library link on the left-hand menu on the homepage. To find any share, click on the main drop down menu at the top of the screen and select International Equity Library. This will take you to the menu page where you can either search for individual companies or browse the various markets. You will notice on the left hand side we have AMEX, NYSE and Nasdaq stocks, while the longest column has the ASX 200, and the ASX 300 resources index as well as the ASX 50. We are also happy to add any additional stocks you might be interested in from whatever market.

I sincerely hope you find value in the service and we are happy to assist in any way we can.

Email of the day (2) - [on a fund investing in junior gold mines](#):

"Following gold, it seems to be that companies are underperforming bullion for the last months. Additionally, many companies are now in very good position after cleaning balance sheets and unhedging their books. My question is: is there any index or ETF of Junior Gold Miners than can be held in order to surf this wave? In my opinion and since gold appears to be in a solid uptrend; golds could be the next target of the recovered giants. Thank you for your superb job and the best for you and your team."

My comment - Thank for this interesting email. I'm afraid there is no ETF, to my knowledge, that invests in junior gold miners. However, there is this [ABN Amro Junior Gold Miners Exchange Traded Note](#) last mentioned on [January 26th](#) which may be of interest. As always, we highly recommend doing your own due diligence before choosing any investment.

Email of the day (3) - [comments from a new subscriber](#):

"Having been a "lurker" for a while I thought it was about time to jump in. I always enjoyed the abbreviated comment of the day, and am now looking forward to enjoying the benefits of membership.

"I am a complete novice and besides a few share dealings in the past have little or no experience of trading. I have been reading as much as I can to expand my knowledge, and so I arrive at your site.... Auspicious, I think!.

"My assets are presently in cash and property, but I intend to start small in trading, and learn the ropes, so to speak. As a strategy develops, I expect I shall expand the scope of activities.

"I have a small business, so time for trading is not too abundant. My investment time horizon, I guess, is longer term capital growth. I would be comfortable with a moderate level of risk on well thought out trades. I am interested in commodities, Asian funds and indices, and currencies.

"Spread betting would be my preferred method of trading but I am only aware of Delta Index, Worldspreads, & Davy's, here in Dublin. The range of exposure to markets with these companies seems quite limited. I hear IG Index mentioned a bit, but would probably have to factor in trading in sterling.

"Looking forward to exploring the site. The chart library seems a real treasure.

"Every Good Wish!"

My comment - Welcome to the service. Starting to invest in markets can be a stressful time, particularly with the wealth of information we seem to be inundated with on a daily basis. I would advise you to take your time, start small and remain introspective. The only person you're competing with is yourself and given the stresses of trading, we are often our worst enemy. The Fullermoney Collective is made up of a widely diverse group of people, but we all share a passion for markets and you should fit right in. I would suggest listening to some of the big picture long-term audios and looking at lots of long-term charts to give yourself a feel for the big market cycles.

I fully empathise with choosing spread-betting as a medium, especially because of the tax benefits in the UK and Ireland. Some of the spread-bettors in the UK will open Euro accounts and accept clients based in Ireland. However, this is on limited risk accounts as opposed to full credit accounts. It's probably worth having a conversation with a number of them, if you feel that you need exposure to more markets than are available to you in Ireland.

Email of the day (4) - on a question relating to the Chart Library Filter:

"Can you explain the denoted time frame(s) for the filter to me?. It appears to be a promising tool but I wish to fully understand the logic."

My comment - Thank you for this question which may also have been a query for other subscribers. The 1-month, 3-month, 6-month and 12-month returns mean the percentage change as of the last close from that date. For example, gold is up 8.9% in the last month, 22.7 in the last 3-months, 44.3% in the last 6-months and 53.1% in the last 12 months.

Today's interesting charts - The New Chart Library Filter System allows you to easily rank a list of instruments by absolute performance and in terms of relative performance.

Bombay Banks Index - breaks to a new [reaction low](#) and needs to sustain a move back above 10,000 to offset scope for some further downside.

Eurobunds - testing the upper side of the [1-month range](#) but would need to sustain a move above 118 to reaffirm the medium-term uptrend.

Cotton - remains in an impressive [uptrend](#) following the break above 0.70¢ but is now overextended. However a downward dynamic would be needed to check momentum beyond a brief pause while a fall back into the medium-term range would be needed to question the integrity of the overall [uptrend](#).

US Dollar per 1 Euro - consolidating the [advance](#) above \$1.50 and would need to sustain a move below that level to offset scope for some further Euro appreciation.

Wednesday 5th March 2008

Email of the day (1) - [On yesterday's email \(1\)](#):

"Re today's email of the day. Since you expose yourself to the public, some knowledge of the brains of people could help. I am an Organisational Psychologist who has received similar criticism.

"Once I gave a talk to Chartered Accountants on the subject of manager remuneration/compensation. The feedback was bi-modal. One lot liked my broad themes and trends, graphs etc. The other lot complained about lack of worked examples as per accountants. There is no doubt there is something in the human brain (mostly male) which finds a certainty in numbers which you and I know is not there!

"Keep up the good work."

My comment - [Thank you for this insight. I agree and in markets we often see this with price targets. They make people feel more secure and are therefore regarded as analysis, while in reality they are guesswork.](#)

Also, humanoids are social animals so the instinct is often to conform, and to compel others to do so as well. We are hardwired to feel more secure if we huddle together, although in markets this inevitably becomes dangerous (the crowded trade). Throughout my career I have found that people can sometimes become exasperated if I do not agree with them. They would rather that I do so than think for myself, as we at Fullermoney encourage you to do. This is fundamental to our Empowerment theme.

Email of the day (2) - [More on uranium, following Friday's feature](#):

"The uranium price puzzle may be explained by the introduction of a futures market. The Utilities and Miners can now buy/sell forward. Previously Utilities had no choice but to buy at spot and store the stuff. Uranium holding funds were created to hold the metal well before the futures contract came into

being. Perhaps these funds are now selling their physical into the spot market and driving down the price as late investors to the uranium story pull their funds from the holding funds?"

My comment - I think you are right. The uranium holding funds helped to drive the price up, as money poured in, and following the peak last June they helped to drive it down as investors pulled money out. This same in / out process has been an influential factor in the price swings for other metals, and indeed most markets.

Email of the day (3) - [On Asian economies reorienting towards China:](#)

"Saturday's comment on Taiwan reminded me of a view I have espoused since reading the UBS piece on a potential discontinuity in the Renminbi/US\$ rate...I believe this would be very beneficial to Japan and Taiwan (and other US\$-related SE Asian nations), who seem to be reorienting their economies towards China and away from the US...at the margin, of course,...but isn't it the margin that counts?!"

My comment - Yes. I see it as an inevitable process as the world rapidly morphs from a unipolar to multipolar world, with China ascendant.

Please note - [Yesterday's malfunctioning link to Warren Buffett's Annual Letter to Shareholders](#) has been restored. Apologies for any inconvenience.

Additional Commentary by Eoin Treacy

UBS Equity Derivatives Macro Sales Ideas / Sales Thoughts - [Thanks to a subscriber for this interesting piece of research](#), which employs lateral thinking to take a different perspective on global growth. It is aggressively bullish of commodities and investigates the repercussions of significantly higher energy prices on the world's economies. The full report is well worth a read but here is a section:

Just like the human body needs energy input to stand still, so does a complex society. The more advanced the society, the further it is away from "thermodynamic equilibrium", and the more energy it consumes just to maintain its complexity and order and to combat degradation. The building blocks of any economy (food, water, heavy engineering & construction) are all highly energy intensive. Without these in place, other less energy intensive industries could not happen. To bring it down to the simplest level, without the embedded energy in glass, or in steel, or in bricks, there would be no office blocks to run your Bloomberg terminal or to house your phone, neither of which would work anyway without electricity. Since 1980, U.S. energy intensity has fallen almost 2% pa as it has outsourced some heavy industry, but despite this, its energy consumption has still risen by about 1.4% pa.

As you can see below, the energy conversion efficiencies have been fairly flat for both mechanical work and electric power and distribution for the last 40 years, suggesting that we are approaching the physical limits to energy efficiency or entropy (a quantity expressing how much of a system's thermal energy is unavailable for conversion into mechanical work). There are still however large efficiency gains being made in converting fuel into heat for industry (using heat to make chemical changes) or space heat used for domestic purposes such as cooking and washing. The relative efficiencies of electric power generation to mechanical work, does suggest changing the transport system from mechanical work to electric work/hydrogen does make sense if the technology can deliver what we need from our transport system. As we said earlier however, the cost of the capital/infrastructure change may not make economic sense, depending on the depletion rate of the energy source.

The price elasticity of energy is just 0.06. This is not because you and I value the freedom that our cars give us, but because it is so vital to the economy. If we are to have a decline in energy output of 1 to 2% pa, then it is vital that we maintain the high energy consuming building blocks of the economy, as they act as a multiplier to all other output. To ensure the correct allocation, prices will have to rise in these basic goods such that more of our earnings are directed into these necessities and less into consumer discretionary spending and less essential areas. This is amply demonstrated with Q4 S&P 500 earnings where other than financials, the worst performing sector was consumer discretionary which saw earnings fall 12.8%, whilst consumer staples saw earnings +10.2%, health care +16.8% and utilities +25.2%. Financial capital will necessarily be directed towards maintaining the thermodynamic equilibrium.

When you adjust for the embedded or conversion efficiency of capital equipment (i.e. the useful work that comes out of applying energy to that capital), also known as "exergy services", then growth is explained almost perfectly from 1900 to 1975. From then on however, growth has required less energy input. Ayres & B's report suggests that this may be due to qualitative improvements in capital and labour, however I would simply venture the suggestion that it has been since the adoption of the dollar standard, since when the U.S. has been given to some extent a free ride. Nevertheless its primary work/GDP ratio is still above 1.0.

My view - While I sympathise with the direction of what is argued in this report, I disagree with the scale of the changes we are facing and the future relative performance of Asia economies in a peak oil scenario. The macro trends resulting from the commodity secular bull market will play out over decades, leaving ample time for countries to adapt to this environment.

I agree that those which adapt first will enjoy a temporary competitive advantage, but not an insurmountable one. I am also reluctant to write off the potential for scientists to develop more efficient ways of utilise our existing energy resources as well as developing new ones.

However there is no denying that commodities are the most in form sector right now and are garnering increased interest from investors as a hedge against inflation.

[Oil](#) has been considerably less volatile of late than was the case from the [1998](#) lows. This fact alone tells us that the [imbalance](#) between supply and demand has increased in the last year. Today's surge upwards from \$100 indicates renewed demand and it would need to sustain a move below that level to question scope for further upside. A sustained move below \$80 would now be needed to question the integrity of the overall uptrend.

Importantly, while oil and gold are relatively deep pools of liquidity, some of the soft commodity markets were never meant to be the objects of investment interest they are currently. Even after their impressive advances of late, many commodity markets are still relatively small. [Corn](#) has open interest on the CBOT of approximately 1 million contracts. This means that all the corn traded on that exchange is worth less than \$30billion, while for [cotton](#), a no less important commodity, the figure is approximately \$14billion. Given that hundreds of billions are expected to flow into the commodity markets over the coming years and a good part of that is earmarked for the soft commodity sector, this could cause problems for producers who legitimately want to hedge production forward in those markets. If the dominance of the markets by investment funds is seen to be affecting the ability of producers to carry out their business, the government may have to intervene in the market.

We are probably not at such a juncture just yet, but this is an issue investors should be aware of. When the Bunker Hunt corner of silver was broken, it was done by allowing no new buy orders and margins were made 100%. These are measures not beyond the bounds of the regulatory authorities today. Looking at corn's accelerating trend, it has been up almost every week since June. The first significant downward week is likely to mark the onset of the next medium-term correction. .

China to Control Food Prices With Imports, Reserves - This [article](#) by William Bi and Feiwen Rong for Bloomberg covers the potential demand which China could exert on the soft commodity markets. Here is a section:

Higher imports, aimed at reining in 11-year high inflation, may further support a rally in global prices of many agricultural commodities to records, raising costs for food companies, including Kellogg Co., the largest U.S. cereal maker, and PT Indofood Sukses Makmur, the world's biggest instant-noodle maker.

China will have "no problem" meeting its demand for grains and vegetable oils, Nie Zhenbang, director of the State Grain Administration, told reporters at the National People's Congress which opened in Beijing today.

The government will "diligently implement" temporary price-control measures on basic items, the NDRC statement said. China's largest producers and

sellers of staple foods must consult authorities before raising prices by set limits, the commission said Jan. 16.

Grain Limits

China's Premier Wen Jiabao called for a halt to "reckless expansion" of corn-processing capacity in his report to the parliament. He was referring to use of corn for producing sugar, starch and biofuel.

"We must strictly control industrial use of grain and grain exports," Wen said.

The Ministry of Finance pledged to increase government funding to support agricultural production by 44.2 billion yuan (\$6.2 billion) from last year, or 17 percent.

Moreover, tax "leverage" will be used to support production of grain, vegetable oil, meat, dairy and vegetables, while imports and the sales of state reserves will help to stabilize supplies and prices, the ministry said.

Soybean import tariffs will stay at a reduced level until the end of September, it said in a separate statement on its Web site. The tariffs had previously been set at 1 percent until March 31, compared with 3 percent before Oct. 1.

My comment - Last year, on seeing ethanol service stations on the outskirts of Beijing, I questioned whether this was viable for a country such as China where feeding the massive population is a constant challenge. Producing ethanol from corn just can't be viable when supplies of food are already tight. (Also See Comment of the Day on [June 28th 2007](#).) China might well resort to buying in greater supplies from abroad, but probably not before they have exhausted every opportunity to improve the country's capability to grow its own produce. There is no guarantee that they will move to do this when prices are at such elevated levels, but Chinese demand is likely to help put a floor under the market when the next medium-term correction unfolds.

Kotak Private Client Research: Union Budget Analysis FY2009 - Thanks to a subscriber for this interesting [report](#) by the Kotak research team covering the recent Indian budget. It is posted without further comment but here is a section:

Focus on sustained growth through increased consumption. Cenvat rates have reduced while exemption limits in personal income tax increased. The target is to move up the growth rate in manufacturing to double-digits

Focused investments in infrastructure and agriculture continue. Plan expenditure expected to rise by 17% v/s about 10% rise in non-plan expenditure.

Various measures announced for the social sector and agriculture to further promote inclusive growth. There is an increased stress on effective implementation of proposals.

Farmer debt waivers, a populist move in our opinion. May have a salutary impact on agricultural growth and rural consumption in the longer term.

Fiscal prudence has been sought by reducing the fiscal deficit target to 2.5% of the GDP in 2008-09. The impact of the farmer debt relief and Sixth Pay Commission provisions are uncertain. The Finance Minister has left scope for higher borrowing, in case of need.

Continued capital measures to ease supply-side constraints to restrain inflation. However, international crude prices, commodity prices and food prices seen as challenges. The impetus to consumption also poses a risk, in our opinion. Fiscal and monetary measures to control inflation may be needed. possibility of interest rate reductions by RBI diminish, in the near future.

The higher-than-expected exemption limit in personal income-tax and increase in threshold limit for service tax applicability are positive from the consumption perspective. There have been no major changes on the corporate tax front except marginal benefits in dividend distribution tax (DDT).

Short-term negative for equity markets: Short-term capital gains tax has been hiked from 10% to 15%. STT has been allowed as business expense, henceforth, v/s a set-off from tax earlier. Returns expected to be relatively lower for domestic participants. FIIs not to be impacted by STT changes, in our opinion.

Overall, we see the Budget facilitating continued high growth in the economy through consumption and additional investments. We also share the Government's optimism on promoting equitable growth, provided there is effective implementation of the proposals.

Email of the day (1) - [on the difference between futures and ETFS prices:](#)

"I very much enjoyed your commentary on the prospects for uranium on Friday's comment of the day and found your remarks regarding commonality with similar commodities very interesting. You also highlighted this principle in your November Chart Seminar which I attended and I now look at the charts for similar stocks / commodities before investing or trading.

"In this regard, I have been looking at the various charts for natural gas in the Chart Library, which as you recently pointed out has started to break out of its long base formation. The Natural Gas NYME 1st Month (NG1) chart shows that this index has risen 74% since its recent low at the end of August 2007 whilst the Dow Jones-AIG Natural Gas Total Return (DJAINGTR) index has only risen by 23% during the same period.

"Conveniently, the Chart Library also has a chart showing the [comparison](#) between these two indices called Natural Gas with DJ-AIG Natural Gas Total Return Index which shows the two indices effectively 'de-coupling' in October 2006 with a large gap between the two indices now developing. I find this

quite strange as I would have thought that the principle of commonality would have kept these indices roughly in-line with each other.

"Interestingly, the DJ-AIG Natural Gas Total Return Index has fallen 77% since December 2005 whilst the Natural Gas NYME 1st Month index has only fallen 40% during the same period which makes the former index appear far cheaper than the latter index. Consequently, I am seriously considering purchasing the ETF Securities natural gas contract, which is also listed in the Chart Library and is 100% based on the DJ-AIG Natural Gas Total Return Index. Am I missing something here or does this instrument appear very cheap at the moment? I would very much welcome your thoughts on this as a reversion to mean between the two charts could prove a profitable investment even if the price of gas remains steady.

"Finally, I wish to mention that I think your service is quite superb (and very cheap as you noted recently) and could not now envisage trading or investing without it. I recently renewed my subscription for another year and am looking forward to more nuggets from yourself, Eoin and the collective."

My comment - Thank you for this complimentary which raises a question I'm sure will be of interest to other subscribers and highlights some of the nuances we need to be aware of when trading commodities.

With the [DJ-AIG Natural Gas Total Return Index](#), the key phrase is total return. Since commodities do not pay dividends, in this case total return refers to the cost of carry on the futures position. Natural gas has been in [contango](#) since 2004. This means that the spot price has been lower than prices quoted at future dates. The contango reflects the interest rate of holding a long position when contracts need to be rolled forward into a more expensive future at the end of every month. This cost to explain the difference between the two instruments and the lag between the ETFS and the future. If natural gas moves into backwardation, then we would expect the ETFS to experience a catch-up move, but until then it may still lag.

[Natural Gas](#) broke upwards from its two-year base last month and would need to sustain a move back below \$8 to question scope for further upside. The DJ-AIG Natural Gas Total Return Index fell precipitously from the 2005 high, but the downtrend has been losing momentum for the last year and recently broke the progression of lower highs. It would need to sustain a move to a new low to question recovery potential.

Email of the day (2) - [on backwardation and contango](#):

"good refresher from Gartman (in the public [domain](#)) attached which might be worth noting given the very regular updates on the contango / backwardation structure in the unique Fullermoney service and in the chart library."

My comment - Many thanks for this instructive [report](#) which will also be of use to understanding the dynamics discussed in my Email of the day (1) above.

Today's interesting charts - [The Chart Library Filter](#) allows subscribers to find instruments which are moving to relative outperformance.

Silver - [rallies](#) strongly following yesterday's weakness and would need to sustain a move below today's low to question scope for some further [upside](#).

Copper - testing the high near [\\$4](#) and would need to sustain a move below [\\$3.80](#) to question potential for an upside break.

New Zealand - [steadying](#) the region of the January lows and would need to sustain a move below 3500 to question scope for some further higher to lateral ranging.

Thursday 6th March 2008

Alex Seagle's *The Contrary Investor: The Color of Money* - I enjoy this [letter](#), written by Alex Seagle of Fraser Management Associates, not least because it offers welcome respite from the latest financial obsession and I can always rely on it for fresh ideas. Here is a brief section:

Can a skyscraper produce more energy than it consumes? That's what we'll find out when the Pearl River Tower in Guangzhou, China is completed. It is designed to be one of the most environmentally friendly buildings in the world. Among its features are turbines that turn wind into energy for the HVAC system, solar collector for more power generation, a rainwater collection system, part of which is heated by the sun to provide hot water. The building is cooled, in part, through heat sinks and vertical vents. The turbines do more than generate electricity, though. The openings through which the wind flows help reduce the overall wind load on the skyscraper.

When it comes to the green movement these days, it's a big world out there. The bulk of investment activity surrounds energy - alternative sources and conservation measures - but green's reach is far and wide, from water purification to sustainable hotels and resorts to earth-friendly materials.

Green is a rapidly growing element of many companies' business models, as both a profit center and a cost reduction tool. As more companies become green users (in saving energy and money), others become producers (in developing profitable products and services).

People often go to transportation as the first thing because cars and planes are the most visible symptom of the problem, but 70 percent of the energy used in the U.S. is consumed in buildings. And a lot of it is discretionary, like turning on or turning off a light. Buildings are now designed and constructed for optimum conditions, factoring in sunlight and wind, thus reducing the amount of energy it takes to operate as well as the amount of carbon they emit. The materials used are often from recycled sources and designed to be energy efficient. There's now a universal, calibrated green standard known as "LEED" (Leadership in Energy and Environmental Design).

In 2005, the green construction business was a \$2 billion a year business. By the end of 2009, it is expected to top \$60 billion. While most investors have been scrambling to buy companies that focus on solar, wind-power, hydrogen, and other alternative energy sources, there is a very large market opportunity in a much more mundane, "picks and shovels" approach to green investing that might be a better, less risky way to participate.

Both new construction and retrofitting of existing buildings will require very specific materials and design components. The materials side includes windows that are double paned, filled with an insulating gas and treated with a special glazing that lets light but not heat pass through. Many of the buildings use special filters to clean more pollutants from the air than those in standard buildings, and lightweight composite recycled steel frames, which use less masonry.

A big positive for green construction materials is the recent infusion of millions of dollars of venture capital to privately-held companies that promise more environmentally friendly building materials. Just recently a company called Serious Materials received an infusion of \$50 million to concoct a new type of drywall which takes 90 percent less energy to produce and creates less greenhouse gas.

My view - You can always gauge a country's energy and confidence, not to mention wealth, by the quality of its architecture. Therefore it is no surprise that China is building many of the world's most magnificent buildings. However the designers of [Pearl River Tower](#) are Americans and the USA will also supply much of the technology. Green technology will remain a growth industry long after people have forgotten the present credit crunch.

In a rare conference appearance for this backroom boy, I will be speaking at Fraser Management's 46th Annual Contrary Opinion Forum at Basin Harbor, Vermont, from October 8th to 10th, 2008. Details are available from alex@fraser.com. I hear this is an excellent event and look forward to seeing some subscribers at Forum.

Financial Mess Doesn't Worry All Central Banks - [This is an interesting article](#) by John Berry for Bloomberg. Here is the opening:

If you are a central banker trying to rein in an inflationary boom in a small, open economy, you may welcome any help you can get, even if it comes from turmoil in world financial markets.

That's the case at the Reserve Bank of New Zealand, whose interest rate target is 8.25 percent, about 5 percentage points higher than its consumer price inflation rate.

When the RBNZ raised its cash rate by a full percentage point over the course of last year, the actions did more to increase the value of the New Zealand dollar, the kiwi, than to restrain the economy, which has a 3.4 percent unemployment rate, the lowest in its history.

RBNZ Governor Alan Bollard said today in his quarterly Monetary Policy Statement that tighter international credit conditions will be a key factor in slowing economic growth to about a 2 percent annual rate for the next two years. That would be down from 3.3 percent in 2007.

That means the bank won't have to raise the cash rate again, which some analysts had expected would be necessary to curb inflation.

Nevertheless, inflation pressures -- particularly in the labor market -- remain strong enough that the bank expects to keep the cash rate at 8.25 percent throughout this year, Bollard said.

My view - I think we have yet to see the full impact of food and energy price inflation, which is likely to be intense. There are delays before the consequences are reflected by consumer items. Therefore costs will almost certainly continue to rise, and then not come down quickly during the next correction in commodity prices.

Email of the day (1) - [On food speculation / investment becoming a political problem:](#)

"You mentioned the possibility some soft commodity markets may be affected in the future should producers struggle to hedge production forward. Intervention in Bunker Hunt situations is foreseeable and so is a correction once markets are informed of a true cornered status. The proposed scenario where investment funds would be responsible seems considerably different and intervention by authorities would not just affect one 'player' but a large group of stakeholders. Do you feel that intervention would be unaffected by the difference?

"The alternative is weak or no intervention, producers in trouble, high prices,...which in case of ...for example corn ...would be troublesome / potentially lucrative.

"Your insight would be greatly appreciated. Thank you for providing a top quality service."

My comment - [Thanks for your comments and an important question.](#)

[There are several aspects to this as you will appreciate. High prices for foods are good news for farmers, who will endeavour to increase supplies. Meanwhile, skyrocketing prices for staple foods, let alone shortages, are a political and economic time bomb.](#)

[There has always been an element of speculation in commodities, which provided additional liquidity and helped the smooth functioning of these markets, more often than not. However they were never intended to be major investment alternatives to shares and bonds. Nevertheless that is what has happened, resulting in a tsunami of money pouring into commodities,](#)

exacerbating price rises that were already occurring as a consequence of rapidly increasing demand.

I fear that this could end badly for the food industry, consumers, the functioning of commodity markets, and for investors. Considering the latter, and we have been big bulls of commodities as you know, the situation is potentially much worse than the Nelson Bunker Hunt saga. He was one eccentric with more money than sense, and soaring silver prices mattered less than the spiralling cost of food.

If prices continue to rise, attracting more money to commodity funds and ETFs as could easily be the case, I think the US government will become involved. Their attitude is unlikely to be: OK, you are prudent investors so the mayhem doesn't matter.

So what should one do?

Tread warily. If / when food prices become a frequent front-page item, the danger signs will be flashing, particularly if commodity market officials and politicians are complaining. Meanwhile, many trends have accelerated. This is an ending signal of unspecified duration and downward dynamics will signal the onset of corrections, as we have so often seen with other markets. If / when investors / speculators in foods take fright, this is likely to spread to other commodities where dramatic price rises have occurred.

Over the longer term, these markets remain in secular bull trends as demand is rising faster than supply, more often than not.

Email of the day (2) - On comparisons with the 1970s:

"David, In the 1970's in the United States the economic climate was characterized by bouts of slow growth and high inflation (stagflation). The U.S. stock markets had very poor inflation adjusted returns. Was this economic environment prevalent throughout the world and did other stock markets perform well in inflation adjusted terms? Do you foresee the current environment to be similar to the 1970s? If stocks performed so poorly then, would it not be wise to balance one's long term portfolio with tangible assets such as commodity futures? What is the value of continual equity exposure in this setting? Thank you for your great service; I feel that you have greatly improved my intellectual and analytical approach to my investments. Your experience and knowledge are sincerely appreciated."

My comment - Thank you for your kind words. I am delighted that you have benefited from the service.

There are certainly parallels with the 1970s - the commodity boom for instance, although Fullermoney has long maintained that this cycle's bull market for resources will be much bigger and longer, due to rapid economic growth in so many developing countries with enormous populations.

I have written extensively on this subject over at least the last six years. Many of these items can be found by using the Search facility under "1970s". This will produce 148 entries but a quick glance at the accompanying brief text will enable you to soon find items relevant to your questions.

Specifically on stock markets, yes, inflation adjusted returns for the developed markets were below average. Inflation can lead to valuation contraction, which will certainly occur during stagflation. Also, the 1970s and 1980s were characterised by a number of shorter (stop-go) economic cycles of approximately four years on average. Inflation was certainly one of the contributing factors, causing central banks to alternately squeeze and then expand monetary policy.

The so-called Asian Little Tigers were the emerging markets of greatest interest during the 1970s and 1980s. They would soar during the booms, only to fall 50 to 80 percent during the busts. However while the Dow had a glass ceiling near 1025 for over two decades, the Little Tigers, led by Singapore, did much better.

Looking forward, I expect commodity inflation to remain a problem. However there was a fundamental difference with the 1970s. Back then, we had [cost-push](#) inflation. Today, we have [demand-pull](#) inflation which I suspect will be better for stock markets, at least for countries with higher GDP growth.

I think Fullermoney's main secular themes of Asian progressing markets, resources and global infrastructure development will remain competitive in the years ahead. However the higher volatility that we have seen since July 2007 may remain a factor. If so, I suspect this will be due to more frequent changes in monetary policy rather than additional banking crises.

Additional Commentary by Eoin Treacy

Credit Swaps Thwart Fed's Ease as Debt Costs Surge - This [article](#) by Abigail Moses, Hamish Risk and Neil Unmack for Bloomberg covers a number of important issues relating to the credit default swap market. Here is a section:

Credit trading models used by Wall Street have gone haywire, raising company borrowing costs even as Federal Reserve Chairman Ben S. Bernanke cuts interest rates.

General Electric Co. is one of five U.S. companies rated AAA by both Standard & Poor's and Moody's Investors Service, making its ability to repay debt unquestioned. Yet when the Fairfield, Connecticut-based company sold 2.25 billion euros (\$3.35 billion) of five-year bonds last week, its annual interest payment was \$17 million higher than on a sale nine months ago.

Borrowers from investor Warren Buffett's Berkshire Hathaway Inc. to Germany's HeidelbergCement AG face the same predicament Yields on \$5.12 trillion of corporate bonds tracked by Merrill Lynch & Co.

average 2.05 percentage points more than U.S. Treasuries, the most since at least 1997.

The higher costs are an unintended consequence of securities that allow investors to speculate on corporate creditworthiness. So-called correlation models used to value them have become unreliable in the fallout from the U.S. subprime mortgage crisis. Last month some showed the odds of a default by an investment-grade company spreading to others exceeded 100 percent -- a mathematical impossibility, according to UBS AG.

“The credit-default swap market is completely distorting reality,” said Henner Boettcher, treasurer of HeidelbergCement in Heidelberg, Germany, the country's biggest cement maker.

“Given what these spreads imply about defaults, we should be in a deep depression, and we are not.”

Hedging Losses

The problem started in the second half of last year when subprime mortgage delinquencies started to rise, causing investors to retreat from complex instruments such as synthetic collateralized debt obligations, or packages of credit-default swaps that became hard to value. The swaps are contracts based on bonds and used to speculate on a company's ability to repay debt.

As values of CDOs began to fall, banks that had sold swaps underlying the securities started to buy indexes based on them instead, a method of hedging their losses on portions of the CDOs they owned. The purchases are driving the cost of the contracts higher, raising the perception that company bonds tied to the swaps are suddenly riskier and leading investors to demand higher yields throughout the corporate debt market.

The Markit CDX North America Investment-Grade Index, a gauge of credit-default swaps on 125 companies from Wal-Mart Stores Inc. to Walt Disney Co., more than doubled since the start of the year to a record 171 basis points on March 4. The index, which dropped to a low of 29 in February last year, was at 170.5 basis points at 7:10 a.m. in New York, according to Deutsche Bank AG.

My view - Are we going to see an increase in actual delinquencies over the coming year or two? Another Northern Rock or possibly two may emerge and a number of more funds will go bust, but is GE going to default on its bonds, I really doubt it. If we are not going to get a deep, multi-year depression, then the price of bonds linked to highly rated company debt is very appetising for an institutional investor with the ability to bid below the market.

I believe, what we are seeing today is model myopia. Banks rely on models to price credits and are refusing to stand back and look at the bigger picture. Surely, investors should be listening to the corporate sector, that ultimately pay the coupons, rather than to the market for insurance on these bonds.

Companies, for the most part, continue to say that they are quite healthy. The CDS market reflected the complacency of the market before the credit problems and is now pricing in the worst case scenario. As human beings we are less likely to buy insurance when the going is good and much more likely to hedge when we have just gone through a traumatic experience. A quote often mentioned at The Chart Seminar comes to mind:

"Our deeds travel with us from afar and what we have been makes us what we are." George Eliot, Middlemarch.

The appropriate price for many investment grade credits is probably less than it was a year ago, but substantially more than it is today, setting up an interesting position for institutional investors with the ability to bid below the market and succeed in buying high yielding credits at bargain prices because the issuer is temporarily distressed.

I believe it is only a matter of time before banks start to behave with the level-headedness that we would expect from financial institutions. When this occurs, the credit markets could rally substantially.

Filtering the S&P 500 sectors indices - Today, I put all of the S&P sectors into a folder in my Favourites and proceeded to filter the contents.

The best performing indices in the last three months have been [Trucking](#), [Agricultural Products](#), [Oil & Gas Exploration & Production](#), [Casinos & Gaming](#) and [Fertilizers & Agricultural Chemicals](#). In the last month [Oil & Gas Exploration & Production](#) tops the list, [Diversified Metals & Mining](#), [Aluminium](#), [Construction & Engineering](#) and [Steel](#) were the best performers. These results tell us all of these sectors are relative outperformers. It also shows that while agriculturals were some of the leaders over the last three months, industrial metal related companies are coming up strong. From our daily click-through of markets, we came up with the same conclusion relating to the individual commodities. However, this click through tells us that these sectors are also outperforming just about everything else.

When we rank the list by changes between 1 and 3 months, we see that [Construction & Engineering](#) is also the second fastest riser on the list, [Construction Materials](#) also fare well. [Diversified Metals & Mining](#) is also in the top-20 risers over the last 1-3 months. This perhaps indicates that these markets have further to move on the upside. [Oil & Gas Exploration & Production](#) is the clear momentum leader and a clear downward dynamic would be needed to check upside potential beyond a brief pause. The [Agricultural Products Index](#) is also at an interesting level as it is testing the recent high near 800 and would need to sustain a move below 700 to question potential for an upside break.

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.

As has been the case over the last three months at least, European indices have dominated the tables in terms of the lowest P/Es. The New Europe Blue Chip, which is comprised of Eastern European, mostly Austrian companies, is now second on the list with Ireland in third.

Prior to the current correction, these were not at bubble valuations and today 9 European markets have a P/E less than 10, which is cheap when measured against their global peer group. Unless we believe that the credit crunch will have much more marked effect on Europe than on the rest of the world, these markets appear to be under appreciated by the wider market. However, they need to continue to hold above their January lows and will probably not encourage investors return in any numbers, before they can sustain moves significantly above their February highs.

(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.)

Eoin's personal portfolio: zinc long closed - I closed my long in 3-month [zinc](#) today at \$2725 to come out flat because I think the risks have increased of it falling somewhat further before eventually reaffirming its recovery. I will look to re-enter the market as it begins to firm, if my assumptions prove correct.

Email of the day (1) - on moving averages in the Chart Library:

"In his most recent book, David Shipman, suggests using MA parameters of 30 and 50 on FutureSource.com charts as a means of following his mechanical strategy. I would like to know what would be the equivalent MA values in your chart facility so as to replicate this please."

My comment - I'm not aware of any books by David Shipman. Mark Shipman however has often suggested that he uses a 40 week Moving Average. I had a look at Futuresource.com and depending on whether you are looking at a weekly or daily chart it will show a weekly or daily moving average. On a weekly chart 30 and 50 week averages would have to be adjusted to 150 and 250 day moving averages for the Chart Library. On a daily chart these will remain as 30 and 50.

Email of the day (2) - on an addition to the Chart Library:

"Thanks for your daily reports which I find so useful .It is a must for me to hear the commentary every night.

"Please is it possible for you to add the chart for the following in the library:

"iShares Dow Jones US Financial Sector ([IYF](#))

"I suppose this will come under North American ETF"

My comment - Thank you for the complimentary email. The fund you refer to is already in the Chart Library. Just search for IYF and it will pop up. Alternatively you will find it in the North American Funds, ITs and ETFs section.

Today's interesting charts - The Chart Library Filter allows subscribers to rank the members of their own personal portfolio along absolute and relative returns in a large number of currencies.

Sugar - downward [dynamic](#) breaks the integrity of the three-month uptrend and it would need to sustain a move to new high ground to offset scope for some further downside.

Singapore Dollar per 1 US Dollar - the [Greenback](#) remains in a consistent downtrend and would need to sustain a move above SGD\$1.42 to question scope for further downside.

Taiwan - breaks above the February [highs](#) and in the process broke the progression of lower or equal highs. It would need to sustain a move below 8250 to question upside potential.

Friday 7th March 2008

UBS Investment Research: Asian Urbanisation: Which Sectors and Stocks Are the Key Beneficiaries? - My thanks to a subscriber for this informative blockbuster [report](#) by Simon Smiles, Bill Sohn and colleagues at UBS. Here are some opening bullet points:

Asia's urban population to grow 2.1% pa between now and 2030
Urbanisation is one of the biggest and broadest structural issues affecting Asia today. In our first *Q-series®: Asian Structural Themes* report, we examine which sectors and stocks are likely to be the key beneficiaries of Asian urbanisation.

Different industries benefit at different stages of urbanisation
We define three stages of urbanisation and show that different sectors of the economy grow at different speeds during different stages. We present urbanisation forecasts and identify particular sectors in particular countries during particular time periods that we expect to benefit the most from urbanisation in Asia.

We highlight eight investible themes

- 1) Cities need to be built and skyscrapers need steel.
- 2) People need homes.
- 3) The urban population needs power.
- 4) Where is the water?
- 5) An urban

society produces sewerage. 6) The new urban dweller maintains links with family and friends. 7) Migrants will want microwaves. 8) Financial services are needed when households have extra funds.

20 key stock exposures to the Asian urbanisation theme

We identify 20 UBS Urbanisation Key Picks from more than 200 stocks with positive exposure to the themes mentioned above. They operate in the cement, steel, construction, gas, coal, power equipment, green energy, road, automotive, telco, consumer durable, retailing and manufacturing, and financial services industries. Their key exposures are spread across Asia: India (eight stocks); China (five); Indonesia (three); Malaysia (two); and the Philippines and Thailand (one each).

My comment - [Having just received this report, I have only had a chance to glance through it. However I can certainly see that it merits much closer attention, not least the 20 shares recommended.](#)

Email of the day (1) - [On conveying our views:](#)

"I just wanted to comment on a subscriber's email that you posted on Tuesday. While perhaps that particular subscriber would have preferred a more bearish commentary and analysis from you, for my part I could not be more grateful for the calm counterbalance that you consistently give in times of fear (and indeed, over-exuberance). As far as I can see the market has been well supplied with bearish analysis for several years now, including (terrifying) forecasts of the collapse of the US credit cycle. While not reinventing the wheel by adding your own doom and gloom forecasts, neither have you encouraged subscribers to ignore the risks present in the system. The lead you have given, refreshingly enough, has been to avoid the blind acceptance of market risk and concentrate on specific areas for investment that provide a good balance of risk and reward, calmly ignoring the rest.

"It is a lead that I have been happy to follow, while ignoring siren calls to my emotions from other market analysts to stray off track at various stages. I am sure that I am not alone among your subscribers to be able to boast of more than satisfactory investment returns (which would be comfortably in the top decile of UK investment trusts over the last 12 months with minimal losses since the start of the year despite turmoil).

"Yes, I am aware that hubris could be the undoing of all of us, but right now the course still seems set fair for Fullermoney themes.

"Thank you for the help in staying on track."

My comment - [Thank you for these thoughtful comments. At Fullermoney, we start by analysing not least for ourselves but write and record for our subscribers, from whom we derive our inspiration. You are certainly an inspirational subscriber.](#)

We have passion for our work but try to avoid the emotion that leads to hyperbole. In my experience, emotion in analysis, including opinions stated as facts, do not increase the column of good calls versus bad calls.

Well done on your performance, as you have seized the opportunities. Fullermoney long-term themes are certainly not immune to the Wall Street leash-effect when fear is ascendant. That is the nature of crowds and therefore markets. However if the themes remain sound, the bungee jumps should be buying opportunities, followed by more upside than downside surprises.

Email of the day (2) - On an India fund:

"If I remember correctly, you mentioned about a year ago the Atlantis India Opportunities Fund. You talked to the managers of the fund and appreciated their investment qualities. Do you actually follow this fund's development and did you take a position or did you have second thoughts of investing in it?"

My comment - Yes, and a Search of the Archive under "Atlantis India" would provide 11 entries including [these](#) impressions following my meeting with BP Singh.

I have not yet bought it because I already have a substantial investment in India, and am unlikely to dip into my "just in case" cash holding to fund additional equity purchases, until or unless stock markets eventually fall to once-in-a-generation valuations, due to some currently unknown cause. However it is conceivable that I might switch within my existing SIPPs and ISA funds, if for instance gold shares surged considerably higher and I could still pick up India on a pullback. Currently, we do have a pullback which is bringing India and therefore also the [Atlantis India](#) Opportunities Fund back into a buying range. However if Wall Street extends its downtrend I would expect a bigger correction for India, which is a high-beta market. That would be a window of opportunity.

Email of the day (3) - On the Contrary Opinion Forum:

"David - what exceptionally good news to hear you will be at Basin Harbor. I grew up in Burlington VT, where Alex is based, and am a fan of C.I., and having missed last year, am looking forward to this year."

My comment - Excellent and what fun - at least one subscriber will be present and perhaps more. The latest issue of The Contrary Investor was posted yesterday and for details of the Contrary Opinion Forum, contact Alex Seagle at alex@fraser.com.

Email of the day (4) - On schussing with bears from the City:

"I sit here on a ski weekend with a lot of friends who work in the city. I don't, but find their views interesting. Between then (and I'm talking the substantial city institutions) they are bearish. They recommend short equities, short commodities, long Aussie bond.

"I was reasonably positive until this trip with these people: they talk like the sky is falling in, and are recommending appropriate actions to their clients. This says to me that whatever the reality, the mob has decided that the next two years are a bear market. The credit market has all but collapsed today and the BOE and European bank are doing very little to support it.

"Normally I take negative opinion as a contrarian indicator. But for the first time, I'm now questioning this. Do I just sell up everything and wait it out for the next 3 to 5 years?"

My comment - People who work in banks are understandably going to be among the most bearish during a banking crisis. In psychological terms, it is called a projection.

In your position, I would try to vary the company - perhaps there are some jolly funeral directors out there, and I'd enjoy the skiing.

Email of the day (5) - [On Australia's underperformance](#):

"Hi David, I am at a loss to understand why the Australian market has pulled back more, in percentage terms, than the Dow or the FTSE. Our economy is the envy of the western world, our banks say they have very little exposure to the sub-prime fiasco and our mining industry is booming. I feel it has something to do with our Governor of the Reserve Bank who, obsessed with inflation figures, is acting a bit like a cardiologist relentlessly trying to push down the cholesterol level of some poor old codger, who, actually, is terminally ill with cancer. Then we have a Treasurer in panic mode, who, instead of calming words about our strong economy, keeps bellyaching about inflation and the huge surplus they inherited from the previous government. His panic would seem to be catching. I would certainly welcome any insight or comment you may have about our market. Thank you for an informative, soothing and common sense approach to these problems."

My comment - [The Australian economy is justifiably the envy of the western world and plenty of people from outside \[Australia\]\(#\) have invested there as well. During a temporary period of deleveraging and a flight \(fright?\) to cash, they will sell what they can. You also have a new, on-the-job-trainee, unproven government, in place of an administration which had a reputation for economic competence. I'm not sure that I would completely trust the banks' reassurances on sub-prime, but you will know more about them than I do. If they are right, and can therefore hold their dividends, they look \[cheap\]\(#\) but have yet to bottom. Here is the \[section\]\(#\) of your market that I continue to like most for the long term, but maintain that they are best purchased following sell-offs.](#)

Email of the day (6) - [On a NZ dollar savings account](#):

"Your service is fantastic during these interesting times and I'm looking forward to attending my first seminar in May. You mentioned putting cash into a New Zealand dollar savings account. Have you any recommendations on where I could open up such an account? I want to put in less than 50k Euro. I'm in Ireland."

My comment - [Thank you for your enthusiasm. One *should* regard these as interesting times, as you do, and hopefully not too often through gritted teeth. The markets are like an adventure holiday - rough and tumble, just like life, with some glorious high points, the number and duration of which we can often influence.](#)

[Our selection and timing will range from good to flawed, because we are human. To improve, the energy from our investment and trading successes can be directed towards analysing our failures objectively. A realistic and achievable goal, I suggest, should be to do a little better next time.](#)

[My NZD one-month rollover deposit is with a well known UK high street bank, which I have used for several decades. By coincidence, I received confirmation of my rate for the period of 11/03/08 to 11/04/08 today - 8.22%. In answer to your question, I know little about bank accounts other than through personal experience. Regarding your own interests in a foreign currency account, I suggest you start by inquiring at the banks in your area. If this does not help, what about writing a letter to the Financial Editor of your leading newspaper?](#)

[Sam Zell's ballad of credit confusion - My thanks to a subscriber for this light-hearted \[item\]\(#\). Behaviourally, it suggests to me that the psychological healing process is underway.](#)

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

"The gods cannot help those who do not seize opportunities."
Confucius

Additional Commentary by Eoin Treacy

Email of the day (1) - [on the performance of grains relative to meats](#):

"I'd appreciate your comments on the following [overlay](#) going back as far as the info allows [DJAIGAG](#) versus [DJAIGLI](#) (agriculture vs livestock).

"Maybe the Collective can comment on one interpretation, that this reflects capitulation by livestock farmers as feed prices go thru' the roof.

"The relative value play, if so, is obvious. However, if the agri prices reflect inflation and inflation hedging, then they could have a way to go (I compared DJAIGAG with gold and the former has some catching up to do). I know the charts should tell us via a reversal of the GLI trend, but this looks so compelling I can hardly help myself! So far, my only position is a small combined agri and livestock structured product from Goldman Sachs (ticker GB01) (which has capital protection and 140% of upside). It has been a useful if unspectacular investment. I'm thinking that livestock is one of the few opportunities that offer an un-recognised medium-term inelasticity and an, at least, constant demand once any capitulation is done. Any comments?"

My comment - The [overlay](#) between the Dow Jones Agriculture Index and the Dow Jones Livestock Index show a sharp divergence between the two indices since the middle of last year.

According to the Dow Jones [website](#): the Dow Jones-AIG Agriculture Sub-Index consists of the following seven commodity futures: Coffee, Corn, Cotton, Soybeans, Soybean Oil, Sugar, and Wheat. The Livestock index is [composed](#) of 67% Live Cattle and 33% Lean Hogs.

The value in livestock is, as you say quite, obvious. Since they have so far failed to rise very much above the cost of production, and arguably, are even below that cost. This situation is unsustainable and we are likely to see these prices breaking upwards at some point. Likewise the acceleration in agricultural prices was unsustainable but the secular uptrend in these commodities remains very much in place.

This [report](#) from the UBS Equity Derivatives Marco Sales Desk, kindly forwarded by a subscriber, makes a similar argument. Here is a section:

If the circumstances facing dairy farmers are poor, those affecting pig farmers are even worse. Back in January, Chris Hurt of Purdue University wrote, "Corn and soybean meal futures prices indicate a record high price year. This will mean a record high annual cost for pork producers. Both corn and soybean meal have had higher prices than current levels, but those were spikes that soon moderated.

While live hog prices are expected to average \$46.30 for the year, costs of production are estimated at \$55.60 based on futures prices for corn and soybean meal on January 4, 2008 and adjusted to cash purchase levels. These estimates suggest a loss of about \$9.30 per hundredweight or near \$25 per head on average for the year. This would exceed the previous worst year in modern history which was 1998 with an estimated loss of \$6.78 per live hundredweight. Costs prospects for 2008 at \$55.60 are extraordinary. This can be seen when compared to my estimated costs average for the previous ten years (1998 to 2007) which was \$40.64 per live hundredweight. My previous record annual estimated high costs were \$48.93 in 1996. The largest losses are expected in the first quarter of the year when they could reach \$36 per head and then be around \$20 per head of loss for the rest of the year." (4) The FAPRI model notes that "low 2008 hog prices will lead to large financial losses for hog producers. As a result sow numbers for the

second half of 2008 and 2009 will be lower. Given expected input costs, hog prices will need to average \$50/cwt - \$55/cwt in order to provide producers with historical average return levels."

Once again I would just point out the input prices are already well above those used to calculate the scale of the losses being experienced in the industry and that US farmers have shown no indication that they desire to subsidize prices by continuing to over produce at break even or loss-making prices. As the Minnesota Pork Board noted on February 29, "Slaughter this week was up sharply from a year earlier. The estimated Federal Inspection number this week at 2187 thousand head, up 15.7% from a year earlier. Good news from north of the border. The Canadian Government is offering hog producers in Canada a buyout program in order to reduce the sow herd faster. " (5) The lean hog future curve appears to indicate that the heavy current slaughtering programme, which itself has led to reduced spot prices, will restore the industry to at least break even by the northern hemisphere summer - well ahead of the projections from the OECD and FAPRI. I would accept that there may be element of speculative money flowing into hog contracts and indeed into almost all animal protein futures based upon the simple reasoning that they are some of the very few commodities that are trading below their costs of production, but all this money flow is doing is possibly bring forward the price recovery. It seems impossible to argue that protein prices will continuously trade below the cost of production.

From a technical perspective, the price for lean hogs [lean hogs](#) is still in the broad ranging pattern it has followed for much of the last five years. The momentum approach would be to wait until it breaks upwards from this long range, but given the relatively depressed state of the market today, it represents value and is probably in a buying range around current levels.

[Live cattle](#) remain in a volatile uptrend but recently encountered resistance near \$100. In this market, more than any other, it has been profitable to buy following reactions due to the often intense volatility. Because the action is so whippy, a sustained move below \$80, lasting for a number of months, would be needed to offset scope for further upside potential. Also see Comment of the Day on [February 27th](#).

While the livestock futures have been bypassed by the fervour for other commodities, Agriculturals have accelerated quite spectacularly, attracting many new investors to the asset class and setting new highs for a number of them. However, this week saw downward dynamics on [Cotton](#), [Soybeans](#), [Arabica Coffee](#), [Robusta Coffee](#), [Oats](#), [Rough Rice](#) and [Sugar](#) (Also see David's piece on commodities in yesterday's [Comment of the Day](#)). They had all accelerated to varying degrees and have reacted sharply in the last couple of days. Given the fact that this is not an incident isolated to one commodity, but has affected a whole swathe of the sector, indicates that this is a meaningful high which probably marks the onset of a medium-term correction, within the overall secular uptrend. They would need to sustain moves to new high ground to reaffirm their overall uptrends, but even if this were to happen, medium-term risks have risen considerably for agriculturals generally.

As a trade, we see that the [ratio](#) of agriculture to livestock have been accelerating over the last 6 months but is becoming unsustainable as it goes parabolic. Given the performance of so many agriculturals, it is quite likely to begin retracing some of this gain in the coming weeks.

Email of the day (2 & 3) - [on the underperformance of lean hogs](#):

"One agricultural market that has steadfastly ignored the 'scarce resources/global warming' theme is Lean Hogs which is at 20 year lows of 25% of previous peaks (even less in inflation adjusted terms). To my inexpert eye, the long term chart seems to be in a 13 year downward trend. By contrast, Live Cattle has risen over the last 13 years, at least in line with inflation, and is still within 20% of all time highs.

"Firstly, does any one in the collective know of the macro background that has caused the long term decline in Lean Hog prices (perhaps tariff reductions, farming techniques?)?"

"Secondly, it strikes me that with the sharp rise in feed prices, sooner or later livestock prices will need to rise accordingly. I understand the typical cycle is that initially farmers slaughter more and younger animals in response to a rise in feed prices which cannot be passed on to consumers and that this action depresses the price in the short term but leads to a shortage of animals and higher prices in the medium term. Does any one know the typical length of this cycle?"

"Are we looking at a specialist US market or will it be influenced by global forces of supply and demand as with the grain markets? I have no idea whether there is much international trade in pork and pork products (except that Danish bacon seems to be fairly ubiquitous throughout Europe!)."

[And](#)

"Further to my recent submission, the long term chart I was looking at was for the Dow Jones-AIG Lean Hogs Total Return Index. On further analysis, the Lean Hogs 1st Month chart does not show a similar long term downtrend. So I presume that the answer to my first question is to do with the construction of the Total Return index - perhaps the costs involved in rolling from month to month are particularly high for lean hogs. My intention was to buy an ETF tracker for the index but this seems to be a flawed strategy since there seems to be a hidden downward bias in the index itself."

My comment - [Thank you for this well-thought through email which contains a number of questions I don't know the answer to. Your second question raises an important issue for anyone considering this trade, however we can probably succeed in identifying the change by keeping an eye on the individual commodity charts as well as the ratios and overlays.](#)

[Regarding the international trade in pork, the Chinese are certainly starting to talk about importing pork following last year's blue tongue disease and the](#)

recent impact of heavy snows on the herd of young piglets. Inflationary concerns from rising domestic pork prices may also encourage them to act. When they start and to what extent they enter the market will most likely be seen on the charts. If the Fullermoney Brain Trust has any further input, I would be happy to post it.

Mineweb.com: More power possible for South Africa mines? - [This article](#) by Tessa Kruger for Mineweb covers the possible easing of power concerns in South Africa. Here is a section:

While the South Africa Chamber of Mines is still awaiting an answer from government and Eskom regarding increased power supply to mines, Minister of Minerals and Energy Buyelwa Sonjica told Bloomberg TV that power supply to mines will be increased to 95% of average consumption.

According to Bloomberg TV, the minister said the "curb" on power supply to mines will be eased as the country's electricity system has stabilised.

This report comes a day before the Chamber of Mines and National Union of Mineworkers (NUM) expect the government and Eskom to respond to their call for increased electricity supply to mines currently running at 90% of average consumption.

Frans Baker, spokesperson for the chamber, said the organisation and labour organisations made a presentation to government earlier this week that showed the socio-economic impact of reduced power supply to the mining industry.

Baker said the parties hoped that government and Eskom's response would mitigate the need to reduce employment in the mining sector. He said several companies across commodities were affected by the reduced power supply.

My view - [Platinum](#) prices have been one of the main beneficiaries of the concerns over power supplies in South Africa and accelerated to impressive highs over \$2300 in the last 6 weeks. However this week saw platinum falling from its highs and posting a weekly key reversal. This week's action marks a high of at least near-term significance and probably the onset of another medium-term correction, provided the long-term trend holds as we suspect.

Since 2004, platinum has experienced two of these corrections. The first was approximately 19-months in duration, the second was approximately 16-months long. The next medium-term correction, if that is what this week's downward dynamic signifies, will probably be shorter than either of the last consolidations but could still range for a year before sustaining another similar upward break.

Since platinum led the move on the upside for precious metals, its topping out may also be a lead indicator for the performance of silver and gold. However, while silver has certainly accelerated over the last few weeks, gold has been

much more stable and so could potentially survive any reversionary risk better.

Email of the day (4) - [on accessing the Subscriber's Audio via iTunes:](#)

"I have had limited time to review the site but when I have looked it does seem to offer excellent information and analysis so I think I will a close beneath 138.30 would not reaffirm resistance near current levels and suggest a testpodcasts including Financial Sense News (FSN) and this is downloaded via iTunes. Am I able to download David's podcasts via iTunes? This would make my life a lot simpler since I have tried to see how to download direct but not being technically minded have not been able to do this.

"Any help you can provide greatly appreciated."

My comment - Thank you for your interest in our site and we hope you find value in the Service should you decide to subscribe. Yes, it is possible to download the Subscriber's Audio from iTunes. Simply follow the instructions on our podcast page. This area can be accessed from the Subscriber's Audio menu, via the link in the top right titled 'More about Podcasting & RSS. This link will also take you there.

Today's interesting charts - This week saw some important action in the commodities sector, all of which can all be viewed in the Chart Library.

South Africa - edging back [upwards](#) to test the highs above 31,000 but has been losing momentum and needs to sustain a move above the highs to reaffirm the overall uptrend. A consolidation in this general area is probably the most likely outcome.

JGBs - breaks [upwards](#) to new high but is unable to hold it and closes back below 139. A close beneath 138.30 would reaffirm resistance near current levels and suggest a test of the bottom of the range near 137.

Natural Gas - testing the [psychological](#) \$10 level but would need to sustain a move below \$9.25 to question the integrity of the short-term uptrend and an upward break.

US Dollar per 1 British Pound - The [Pound](#) breaks back above \$2 and would need to sustain a move back below that level to question potential for at least some further short-term upside.

Email of the day (5) - [on replying to emails:](#)

"Thanks, of course I meant Mark and not David Shipman. It was through his earlier book that I found your superb site. I am amazed at your prompt and helpful attention to my query. In Ireland, we say "go raibh mile maith agat"."

My comment - Tá fáilte romhat. (You're welcome). We generally attempt to answer questions promptly because otherwise they tend to get lost in the ether and we apologise to anyone we miss.

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