

# 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](http://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 10th March 2008

Air Liquide chief finds few storm clouds - [This is an informative article by Peter Marsh in today's Financial Times. Here is the opening:](#)

In the past few weeks Benoit Potier has been combining his main job with being an economic detective, searching for the smallest of clues that could indicate a looming recession in the world economy.

So far, his investigations have drawn a blank. "Even though there has been a lot of talk of a recession, I cannot see any signs as yet," says Mr Potier, who is chief executive of Air Liquide, the French supplier of industrial gases that vies with Linde of Germany as the world's biggest producer of these materials.

Mr Potier explains that to avoid charges that he is being complacent, he has been examining all the main facets of Air Liquide's global operations to look for indications that theories about an imminent serious slowdown are correct.

He appears to have a good basis for making broad statements about global demand. Air Liquide sells its products to about 1m customers in a range of industries, from glassmaking to electronics.

He says his products comprise an "infinite" mixture of gases based around about 20 key chemicals including oxygen, nitrogen, argon and hydrogen.

Of Air Liquide's sales last year of €11.8bn (\$18.19bn), of which €10bn came from gases and the rest from providing engineering equipment, less than a fifth came from France.

Nearly a third of revenues were derived from customers in North and South America, and 18 per cent from Asia.

"A lot of the companies we sell to are telling us they need more of our gases to meet the demand for customers desperate for products," says Mr Potier.

"So long as you have emerging economies - such as India, China, the Middle East and Russia - expanding at 6-10 per cent a year this provides hope that the world economic system as a whole will show some stability."

[And a few paragraphs further on:](#)

Mr Potier's optimism adds weight to the comments of other leading industrialists who say they can foresee few storm clouds for the global economy, mainly because of the impact of strong demand from outside the main industrialised nations.

The shorthand for this is that the world is going through a process of "decoupling" in which growth in the emerging economies compensates for any economic difficulties in countries such as the US.

Jürgen Hambrecht, chief executive of BASF of Germany, the world's biggest chemical maker, recently accused financial markets of "panic" over the likely extent of a potential weak phase for the economy, while MAN, the German industrial conglomerate, is predicting record results for this year, driven by rising oil and raw material prices.

My view - Have western financial companies been damaged, severely in a number of instances, by sub-prime slime problems largely of their own creation? There is no doubt about it. Has the west's credit crunch created significant problems for many of its regional borrowers? It certainly has. Are these global problems? Not really or not directly, and they are not even regional problems for hundreds of well managed, cash generative, multinational companies with headquarters in Europe and the USA.

Is Jürgen Hambrecht, Chief executive of BASF of Germany, the world's biggest chemical maker, correct in accusing financial markets of "panic", as reported above? I believe so. Sentiment within the western financial community is exceptionally bearish. This is not necessarily objective, as I have said before. If an investment banker's income is suddenly reduced considerably and future streams of income appear uncertain, the tendency is to assume that everyone else is in the same mess. In psychoanalytic terms, it is called a projection.

I have not seen such a large disconnect between financial consensus opinion and global economic prospects since the Crash of 1987. There are plenty of differences, of course. There always are. However in both instances many people believed that the USA-triggered financial problems were the worst crisis since The Depression.

In post-Crash 1987, I was more interested in the business community's views on the global economy, since financial types were speaking with the same, uniformly bearish voice. Today, I am more interested in what people such as Benoit Potier and Jürgen Hambrecht have to say about economic prospects, than bankers who may be either traumatised or talking their short book.

By chance, I asked a Swiss-based banker today; of all the financial types he speaks to, what was the ratio of bears to bulls? He thought for a moment and then replied: "They are 95% bearish, at least." Their views can be summarised as ranging from credit problems, including uncertainties, to stock market price charts, which many of us look at every day.

The charts are mostly bearish; you will have either noticed or will not be surprised to hear. The climactic intraday lows seen in January are being challenged by many influential indices, which remain in downward trends. Upward dynamics are required to reaffirm support near current levels. In other words, markets are weak so any upside remains for the bulls to prove.

Until another catalyst squeezes shorts and encourages buyers, bulls will remain tentative and bears will be emboldened by each new low. Significantly, financial indices are leading on the downside once again, despite the declines already seen. Markets tend to overshoot, in both directions.

What should investors do? I prefer to speak for myself and I'm going to ride it out. My personal investment portfolio positions are certainly not immune to contagion selling, particularly during panicky activity as we last saw in January, but most have also shown an ability to bounce back quickly.

While a drawdown can be uncomfortable, I have profited by nibbling in my trading account during climactic selling. The market's main focus is understandably on credit crunch problems but I believe these have limited influence on the long-term outlook for Fullermoney themes. Even if I had had the misfortune to ride a major financial share all the way down (I haven't owned them, yet), I would question the wisdom of selling seven months into a Wall Street decline.

What are other people doing? Eoin discusses the stampede into TIPS (Treasury Inflation-Protected Securities) below, despite the negative yield. I suspect that will end badly for many investors. I would rather invest in Fullermoney themes when shakeouts occur.

In a contrarian play, I also think a bombed out bank such as UBS is interesting. Today, it has an estimated PER of 8.44, although I suspect earnings forecasts are too optimistic. However UBS also has a dividend of 7.58% which is covered 2.67 times according to Bloomberg. Perhaps there will be more shocks in the form of write-downs; perhaps more SWF support is required; I would not rule out a rights issue at some point.

Nevertheless most of this should be reflected by the price ([monthly](#), [weekly](#) & [daily](#)) which is falling for the 10th consecutive month and approaching some important lows. For all its current woes, UBS remains an important Swiss bank with a world-class asset management division. At today's prices, one probably receives the investment banking side for nothing. Charts show that UBS has yet to bottom but the turn is likely to be rapid, when it occurs.

Email of the day (1) - On the leadership of financials:

"I notice that the S&P Financials has broken through its January lows. Given that Financials have led the current market down, does this mean we can expect another leg down? And if so, are there any clues from the charts about the size/duration?"

"Thank you for the excellent and enlightening service that you provide."

My comment - Thanks for your kind words.

Regarding financials, yes, they have broken downwards again and I have illustrated this weakness with the S&P 500 Banks Index ([monthly](#), [weekly](#) & [daily](#)). They have fallen nearly 50%, a decline that will give some long-term investors cause to reassess. However this Index now needs to rally well back above the January lows, reasonably soon, to revive the base building hypothesis. I would not rule out this possibility, give the decline already seen and the big bounce in January, but it is for the bulls to prove.

The S&P 500 Index ([monthly](#), [weekly](#) & [daily](#)) has all but broken down and it will not rally without the financials firming. Targets are guesswork but once the January low is taken out people will start talking about 1200, which is of course the next round number.

Email of the day (2) - On progress and irony:

"I happened to be reading a recent Mark Faber article that appeared on Fullermoney. At one point he says he is a believer that occasionally the markets create unusual opportunities ("a lifetime buying opportunity") and those opportunities were emerging economies after the Asian crisis and commodities in the early 2000s. I became a subscriber to this website in early 2004 if my memory serves me right. By that time, the secular macro themes of rising demand coming from China, India and other emerging economies meets inelastic supply caused by the fact that a 20 year bear market in commodities had created an environment in which the producers of precious and base metals were in no hurry to ramp up production, having been burned so many times. That secular theme has not changed to this day. How silly of me to feel so fortunate that I had come across the name of David Fuller through Richard Russell and was transformed from a momentum trading wannabe, creating scans on a daily basis using TC2000, to an informed investor, lucky enough to read daily, brilliant minds such as Don Coxe, Jeremy Grantham, Mark Faber, Bill Gross and the list goes on; lucky enough to have access to an informative and open minded site, where a true professional will allow a beginner investor ask a question and feel comfortable in doing so. And lo and behold, I began to understand markets better and actually began to outperform. In fact, I outperformed so greatly, that I needed to keep my mouth shut or risk being labeled a big mouth liar. After all, nobody takes stocks from \$20 to \$80 or from \$100 to \$480 by following the advice of a professional who tells you his main holdings and his investment or trading moves. Nobody begins to accumulate gold in the low 300s. Or gains enough confidence to begin disagreeing once in a while and making trades on his own, with positive results. But let's get back to the point. I pay over \$2.50 a day for this privilege and I expect more. It is not enough to be part of a spot on secular call. I want intermediate and short term cyclical calls also. I do not want to think for myself. What kind of an answer is "individuals each have their own scenarios, but if you are going to lighten up, do it early". And what is this stuff about having losing trades. Heck, I bought Corn futures at \$1.75 and sat with them

until I sold out of frustration. And I did not get back into them until they were approaching \$3. That's not right. Did the same thing with Copper at \$1.50. Didn't have any luck until I bought them at \$1.90, and to make things worse, I sold in the low \$3s. Why didn't you tell me not to sell, David?. And what is this about announcing your daily transactions without telling us exactly how much you are buying or selling? And now I'm really at a loss about this market and I want you to tell me and every other subscriber what each of us should do with a money back guarantee. And I do not want any more answers like the following, taken from a 2002 Fullermoney column.

*" 'As an investor/trader, I have lots of views but more questions than answers, because I'm not a fortune-teller. Consequently I read, listen for the behavioural clues and most of all, I monitor the charts because I want to move with the markets. '*

"No, I don't want to see this nonchalant attitude. We want panic. We want you to throw open the windows and yell "SELL" or "BUY"

"And one more thing. Bless you, David"

My comment - Thanks for an interesting and instructive email, and your thoughtful conclusion. I commend you for your progress as an investor and trader.

The real value of this email, which I trust most subscribers will recognise, is in the irony. For some this could feel like no more than a gratuitous clout around the ears, as irony can, but I believe that would be missing the point.

Under stress, and these markets have often been more stressful than exhilarating for a number of months, we can become infantilized. It is a very human condition to which we are all susceptible, but it does not help any of us to think analytically.

Additional Comment by Eoin Treacy

TIPS Show Fed Loses Control of Inflation as Yields Go Negative - [This article](#) by Sandra Hernandez and Deborah Finestone for Bloomberg covers some interesting developments in the TIPS markets. Here is a section:

TIPS Show Fed Loses Control of Inflation as Yields Go Negative Bond investors have never been so sure that the Federal Reserve will lose control of inflation. They're so convinced that they're giving up yields just to buy debt securities that protect against rising consumer prices.

The yield on the five-year Treasury Inflation-Protected Security due in 2012 has been negative since Feb. 29, ending last week at minus 0.16 percent. The notes, which were first sold in 1997, have never before traded below zero. Even so, firms from Deutsche Asset Management to Vanguard Group Inc., the second-biggest U.S. mutual fund company, say TIPS are a bargain.

For the first time in a generation, money managers must come to grips with a central bank that's more intent on spurring the economy than restraining price increases. With oil above \$100 a barrel, gold approaching \$1,000 an ounce and the dollar at a record low against the euro, TIPS show investors aren't convinced Fed Chairman Ben S. Bernanke will be able to tame inflation once policy makers stop cutting interest rates.

“The way TIPS are trading now, investors believe headline inflation will stay lofty and are willing to give up the real yield for that,” said Brian Brennan, a money manager who helps oversee \$11 billion in fixed-income assets at T. Rowe Price Group Inc. in Baltimore. Prices for the securities indicate “a real concern of a recession and high headline inflation,” he said.

Because TIPS pay a principal amount that rises in tandem with the consumer price index, buyers accept lower yields in a bet the inflation adjustment will make up the difference.

#### Volcker Fed

Investors typically determine what they are willing to receive in interest by deducting the rate of inflation expected over the life of the securities from the rate on a comparable Treasury. Investors can still earn money from TIPS with sub-zero rates because the principal rises with the CPI.

Five-year TIPS yield 2.38 percentage points less than similar-maturity Treasuries. The so-called breakeven rate has risen from a four-and-a-half-month low of 1.89 percent on Jan. 23, the day after policy makers cut their target lending rate by three-quarters of a point to 3.50 percent in an emergency move.

The last time investors were so worried about faster inflation amid slowing growth, Paul A. Volcker presided over a Fed that would raise rates as high as 20 percent to end the stagflation crisis of the 1970s, according to Seth Plunkett, a bond fund manager at American Century Investment Management in Mountain View, California. The firm manages \$20 billion.

My view - [For those not familiar with what TIPS are, here is a definition from the Finanical-dictionary.com:](#)

First issued by the U.S. Treasury in 1997, these Treasury bonds attempt to protect investors against fluctuations in inflation by linking the principal amount to the consumer price index. Each year, the principal is adjusted by the inflation rate during the previous year. The index for measuring the inflation rate is the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U), published monthly by the Bureau of Labor Statistics (BLS). These bonds are taxable. Indeed, one must pay tax on both the interest and the increase in principal. TIPS are one of two types of inflation-indexed securities sold by the U.S. Treasury; the other type is Series I Savings Bonds.

TIPS offer principal appreciation in line with CPI, but CPI does not take oil and food prices into account. Since both of these areas are where the current inflationary fears are focused, the principal will not increase by anything near the amount needed to match actual inflation which is being understated in official statistics. This [chart](#) of the 5-yr TIPS yield shows that it went into negative territory last week. (The gap in the data is as a result of the download from Bloomberg, which was probably not configured to chart negative yield data. In fact our Chart Library required a rather quick fix, so it could display this data. Thanks to Dr. Chris Martin for his rapid response in this matter.) Also see Comment of the Day on June 26th 2006 <http://www.fullermoney.com/x/default.html?id=817&schtxt=TIPS>

Investors buying these bonds today, might be betting on the momentum of the trade continuing. The [price](#) of the TII 2% 2012 remains in an uptrend, although it has accelerated recently. Implicit in this move has been the belief that sentiment is going to get much worse and that hysterical investors will seek the safety of at least some principal protection at any cost. The fact that yields are below zero is an indication of how many investors have raised cash from liquidating positions over the last months.

Negative TIPS yields indicate a hysterical "flight to quality". Fear is a powerful emotion, but if the apocalypse the TIPS market is pricing in does not materialise quickly, investors will need to start earning a meaningful return elsewhere. While TIPS have been a good investment since the middle of last year, I question whether that will continue to be the case over the coming months. This chart will be worth keeping an eye on for a reversal because it would indicate that this momentum trade is waning.

Email of the day (1) - on Donald Coxe's conference calls:

"Maybe some subscribers would be interested in Don Coxe's weekly [commentary](#) widely accessible on the web."

My comment - Thank you for this useful link to the iconoclastic strategist's conference call which I'm sure will be of interest to other subscribers.

Russia, Nigeria Cut Gas Sales, Raising Costs >From U.S. to Japan - This [article](#) by Dinakar Sethuraman and Angela Macdonald-Smith for Bloomberg covering a number of salient issues in the international natural gas markets. Here is a section:

Russia is forcing Exxon Mobil Corp. to abandon plans to export natural gas to China. Nigeria is requiring explorers to share output with its citizens. Indonesia will cut sales to Japan.

Countries holding almost half the world's gas are curbing shipments to meet growing domestic use, hurting importers from the U.S. to Japan. Prices for the heating fuel may rise 50 percent within five years on the New York Mercantile Exchange as a result, said Chris Jarvis, president of Caprock Risk

Management in Hampton Falls, New Hampshire. He anticipated the rally in gas prices during the past month.

While raising energy costs, the policies will limit opportunities for Exxon Mobil and Royal Dutch Shell Plc, who are struggling to reverse a five-year production decline of 23 percent in the U.K. North Sea and 42 percent in the U.S. Gulf of Mexico. Natural-gas use is rising 2.5 percent a year, three times the rate for oil, according to BP Plc statistics.

“All the gas is concentrated in places where you don't have access,” said Frank Harris, co-head of the natural gas practice at the Edinburgh-based Wood Mackenzie Consultants Ltd., an adviser to 24 of the world's 25 biggest oil and gas companies. It's “a major concern for oil majors,” he said.

My view - Natural gas traded on NYMEX focuses on the US market which is primarily affected by supply and demand in the USA, Canada and the Gulf of Mexico. However considering the increase in the size of the global LNG shipping fleet as well as the growing demand for this commodity globally, the US traded contract may, in time, come to be more reflective of the global market.

The fact remains that natural gas is relatively undervalued when compared to oil. The [ratio](#) between the two would need to return to 7 units of oil to 1 unit of gas to reflect the median value over the last decade and could well overshoot, as it has done in the past. Although gas has rallied significantly over the last months, oil also remains in a powerful [uptrend](#) so the relative chart has not moved to any great extent.

[Natural gas](#) remains in a consistent uptrend and is testing the psychological \$10 level. However, it would need to break the progression of rising lows to question scope for further upside.

Email of the day (2) - [on the Merrill Lynch Gold & General Fund](#):

"My interest in Fullermoney goes back to the days when printed charts used to be mailed to subscribers. I revived my subscription a few years ago on my retirement. I would like to thank you all for your common sense advice which has enabled me to safeguard and very substantially increase my savings.

"I am trying to invest (through brokers) in Merrill Lynch Gold & General (LN) but I was informed that there are two classes of units in the sterling denominated fund namely Accumulation and Income with the former being recommended as always having a higher value than the income units.

"I am unable to find the relevant charts for the Accumulation Units in the chart library. Would it be possible to include this? I would also value any comments on the difference between the two funds.

"In addition although the Guernsey US Dollar denominated fund is listed I cannot find the Investec Global Energy Sterling denominated Fund chart in

the library. Would it be possible to include this? How does it compare with the Guernsey US Dollar denominated fund?

"Thank you in anticipation."

My comment - Welcome back to the service and thank you for this interesting email, which I'm sure will be of interest to other subscribers. We are not aware of any differentiation between Accumulation and Income in the [Merrill Lynch Gold and General Fund](#). I was also unable to find more than one listing on Bloomberg for the fund. According to this [dividend record](#), the fund hasn't paid a dividend since 2001 so I can't imagine where the income, the instrument you are being offered, is coming from.

The Investec Global Energy fund listed in the UK can be found in the Chart Library by searching for any of the key words in the title. For example 'Investec', will produce 6 results. Two of these are the Investec Global Energy fund. One listed in the [UK](#), the other in [Guernsey](#).

Email of the day (3) - on Chart Library updates:

"Please could you let me how often are the charts updated ? Are they on real time? Say if I bring up the chart for Dow at 10 pm (London time), would it have been updated for the close of business (London time) for the day."

My comment - Thank you for this email, which may be of interest to other subscribers. The Chart Library is updated on a number of occasions throughout the day with open/high/low/close data. These times are after the Japanese close, following the UK close and following the close of trading on Wall Street. There are also downloads for commodity prices following the close of trading on the LME and NYMEX around 7pm London time. The download time for US data will shift in line with the move to daylight savings in the USA, this evening. If you bring up a chart of the Dow at 10pm it should have finished updating by then.

Email of the day (4&5) - on additions to the Chart Library:

"Please could you add this to the chart: ISHARES DJ US BDIF symbol [IAI](#)"

And

"Can you please add the ETFS Livestock Security ([AIGL](#)) to the chart list?"

My comment - The iShares Dow Jones Broker Dealer Fund is already in the Chart Library. A search using 'IAI' or 'broker dealer' will succeed in locating it.

I have added the ETFS Livestock ETC to the Chart Library.

Today's interesting charts - The Chart Library has two Search Engines. One

searches the more than 16,000 equities, funds and ETFs in the International Equity Library and the other searches through the rest of the Chart Library for indices, commodities, currencies, bond prices and yields, ratios, spreads and overlays.

Cotton - continues to [react](#) from the high posted above 0.90¢ last week but is approaching an area of potential support near the top of the 8-month range near 0.70¢. An upward dynamic is needed to check momentum beyond a brief pause.

Soybeans - finds short-term [support](#) near 1360¢ but would need to sustain a move to new high ground to reaffirm the uptrend.

Malaysia - [testing](#) the August lows following the election results which diminished faith in the government's ability to institute its policies of reform. It may find some support near previous reaction lows but this pattern cannot support more than a technical rally at this time.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of March 2nd new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Belgium, Canada, India, South Korea, Portugal, Russia, the UK and the USA - 9 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 11th March 2008**

Fed to Lend \$200 Billion, Take on Mortgage Securities - [Here is the opening from today's big news story](#) by Scott Lanman for Bloomberg:

The Federal Reserve, struggling to contain a crisis of confidence in credit markets, will for the first time lend Treasuries in exchange for debt that includes mortgage-backed securities.

The Fed said in a statement in Washington it plans to make up to \$200 billion available through weekly auctions. Officials told reporters on condition of anonymity that the program may be increased as needed. The Fed coordinated the effort with central banks in Europe and Canada, which plan to inject up to \$45 billion into their banking systems.

U.S. stocks rallied the most in five years on optimism the initiative will help

avert a wider credit crunch. Treasuries fell and the premiums investors demand for debt backed by home loans guaranteed by Fannie Mae retreated from close to a 22-year high. Fannie Mae and Freddie Mac, chartered by the government, are the largest sources of money for U.S. home loans.

“This is the most significant step the Fed has taken so far,” said David Resler, chief economist at Nomura Securities International Inc. in New York. “This relieves some of the pressure” in the credit markets, he said.

Today's steps indicate the Fed is increasingly concerned about the investor exodus from mortgage debt, which threatens to deepen the housing contraction and the economic slowdown. Officials said the program is aimed at countering a decline in liquidity in financial markets around the world, and comes after signs of increasing stress in U.S. mortgage securities.

My view - We have known for some time that the Fed and US Treasury were targeting the [stock market](#). Prior to today's announcement, their last big move was to stem the selling climax in January with 125 basis points of rate cuts, in two moves within eight days.

I suspect that Treasury Secretary Hank Paulson was behind the timing of today's [bear trap](#). It was the financial equivalent of a classic rope-a-dope [ploy](#), suckering in the bears, allowing them to control the market for two weeks once resistance from the February highs had rebuffed the last rally, and then springing a surprise announcement just as the range lows were being tested amidst a crescendo of bearish forecasts.

Credit the Fed with having won a round in the stock market while demonstrating that it is not yet the ineffectual spent force, in terms of addressing the credit crunch, as many analysts have claimed. It remains to be seen whether or not bank credit spreads, having widened recently, now narrow just as quickly following what looks to me like the nationalisation of duff loans, although the Fed has not actually purchased the mortgage securities.

The moral and financial efficacy of today's move by the Fed are subjects that I will leave for others. Instead, I will address the outlook for stock markets.

Upside follow through by Wall Street tomorrow would signal further short covering and perhaps some bargain hunting, and increase odds that February's highs will be tested. For evidence of a significant technical improvement, the S&P 500 Index will need to maintain a break [above](#) 1400. For this to occur, we need to see a corresponding improvement in the Banks Index ([weekly](#) & [daily](#)). Today, we have only seen a downside failure but these can be important.

Meanwhile, the last two most significant technical developments are January's selling climax and today's upward dynamics for US indices. Closes beneath both of these lows are now necessary to reaffirm the medium-term downtrends.

Psychologically, today's downside failures for the Banks Index shown above and also the [Nasdaq](#), are actually more telling than a bounce from a low. Most people expect some steadying near a former low. However a clear downside failure, provided it is not just a one-day wonder, shows that a market had every excuse to fall, but did not.

A lengthy convalescence (support building process) may still be necessary for a number of stock markets. Meanwhile, I maintain that the extremely bearish sentiment expressed by so many people recently is a contrary indicator.

There are additional discussions of stock markets below, including Japan.

Email of the day (1) - On Topix PER and valuation contraction:

"David, I note that today the Topix closed at the lowest PE since 1993, and very low price book and price sales ratios (cf. Bloomberg). Japan seems to be the only "cheap" market around relative to its own history. However, this made me think of a theme you used to emphasize, that we are in a bear market, defined as "a generational decline in PEs". I haven't heard that phrase recently on your audios. Do you think that the process of PE compression is finished?

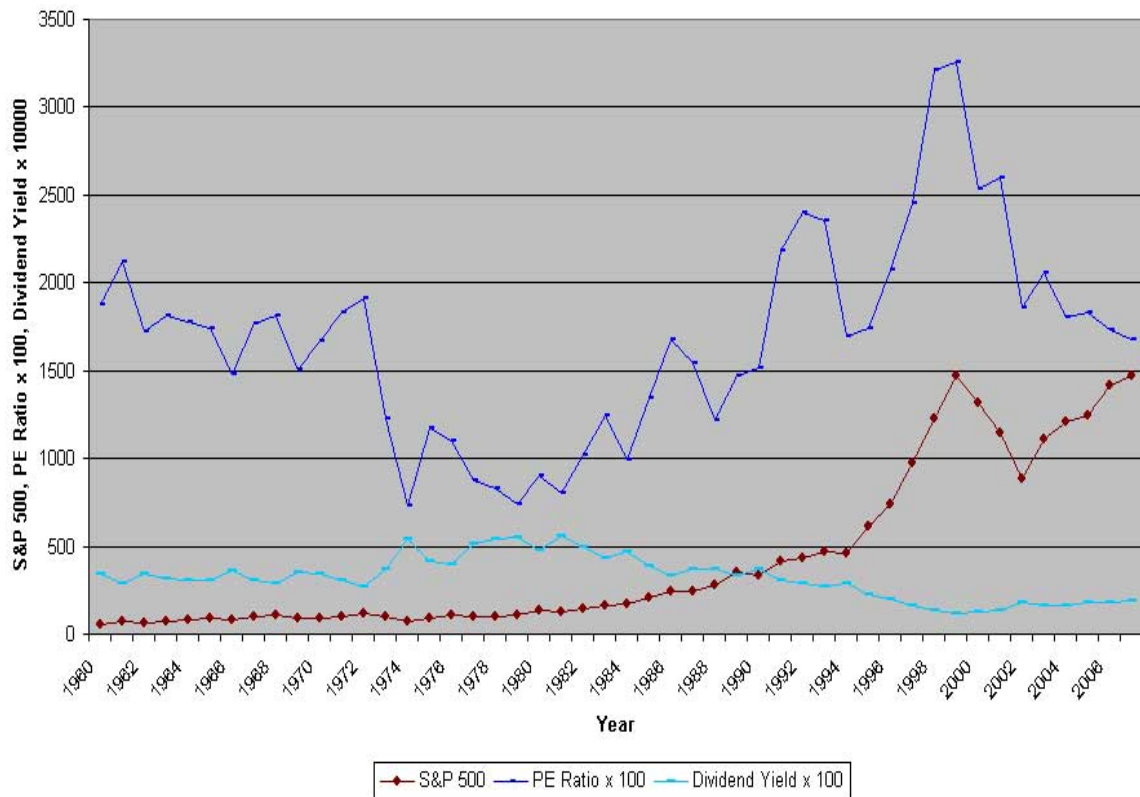
"Thanks for all the good work."

My comment - Thanks for your kind words, and for pointing out an interesting milestone regarding the PER for Topix, although I am surprised by the 1993 date. Is there a possibility that you meant 2003?

Regarding your question, historically, lengthy periods of valuation expansion, often followed by valuation contraction of a similar duration, have been huge influences on stock market returns. For instance, on Wall Street valuations rose for many years at the beginning of the last century and up until the 1929 Crash, stayed low into the mid-1940s, before expanding into the 1960s, followed by a big contraction into 1982, before expanding up into 2000 and subsequently contracting once again.

I recall the 1960s onwards data and you will be able to see much of that history on the chart below from [techfarm.blogspot.com](http://techfarm.blogspot.com), although the yield scale is too condensed and an arithmetic scale for the S&P scrunches early data. If anyone in the Collective has a better picture of this information, including earlier history, I would be happy to post it for our further edification.

**S&P 500 Historical PE Ratio and Dividend Yield  
1960 to 2007**  
techfarm.blogspot.com



The graph will show enough for subscribers to understand why I felt that Wall Street could easily experience a generational-long period of valuation contraction following the burst bubble in 2000, with the reaction lows occurring during recessions. However I stopped referring to it because some people would hear my comments regarding a secular bear in valuations and assume that I was referring to all stock markets and also implying that trends for the S&P and DOW would decline. Obviously not because the Fed could, in theory, inflate US stock market indices to vast numerical gains, although they might continue to fall against [gold](#).

I have been unable to source historic PER data for the Nikkei and Topix on Bloomberg, due to data distortions, but I did find interesting yield information dating back to 1993. At 1.66% and 1.78 for the [Nikkei](#) and [Topix](#), respectively, these have certainly improved but are not at globally enticing levels and may remain resistible for the proverbial Mrs Watanabe, unless she feels that the yen carry trade really is dead. My own view is that with minimal short-term rates, the yen carry will be utilized once again when the current phase of deleveraging ceases and animal spirits return to more than just commodity markets. Incidentally, you can monitor yield charts for Japan's Nikkei and Topix in the Library, although there is less back history as they were only *tickerised* (a *Bloombergism*, according to Eoin) a year ago.

In conclusion, Japan has experienced a considerable valuation contraction since its bubble burst in 1990 and historic PERs of approximately 15.50 for Nikkei and Topix are not excessive. However to view this in a global perspective, a number of other stock markets are cheaper today, as you have seen from those monthly tables that Eoin produces. I can also recall single-figure Japanese PERs during the 1960s and 1970s, although I do not think that either economic conditions or market sentiment justify a return to those levels. I suspect that Japan is near a sustainable low and therefore a long-term recovery situation, but I maintain that charts do not yet indicate that a new uptrend is commencing. Meanwhile, the Nikkei ([monthly](#), [weekly](#) & [daily](#)) and Topix ([monthly](#), [weekly](#) & [daily](#)) indices steadied near their range lows today and I expect a nice bounce tomorrow, following Wall Street's gains.

Email of the day (2) - On "relentless bear market":

"Hi! Well, this is beginning to look like a relentless bear market for global equities. Percentage declines are already quite impressive, especially for Asian indices: Shanghai -32%, Hong Kong -31%, Japan -32%, Singapore -27%, India -25%, S&P 500 -23%. We are already in major bear market territory now. I think the question in everyone's mind right now is how long will this bear market last and how do you view the eventual recovery (if any)."

My comment - To each his own labels, but if 30% qualifies as a bear market for Asian emerging markets, then they will average at least one a year. Meanwhile, bearish sentiment is at an extreme, and forecasts stated as certainties by the crowd are contrary indicators. Bears have also overlooked the useful adage: "Don't fight the Fed."

Obviously there has been plenty of bearish activity but also notable exceptions, not least in resources, which have been one of Fullermoney's three secular investment themes since 2003. Resources markets should lead moves to new highs if Wall Street continues to hold above its January lows. I expect Asian emerging markets to outperform US and European stock market indices on the upside. I think we have seen most of the selling but the convalescence will be lengthy for some stock markets, in line with my earlier statements that the economic cycle has been slowed and also lengthened.

Additional Commentary by Eoin Treacy

Filtering the Nikkei 225 - I took a look at the Nikkei 225 this afternoon, using the Chart Library's filtering system. I did this looking at 1 and 3-month performance and looking at those which had moved up the rankings, in terms of relative performance, fastest. I also looked at those which had moved up the rankings fastest between 1 and 12 months. (We would also welcome feedback on how subscribers are best utilising the Filter system.) This to find stocks which were outperforming the Index and to ascertain which are presently leading the market. The [Nikkei](#) broke down from the 6-week trading range this morning but rallied well during the session to close up on the day.

Based on the support lent to the markets by the Fed, a rally back upwards to test the top of the range would not be surprising and it would need to sustain a move below today's lows to question the likelihood of this occurring.

Breweries have outperformed throughout this correction. [Asahi](#) Breweries is testing its [20-year highs](#) near ¥2000 and would need to sustain a move below ¥1800 to question potential for an upward break. [Kirin](#) Breweries broke upwards from its [15-year base](#) in 2006 and has been consolidating the move since. It is currently rallying towards the range highs below ¥2000 and needs to sustain a move above that level to reaffirm the overall uptrend. [Sapporo](#) Holdings remains in an overall [uptrend](#) but has lost momentum over the last year. It needs to sustain a move above ¥1000 to reaffirm the uptrend.

Companies described as Import/Export companies have also outperformed since the January lows. Many companies such as Marubeni ([monthly](#), [weekly](#)), Mitsubishi ([monthly](#), [weekly](#)), Sumitomo ([monthly](#), [weekly](#)), Mitsui ([monthly](#), [weekly](#)) and Itochi ([monthly](#), [weekly](#)) fell in line with the overall index into the January lows but have rebounded well and found support above those levels. They would need to sustain moves below that area to question further higher to lateral ranging.

[Japan Steel Works](#) accelerated to its highs near ¥2000 in July last year and has moved into a [consolidation](#) of that gain. Given the relative performance of the overall index in that time, Japan Steel Works is holding up well. A sustained move below the January lows near ¥1350 would be needed to question potential for further higher to lateral ranging.

[Konami](#) is testing the top of the [7-year base](#) near ¥4000 and would need to sustain a move below ¥3500 to question scope for an upward break. [Pioneer](#) Corp hit a [25-year low](#) in January but has rallied in excess of 50% since then and would need to sustain a move below ¥725 to offset scope for some further higher to lateral ranging. [Sanyo Electric](#) has a similar pattern to Pioneer above, it also hit a [20-year low](#) but has almost doubled since. It would need to sustain a move to new lows to question potential for what could be some extensive base building.

Companies such as Sumitomo Metals & Mining ([monthly](#), [weekly](#)) and Toyo Zinc ([monthly](#), [weekly](#)) fell precipitously into the January lows but have since rallied impressively and appear to be finding support above those levels. They would both need to sustain a move below their January lows to question potential for further higher to lateral ranging.

Amongst sectors, the [Topix Banks](#) Index has fallen considerably in the last year and is approaching levels not seen since 2003. In 2003, Banks were leading the market higher and the resulting rally caused a large number of investors to reassess Japan's investment potential. On this occasion, as Banks continue to decline, they are not offering the same kind of leadership. This may indicate that Japan's recovery may take longer on this occasion, and may require some further support building before it can support a meaningful rally.

Citi Metals & Mining: The Oligopoly Busters - Thanks to a subscriber for this well argued [report](#) by Craig Sainsbury and colleagues which looks at two smaller iron ore producers. Here is a section on Chinese demand:

Our forecasts for Chinese domestic steel demand are driven by an intensity of use analysis of steel consumption based on Citi economic forecasts. We have lowered our Chinese GDP forecasts but IP growth is much less affected and we have increased our forecasts of fixed capital formation. The reason is an expected policy response by Beijing to a slowing external economy - we expect the domestic economy to be stimulated, especially infrastructure.

Although steel IP intensity shows signs of plateauing, FCF intensity shows no such sign. Our steel consumption and production forecasts are based on both data sets.

Our forecasts indicate that Chinese crude steel production will approach 750Mt in 2010, a trend growth rate of 13%/yr, compared with a historical trend of 21%/yr since 2000.

Chinese exports may be curtailed either because of government controls, or due to weak international demand; the implications are profoundly different. Beijing has been trying to curtail production from old inefficient and polluting blast furnaces but with mixed success. In 2007 29.4Mt of blast furnace capacity and 15.2Mt of steel capacity was closed, against planned cuts of 30Mt and 35Mt, respectively. The most recent initiative (December 2007) calls for the curtailment of 49Mt of pig iron capacity by 2010, bringing the total to 89Mt.

Changes in export and import taxes also designed to curtail production for export have been progressively introduced over the last 18 months. If Beijing succeeds in reducing production for export, supply will have to be met from elsewhere, most likely another Asian supplier. It is likely that the additional source will be more dependent than China on imported ore.

On the other hand, if exports are curtailed because of weaker global demand this would be damaging to markets. This is the most likely source of exposure of steel making raw materials to a US induced recession. However, the US accounts for only 8% of exports, other Asian markets being the main destination.

My view - Companies such as BHP Billiton and Rio Tinto offer probably the least risk, with greatest exposure, to this growth market. However, other companies will also benefit considerably from iron-ore's secular bull market. Regardless of the extent to which the US economy slows down, steel production is set to grow considerably over the coming decade, making iron-ore a progressively more valuable commodity.

Email of the day (1) - [on the Merrill Gold & General Fund listings](#):

"Eoin .. Regarding your query from a subscriber about the Merrill Lynch Gold and General Fund. The two different codes on Bloomberg are [MRCGLDI LN](#) for the income and [MRCGLDA LN](#) for the accumulation. A lot of unit trusts (or OEICS) I have seen on Bloomberg tend to have both accumulation and income "flavours" and the ending letter of A or I tend to let you know which it is you are looking at."

My comment - Thank you for this informative email which certainly expanded my knowledge of these instruments. Both listings for this fund are now in the Chart Library.

Email of the day (2) - on Constant Maturity Swaps:

"Could you please include the following in the Chart Library? Thanks very much.

"30 Year - 10 Year USD CMS Spread  
30 Year - 2 Year USD CMS Spread"

My comment - Unfortunately, the only prices for these securities on Bloomberg are proprietary to ICAP, so I can't view them and cannot add them to the Chart Library. If anyone knows of freely available prices for Constant Maturity Swaps on Bloomberg please let me know and I will add them.

Email of the day (3) - on charts and The Chart Seminar:

"Although have been following the markets for a couple of years now my past year with FM has been a revelation. So thanks to you and the collective.

"My apologies for asking a couple of obvious questions that may have been answered elsewhere.

"1. In actual terms what does a weekly chart tell you that a daily chart doesn't? I.e. when to use one vs. the other?  
2. When is the next chart seminar and where."

My comment - As we teach at The Chart Seminar, not looking at enough back history is one of the main mistakes people make with charts. If I had to pick one chart, it would be a 5-year weekly candlestick, because it gives us an idea of where we are in the medium-term cycle without crowding out too much of the most recent activity. A daily chart will keep us up to speed with what is happening on a finer scale but anything really important will also show up on the weekly chart. We always tend to look at the weekly first to put the most recent activity into perspective. The daily chart is also important because it alerts us to sudden changes and is useful when planning to enter or exit a short-term trade.

The next Chart Seminar is on May 15th & 16th. Places are limited so I would advise booking early. If you miss out on this one, the subsequent date is

November 13th & 14th. Here is a link to the [brochure](#) with details of the location, content and price.

Email of the day (4) - on how to find stocks in the International Equity Library:

"Could you please kindly add Novagold to the chart library (both [Canadian](#) and [US](#) markets)?"

My comment - Both of these listings are already in the Chart Library. Just go to the International Equity Library, which is the second listing on the main dropdown menu, and put 'nova' into the search engine. Both the US and Canadian listings will pop up.

<http://www.fullermoney.com/x/chartlibrary.html?secid=markets>

Today's interesting charts - Did you know it is possible to minimise sectors in the Favourites area of the Chart Library by click on the '-' sign to the left of the section heading?

Germany - finds [support](#) near the January lows and would need to sustain a move below that level to reaffirm the medium-term downtrend. Given the impressive bounce on [Wall Street](#) today, we may see this Index rally further in coming days but it needs to sustain a move above 7000 to indicate that a low of medium-term significance has been reached.

UK (FTSE-100) - finding [support](#) above the January lows but needs to sustain a move above 6000 to indicate that the bulls have regained market dominance.

US 30yr Treasuries - encountering [resistance](#) below 120 and would need to sustain a move above the January highs to offset scope for further lower to lateral ranging.

### **Wednesday 12th March 2008**

Investors Intelligence: Mike Burke and John Gray on Advisors Sentiment - My thanks to colleague Jackson Wong for this important [study](#) by Mike Burke and John Gray, published by Stockcube's long established US branch of Investors Intelligence. Here is a brief sample:

The sharp increase in advisor pessimism could be blamed on tumbling index action and the increased belief that the economy is in a recession. All three primary stock averages continue to trade below their declining 200-day moving averages and show penetrations of major support. Last week's acceleration to the downside was enough to cause the latest shifts.

The spread between the bulls and bears is -12.2%, a sharp drop from +5.3% a week ago. This is also the first negative difference since October 2002, shown on the chart as the prior move below the 'O' line. The recent readings remain bullish. There has been and an almost +55% shift in the sentiment

spread from the early October 2007 market high. That included a very negative +42.4% difference.

My view - Mike Burke has seen almost as many market cycles as the venerable Richard Russell, who incidentally is quoted in this report on the subject of inflation. John Gray also has decades of stock market experience.

These two colleagues at Investors Intelligence have done as well as anyone I know of in forecasting US stock market action over the last year. Their Sentiment Indicator: Bullish Advisors % Less Bearish Advisors %, is a top example of the behavioural contrary indicators that I like.

The trouble with people in the presence of good indicators is that they want important signals every day. Of course life is not like that, although this week is an exception. There have been only five clearly oversold readings for Mike and John's indicator in the last ten years, but they are the behavioural equivalent of gold dust. The high sentiment readings have been interesting, much more frequent and therefore inevitably less useful.

Investors Intelligence has long produced a great indicator for identifying stock market bottoms. Will it work this time? I think so. Many will say: 'It's different this time.' Yes, it is always 'different this time', in terms of the background fundamentals. Could the indicator be giving a false signal, soon to be confirmed by Wall Street moving significantly lower as so many expect. Yes, statistically, either because the credit crunch *really* does spell financial Armageddon, or perhaps a doomsday rock heading straight for earth is spotted by an astronomer tonight. However I would not bet on either of these remote possibilities anytime soon.

"If everyone is thinking the same thing, then no one is thinking."  
(*source of quote unknown to me*)

Triggers for a rebound for US stocks - My thanks to a subscriber who said: "First and only bullish thing I have read recently", for this interesting [report](#) by Yutaka Yoshino of Nikko Citigroup. Here are a few bullet points:

Looking back at earlier corrections - The DJIA is down about 17% from its autumn 2007 high. Since 1950, the average has seen sharper declines only seven times, and five of these have come in tandem with economic slowdowns.

Real interest rates could turn negative - In the five times the DJIA has undergone substantial corrections during economic slowdowns, real interest rates declined so far they became negative four times. In each of these cases, interest rates turned negative and stocks bottomed at roughly the same time.

Stocks have tumbled after the announcement of lower interest rates - US interest rates have been lowered five times since September 2007. Shares have risen in advance of the FOMC's announcements three times (prior to cuts announced on October 31, December 11, and January 29), then dropped

after the announcements. Despite substantially lower interest rates, stocks have continued to fall.

Further cuts could trigger a reversal - Now, however, because share prices have corrected substantially in advance of the next FOMC meeting, if another cut brings real interest rates to around zero, we believe this could be a powerful trigger for a rally.

My comment - I particularly commend to subscribers graphics 1 and 2 from this report.

My personal portfolio: JGB futures short rollover; gold futures long partially reopened - I'm living dangerously with this trade, as the rally in Japanese Government Bond [futures](#) has resumed, but fortunately I have a small position. My March short expired at 139.54 on Monday, against the sale at 137.26 on 19th February. As the account was on automatic rollover, I simultaneously sold the June contract short at 139.506.

I would caution anyone against tracking this trade as bonds may attract flight (fright) to "quality" buying for a while longer, given general nervousness. Additionally, while US long-dated T-Bonds are an extremely poor investment in my view, offering yields below even nominal rates of inflation, not to mention what any American household would regard as real inflation, the recapitalising of US banks via the yield curve could keep prices for these futures firmer for longer than one would otherwise expect in an environment where the inflation risks from food and energy prices are high.

This Faustian pact allows US banks to borrow from the Fed at favourable low short-term rates, and purchase higher yielding long-term Treasuries. Despite the use of considerable leverage in these transactions, one could grow old waiting for a significant recapitalisation, given the severity of the banks' balance sheet problems. Therefore they need capital gains as well, which their continued purchases of long-dated issues assists, and the Fed can also step in to buy to ensure that prices remain firm, at a time when some foreign governments or SWFs might understandably wish to reduce their inventory of US T-Bonds.

I reopened some [gold](#) futures longs today, despite my concern that we are now seeing the latter stage of this medium-term cycle within a secular bull market. Gold can appear dull relative to other precious metals, in terms of price action, but is probably less risky as a consequence. It has not accelerated, unlike the others, and the trend remains consistent. I bought three equal-sized units in the April contract, paying \$981.15, \$980 and \$978.95. If gold runs above \$1000 on this phase of its long-term bull market, as I hope, the other precious metals will probably do even better.

So be it - I am content to carry fewer and smaller trades so as not to erode earlier profits. Also, my standard policy following a good run, in which silver accounted for a large proportion of 2008's overall trading profits to date, I have siphoned off most of the excess funds. I tend to use leverage more

successfully when required to build up from a comparatively small capital base.

Prices above include spread-bet dealing costs.

Subscriber's Audio - This often provides my most detailed market coverage, not least today.

Additional Commentary by Eoin Treacy

Email of the day (1) - on TIPS and CPI calculation:

"Yesterday's comment re TIPS--"CPI does not take oil and food prices into account".

"I believe this is incorrect. The Fed preferred measure of the "core" inflation does not, but the "headline" CPI to which the TIPS are tied, does include energy and food prices."

My comment - Thank you for pointing this out. We were not previously aware of this nuance in the pricing of TIPS. Here is the definition of a Treasury Inflation Protected Security and how returns are calculated from Bloomberg:

The principal value of the notes will change daily, based on the CPI-U index (the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor). Daily accretion is based on straight-line interpolation, using the actual number of days in each month. There is a 3-month lag, so the October, 1996, CPI-U is the index level used for January 1, 1997, and the November, 1996, CPI-U is the index level used for February 1, 1997.

To find the CPI-U for any date in January, take the difference between the 2 index levels; divide by the actual number of days in the month; multiply the result by the date - 1 (Jan. 7 would be 6); add to the Jan. 1 value. Example: Jan. 1 level = 158.30; Feb. 1 level = 158.60;  $158.60 - 158.30 = .30$ ;  $.30/31 = .0096774$ ;  $.0096774 * 6 = .05806$ ; CPI-U for Jan. 7 =  $158.30 + .05806 = 158.35806$ .

The CPI-U is then turned into a ratio to calculate the accretion factor, by taking the index on the date and dividing by the index at issue. Example: The CPI-U for Jan. 15 - the official issue date of the bonds - is 158.43548. The CPI-U for Jan. 25 is 158.53226. The index ratio for Jan. 25 is  $158.53226/158.43548 = 1.00061$ .

In the case of deflation, the principal value will decline. However, should the principal value fall below 100 as a result of deflation, the Treasury will make

up the difference when the principal is repaid at maturity. Thus the maturity value of the bonds will never be less than 100.

The relevant CPI for Urban Consumers ([CPI-U](#)) can be found in the Monetary Measures section of the Chart Library. I am assuming that this is the correct figure because it corresponds with the results in this [report](#) from the Department of Labor. (See the section under CPI-U.)

According to [quantinvestor.com](#):

The next 5 year TIPS auction is coming up on April 22, and if the market yield stays in negative territory, the next coupon will be set at zero.

[TIPS](#) prices have gained 4.425% this year, while the comparative yield has fallen from 1.097% to below zero. For investors contemplating this market today, I maintain that while TIPS have outperformed Treasuries in the last months, CPI measured inflation would have to get seriously out of control for them to continue to maintain this position of outperformance.

[CPI-U](#) jumped from 2% to 4.3% since August, at least in part due to the surge in oil and food prices. It is now testing the upper side of the 16-year range and would need to sustain a move above 5% to indicate that this inflation measure had moved upwards from its base. This may occur given the consistent uptrend in oil prices, but if one is investing in TIPS; one is betting solely on price appreciation at these levels. If inflation measures break upwards then other assets, such as gold, will appreciate much more than these fixed income investments. If the CPI-U falls back from the upper side of the range, then the reason for holding these securities will have diminished and prices could fall quite quickly.

Email of the day (2) - on progressing versus regressing markets:

The following was sent to me from Moneyweek:

*"The second thing is that the decoupling theory has been completely debunked. As the US slows, so slows the world. Chinese exports of steel products fell a massive 29% year on year in February. Why? Because much of the steel once headed to the U.S. housing sector - which has collapsed. Exports to the U.S. dropped from \$19.2bn in January to £15.5 billion, as plumbers and plasterers all over the country laid down their tools. Chinese jobs are already going too. Expect them to keep doing so as the US consumer stops spending, and exports to the U.S., which currently stand at 21% of total exports, start dropping."*

"I know that one of Fullermoney's strategies is the Asia Pacific region. This decoupling argument has been batted back and forth over the last year but the article above seems a little one sided. Surely one can argue that the dependency of China on exports to the US has actually decreased over recent years and therefore even taking the point made here China should still see significant GDP growth albeit at a lower rate than we have seen recently? And

if this is the case is it not better to be invested in fast growing economies than ones in recession?"

My comment - Thank you for this insightful comment and welcome to the Service. According to the excellent Citigroup report on iron-ore by Craig Sainsbury, posted yesterday:

"...the US accounts for only 8% of exports, other Asian markets being the main destination."

If this is the case, the Chinese steel industry should be relatively well insulated from a US slowdown. Of course, steel is not China's only export, but many of its other exports are low cost products which should also do well in an environment where consumers are looking for bargains. Even considering these factors, it is unlikely that China will be immune from a US slowdown but it undeniably has the resources to withstand a mild recession.

I agree entirely with your closing remark. We often suggest that subscribers view the markets from the perspective of a judge at an international beauty contest. Right now progressing economies such as some of those in Asia are leading the world in terms of GDP growth, have trade surpluses, high inward investment, large numbers of graduates and are investing heavily to support the largest urbanization in history. When we compare this with the deficits, banking problems, growth of bureaucracy as well as shrinking and aging populations; the relative risks are skewed in favour of Asia for the long term. Many Asian markets will remain volatile, but periods where they fall by 30% or more are likely to be buying opportunities for those interested in holding them for the long term.

MorningStar Fund Spy Going Beyond the Hype of Green Investing: Part II - Thanks to a subscriber for this interesting [report](#) which looks at green funds and emphasises due diligence. Here is a section:

In the first half of this Fund Spy, I wrote that we've witnessed a growing interest in green funds, meaning those that are environmentally oriented. Since then we've added coverage on a number of green funds. We approach green funds as we would any other kind of fund, which bears remembering, because the hype around green funds can be pretty tough to cut through. We home in on a green fund's strategy to uncover its risks and to get a grasp on how an investor might use it. Scrutiny of a green fund's management, including its experience and research support, gives us an idea how well-equipped it may be to handle the risks of its approach and to add value for investors. We also check out funds' price tags because high fees take a big chunk out of funds' gains. Investors should read the description of a fund's strategy closely because there are more shades of green than we thought possible. For instance, Portfolio21 ([PORTX](#)) invests in companies around the globe that employ environmentally and socially sustainable business practices, such as European mega-retailer Carrefour. That slant gives it a broader sector range than most green funds and makes it diversified enough to use as a core holding. Spectra Green (SPEGX) has a similar large-cap bias

and is also well-diversified across sectors, making it an option for green investors seeking a domestically focused core fund.

Yet most green funds would be suitable only in small doses. Many, such as Winslow Green Growth ([WGGFX](#)), emphasize smaller, riskier companies. Others, such as Calvert Global Alternative Energy ([CGAEX](#)), focus on narrow slices of the market. Many are quite concentrated: As of late, Guinness Atkinson Alternative Energy ([GAAEX](#)) and exchange-traded fund PowerShares WilderHill Clean Energy ([PBW](#)) had roughly 90% of assets stashed in the hardware, industrial-materials, and utilities sectors alone. That concentration is a big reason we're wary of many of the green ETFs we've seen. We just don't think investors need a water-based ETF such as Claymore S&P Global Water ([CGW](#)), or the ultra concentrated Market Vectors Environmental Services ([EVX](#)). Funds with concentrated portfolios or a pronounced small-cap tilt court plenty of volatility and should be approached with caution.

My view - This piece makes the important point that it is essential to know what a fund is holding to make sure it will perform in line with the shares one favours. As oil prices continue to set new highs, the minds of many investors are concentrated on green energy and conservation of our environment. However, while these are laudable aims, none of the funds listed in the above article are setting new highs in line with the oil price. For the most part, they tracked the wider market on the way up and have had a mixed performance since the January lows. I believe that alternative energy is a growth field, but none of these funds are mimicking the performance of some of the leaders in this sector.

For example, [Vestas Wind](#) is testing its high, following a 35% correction which found support in January. A sustained move below 500 would be needed to question potential for an upside break.

[Natural gas](#) is often also considered a green fuel because it is less polluting than oil. It broke upwards from a two-year base in mid-February and remains in a tight consistent uptrend. A break of the rising lows would indicate that the imbalance of supply and demand has diminished, while it would need to sustain a move below \$9 to question overall upward scope. A number of funds and trusts track the price of natural gas, many of which can be found in the Chart Library.

Eoin's personal portfolio: Nikkei long rolled forward - My Nikkei long in the March contract was rolled forward this afternoon. This resulted in my March position being closed at 12980 against my purchase on February 1st at 13,700. The [June](#) contract was purchased at 12890.

Email of the day (3) - on an addition to the Chart Library:

"Hi there - could you please add Franco-Nevada Corp ([FNV.TO](#)) to the chart library - many thanks"

My comment - [This has been added to the Chart Library.](#)

Today's interesting charts - [Did you know it is possible to change the box size of your p&f charts using the Charting tool on any p&f chart?](#)

Shanghai A-Shares - remains in a medium-term [downtrend](#) and would need to sustain a move above 5000 to break the progression of lower highs and indicate that demand has returned in force to the market.

Tin - [breaks upwards](#) from the short-term consolidation and would need to sustain a move below \$19000 to question scope for further upside.

Korean Won per 1 US Dollar - the [Dollar](#) continues to appreciate against the Won and would need to sustain a move below 960 to question scope for further upside.

Rough Rice - [breaks upwards](#) to new highs ground and would need to sustain a move below Monday's lows near \$17.25 to limit potential for some further upside.

#### **Thursday 13th March 2008**

What Gold Is Telling Us - [My thanks to a subscriber for this informative article by Arun Motianey of Citi Global Wealth Management Investments. You will see a brief portion within the email posted immediately below.](#)

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

"Hope you, your family and your investments are doing well. Think, you may be interested in the research by Citi Private Bank economist called "Gold's rush: what the rally means" (the final chapter of the attached report). The main idea is that gold is rising not just because of the falling dollar. "It is not loss of confidence in any particular currency that is at issue here; it is the loss of confidence in the standard that underlies the whole system... Fiat money makes the central bank the legally mandated guarantor of stability in an economy. As such, its credibility is the mast to which all economic decisions that involve future payments are tied. There would be trouble if central-bank credibility - specifically, that of the Federal Reserve - was ever called into question. Now we also know the price of gold is rising rapidly. So, similar to the 1970s, today we could be witnessing the gradual loss of confidence in a standard - but this time, it's in fiat money."

"Maybe you find other chapters interesting as well, I simply didn't look into them.

"Another report by Citi (of March 5) is called "Testing The Bull". As its name reveals, it tests the Citi analysts' idea of credit/equities cycles, the research you liked so much."

My comment - All is well with us in London, as I trust it is with you in Moscow. Citi produces some good research and this report certainly qualifies. I agree with the contention that you partially quote above. Once the long period of disinflation engineered by Paul Volker ended earlier this decade, it was only a matter of time before people realised that they were being bamboozled once again by fiat money.

My impression following a quick scan of the other sections in this report is that subscribers will find them interesting as well.

Email of the day (2) - [On coping with tough times](#):

"Just following up on your comment about not completely trusting the Australian banks assurances on sub prime - this [article](#) appeared in the weekend Australian newspaper, and I have another question which I hope you could shed some light on. I am only a fairly new subscriber and also a fairly new investor and have loved the recent interaction between yourself (optimistic camp) and the guy who wanted you to join his side (the bearish camp). I was firmly entrenched in the bearish camp but was swayed by the conviction in your writings, the level headedness of your research and the chart based reasons. Suffice to say that I have been torn between the bullish and bearish camps over the past 4 weeks and have only succeeded in tearing myself a new one (i.e. losing money). Could I ask you your advice on how you stick with your investment convictions, especially in the face of wave after wave of bearish news? How did you develop the mental strength to stay with your positions? How much would you say is chart based? I particularly refer to the theme of recent emails saying that you would give the benefit of the doubt whilst the Jan 22 lows hold). Does it purely come down to weighing up all the evidence and then sticking with your gut feeling?

"Thanks again - I must say for all the emails you get saying how they would pay much more for the service and that you could easily charge much more, I am one of those who loves that you don't!"

My comment - [Thanks for your kind words and welcome to Fullermoney, which I hope will help you to develop your investment and trading skills over the long term. Thanks also for the informative article, which I have posted in the Subscriber's Area.](#)

[Regarding discussions between bulls and bears in the emails, I want to state emphatically that I respect the views of many people who are currently more bearish than I am, not least some very experienced and knowledgeable subscribers who have excellent track records. In a debate, I would have no trouble in also arguing the bear case. That is what makes this business so fascinating and challenging. No one has all the answers; no one has cornered the market in perspective, and none of us know the future.](#)

[Disagreements among reasonably informed and experienced people are often a matter of emphasis. Today, I am particularly interested in sentiment indicators and a number of these have been ringing bells recently, at least for](#)

me. They include the first net insider buying in the USA since 1995, the highest short interest since the 1930s (both reported by Bloomberg in late January in articles posted on this site), and the Advisory Sentiment Indicator from Investors Intelligence, which I posted yesterday. There are of course other factors, discussed here and more frequently in the Audio, as that is such an efficient means for Eoin and myself to convey our views.

What about the awfulness of the excesses and credit crunch, some might say. The problems are serious but I believe it is the response that will count most in terms of markets. On the one hand, we have seen waves of deleveraging, which are still in progress. More recently, we have seen increasing injections of liquidity from central banks, which I assume will continue. The deleveraging is consigning some dubious instruments to the financial sin bin and also creating some outstanding value. Those instruments will perform very well over the medium term, and we intend to identify some of them, in addition to Fullermoney secular themes.

Your other questions are partially answered in my response to Email (3) below. Additionally, "wave after wave of bearish news", as you accurately stated, ensure that quite a few of the problems have been discounted. I expect waves of bearish news, real and imagined, at market bottoms, and a surfeit of good news at tops. I do not accept that we are currently dealing with the financial equivalent of [necrotizing fasciitis](#), although it may seem like it when so many extrapolate their fears (or bearish hopes).

As to "mental strength", to the extent that I may have it, I hope this is based more on common sense than stubbornness. These times are stressful for all of us and I hope to remain analytical rather than lose my perspective in a tide of emotion. It helps if you have a balanced life and maintain a sense of humour when the market is behaving like a drama queen.

Email of the day (3) - On crowded trades and risk of hedge fund dumping:

"In today's [*Ed: recent*] audio you talked about the crowded trades including precious metals. Could you please elaborate on resources shares like BHP & RIO. I am on board with the long term theme but worry that this too is a crowded trade that may get dumped by hedge funds when the current wider market malaise ends & offers better value."

My comment - This is a question that I often receive, in different forms from different subscribers.

As investors, we should assume that a degree of volatility is not only likely but inevitable. Share prices fluctuate daily and have always been vastly more volatile than any change in the underlying fundamentals. This is due to the excitable nature of crowds, which causes sentiment to fluctuate between manic and depressive extremes.

Consequently, this factor needs to be incorporated in our investment tactics. For instance, we should aspire to buy-low-and-sell high. Every great investor

will tell you that the best buying opportunities occur when everyone else is selling. Conversely, the best selling opportunities occur when everyone else is buying. Psychologically, this is not easy to do but the logic is obvious.

As an investor, you should have a very good idea as to whether you are participating in fundamentally sound themes, or momentum speculations. Like you, I regard BHP & Rio as core positions in Fullermoney's secular resources theme. And yes, anything can be dumped by a panicking crowd, including deleveraging hedge funds.

You can try to anticipate this, as many do, hoping to outsmart the crowd. This will be a win-some-lose-some situation, taking up a lot of energy that might be better spent elsewhere. In contemplating this strategy for unleveraged core investments in fundamentally attractive themes, we should ask ourselves: did Warren Buffett achieve his extraordinary success by trying to second guess hedge funds and turnover his portfolio accordingly? I do not think so.

Email of the day (4) - On the margin clerk:

"Somebody who was told about the sentiment study answered today: "Tell that to the margin clerk"."

My comment - And I trust you said to them: That is another contrary indicator.

Taking a medium to longer-term view, think of all the risk that is being removed from the financial system by this deleveraging.

Email of the day (5) - On investing in the renminbi:

"I have been advised that investment in the Chinese currency would be a sound idea. What is there available for this?"

My comment - You have heard it here as well. If I could own the renminbi - arguably still the world's most undervalued currency - I would. Unfortunately, until it is freely convertible the vehicles claiming to offer renminbi positions are priced for the vendor rather than the buyer.

Today's interesting charts - New subscribers will find many of their Library questions answered by the "[Help](#)" link shown upper right.

Gold - Touched the psychological \$1000 [level](#) today; a close under \$960 would be required to suggest more than brief resistance here.

US Dollar Index - Extending [decline](#) after brief pause; requires upward dynamic and / or move above 73.40 to check decline and indicate a technical rally.

US (Dow) - Still [bouncing](#) from January lows in potential bottoming activity but a sustained move above 12,800 is required to confirm a significant improvement.

Additional Commentary by Eoin Treacy

Deutsche Bank, Megacities: Boundless growth? - [Thanks to the team at Deutsche Bank for this interesting report](#) examining the growth of cities and the global trend towards urbanisation. Here is a section:

Over half of the world's inhabitants now live in cities, and only theoretical arguments can be put forward at best to say why the development of the past few centuries might end in the near future. Edward Glaeser's question as to whether cities are dying can reassuringly be answered with "no". There will of course be cities that shrink in size going forward, either because their sectoral base crossed the zenith of development and no new focus could be found, or because of natural decreases in population size. Some cities are known to have shrunk or even collapsed in past centuries. In fact, records on the global cities of Paris and London show they experienced phases of a declining population. These declines very frequently came in reaction to shock situations such as epidemics, wars or changes of regime. They are virtually impossible to forecast in any sensible way; a general rule of thumb for all cities in the world is that the population is unlikely to go down as long as the world population continues to grow.

This suggests that the megacities will continue to grow and that new megacities will arise. One key point to bear in mind, though, is that urbanisation happens mainly in the world's countless medium-sized cities. In future, the populations there are expected to grow faster than those in the megacities. In fact, this will probably be desired and politically managed in order to reduce the costs of population agglomeration in the megacities and better distribute the benefits of urbanisation on a regional basis. Special economic zones have proven effective as instruments of urban development. Financial incentives enable companies to be attracted to specific regions. Once a cluster has been established, the incentives may be discontinued, for the region then develops its own powers of attraction. Of course, this only functions if existing location factors are also taken into account; otherwise, the necessary subsidies may reach slightly prohibitive levels. Political will alone will usually not suffice to secure a permanent solution. In the long term the sustainability of the economy is the decisive factor for urban development.

It looks as though megacities will continue to grow in the decades ahead. However, their growth will increasingly be limited by the costs of population agglomeration and the success of competing locations. These two factors will ensure that not all Americans come to live in New York, not all Indians in Mumbai or Delhi, and not all Koreans in Seoul, for this would be the logical consequence if these limiting factors did not exist.

My view - At Fullermoney we exemplify the global trend with half your analytical team living in the city and the other half in the country. However, globally the trend towards city dwelling continues to expand and is putting pressure on the ability of governments to build infrastructure fast enough to meet the demands of future urban populations.

While the growth of China's urban population and that country's drive to ensure supplies of resources is well documented, other countries are now starting to respond to this move. India has a similar sized population to China and while the regime is more farmer friendly than China, the trend towards urban living is no less influential on the direction of policy. Areas of Europe and the USA suffer from aging infrastructure which needs to be upgraded in the coming decades. In this move they will have to compete for supplies of raw materials with emerging economies. This trend is set to continue for decades to come.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his ever-interesting [report](#) on the Indian economy. Here is a section:

Rules were tightened so that money raised abroad of more than \$20m has to be spent overseas and not remitted to India as excess capital inflows led to a surge in Rupee appreciation which in turn hurt exports and jobs and complicated monetary policy. Finance Minister Mr Chidambaram last week said that measures were introduced on a temporary basis and Finance Secretary, Mr D. Subbarao, a former World Bank economist, told Reuters that several factors would determine a change in policy, but they were not there currently. He listed the factors as the level of overall capital inflows, behaviour of the Rupee against the US Dollar, the situation in global financial markets and events unfolding as a result of the U.S. sub-prime crisis. He added that "we are anxious to withdraw them (the restrictions) as soon as possible....because we need investment into infrastructure, we need investments into this country".

My comment - The Dollar topped out against the Rupee in 2002 near R49 and following some right-hand extension embarked on a downtrend. The [Rupee](#) fell in value against the Dollar for 21-years and while this has now reversed, it will not get back to its 1980 position of strength in a linear fashion. This strengthening will be gradual and will take a number of years, even decades to reach its potential.

From an investment standpoint, if the Rupee is now in a secular bull market against the Dollar, as seems likely, this will provide an added impetus to overweight the country's markets. The Dollar recently steadied near R40, but it would need to sustain a move above R45 to question potential for further weakness.

Girl Power May Be Just the Thing for Asian GDP - This insightful [article](#) by William Pesek covers one area where many economies have a great deal of room to improve. Here is a section:

Sandra Lawson, an analyst at Goldman Sachs Group Inc. in Hong Kong, marked the day with a report titled "Women Hold Up Half the Sky." It refers to a Chinese proverb about the pivotal role women play in economies. Lawson focuses on how things might be if governments did more to address the imbalance that persists between men and women in education, health, work, wages and political aspirations.

"At the macroeconomic level, female education is a key source of support for long-term economic growth," Lawson writes. "It has been linked to higher productivity, higher returns on investment, higher agricultural yields and a more favourable demographic structure."

It's the latter benefit India's latest initiative hopes to achieve by not only encouraging families to have girls, but to educate them better. That's why it is spacing out payments to families -- to make sure girls end up in school.

"The economic growth that results from education feeds a virtuous cycle, supporting continued investments in education and extending the gains to human capital and productivity," Lawson says.

## BRIC Economies

Gender discrimination isn't something on which investors tend to focus. It doesn't feed handily into stock valuations, bond yields or gross domestic product figures. Yet it's one of the region's least-appreciated weaknesses.

Lawson's report mostly emphasizes the BRIC economies -- Brazil, Russia, India and China -- and the "N-11," or the next 11 growth stars. They are: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam.

While it's a disparate group, Lawson estimates narrowing the gender gap could boost per-capita income by as much as 14 percent by 2020 and 20 percent by 2030.

Economists such as Lawrence Summers have long argued that returns on investment in female education exceed those on boys. The more educated women are, the more likely they are to invest in the health and education of their families. It leads to an economic ripple effect from one generation to the next.

## Unfortunate Misperceptions

So if you are wondering whether to invest in India versus China, Thailand or Malaysia, you could do worse than track the level of commitment to educating girls. The payoff comes in higher wages, lower mortality rates, healthier workers and greater entrepreneurship.

The under-education of girls is driven by a complex mix of causes, often lumped under the heading of culture. "Its prevalence across so many countries strongly suggests parents think the returns on girls' education are

limited and lower than those of boys," Lawson says. "This perception is in fact a misperception, and an unfortunate one."

The issue transcends education. Look no further than Japan, where women are still struggling to achieve anything approaching equality. It's not about schooling, but institutionalized sexism.

In 2007, Grant Thornton International surveyed 7,200 privately held businesses in 32 countries, representing 81 percent of global GDP, to gauge gender gaps for top-level executives. Japan came in last.

My view - I believe it is no coincidence that the most egalitarian countries are also some of the wealthiest.

Email of the day (1) - [on investing in agricultural land](#):

"Do you or any member of your investment community know any index, index fund or ETF related to the pricing of agriculture land?"

"Many thanks for your great service,"

My comment - [Thanks for this interesting question](#). I'll be the first to admit to knowing very little about how to invest in agricultural land, and while I believe it is a potential growth story, there are apparently only a limited number of reputable companies which do so. The only one I know of, off-hand, is the recently listed [PrimeAg of Australia](#). If subscribers know of others I would be happy to add them to the Chart Library. (Also see [Comment of the Day on November 19th 2007](#).)

Email of the day (2) - [on additions to the Chart Library](#):

"Hello. I tried to find the following fund in the Chart Library without success, so I'd appreciate your adding it. It is the Permanent Portfolio (US), symbol PRPFX. This is a very interesting, and unusual fund, investing in some of the FM themes. Thank you."

My comment - [Thank you for this interesting suggestion, which has been added to the Chart Library](#). The [Permanent Portfolio](#) has a [management fee](#) of 0.95% and does not appear to have any other charges. While it posted a mundane performance throughout the 1990s when inflation was not a problem, it broke upwards from the long base in 2002 and remains in a consistent uptrend. It has an unbroken progression of rising lows over the last 7 years and these would need to be breached to question upside potential. Of course the performance of the fund will depend to a great degree on the consistency of the managers. We urge subscribers to do their own due diligence.

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

"Could you, please, add this fund to the Chart Library as its geographical reach might be of interest to fellow subscribers: Standard Africa Equity Fund - IE00B23Q2M41"

My comment - [The Standard Africa Equity Fund](#), listed in Ireland, has an initial maximum [charge of 5%](#) and a 2% management fee. It has only been in existence of about 6 months and has performed quite well. African funds are growing increasingly popular as the growth potential of the region is more fully appreciated, but they also carry significant risks associated with political uncertainty. More importantly, these are thin markets and are susceptible to significant moves in both directions as capital moves in and out. Due diligence, as with any other investment, is essential.

### **Friday 14th March 2008**

Financial Times: Intervene to slow the dollar's decline - [Here is today's editorial from the Financial Times:](#)

Selling the dollar is now close to a one-way bet. So great is concern about the health of the US financial system that the dollar traded below Y100 yesterday, and above \$1.56 against the euro. The danger of a dollar rout is rising, and the Federal Reserve, European Central Bank and Japan's Ministry of Finance should co-ordinate intervention to slow the greenback's fall.

Aggressive rate cuts and fears that US taxpayers will have to bail out their banks are undermining the dollar. Both make a surge in US inflation more likely, and since the Fed first cut rates last September the risk has been that foreign investors lose confidence, dump assets and trigger a run on the dollar.

The dollar's decline is accelerating. It fell by 10.4 per cent against the euro in 2007 and appeared to stabilise in December and January, but in the last month it has dropped by a further 6.5 per cent. In trade-weighted terms the dollar has fallen about 3 per cent so far in 2008.

A weaker dollar is an essential tool to stimulate the US economy, but a collapsing dollar benefits nobody. If investors start to dump dollar bonds then the Fed could lose control of long-term interest rates, so rendering monetary policy ineffective. Europe and Japan, meanwhile, would suffer a savage adjustment in their export sectors.

It would be pointless, foolish and wrong to try and fix the dollar at its current level. Markets are the best way to determine exchange rates, and on a trade-weighted basis it is far from clear that the dollar has overshot its fair value. But what intervention might do is slow the decline, by putting fear in the minds of momentum investors who are selling short on margin.

Limited objectives are one pre-requisite for a successful intervention. Another is co-ordination. On past form Japan must be close to unilateral action but a joint move with the ECB and the Fed would be better and more likely to succeed.

A third prerequisite is the cooperation, if not the active aid, of Asian nations that manage their currencies against the dollar. Their central banks could take the other side of an intervention trade in order to diversify their reserves out of dollars and into euros and yen. Instead, they should now allow, and the G7 should press for, faster appreciation of their currencies.

Intervention is never ideal - some of today's problems stem from past manipulations - and there are large risks, most notably that central banks fail and lose credibility. But if the above conditions can be met, some action to stabilise the dollar would be a sensible part of the response to global financial turmoil.

**My view** - As the US dollar's decline gathers pace, people are beginning to talk about multilateral intervention, an event that I have often said would be required to eventually stem the greenback's decline. However it is likely be more difficult this time. For more on central bank intervention, here is one of my earlier comments from 11th October 2007:

*Multilateral intervention would be the most effective means of steadying the USD as I have frequently mentioned before (search under 'multilateral intervention' if interested). I maintain that it will occur at some point, probably preceded by jawboning, assuming that I am also correct in forecasting a weaker dollar. Much depends on the speed of a further decline by the greenback. An accelerating slide would be perceived as a crisis, forcing a response. However there would be less urgency with a ranging decline, which is what we have seen to date. Multilateral intervention would trigger a short-covering rally in the dollar, simultaneously causing a knee-jerk reaction in precious metals and many other commodities. However the dollar's lows would be retested, judging from previous interventions, and it would be some time before long-term trends were changed.*

And on 22nd October 2007:

*...even in the event of multilateral intervention, a rare but previously successful activity in the post Bretton Woods era about which I have often commented, other central banks would inevitably find themselves holding even more US dollars. The probable difference this time, and I do expect multilateral intervention in support of the dollar at some point, is that central banks will almost certainly have fewer opportunities of selling the additional greenbacks on at a trading profit, as we have seen following earlier support operations. Moreover, their intervention would invite freeloading by enabling other central banks, uninvolved in the support operation, to sell some of their unwanted US dollars.*

*What we are witnessing is the long, slow devaluation of the dollar as the world's primary reserve currency - a process likely to last for decades, just as occurred with Great Britain and sterling in the last century.*

*To date, this has been an orderly process in that the US dollar's downward steps are punctuated by ranging periods, some of which have been lengthy.*

*Quite unintentionally, this process of periodic short-covering by traders, as we are seeing today, has so far staved off a panicky currency crisis. I do not assume that this will always be the case.*

*A logical tactic of forex traders is to stay with the momentum moves until they slow. Individual central banks have had some temporary success in slowing their currency's appreciation against the US dollar, mainly by jawboning.*

However with US interest rates declining, the Fed printing, America's economy the epicentre of global weakness and its creditor governments already holding what they regard as uncomfortably large dollar positions, the greenback is unlikely to stage more than short-covering rallies until the US economy is recovering and the Fed raising interest rates.

Consequently, it is unlikely that multilateral intervention to support the dollar, which would probably have to be repeated, could produce more than some short, sharp rallies. Given the perilous state of the US economy, I believe it will be some time before we see a major rebound by the US Dollar Index ([historic](#), [monthly](#), [weekly](#) & [daily](#)).

Email of the day (1) - [On John Templeton and emotions](#):

"I've just been reading the new John Templeton book and its markets like these he loves. I doubt he would be even interested in Wall Street's problems at this stage other than the contagious opportunities it may offer. (Where ever they happen to appear) Some of the key strategies he would be employing come from plain hard preparatory work. For instance at the top of the Tech market he shorted a number of shares based on his investigations as to when the lock up period for the owners ability to sell stocks ended. He will have already identified companies and markets he views as great investments and if this market reaction takes them into his undervalued range he would be pouncing (who cares if they go lower he might pick up more). The buy low sell high principle, sounds easy but [is] particularly hard to do when emotions are running wild. The Chart seminars I attended a couple of years ago made particular mention of the need to know oneself and how your emotions and your current emotional well being can have a dramatic impact of your investment fortunes. This has been particularly beneficial to me. Thank you for continuing to promote that attitude through your daily site. I've attached an article from the Financialsense website which may be of interest.

My comment - [Thanks for this valuable contribution to the discussion, and also for the fine, educational article which I have posted in the Subscriber's Area.](#)

Clif Droke on: [George Soros and the worst financial market crisis in 60 years - This superb article \(also in PDF in case the link is dropped\) was forwarded by the thoughtful Subscriber who wrote Email \(1\) immediately above. Here is a sample of the behavioural / contrarian approach taken by Clif Droke:](#)

Fundamental and technical analysts and financial pundits of all stripes are busy wracking their brains trying to analyze the deluge of negative news. Yet the single most reliable method of news analysis is being grossly ignored by almost everyone. The analysis I'm referring to is what I like to call "Granville analysis." Granville analysis is based on Joe Granville's classic observation, "The obvious is obviously wrong."

It's so simple to perform Granville analysis that anyone with a modicum of common sense can do it. Here's how it works: simply make a list of all the bearish or super pessimistic news headlines concerning the economic and financial market outlook. Instead of taking these headlines at face value, make a cumulative index and add together all the headlines from the mainstream media that agree with each other. Then apply Granville's Golden Rule to each one. Each time you see a super bearish headline, remind yourself that everyone else already knows and believes this to be true and the value of commonly believed information is exceedingly small. Remember at all times Granville's Golden Rule, "The obvious is obviously wrong."

Another way of phrasing this observation is found in Laszlo Birinyi's famous "Cyrano Principle," which states: "If the concerns of the market are as obvious as the nose on your face, the market and monetary policy makers will have an amazing ability to adapt and adjust."

My view - Perhaps George Soros shorted the stock market, along with some of the other super bears, including Jim Rogers who is very candid about it.

If this *really is* the worst financial market crisis in 60 years, and Soros is not alone in this view, then we may have only seen a penultimate low, or perhaps the convalescent bottoming out process will take the better part of two years, as we saw from 2001 to 2003. However if Soros is wrong it could also be much shorter. Obviously no one knows for sure but I remain optimistic that weak stock markets have commenced the end game in terms of their declines, and we should remember that some equity markets are actually quite strong.

I can recall some other extremes in terms of sentiment, as will subscribers of my generation. It was "the end of capitalism as we know it" in late 1974, one of the best buying opportunities in history. We heard the same after the Crash of 1987, along with forecasts of a "global depression". These extreme views reappeared in 2001-2002, with forecasts of a "global deflation" to rival the 1930s.

Call me nonchalant (it's been said before) but I'm slightly more worried about another doomsday rock of the sort that killed all those cute dinosaurs on at least a couple of occasions billions of years ago. Meanwhile, the progressing economies roll merrily along, food and energy inflation aside, and the Wall Street leash-effect is creating some of the best fundamental valuations in five years.

See Eoin's studies on high covered yields, below.

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

"I'm following up on Eoin's comment this morning about the rupee being in a secular bull market against the \$ and this adding impetus to the overweight position in the country's markets. I took a 'baby steps position in the JP Morgan India Inv Trust at the beginning of January and I've doubled the position since on the way down.

"Problem is I don't see much support for this market much before about 14,000 on the Sensex and I am down 24% already but holding my nerve! Is 'holding my nerve' just brave talk for not bailing out when the 20% stop got hit? The charts tell me to bail it!

"Problem is there doesn't seem much support for this market."

My comment - [With volatile instruments we usually say: "Best purchased on weakness"](#), which is what you appear to have done with the second bite. If it is an unleveraged position, I would forget about it. Anything can happen in these emotional markets over the short term but I suspect you will do extremely well over the longer term.

I would expect to see at least one bungee jump by India a year, even during overall bullish periods for global stock markets. In today's environment they will be more frequent. Personally, I regard [JII](#) as being in a buying range, although it could still go somewhat lower before it eventually resumes its secular bull market.

Email of the day (3) - [On India's governance](#):

"I wonder if you have seen this? Interesting, albeit negative and raising issues which have been known for a while.... Stones for the wall of worry?"

My comment - [Thanks for the article](#). While I am not a fan of the Economist, this is an intelligently written update and rehash of India's well known governance problems.

We either view India's governance as a glass half full or half empty. I take the former view. Sadly, I cannot say the same for governance in the UK, USA, Japan or many other so-called developed countries, which I personally regard as regressing.

My personal portfolio: A profit taken in gold futures trade and reopened in another account offering better trading hour stop protection - [I maintain that we will see multilateral intervention to support the US dollar at some point](#). This will cause knee-jerk reactions in high-flying commodity markets. Consequently I want stop protection for all market time zones. Accordingly, I moved a [gold](#) trade, selling an April position at \$1000.5 against my purchase at \$980 on 12th March. I then reopened the trade in another account, paying

\$1000.65.

Email of the day (4) - [On the Fed, USD and gold:](#)

"Seeing that we have a FED meeting next week...and expiry....Should the FED cut again...they have no choice now....aren't we getting ever closer to a USD and UST problem? How much GOLD should one really own? Where is the safe haven?"

My comment - [These important points and much more are covered in the Friday big picture, long-term Audio.](#)

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

"Never invest in any idea you can't illustrate with a crayon."  
Peter Lynch, courtesy of Pradeep

Additional Commentary by Eoin Treacy

Which companies pay reasonably high yields and can cover their dividends? - This afternoon I searched the [Bloomberg database](#) for companies which had gross indicated dividend yields of more than 4% and a dividend cover of more than 2. The countries covered in this [report](#) are the USA, UK, Australia, Switzerland, the Eurozone, Japan, Canada, Indonesia, India, South Korea, New Zealand, South Africa, Thailand, Taiwan and Hong Kong.

In uncertain market environments, investors tend to retreat from assets they perceive as risky and are more attracted by higher yielding assets because of the consolation a sustainable payout provides. Some of the companies on this list may run the risk of going bankrupt or cutting their dividend. The reason we selected two times dividend cover was to weed out the most obvious candidates for a dividend cut, but that does not insulate the list from that risk.

One immediate conclusion is that the USA has a surprisingly small number of companies which fulfil the criteria. Although the interest rate in the USA is lower than some of the other markets, we see that in Europe, where interest rates are 4%, there are a much larger number of companies paying a yield of more than 4%. So few companies matching the search parameters may suggest that the relative risks of investing in the USA compared to other markets are higher.

The only bank on the US list, [Wells Fargo](#), has held up comparatively well when measured against its peers. It has not tested the January lows and would need to sustain a move below \$27 to question scope for some further higher to lateral ranging.

On seeing that the USA had so few companies with a relatively high yield and ability to cover that yield, I did an additional [search](#) of the S&P 500 and Nasdaq 100 for stocks with a Price / Book Value of <1. This resulted in 46 names. Companies towards the bottom of the list such as Countrywide are already speaking with receivers, while Ambac and Bear Stearns run the risk of going bankrupt. A number of other companies also run that risk, but this list also inevitably has a number of companies which offer value around current levels.

These reports are not meant to be a recommendation for anyone, but are intended to highlight companies with some interesting fundamental characteristics. We would urge subscribers to do their own due diligence before making any investment.

Korean Won Set for Biggest Weekly Loss Since 2003 on Outflows - [This article](#) by Yumi Teso for Bloomberg covers some interesting developments in the Korean Won. Here is the article in full:

South Korea's won headed for its largest five-day decline since April 2003 as overseas investors sold the nation's assets. Bonds fell every day this week.

The won slid for an 11th day, matching the number of days fund managers based abroad sold more of the nation's shares than they bought. An industry report today may show U.S. consumer confidence fell this month to the lowest in 16 years, adding to concern demand in Korea's second-biggest export market will cool.

“The trend of a weaker won and sell-off of the nation's assets may remain in place for a while,” said Hideki Hayashi, chief economist at Shinko Securities Co. in Tokyo. “Foreign investors are selling the equities and bonds of Korea.”

The won weakened 0.2 percent to 984.45 against the dollar as of 9:48 a.m. local time, taking the weekly loss to 2.7 percent, according to Seoul Money Brokerage Services Ltd. The won may drop to 990 in a month, Hayashi said.

The currency touched the lowest in two years this week, prompting a senior Bank of Korea official to say the loss in the won was “too fast.”

A widening current account deficit and continuing outflows from stock sales are driving the won's decline, Ahn Byung Chan, director-general of the central bank's international bureau, said on March 10. Korea is “closely watching” the foreign-exchange market, he said.

Benchmark three-year government bond yields rose 2 basis points, or 0.02 percentage point, to 5.26 percent, according to Korea Exchange. The price of the security due in December 2010 fell to 102.75 from 102.76 yesterday and 103.37 a week ago. The yield gained 28 basis points this week.

My view - Over the last 8 years the Korean Won has been steadily appreciating against the US Dollar. In fact it has appreciated by more than any

of its regional competitors, with the possible exception of the Singapore Dollar, and is one of the few currencies that has risen back to its pre-Asian Financial Crisis levels.

The Dollar's downtrend against the [Won](#) lost momentum following the break below 950 in May 2006 and it eventually found support at 900 late last year. The impressive upward dynamic this week, pulling the rate back to 1000, broke the progression of lower rally highs. Following the impressive advance over most of the last decade, the Won may now slow its advance; having re-attained its pre-1998 value. In the short-term a move below this week's lows would be needed to question scope for some further Dollar strength.

Interestingly the Won is one of the few currencies where the Dollar has strengthened appreciably over the last few months and probably points to more South Korea related factors than USA specific issues. This is borne out by the Won's weakness against the [Renminbi](#), [Euro](#) and [Yen](#) over the last few months.

The [Kospi](#), in common with a number of other Asian stock markets, is testing its January lows and would need to sustain a move below those levels to question scope for some further higher to lateral ranging.

Ma Won't Meet Hu, Will Improve China Ties If He Wins - [This article](#) by James Peng and Stephen Engle for Bloomberg covers the ambitions of Kuomintang presidential candidate Ma. Here is a section:

In a speech Feb. 26, Ma outlined his national security policy which included a shift away from the current government's "offensive defense", or counterstrike, strategy to one based on Taiwan defense forces' knowledge of local terrain and ability to delay any attack from China.

Ma also proposed China and Taiwan hold military exchanges and set up a bilateral Military Confidence-Building Mechanism with the two sides to negotiate a peace agreement.

On direct air links between Taiwan and China, Ma said he hoped to have direct chartered flights by July of this year. "That will take just a few weeks of negotiations," he said. "And then we'll move from weekend charters to daily charters." The ultimate goal is direct commercial services in his first year in office.

On whether Taiwan will relax restrictions on companies that invest in China, Ma said: "We will relax that control."

"We should give businesses as much freedom as possible," he said. "I don't care if they invest in mainland China, Vietnam or Indonesia." Restrictions on travel have made a businessman's trip to China as lengthy as one to Indonesia, he said. "This is really very, very stupid."

Investments in China

About 1 million of Taiwan's 23 million citizens live in China, and companies like Taiwan Semiconductor Manufacturing Co. and Cathay Financial Holding Co. have invested a total of \$150 billion in the mainland, the island's biggest export market.

Taiwan has restricted direct shipping, air and postal links with the mainland since the KMT retreated to Taiwan in 1949 after losing China's civil war to the Communist Party. Taiwanese going to the mainland are forced to travel via other ports such as Hong Kong or Macau.

Ma also said that Taiwan's ties with the U.S. were damaged "quite seriously" by Chen's two terms in office.

"We have to rebuild our mutual trust," he said. "That's something we really have to work very hard to do."

He said the U.S. should loosen prohibitions of U.S. officials meeting their Taiwan counterparts.

"These are restrictions imposed by mainland China," he said. "I think it's time to change."

My view - The [Taiwanese](#) market broke upwards from a more than two year consolidation in October 2006 and rallied to test the 1998 and 2000 highs near 10,000. It has since retreated from that level but found support near 7500 and would need to sustain a move below that level to question potential for some further higher to lateral ranging in this area.

Email of the day (1) - [on cotton](#):

"There is an article in today's London Times, page 44, re the outlook for cotton 'prices expected to climb dramatically in the next two years, as farmers switch to wheat'. Can cotton farmers easily switch to wheat? Is this a likely response to the global scare about food/grain shortages? Is this the time to buy a cotton ETF? Your thoughts would be appreciated!"

My comment - [Thank you for this email, which raises some interesting questions. I'm afraid I don't get the print edition of the Times any more, relying on the internet version, but I think this may be the \[story\]\(#\) you were referring to. Here is a section:](#)

Debenhams and French Connection said yesterday that there was a real risk that clothing prices could rise in the coming year after a decade of deflation, given higher wage costs in China and a sharp increase in the cost of cotton.

Chinese inflation is running at a ten-year high of 8.7 per cent. Cotton is about 40 per cent of the cost of a plain T-shirt. Prices for the commodity have surged 17 per cent in the past month and are expected to climb dramatically in the next two years, given rising demand and lower supplies as growers switch to wheat.

Rob Templeman, chief executive of Debenhams, said: "We will start to see inflation coming through in clothing. I'm not sure when it will arrive, but it is being driven by rising wage costs in China, energy costs and the cotton market.

"The saving grace at the moment is that the American retailers aren't in the market and there is an element of oversupply. But when the Americans come back, you will start to see inflationary pressure here."

Stephen Marks, chairman and chief executive of French Connection, said: "Suppliers are definitely asking for increases and it's more difficult to get the right price. Fierce competition and the growing use of suppliers in the Far East have seen clothing prices tumble in the past decade."

As far as I understand the market, cotton farmers can quite easily switch to wheat. Farmers will always plant the crop they think they can make the most money from and with grain prices hitting all time highs, cotton offers a comparatively smaller return. So yes, if it is true that cotton farmers are switching from cotton to wheat, this is almost certainly a response to higher grain prices.

Cotton ([p&f](#), [monthly](#), [weekly](#), [daily](#)) is an enormously water intensive crop so it is only generally grown in large quantities where water is not a problem, e.g. the southern USA, southern China, India and the Egyptian Nile river valley. If just one of these areas is producing less cotton either because they favour other crops or are having water problems, it could be beneficial for cotton prices.

The cotton chart indicates that the commodity is quite volatile. It has experienced a number of accelerations, which were followed by almost complete retracements of the moves, over the last 20 years. Cotton broke upwards from a two-year consolidation in June, accelerated to a high above 90¢ last week but was unable to sustain it. It has since found support near 76¢ but is probably in need of some further consolidation before it can sustain anything more than a technical rally.

Email of the day (2) - [on the Chart Library](#):

"Your Chart Library filtering system is a great tool. However, unless I am missing something, one cannot use its full potential if one is using it to rank stocks in say the Aussie, Singapore and Malaysian markets. The list of stocks in the Chart Library covering these markets is rather small relative to their whole markets. A number of stocks listed in the Chart Library from these markets are 'deadwood', thinly traded and non-performing. In other words, there must be many other stocks not found in the Chart Library list from these markets which are good performers and which escape our attention and therefore cannot be ranked by your filtering system. Not sure how this problem can be addressed short of including the whole of these markets into the Chart Library. Any comments?"

"The Fullermoney service is really great and supports my investment decisions regularly."

My comment - Thank you for this welcome feedback. Regarding the Australian market, we have the ASX 200 as well as the ASX Resources Index in the International Equity section. All of the additional stocks subscribers suggest can also be found in the ASX Resources folder.

As you say, we do not have the entire universe of stocks for each and every stock market, but the fact is that Fullermoney's budget does not presently support the more than doubling of the data bill.

However, we believe that our universe of all of the NYSE, AMEX, Nasdaq, FTSE, AIM, Topix, Europe 600 as well as thousands more, contains enough of the important stocks for the filter to be a valuable tool in the majority of markets, important to the majority of subscribers. There is a case for adding more Australian stocks and this is something I will look into. In the meantime, I am happy to add additional stocks to the Library as they are requested. .

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

"Please add to library

"Silvercorp TSX: [SVM](#) .  
Fortuna Silver TSXV:[FVI](#)  
SNS silver SXV:[SNS](#)  
Mega silver TSXV:[MSR](#)  
Silverstone resources TSXV:[SST](#)"

My comment - These have now all be added to the Chart Library.

Today's interesting charts - Did you know that you can create your own inflation-adjusted charts using the Charting Tool. Simply select any instrument and divide by the CPI index. Here is an example for [wheat](#).

Heating Oil - broke [upwards](#) from the two-month consolidation in February but is now looking overextended. However a downward dynamic and / or a move below \$290 would be needed to question potential for some further upside.

Soybeans - breaking [down](#) from the short-term distribution and would need to sustain a move to new high ground to offset potential for some further downside.

Tin - surging [upwards](#) from the short-term consolidation and while looking somewhat overextended, it would need to sustain a move below \$20,000 to question scope for some further upside.

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