

Fullermoney

Global Strategy and Investment Trends by David Fuller

www.fullermoney.com

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

Monday 17th March 2008

Commodity price headlines again today but this time for not maintaining record highs - [Agricultural commodities have been the hottest game in town](#) during recent months, closely followed by precious metals. They have been the leaders of an important secular theme for Fullermoney, long summarised as [Supply Inelasticity Meets Rising Demand](#).

However more recently, we have described agricultural commodities in particular as a very crowded trade. We have also expressed concern over accelerating price trends ([weekly](#) & [daily](#)) - always an ending signal of unspecified duration and severity, but often in proportion to the overall price move, even within long-term trends.

Paul Touradji of Touradji Capital Management expressed it more emphatically in this comment reported by Bloomberg:

'Frenzied Money Flow'

Commodities ``have all gone parabolically higher on frenzied money flow," New York-based Touradji, wrote March 10.

``Unless that money flow continues ad infinitum, in which case prices would go to infinity, then the fundamentals had better be improving as quickly as prices have been, otherwise there is nothing else to keep the markets at these levels."

Here is the article in which he was quoted, followed by several others which may be of interest to some of you:

[Oil Falls More Than \\$6 on Signs U.S. Economy Entered Recession](#)

[Corn, Soybeans, Wheat Fall as Equity Plunge Deters Investors](#)

[Gold Pares Gains to Record as Global Equities, Dollar Tumble](#)

[Cocoa Sinks in N.Y> as Investors Sell Commodities to Raise Cash](#)

There were many more from Bloomberg today but you get the idea. So what is going on?

I do not think that it has much to do with a global slowdown, which is mainly in the west. However I do think deleveraging is a big factor. A number of the better hedge funds with a global brief have done very well in commodities, as have many individual investors who have profited from commodities via shares, funds, ETFs and futures.

To risk a brave contrarian call today, I think many commodities, great secular theme that they undoubtedly are, have run ahead too quickly during the frenzy to buy the one sector with upside momentum. Those that have accelerated the most are increasingly susceptible to medium-term corrections, which I would describe as anything from a few months to two years.

Conversely, bears have had a field day shorting stock market indices and particularly financial shares. Sentiment has reached hysterical extremes, reminiscent of deeply oversold conditions over the decades. If the rational debate today is not about the possibility of financial Armageddon, but instead, how much blood we need to see in the streets before concluding that the bottoming out process is underway, then we should be thinking more about what to buy among oversold stocks and funds, rather than what to sell.

Lastly, how about this for a contrary indicator:

Goldman's Abby Cohen to Stop Making S&P 500 [Forecasts](#)

For more on the stock market outlook and tactics, see Email of the day (3) below.

Email of the day (1) - [On GaveKal and other interesting themes](#):

"As a relatively new subscriber (3 months or so) your service is worth every penny. However, I am certain I am not yet making the best use of it, mainly because of the time it takes to read and absorb, and then take decisions. Probably that is a reasonable stance during these volatile times - I have had enough experience in buying at the top of the market to last a lifetime, so missing the exact bottom doesn't worry me too much!

"I enclose a very recent article from the Spectator about Jim Rogers, one - time partner of George Soros. Rogers supports many FullerMoney themes, particularly commodities, and supports your the long secular view on these. However, I feel he is unduly pessimistic about the Western economies.

"I wonder whether your own characterisation of western economies as "regressing" may be giving somewhat the wrong tone. I believe Western (and particularly Wall Street) economies might be more accurately described as "Leading Edge Transitional", meaning that they are first in a long-term transformation from one kind of macro economic theme to another (i.e. post-industrial, service-based, to knowledge and intellectual property-driven), and that this transition is likely to take years if not decades. By this definition, Asian economies are not so much "Progressing" as "Lagging Edge Transitional", meaning that they are simply catching up really fast on the

West, becoming industrialised, but not yet as advanced as the West in developing their own knowledge and service -based economic sectors.

"I have been influenced in this view by the reading I have done from GaveKal Research (www.gavekal.com) which you have quoted on a number of occasions. Their publications "Our Brave New World" (now out of print but available on a download) and "The End is Not Nigh" I find mightily reassuring in these difficult times. To try and simplify (probably ineexpertly but I hope not too wrongly) one of the themes of the latter book, their argument seems to be that Western economies are moving to a sustained knowledge and idea-based economic stance. In this transition companies are focusing on a "we take the profits, you can have the jobs" attitude. Real estate asset prices have been allowed to grow - they fuel consumer spending and, importantly, stabilise and smooth market volatility. (Of course, the bottom-end of this has gone too far with the ensuing credit crunch as the evidence, but this probably does not detract from the fact that many more people have benefited from rising asset prices, which will, in the longer term benefit Western economies). And a direct quote: "Investing in a country with a current account surplus (Japan, Germany, Switzerland...) more often than not means investing in a low-growth, poorly-managed economy. Meanwhile, investing in countries with large current account deficits (Australia, Spain, US, UK...) has not led to financial ruin." Contrarian thinking indeed!

"All of which makes the big-picture fascinating and one that this very amateur economist and investor looks forward to trying to understand - with your help - for a long time to come. Keep up the fabulous work."

My comment - [Welcome to Fullermoney](#). Thanks for your kind words, encouragement and a really interesting email (beautifully edited, I should add, so that I don't have to waste time correcting typos, spacing, etc). Also, your modesty becomes you.

The Spectator is probably the best magazine that I seldom have time to read (my poor excuse is the day job) so I have not read the article you mention. However neither Rogers nor Soros is shy regarding the media and I see enough quotes from both to agree with you, to a point.

The west's greatest strength, I believe, is its creativity which derives from freedoms which we hold dear, but sadly, they have not been matched by responsibility. We are certainly regressing in terms of education, except at the highest levels. There is also the breakdown of so many family units, often with alarming consequences. I also feel we are regressing in terms of governance, and this has both moral and economic consequences.

Regarding "Leading Edge Transitional" (one could write an essay on this but I promise not to), it is a very seductive premise and one that I would like to be true, but fear is flawed. Incidentally, there is quite a bit on all this in the [Archive](#), not least covering "Our Brave New World" which has been discussed and debated in Fullermoney previously.

There are obvious limits to the service-based economy; otherwise we would prosper as a nation of hairdressers, waiters and estate agents. Also, my experience is that many services are better in prospering so-called developing economies which I prefer to classify as progressing. The west still has a big lead in the information economy but will this be true in 20 years? I do not assume so.

Incidentally, I think you have summarised GaveKal's views very effectively. The west arguably invented the globalisation game and has played it very well, particularly US multinational companies, in terms of the "we take the profits; you take the jobs" attitude. However not everyone can do this. We are currently seeing the folly of our overemphasis on get rich quick through shuffling pieces of paper among banks or leveraging up in real estate.

Is FX Intervention Nigh? - My thanks to a subscriber for this topical [summary](#) from CitiFX Stategy, with which I agree. It is posted without further comment.

Email of the day (2) - On a possible hedge:

"David...I totally buy into the Fuller Money themesbut check out this U.S. etf symbol DBC which tracks futures contracts for oil, gold, aluminum, corn and wheat. As I write the trend has not reversed but it sure looks to be at an extreme.

"QUESTION: I don't own DBC but am thinking of shorting as a hedge for my holdings in RTP, BHP, Gold, POT etc. What is your thinking?

"As always thanks for doing such excellent work."

My comment - Thank you for your kind words, and well done for seizing your opportunities so effectively. Your relative performance must be about as good as it gets, which is presumably why you are contemplating a hedge.

The Powershares DB Commodity Index Tracker ETF (DBC US) ([weekly](#) & [daily](#)) has been a good performer, although not quite so good as your portfolio above, and it is currently somewhat overstretched as you say.

However if I were in your shoes, my problem with your proposed strategy is that I would be very reluctant to short something that is in a clear uptrend, albeit wobbling today, and in a bullish secular theme no less. It could be tactically messy if DBC saw only a small consolidation and then resumed its uptrend.

If protecting the gains in the core instruments you identified was the primary concern, I might introduce trailing stops in the more overstretched instruments. That would limit the risk of contagion selling but also introduce the real possibility of an opportunity cost if your positions were shaken out and then resumed their uptrends. We saw that with POT following its January's reaction.

The risk that would warrant a trailing stop, particularly on a leveraged position, I suggest, would be a significant acceleration. These are so often followed by sharp corrections, as you know. Another option, if we are concerned about a position that may have done too well, we can always take some profits while on a high.

My personal portfolio: Trailing stop triggered in gold futures longs - On Friday, I took a profit in a gold position in one account, because it did not offer trading in the Asia Pacific time zone, and reopened the trade on an account that did. This gave me a little more protection in the event of a potentially dramatic development capable of triggering a knee-jerk reaction by [bullion](#), such as multilateral intervention to support the US dollar. Early this morning, I introduced a breakeven stop to protect the new position. This was stopped out this afternoon at \$1004 for an April contract, against last Friday's purchase at \$1000.65. Later today my two remaining equal-sized positions were stopped out at \$995, against my purchases at \$981.15 and \$978.95 on 12th March.

These prices include all spread-bet dealing costs.

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

"Re. this Friday's 'Email No. 2' in your daily missive, about India and specifically JII, it might help our friend to hold his nerve if he notices that in the current long-term uptrend in this share since '03 (when you and I first bought in), there was a fall of 35% between 23 Apr. and 17 May '04 and another of some 38% between 6 Apr. and 14 June '06.

"The present reaction, having brushed 500 on 10 Jan, would show a drawdown of 35% at 325p & -38% at 310p - which also looks to me like a nice support zone.

"Whilst we are reminded that the past has no bearing (etc.), this old codger at least has his horny hand hovering over the Buy button..."

My comment - I loved and identified with the self-description, and thanks for the informative review of previous reactions.

None of us know the precise extent to which people will panic until well after the event. I also accept the bears' very important fundamental point that there are extremely serious debt, credit, liquidity and insolvency problems out there. I feel sorry for the people who bought Bear Stearns and am glad that we are not among them, but how serious or lasting are these problems for India?

Psychologically, they are currently the dominant factor for India's stock market but I assume that this will be temporary. People have sold JII ([weekly](#) & [daily](#)) because it had a good run and they *could* sell it. Economically, there will be some adverse effects for India's economy resulting from the west's problems because there is seldom complete uncoupling. However I think this will be a minor footnote in the development of an increasingly important nation, while

serving as a useful business school example of how not to run a financial sector.

As for stock markets generally, we know that a trend is a trend until it stops, and some downtrends have been extended today. Therefore I would be cautious in bargain hunting because it is still 'catch a falling knife' territory. However we are also at a point where the rational debate concerns how much blood we will actually see in the streets before markets have bottomed. No one can be sure but the recent collapses of hedge funds and now Bear Stearns, suggest that the end game for this serious market slump has commenced.

Additional Commentary by Eoin Treacy

Email of the day (1) - on UK listed high yield funds:

"Eoin's report on high yielding equities couldn't have come at a better time for me as I am finding it increasingly hard to resist the temptation of such large dividends. For my own purposes I have compiled a list of high yielding UK listed iShares and investment trusts which I thought I'd send to you in case you think anyone else might be interested.

"The list was compiled using data from www.theac.co.uk, www.trustnet.com, and www.ishares.net and I cannot vouch for its accuracy. The funds listed are not intended to be recommendations and not all of them have performed particularly well in the past. I have marked (*) the ones I own.

"I would welcome any information about Morant Wright Japan Income because I can't even find the website.

"iShares:

iShares DJ Asia/Pacific [Select Dividend](#) (yield 5.23%/ TER 0.59%) (Australia 71.65%/ HK 13.9%/NZ 8%/ Japan 3.8%)

iShares DJ [Euro Stoxx](#) Select Dividend (4.0%/0.4%)

iShares FTSE [UK Dividend Plus](#) (5.6%/0.4%)

iShares FTSE EPRA/NAREIT [US Property](#) Yield Fund (7.55%/0.4%)

iShares FTSE EPRA/NAREIT [Global Property](#) Yield Fund (5.15%/0.59%)

iShares FTSE EPRA/NAREIT [Asia Property](#) Yield Fund (3.3%/0.59%)

"Investment Trusts (Fullermoney Themes):

[Aberdeen Asian Income](#)* (yield 4.47%/ TER 1.42%/ discount -6.5%)

[Henderson Far East Income](#)* (4.78%/0.99%/-0.8)

[Schroder Oriental Income](#) (4.56%/na/-6)

[Merrill Lynch Commodities Income](#)* (mining and energy companies) (3.24%/1.64%/+1.4)

[Middlefield Canadian Income Trust](#)* (diluted exposure to energy and resources) (8.75%/ 0.64% / -8.5)

[Utilico Emerging Markets](#)(3.3% /1.24% / -6.1)

"Other Investment Trusts:

[HSBC Infrastructure](#) (UK infrastructure projects) (yield 5.34%/ TER na / Discount-1.3) [Babcock and Brown](#) (UK Infrastructure projects) (5.6% /na / -3.3 European Assets (European small cap equities) (7.7% / 1.36%/ -8) [JP Morgan European Income](#) (4.44% /1.21%/ -7) [Shires Income](#) (UK equities) (8.26%/ na / -2.2) [Glasgow Income Trust](#) (UK equities) (7.55% / 1.1%/ -7.8) [Henderson High Income](#) (UK equities) (6.13%/ 1.1%/ -4.9) [British and American](#) (6.67%/ 1.08%/ -10.5) [Henderson Global Property](#) (6.93%/ na/ -9.7) [Morant Wright Japan Income](#) (7.05%/ na / -15.8%)

"All the best and keep up the excellent work which I enjoy so much."

My comment - Thank you for your enthusiasm for the service and this list of funds which I'm sure will be of interest to many other subscribers. I can confirm that all of the funds listed above can now be found in the Chart Library. Of course, part of the reason yields have risen is because prices have been falling. We should also be aware that there may be some dividend cuts, not least among financial shares.

However, funds such as the Merrill Lynch Commodities Income and HSBC Infrastructure funds remain quite close to their highs and are relative and absolute outperformers. As for the other funds in the list, a number have fallen considerably over the last few months, reflecting the broader market environment. Given the impressive yields and assuming they can maintain them, some of these funds are probably worth watching for signs they are finding support.

You will also be able to track how they are performing relative to a single benchmark and in a single currency using the Chart Library [Filter](#) system. Here is an example.

Email of the day (2) - on high yielding stocks:

"I like your service very much. Yesterday's list of stocks with high yield was very interesting. Could you add also some data on years of dividend increase, etc?"

My comment - Here is the same [report](#) posted Friday, updated with today's values and with the added fields of Dividend per share growth over 5-years and Price/Book. I have also added Malaysia and the Philippines to the list of countries covered.

MorningStar.com: Mining Bets Bring Paydirt for Some Funds - Thanks to a subscriber for this interesting [article](#) on funds which have a high weighting of resources stocks. Here is a section:

In the volatile, up-and-down market of the past year, one group of stocks has remained surprisingly resilient--mining stocks. Seemingly insatiable demand from emerging markets, especially China and India, has kept commodity

prices high for the past several years as those countries build out their infrastructures. As a result, mining companies are swimming in cash, and a wave of consolidation has swept the industry as firms compete for economies of scale.

Skeptics (including some Morningstar stock analysts) have been predicting for a while that mining stocks might be peaking, but they've continued to be strong performers. In 2007, four mining-related industries--coal, mining (nonferrous & nonmetals), gold and silver, and aluminum--were among the five best-performing stock industries, each with an average return between 40% and 70%. (Only agrochemical stocks, which are also commodity-driven, had a better average return last year.) This year returns have been much more subdued because of the general economic malaise, but mining stocks have held up well under the circumstances. The four industries noted above are still among the best-performing categories for the year to date through March 10.

Back in November, we looked at the mutual funds with the biggest stakes in gold and silver stocks. As we noted at the time, there are many specialty mutual funds dedicated to such stocks, and quite a few diversified funds with significant holdings as well. To a lesser extent, the same thing is true of coal, aluminum, and nonferrous and non-metal mining stocks, even though they're not quite as sexy as gold. Several funds in the specialty-precious metals and specialty-natural resources categories, such as Vanguard Precious Metals and Mining ([VGPMX](#)) and BlackRock Global Resources ([SSGRX](#)), have more than 30% of their portfolio in those three industries, and nearly all funds in those two categories have at least some exposure.

My view - All of the funds mentioned in this article can now be found in the Chart Library. What is interesting about this [list](#), which I filtered to find the best performers, is that although many are heavily weighted by the resources sector, they are not performing as well as funds dedicated to that sector. A number are however outperforming the broader market.

The best performer over the last month is the [Royce Global Select Fund](#). It rallied well from the January lows and has so far held above that area quite well. It would need to sustain a move below \$14 to question potential for some further higher to lateral ranging.

Email of the day (3) - [on US Dollar Trade Weighted indices](#):

"I was looking at some charts from another service and they had one of the trade weighted USD...from Bloomberg...going back to the early 1970's.

"In the Chart Library the symbol for the trade weighted USD is USTWBROA...and I can only see data back to ~1995

"The symbol they use is USTRBROA...

"Could we please add that symbol to the Chart Library?"

My comment - Thank you for making us aware of this additional index which has much more back history. It has been added to the Chart Library.

The Real Broad Index ([USTRBROA](#)) has not yet broken down to a new low, in the same way that the Dollar Index has. However both indices would need to post impressive upward dynamics to check current downward momentum beyond a brief pause.

Email of the day (4) - on accessing a report:

"Would you be kind enough to let me know how I could access the March 5 report referred to in last Thursday's Comments.

"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 - I'm afraid that we have not been sent this report so it is not accessible through the site.

Email of the day (5 & 6) - on additions to the Chart Library:

"Pls add

"[epz](#) tsx venture
[hat](#) tsx venture
[lat](#) tsx venture
[svl](#) tsx venture
[qqc](#) tsx venture
[fdc](#) tsx venture
[maj](#) tsx venture
[pgr](#) tsx venture"

And

"If possible, could you kindly add Avexa (symbol [AVX](#)) to the chart library? Stock is quoted on the ASX."

My comment - All of these shares have been added to the Chart Library.

Eoin's personal portfolio: Nikkei and Hang Seng longs stopped out at a loss - My Nikkei long was stopped out this morning at 11865 against my purchase on March 12th at 12,890. My Hang Seng long was stopped out at 21285 against my purchase 24372 on February 27th. These prices include spread-bet dealing costs.

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. I had placed stops beneath the January lows on both positions which were triggered this morning.

Platinum - renewed selling [pressure](#) entering the market following some steadying last week. A sustained move above \$2200 would be needed to offset scope for some further downside.

UK 3-month Short Sterling - breaking [upwards](#) from the three-month range as the market prices in additional rate cuts for the UK. A sustained move back below 95.5 would be needed to question scope for some further upside.

Switzerland - [breaking](#) below the January lows and needs to rally smartly back above those levels to question potential for some further weakness.

US Dollar per 1 Euro - [accelerated](#) to a high near \$1.60 this morning but was unable to hold it and is looking overextended. The Euro needs to sustain a move above today's high to reassert its uptrend.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of March 9th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Belgium, Hong Kong, India, New Zealand, Singapore, Sweden, 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 the UK, the USA and Australia.

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 18th March 2008

Citigroup's Global Equity Strategist: Testing the Bull - My thanks to a subscriber for this fascinating [report](#) by Robert Buckland and colleagues at Citigroup, based on a thesis developed by their credit strategist Mark King. I posted an earlier report on this theme, because the general framework resonated with my own impressions, gradually developed and based on the observation of many equity cycles since the mid-1960s. Mark King's basic premise is that there are four phases of a credit cycle:

Phase 1: Long credit, Short equity

This phase immediately follows the bottom of the credit bear market. Spreads fall sharply as companies complete the process of repairing balance sheets,

often through deeply discounted share issues (as we saw for Insurance and Telecom companies back in 2002-03). This, along with continued pressure on profits, keeps equities weak.

Phase 2: Long credit, Long equity

The next phase begins as profitability turns and equity prices start to rally. Credit spreads fall even further as corporate cashflow rises strongly. We call this an immature equity bull market. For the present cycle, this phase began in March 2003 and finished in the middle of the 2007.

Phase 3: Short credit, Long equity

The credit bull market is over, balance sheet leverage increases, spreads rise, and investor appetite for credit wanes. Financial market volatility rises. As we progress through Phase 3, the equity market eventually decouples from credit and continues to rise. This is the mature equity bull market.

Phase 4: Short credit, Short equity

This is the classic bear market, when equity and credit prices re-couple and fall together. It is usually associated with falling profits and worsening balance sheets. Concerns about insolvency plague the credit market, while broad profit concerns plague the equity market. A defensive strategy is most appropriate - cash and government bonds are the best performing asset classes.

My view - Most investors will find the four stages above to be logical. The key question: Are we in Phase 3, or did the US financial crisis bounce us straight into Phase 4? Citigroup's Global Equity Strategist addresses this question:

Phase 3 or Phase 4?

So that's the theory. Last year we suggested that we were in Phase 3 - the mature bull. So sell credit, but stick with equities. Now, many worry that we have entered straight in Phase 4, so sell both. Of particular concern are:
Credit markets: the carnage in the credit markets is so bad that equities have little chance of decoupling. Earnings: A US economy teetering on the edge of recession represents a significant threat to global earnings. How can equities go up when earnings are falling?

We address each of these concerns.

Most subscribers will wish to read this report which I certainly found informative. For those who may lack the time, I'll add that despite the financial meltdown, the authors are still inclined to view current action as Phase 3, with lower interest rates being the key to strong additional gains for some markets. Reassuringly, if your portfolio is overweight Fullermoney secular themes, the report favours emerging markets and materials for participating in the forthcoming bubble which they envisage.

Fullermoney's behavioural approach is particularly interested in recent sentiment readings, which clearly indicate that a significant majority of investors are convinced this is a severe bear market. One can understandably be swayed by this tidal wave of fear, but in our more analytical moments we

know that sentiment is a contrary indicator. Personally, in attempting to identify a market bottom, I am more influenced by sentiment than any other indicator. Developments since January's selling climax and retest of those lows have been stunning.

These include last week's survey from Investors Intelligence, posted here on Thursday, showing the most bearish reading for Investment Advisor sentiment since the important October 2002 low. The recent data also produced the second lowest reading for at least 10 years. I should have II's latest report tomorrow.

In January, I posted Bloomberg's reports on net insider buying for the first time since 1995, and the highest NYSE short interest since the 1930s! We have not approached a record on VIX but there have been three readings above 35, occurring last August, this January and yesterday.

Inevitably, interest rates remain a crucial factor, and no longer just in the USA where the Fed fell behind the curve last year but has been catching up subsequently. I believe the BoE and ECB are behind the curve and need to cut rates. So do India and China, before my two favourite stock markets for the very long term can become upside leaders once again. These have been very disappointing recently but big shakeouts create additional buying opportunities in markets with good prospects for future economic growth.

Inflation is the main reason behind the delay in lower short-term rates, USA excepted. This will remain a problem, more often than not in my view, due to supply inelasticity and rising demand. However, monetary policy is a crude weapon for dealing with food and energy inflation, as I have said before.

Eventually, somewhat slower economic growth will give dynamic economies such as China and India justification to commence their next cycles of monetary easing. This is probably required before they can reverse recent stock market weakness and resume their secular bull trends.

China is an increasingly important influence on other stock markets, particularly regionally, and its leash-effect has been negative this year. The [chart](#) will look frightening to some but the latest decline is becoming overextended. I do not believe that the US economic slowdown, or any other reason is sufficient to drive the Shanghai Composite Index significantly lower. The government has already signalled that there will be fewer floatations to weigh on the market.

The historic [PER](#) for Shanghai's Composite Index, while not cheap at 30, is well below last year's bubbly peak of 50. Hong Kong's Hang Sing [Index](#) is arguably cheap for a strong economy at 13 times historic earnings, and the yield has risen to nearly 3%. I would not be surprised if this week's latest downward break is soon reversed.

See also Eoin's item on China below. I suspect that the article posted may overstate the government's policy response to inflationary pressures.

Commodities and stock markets - Here are two concluding paragraphs from yesterday's market assessment:

To risk a brave contrarian call today, I think many commodities, great secular theme that they undoubtedly are, have run ahead too quickly during the frenzy to buy the one sector with upside momentum. Those that have accelerated the most are increasingly susceptible to medium-term corrections, which I would describe as anything from a few months to two years.

Conversely, bears have had a field day shorting stock market indices and particularly financial shares. Sentiment has reached hysterical extremes, reminiscent of deeply oversold conditions over the decades. If the rational debate today is not about the possibility of financial Armageddon, but instead, how much blood we need to see in the streets before concluding that the bottoming out process is underway, then we should be thinking more about what to buy among oversold stocks and funds, rather than what to sell.

Is Bear's Woe a Good Sign for the Market? - Referring to Bear Stearns, this is an informative [analysis](#), with which I agree, by Brett Arends for The Wall Street Journal. It is posted without further comment and here is the opening:

Financial crises don't end until something gets broken. From the evidence of Friday, it looks like the something in question is going to be Bear Stearns.

What does that mean for your investments? The likely answer: The market may well be nearing its bottom.

A spectacular bankruptcy usually brings a crescendo of panicked selling and forces concerted intervention. Often, it marks the beginning of the end of a crash.

In this situation, the liquidity crisis is so bad that at one point early Friday a major bond institution couldn't even sell Treasuries for a bit. A senior figure there told me his usual buyers among the Wall Street houses had shut their windows in panic.

Successful investing isn't easy, but it's simple: Buy low, sell high. Steeling yourself to buy low, when everyone else is selling, is what makes it hard.

Think of how many people were telling you to buy the Dow at 14000. Think how few are telling you to take a look now at 11900.

Today's interesting charts - There was some definitive action today.

USA (Dow) - Second upward [dynamic](#) from near January lows, reinforcing support below 12000. A close beneath that level would be required to question scope for a test of the February rally highs and lateral trading near 12775.

USA (S&P 500) - Yesterday's downside failure has been followed by an upward [dynamic](#), reaffirming support near the January lows. However a sustained break above 1400 remains necessary to confirm a new floor and further question the bearish consensus.

USA (Transportation) - Second upward [dynamic](#) in six days has established a higher low. A close beneath 4400 is now required to offset current scope for a test of previous resistance evident between 4800 and 5000, and a break above the higher level would cast further doubts on the bear market hypothesis.

USA (Nasdaq 100) - Second downside [failure](#) this month and bullish falling wedge pattern. A close beneath 1670 is required to negate current scope for a further rebound and reaffirm the overall downtrend.

France (CAC) - A move [above](#) 4800 would confirm a failed break beneath the January low but a sustained move above 5000 is needed to show a significant improvement.

UK (FTSE 100) - [Bounced](#) from January low and a sustained break beneath that level is required to reaffirm the downtrend.

US Dollar Index - Temporarily [overstretched](#) and yesterday's tail suggests that a temporary short covering rally may be commencing. A close beneath 70.70 is required to offset short-term scope for sideways to somewhat higher trading.

Platinum - Continues to show evidence of probable medium-term [top](#) formation development following accelerated uptrend; requires a new closing high to offset current scope for sideways to lower trading.

Silver - Sharp [reactions](#) from intraday highs in \$21.50 region suggest that a correction of at least short-term significance has commenced. A close in new high ground would be required to reverse this outlook and reaffirm the overall uptrend.

Gold - Temporarily [overstretched](#) near psychological \$1000 level, and yesterday's tail and today's downside follow through have checked momentum for at least the short-term. A close above \$1035 is required to reaffirm the uptrend.

Additional Commentary by Eoin Treacy

Deutsche Bank Commodities Weekly - Thanks to a subscriber for this interesting [report](#) containing a number of articles on the commodities sector. Here is a section on copper:

Similar to the aluminium market, copper prices consolidated gains following several weeks of aggressive upward momentum. Renewed fears over US

recession implication sparked selling, but an element of profit taking and contract re-positioning also played a part. Prices ended the week 1.9% lower while inventories continued their steady decline. Amid the typically high demand season, LME stocks are now 35.4% lower than where they began the year the lowest level since last August. There has been an increasing amount of clamour over increasing Shanghai exchange inventories, but we note that an inventory build is typical this time of year, a sign of restocking.

A strike broke out this week at one of the mining operations in Papua New Guinea and although the operating company reported it will lose around 470t of copper and 1,800 troy oz of gold for every day it is out of operation, there are plenty of on-hand inventory, reducing the prospect of declaring force majeure. Some investors found support in this week's Chinese production data for January and February which came in much lower compared to previous months. However, these production losses should not come as a surprise given the snow storms and holidays during the period.

My view - [Copper](#) prices rallied strongly throughout February to test the 2006 high near \$4 and have now retreated somewhat from that level. A consolidation in this region is not unexpected given the impressive advance and proximity to the previous high. A sustained move below yesterday's lows would be needed to question potential for a shallow reaction. Copper needs to sustain a move to new high ground to reaffirm the overall secular uptrend.

China to Take 'Forceful' Steps on Inflation, Wen Says - [This article](#) by Li Yanping as well as [this one](#) by Nipa Piboontanasawat for Bloomberg cover today's move to increase bank's reserve requirements. Here is a section from the former:

Consumer prices in China jumped 8.7 percent in February from a year earlier on food costs and supply disruptions caused by the worst snowstorms in half a century. The economy expanded 11.4 percent in 2007, the fastest pace in 13 years.

"China's economy is facing trouble now, because of domestic inflation and the U.S. subprime issue," said Wu Kan, who manages the equivalent of \$41 million at Dazhong Insurance Co. in Shanghai. "It will be difficult for us to see a growth rate of 10 percent or 11 percent this year."

The government was maintaining its 4.8 percent inflation target for 2008 "because it helps stabilize consumer expectations," Wen said. "When prices soar, expectations can be more horrifying than the increases," Wen said, adding that fighting inflation will remain one of his government's main jobs over its next five-year term.

Chinese policy makers will need to use a package of measures to tackle inflation, Zhou told reporters in Beijing today. He said there was room to tighten all monetary policy tools including interest rates and reserve ratios.

'Requires Skill'

“The timing, scope and choice among different options requires skill,” said Zhou, whose tenure at the central bank was re-confirmed by the National People's Congress yesterday. “It depends on our adjustments and wisdom.”

The People's Bank of China increased interest rates six times in 2007 and lifted the amount of money commercial lenders must set aside on 11 occasions to a record 15 percent.

China will have to raise lending and deposit rates at least once this year, according to a March 12 survey of 12 economists by Bloomberg News. The country's one-year key lending rate is at a nine-year high of 7.47 percent, while the deposit rate is at 4.14 percent, half of the February inflation rate.

The central bank is hoping for “positive real interest rates,” Zhou said today.

The government was “confident” it would be able to combat inflation with the appropriate policies, Wen said. “We still have 150 million tons to 200 million tons of grain reserves, and most industrial goods are still in oversupply.”

My comment - China is performing a fine balancing act between attempting to rein in inflation and supporting rapid economic growth which is necessary to maintain employment. Among global central banks, the Chinese have been most aggressive in controlling the amount of capital banks hold in reserve. This withdraws liquidity from the market in the form of how much banks can lend, but does not encourage consumers to save because deposit rates remain at only 4.14%. This means that Chinese real interest rates are negative. These measures by the government are an attempt to force banks to be careful about which businesses they lend to, rather than the indiscriminate lending to state owned companies of previous years. Raising reserve requirements is seen as a way to slow investment by companies but has little effect on the average consumer.

Raising lending rates impacts the entire economy and are a more pronounced headwind for the stock market. The Shanghai A-Shares ([weekly](#), [daily](#)) accelerated spectacularly last year but encountered resistance above 6000. The subsequent reaction was larger and went on for longer than the previous 'steps' within the uptrend and the break below 5000 signalled the onset of the current medium-term downtrend. This downward move is now becoming overextended and although it could become more over stretched, the end of this portion of the move is approaching. An upward dynamic would be needed to check downward momentum beyond a brief pause and sustained move back above 4750 would question the integrity of the downtrend.

IndexUniverse.com: Chinese Indian Currency ETNs Launch - [Thanks to a subscriber for this informative article](#) relating to the launch of two new currency ETNs. Here it is in full:

Morgan Stanley has teamed up with Van Eck Global to launch currency exchange-traded notes offering exposure to the Chinese renminbi and the Indian rupee. The Market Vectors - Chinese Renminbi/USD ETN (NYSE Arca:

CNY) and Market Vectors - Indian Rupee/USD ETN (NYSE Arca: INR) are the first exchange-traded products to offer exposure to those two currencies. They launched today on NYSE Arca.

The notes are designed to go up in value when the named currency appreciates against the U.S. dollar, and down when the dollar strengthens. The ETNs are underwritten by Morgan Stanley, and Van Eck is the marketing agent. The notes charge 0.55% in annual fees.

It's no surprise that Morgan Stanley is using the ETN structure to tap into these markets. ETNs are designed to offer exposure to challenging markets, and the Indian and Chinese currency markets are challenging. In fact, the Chinese and Indian governments put restrictions on spot currency transactions, effectively blocking most of us from accessing these currencies.

To get around that, the ETNs actually track an index tied to currency futures. Historically, these futures have tracked very close to the spot price of the currency, but the exposure isn't perfect. Still, if you're looking to get long the renminbi ... as many people are ... these ETNs are your best bet.

The Chinese renminbi (also known as the yuan) is officially tied to the value of a basket of foreign currencies, although many people expect China to loosen that peg in the future. The consensus bet is that China will allow its currency to appreciate significantly against the U.S. dollar; in fact, U.S. Treasury Secretary Henry Paulson has been pressuring China to do just that.

The Fine Print

The new notes come with three caveats.

First, unlike most currency products, they earn interest based on the U.S. Federal Funds interest rate ... not local interest rates. (Although they are currently similar.)

Second, these ETNs do not pay out interest income - instead, it is added to the share value of the note. That creates a problem for investors, as the IRS has said that investors must pay taxes each year on this notional interest ... even though they won't realize the gains until they sell the note.

Finally, ETNs are debt instruments, which means investors are exposed to the credit risk of the underlying bank. Morgan Stanley seems sound, but the current market environment could give people pause.

All that said, these remain very interesting products that will likely be a real success with investors. There's a great deal of interest in both currencies, which have been all but inaccessible to market participants.

WisdomTree currently has an ETF in registration tied to Chinese money market exposure. There's no word yet on when that will launch.

My view - [Taking into account the caveats mentioned above, these are interesting vehicles and I will add them to the Chart Library as soon as they have some back history.](#)

Pimco bonds: interview with Mohamed El-Erian: Thanks to a subscriber for this link to an [interview](#) given by Mohamed El-Erian on CNBC March 4th discussing the options available to the Fed. It is posted without further comment.

Email of the day - [on the Preset function](#):

"You have probably already mentioned this on the website, but could you please remind me how to keep my personal settings as the default for ALL charts I pull up in the chart library, or at least those in my Favorites list."

My comment - The Chart Library is designed so that it will remember whatever the last settings you used were and apply them to the next instrument you select. If you have one set of parameters you wish to apply to all instruments, I would suggest creating a Preset template.

To do this, click on the Charting link in the toolbar directly above every chart. Make whatever alterations you wish to the settings, then hit the Save button in the blue bar at the top of the popup window. Give the Preset a name and hit OK. This new template will now be added to the list of default Chart templates which can be found in the Chart dropdown menu in the upper right-hand portion of the screen.

You can apply the Preset to any chart and it will automatically be applied to all subsequent instruments until you select a different template. Please be aware that when selecting an instrument from the menu, if you click on the name of the instrument it will continue to show the last Preset used, but if you click on the p&f, weekly or daily links, the Chart Library will return to the relevant default template.

Today's interesting charts - Did you know that you can sift through thousands of stocks to find the best performers in absolute and relative terms using the Chart Library Filter?

India (Nifty 50) - testing the January [lows](#) and needs an upward dynamic to indicate that support is being found near this level. A move above 5300 is needed to suggest that the bulls have regained the upper hand.

VIX Index - falling [back](#) from a test of the highs near 35. A sustained move below 20 is needed to indicate that confidence is returning to the market.

Silver - loses [momentum](#) above \$20 and needs to hold above \$19.50 to limit potential for some further weakness.

Wednesday 19th March 2008

Recession Or Fearsession???? - [My thanks to a subscriber for this excellent report](#) by James Paulsen of Wells Capital Management. Here is a brief sample:

Some current economic reports do suggest the economy may already be in recession. However, if we actually do have a recession, we cannot recall another which was so widely and accurately anticipated. Indeed, it may be the only recession predicted by a consensus! Typically, recessions occur when no one is watching, not when most everyone is waiting.

Whether or not a recession results, we have certainly had a "Fearsession"! Perhaps this is fitting for an economic recovery where optimism never really emerged. Where businesses steadfastly refused to spend despite quarter after quarter of double-digit earnings gains, where retail investors never really returned to the stock market, chronically fearing a return to the dot-com nightmare and knowing every quarter that earnings surely had reached their cyclical peak. Where, reflecting an earlier near-death experience with deflation, the Federal Reserve maintained a near-zero interest rate environment during much of the early recovery and only reluctantly and slowly lifted rates once a recovery became obvious. And finally, where the consumer was always believed to be near imminent death whether due to a jobless recovery, lack of savings, too much debt, paralyzing terror fears, surging energy prices, falling home prices or because of a dirty bird flu pandemic!

The Fearsession may actually be good. It has produced behaviors which could help the economy avoid an actual recession. Businesses, knowing a recession is imminent, have significantly pared inventories. As a percent of real GDP, the inventory change in the last year is only 0.28 percent of current real GDP-its lowest level since before the recovery began! Based on the same "certainty of recession," households have slowed spending and boosted liquid asset holdings (e.g., inflation-adjusted annual growth in household liquidity remains very strong and retail money market funds have exploded) even though the unemployment rate remains below 5 percent and there has not yet been any meaningful net job losses. Bond investors have already fully-priced in a recession. Short-term Treasury bill yields are below 2 percent and the 30-year Treasury bond yield declined recently to an all time record low! Finally, "recession fears" have brought forth massive economic policy stimulus including rapid money supply growth, a negative real Fed funds rate, an increasingly positively-sloped yield curve, a stimulative falling U.S. dollar and a panicky fiscal policy accommodation!

My view - [One can inevitably question aspects of this report, including the objectivity of its author, but we can also say the same of any analysis. I think James Paulsen makes a very credible case based on both fundamentals and market psychology. It is certainly a refreshing riposte to the currently fashionable forecasts of doom.](#)

[I commend this report to subscribers.](#)

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

"I have followed your last week's advice regarding UBS, and I began to accumulate a position in this stock. I share your views about its strength and its globally diversified flows of income. I expect new and huge write-downs but I guess that prices are reflecting this issue. Following another piece of advice from you, I bought following sell-offs, mostly during Monday morning. My question is: would be advisable to sell the tranches in which I am in the money locking nice profits and lowering the average cost? I expect volatility and ample chances of further sell-offs to re-buy the stock.

"Best wishes for you and your team and thank you for your superb job."

My comment - Thank you for your kind words and apt assessment of the trading environment.

Fullermoney has long had a strategy for these conditions, which you can read about in the Forum, if it is not already familiar to you. It is called Baby Steps.

I think you are absolutely right about the trading environment. It is likely to be choppy, perhaps for a number of months. This will tax the patience of buy-and-hold investors in many arguably oversold instruments, although with major companies they will often have the consolation of yield. A Baby Steps buy-low-sell-high range trading strategy in UBS or many other stocks that have experienced big falls, is intended to help you harvest the volatility during a base building process.

Investors Intelligence Advisors Sentiment - I posted this important [survey](#) by Mike Burke and John Gray of Stockcube's Investors Intelligence (USA) division last week. I now have the latest report, which I commend to all subscribers. Here is a brief section from their summary:

The sentiment reading for the last two weeks are very positive for long term markets gains. This means we expect substantially higher index levels a year from now. To find comparable sentiment levels you have to look back to October 2002. That was the last time we had fewer bulls, with reading at 28.4% on 11-Oct-02 and 31.0% the week before that. October 2002 was the middle of the bear market bottom that extended from that July through March 2003. During that October we also noted a very favorable bearish reading at 43.2% on October 12.

My view - Just as a crescendo of bearish news stories tell us that the media is feeding on known fears, stock market action tells us the extent to which it has already been discounted. Veteran subscribers will recall that news stories and consensus expectations are always worst at the bottom of the trend, not least because at that stage of the cycle everyone knows why the market fell; they have had ample time to sell; bear traders are talking their book, and potential buyers are hoping for even better bargains. The same process works in reverse near market peaks.

Today's Advisors Sentiment readings from Investors Intelligence tell us that Wall Street has either seen its lows or is quite close to them. There is a

possibility that this could be wrong, in that we live in an uncertain world and no signal comes with a money back guarantee. However, if it were to be proved wrong, I suspect it would be due to factors that few people are talking about today. Meanwhile, II's Advisors Sentiment Indicator has an enviable track record at market bottoms.

The main uncertainty, as far as I am concerned, is the length of convalescence time required before meaningful gains are seen. I suspect it could vary considerably from sector to sector. However the charts will tell us.

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

"As a pre-subscriber I have enjoyed reading your comments today. However, I think I would offer some alternative perspectives on emerging market equities. It appears to me that they could be in for a period of underperformance for the following reasons. 1) Rising inflation world-wide hitting the consumer especially hard in emerging markets. 2) Interest rates are generally rising in emerging markets (India/China especially) to combat inflation and this reduces corporate profits through higher borrowing costs and makes short term deposits and fixed interest more attractive relative to equities. 3) Given that markets are all about cycles a good case can be made that emerging markets have had the boom part of their bull markets (especially China/India) and signs are coming that these bull markets have sown the seeds of their own destruction. In India the presence of somewhat flakey floats (Reliance Power) and in China the failure of a recent IPO to perform well (China Railway). 4) It is conceptually easy to assume that growing economies mean booming stock markets but this isn't necessarily the case. America became dominant in the late 19th and 20th century but had plenty of crashes in its equities along the way. 5) A somewhat glib theory is that every major emerging market goes through a mega stock market boom which is often followed by bust (i.e. Britain's South Sea bubble and the U.S. 1929 crash). Similar things may happen in India/China and other emerging markets as promoters try to take advantage and float off low quality stock.

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

You make some very good points in this email. Inflation is a problem, particularly in terms of food and energy, where I now expect to see some respite as prices correct. Equities can perform during inflationary periods but less so if there is a headwind of rising interest rates. My own view is that the cycle of higher short-term rates for countries is now ending or over, more often than not. Regarding IPOs, you will presumably know that the most numerous and dramatically successful flotations occur near market tops. Conversely, they dry up and / or disappoint near market bottoms.

Regarding your 4th point, I will cite more recent evidence from the last somewhat inflationary period of the 1970s. Wall Street was trading beneath a glass ceiling for the Dow near 1025. This actually commenced in the latter 1960s and continued into 1982. Emerging markets, however, saw spectacular

bull trends and some hair-raising descents, albeit with higher highs during the upswings and higher reaction lows following setbacks.

I have long forecast a similar pattern of net outperformance for high beta markets. However a difference this time is likely to be the size of corrections, although some will be large. In the 1970s, the US economy was overwhelmingly dominant. The emerging markets of interest were mainly Asian, including Japan. Many of these were small, with thinly capitalised stock markets. This understandably led to greater volatility.

Today, with the USA and European economies generally underperforming, and Asia now the global economy's engine, investor interest in these high-growth economies will remain relatively high. We will still get big peak to trough swings from time to time, but these are not unique to emerging markets.

Valuations in most of the world's stock markets have improved significantly following the sell-off. Consequently we are spoiled for choice. You can cherry pick in most markets, developed (regressing) or emerging (progressing). However on a 2, 5 or 10-year view, I will continue to prefer the Fullermoney themes for capital appreciation. China and India are best accessed via funds, unless you are very familiar with these markets. For yield, Europe currently holds the advantage.

Please note - I will be away tomorrow and also next Tuesday.

Additional Commentary by Eoin Treacy

Commodities Attracting 'Enormous' Investments, JPMorgan Says - [This article by Claudia Carpenter succinctly describes what has helped to push many commodities to historic highs over the last few months. Here it is in full:](#)

Commodities are still attracting "enormous" investments from money managers seeking an alternative to equities and bonds, JPMorgan Securities Ltd. said.

"The money coming into commodities is absolutely enormous, and it's still flowing very, very rapidly," James Proudlock, commodity product head for Europe, Middle East and Asia at JPMorgan in London, said at the Sugaronline World Sugar & Ethanol Conference in Geneva today. "The equity markets don't quite look as interesting as a few years ago and the bond markets are very confusing. You never know when the Fed is coming in next."

There are 361 commodity funds that had \$98 billion in assets as of Feb. 28, compared with 345 funds with \$80 billion at the end of 2007, he said. In the soft red winter wheat market, index funds control two years of production, he said.

Gold, which breached \$1,000 an ounce last week, will probably continue higher, he said, without giving a forecast.

The commodity investments compare with \$45 trillion in equities and \$20 trillion in bonds, Proudlock said. If some of the "leading, real money managers" put 2 or 3 percent of assets into commodities, "everything that's happened in the last couple of years is going to happen again, times two."

My view - Commodities of all hues are in secular bull markets and investors are increasingly coming to this realisation. However, they have had a very good run of late and this has become a crowded trade, as we have been emphasising recently. The action seen on a number of commodities over the last two weeks suggests that at least some are likely to enter medium-term corrective phases, which we describe as lasting from a few months to seldom more than two years. Also see Comment of the Day on [March 6th](#) and [March 7th](#) and David's additional comments last [Friday](#) and this week, not least in the Audios.

As of today, [oil](#), [gasoline](#), [natural gas](#), [heating oil](#), [platinum](#), [gold](#), [silver](#), [palladium](#), [soybeans](#), [coffee](#), [wheat](#), [corn](#), [oats](#), [sugar](#) and [cotton](#) have retreated from their recent highs. The severity of this decline varies greatly between these commodities, but we notice that the leaders in the upward move are amongst those with the steepest falls.

Part of the reason commodities have accelerated higher has been because of the weaker [US Dollar](#) but also because they have been one of the only momentum plays around. Considering the downward dynamics posted in a number of agriculturals on March 7th and the break down of oil, silver, gold and platinum there is the possibility that the sector is entering a medium-term correction. Individual commodities would need to sustain moves to new high ground to offset this possibility. Undeniably, billions have flowed into commodities over the last few months, but given recent action, at least some of that money is being taken off the table. Additionally, the US Dollar is looking quite oversold and ripe for a technical rally. This could encourage investors to go elsewhere in search of returns.

Fannie, Freddie Surplus Capital Requirement Is Eased - This [article](#) by James Tyson for Bloomberg covers the loosening of Capital Requirements on Fannie Mae and Freddie Mac today. Here is a section:

Regulators for Fannie Mae and Freddie Mac cut the companies' surplus capital requirement in an effort to expand their combined \$1.5 trillion in mortgage investments and revive the U.S. home-loan market.

The requirement was lowered to 20 percent from 30 percent, the Office of Federal Housing Enterprise Oversight said in a news release today. The government-chartered companies, the largest sources of money for home loans, also agreed to raise a "significant" amount of new capital, Ofheo said.

The initiative may immediately pump \$200 billion into the mortgage-backed

securities market, Ofheo Director James Lockhart said at news conference in Washington today. Combined with a lifting of portfolio caps on March 1 and the companies' existing capabilities, this should allow Fannie Mae and Freddie Mac to buy or guarantee about \$2 trillion in mortgages a year, Ofheo said.

This will ``go a long way to stabilizing panicky markets," Howard Shapiro, an analyst at Fox-Pitt Kelton Cochran Caronia Waller, wrote in a report to clients yesterday.

Fannie Mae and Freddie Mac led the Standard & Poor's 500 stock index higher today, and U.S. Treasuries pared gains amid reduced concerns that credit market losses will deepen. Fannie Mae rose \$2.98, or 11 percent, to \$31.20 as of 10:24 a.m. in New York Stock Exchange composite trading. Freddie Mac was up \$2.18, or 8 percent, to \$28.20, after rising the most ever yesterday.

Housing Slump

The worst housing slump since the Great Depression is being exacerbated by the limited ability of Americans to get mortgages or refinance loans amid tightened standards at money-losing banks. Issuance of non-agency mortgage bonds fell 33 percent last year to \$707 billion, according to newsletter Inside MBS & ABS.

``Our hope is that it will help restart the housing engine that powers our economy," Fannie Mae Chief Executive Officer Daniel Mudd said at a news conference in Washington today with Freddie Mac CEO Richard Syron and Ofheo Director James Lockhart. ``This is what the GSE's were put in place for, to deal with situations like this and we will deliver," Mudd said.

Created by Congress to boost homeownership, Fannie Mae and Freddie Mac profit by holding mortgages and mortgage bonds as investments and by charging a fee to guarantee and package loans as securities. They own or guarantee at least 40 percent of the \$11.5 trillion in U.S. residential-mortgage debt outstanding.

My view - As of the end of January the Federal Reserve has belatedly signalled that it is willing to do whatever it takes to bolster the economy and promote economic growth. Lowering interest rates aggressively was necessary as was the signal that they will continue to do so as long as it is needed. However interest rates are not the only tool in the Federal government's arsenal. Opening the discount window to brokerages, accepting mortgages as collateral and lowering capital requirements at Fannie Mae and Freddie Mac are also tools available to the government to help support markets. And these are only the tools employed so far.

A number of commentators have written off the capability of the Fed to do anything helpful in the credit crisis. However, they neglect to see that the Fed is only one arm of government and if they are intent on supporting the stock market and fixing the housing crisis, they are capable of changing the rules to

achieve their goal. I believe it is dangerous to underestimate the government's ability to achieve its goal.

Citi: The Globaliser March 12th - Thanks to a subscriber for this short [report](#) from Bruce Rolph and Kim Ta. Here is a section from the technical comment:

'This may go down as the misguided call of all time', accepts CitiFX Technicals, 'for we are shifting our US equity view to articulate that we believe the low has now indeed been put in and that the downturn in place since last October has now come to an end... where could we be wrong on this view of a turn?... a weekly close below 11,456-11,534 for the Dow Jones and a weekly close below 1,270 for the S&P500 would suggest this call is premature and further losses are on the cards... either way, time will be the judge - but as usual we call it as we see it'.

My view - We continue to hold that US indices would need to sustain moves below their January 22nd lows to reassert their downtrends. This has not yet occurred, and in the absence of such an event, we can assume that these indices will continue to range in a support building phase.

Today's interesting charts - Did you know that you can use the Filter system to rank your personal portfolio by absolute and relative performance?

UK (FTSE 100) - bounced well from support at the [January](#) low [yesterday](#) and would need to sustain a move below that level to offset scope for the continuation of this support building phase.

Gold - breaks the short-term [uptrend](#) and would need to sustain a move to new high ground to reaffirm the overall upward bias and offset scope for some further weakness.

US Dollar per 1 Euro - losing [momentum](#) following the test of \$1.60 on Monday. It would need to sustain a move above that level to offset scope for some further Euro weakness.

Thursday 20th March 2008

Commentary by Eoin Treacy

Additional Subscriber's Audio recorded to cover Thursday's Wall Street close and Friday's trading. Comment of the Day will return on Tuesday March 25th.

PWC Mining Deals 2007 Annual Review - This well-researched [report](#) by PWC covers the potential for further consolidation in the mining sector in 2008. Here is a section:

At the very top end of the market, 2008 looks set to be the year of super-consolidation as the giants of the mining and metals sectors seek

combinations that will increase their worldwide scale. Such moves are themselves a huge signal of market confidence. The super-consolidation race may include players from China and Russia as well as the established international mining and metals majors. The landscape of the sector is set to look very different once the coming wave of mega-mega-deals is settled. Moreover, the super-consolidation deals will spawn a round of related deal activity as companies reorganise portfolios and divest non-core assets

The strength of the mining M&A market will also continue to be influenced by moves from state-owned enterprises and companies from outside the immediate mining sector moving upstream to secure mining assets. Further down the industry scale, consolidation has a long way to run in many sectors and, indeed, the trend towards super-consolidation will add to the consolidation imperative. The quest for diversification and filling resource pipelines will continue to be a strong overriding factor. There is considerable scope for deal-making in fragmented sectors such as copper and lead/zinc as is the case with other sectors in particular territories, such as gold in China.

There is potentially more political risk in the mining sector than previously with aggressive expansion in territories such as the Democratic Republic of Congo, Ecuador and Bolivia. The 2008 election year in Russia may slow down the flow of domestic mining deals in that country as companies await clarity on political developments. Many of the significant deals in Russia have already been undertaken although there remains scope for further privatisations, particularly of gold and copper deposits. However, as noted above, we can expect Chinese and Russian companies to continue to be active bidders on the international mining scene.

The struggle that some exploration companies face to gain funding for development potentially opens the door to friendly deals with big companies or end users wishing to secure inputs. Also, among smaller companies, the stock market falls of early 2008 have made some targets much cheaper and may lead to a spate of hostile offers.

In conclusion, mining deal activity is set to remain strong. A series of landmark deals may reshape the top tier and consolidation will continue to be a strong deal driver among mid-tier and smaller companies. Whatever its size, no company will be able to be complacent about their M&A strategies as the industry continues to chart a dynamic M&A path.

My view - Trading activity in the soft commodities and precious metals sectors over the last few days strongly suggests that they are moving into corrective phases which are likely to be medium-term in nature. The severity and duration of these reversions can best be monitored using the individual commodity charts. Since equities linked to these areas have been towers of strength during the ongoing uncertainty surrounding stock markets, we can expect them to also be affected by this reversionary activity.

However industrial metals such as zinc, lead and nickel are already relatively depressed, so the potential for further losses in these commodities is arguably

lower. Copper, aluminium and tin have rallied well over the last few months and are probably in a higher risk category at present. If metal prices continue to correct, we can anticipate that most miners will come under selling pressure, irrespective of what they are actually taking out of the ground. However the fact remains that while investor sentiment is volatile, particularly in the current environment, fundamental demand for metals continues to expand. We have long held that miners and commodities are best purchased following corrections and this will be no less the case when this correction has run its course.

The above report also highlights the point we have made for a number of years: that companies with access to resources in the ground in secure parts of the world can be viewed as collector's items from an investment perspective. (Also see Comment of the Day on [October 4th 2004](#)). This is as true today as it was in 2004. We are likely to continue to see mergers across the mining sector as companies compete with each other to dominate this growth industry. This should help to put a floor under the market following an initial fall, as potential buyers use any reaction to attempt to purchase targets cheaply.

Email of the day (1) - on accessing Donald Coxe's commentary:

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

My comment - Thank you for this link which I'm sure will be of interest to other subscribers.

The Spectator: A masterclass with the adventure capitalist - Thanks to a subscriber for this interesting [interview](#) by Jonathan Davis with Jim Rogers. (This article was also mentioned on [March 17th](#) in David's email of the day (1)). Here is a section:

While oil and metals have been making most of the running in the commodity markets to date, his view now is that so-called 'soft commodities' such as sugar, grains and cotton are poised to catch up. Even though that view is now becoming fashionable, Rogers argues that the commodity cycle has plenty of distance still to run. How much longer? 'Who knows, but history would indicate ten to 15 years, although there will always be big consolidations within the context of the secular bull market.'

Won't an economic slowdown this year knock the prices of many commodities? 'Perhaps. I've never said that commodities will go up in a straight line. Something has always caused corrections throughout history. Some of the base metals have already had big corrections. Dr Nickel and Dr Zinc saw all this coming long before Dr Bernanke and Dr Wall Street.' ('Dr Copper', as the price of that metal is popularly known, has long been regarded by investors as a useful early indicator of trends in economic activity.)

The long-term trend of rising commodity prices will remain intact, says Rogers, for one very good reason, which is the growing imbalance between supply and demand, fuelled by the spectacular growth of the Chinese and Indian economies. For years, developed countries have shied off taking the hard decisions that are needed to fill the coming supply shortages in oil, food and other basic commodities. No new oil refineries have been built in the United States for more than 30 years, for example. These imbalances will take years to put right.

So why is it that so many other investors still don't get the story? 'They have been taught for decades that commodities are dangerous,' says Rogers - who, incidentally, coxed the Oxford University eight in the 1960s while on a scholarship here. 'There has not been any education about commodity markets for three decades. Everyone has focused on stocks and bonds.' Now, however, the tide is turning. The story won't end, says Rogers, until we have seen a fully blown bull market in commodities that parallels the excesses that took shares to their peak in 2000.

My comment - Recently, sentiment regarding the commodities sector, particularly grains and precious metals, has improved immeasurably as increasing numbers of investors have been attracted to the asset class. Large numbers of bullish reports and TV interviews generally tell us what investors have already done. As some of these commodities enter medium-term corrections, we can expect an increasing number of bearish reports to appear. When investor sentiment is at a bearish nadir and commodities are finding support, we will have a good signal that this correction is ending. We will continue to monitor both price and sentiment in attempting to identify the next good buying opportunity.

Email of the day (1) - on Fullermoney and a commercial axe to grind:

"Yesterday I spent an hour listening to a much-touted "online conference", sponsored by a newsletter writer whose long-term views on the markets I have consistently found to be very sound. For instance his predictions on the effects of the credit crisis, issued when almost everyone else (including DF) was saying it wouldn't have much effect on the stock markets, have been proved to be all too accurate.

"The discussion was initially very sound and in line with FM analyses, emphasising the commodity supercycle, China etc. However I slowly began to realise this was in fact no more than an elaborate plug for the firm's proprietary trading signals for commodity ETF's, which cost double an FM subscription to access.

"The speakers though generously gave away free the names of two ETF's one should get into right away. One was a silver ETF, the other the Powershares Agriculture ETF.

"Forearmed by David, however, I was aware of the following:
- both funds were indeed in long-term uptrends

- but their current medium-term trends were very mature, and both charts showed signs of having rolled over
- in the precious metals group, platinum is currently a leader, and it was already clearly on the way down.

"So what was more natural than to bet on the laggard? Consequently I shorted silver, and I am currently 11.25% up after less than 24 hours.

"Having also learned from David over the years that the most certain thing about markets is that all excesses eventually correct, I won't sell until the chart approaches its long-term growth line, which is a long way down.

"And again, I will use platinum as a guide, and above all listen to David's audios!

"All this is not to blow my own trumpet. I'm not a trader, and indeed I usually lose when I try. It is to point out once again the difference between David and all comparable "advisers" I have every known, from two important aspects. Firstly that he has no commercial axe to grind and therefore can be completely honest. And secondly, that despite being long-term oriented, he has his finger right on the pulse of what's happening NOW, instead of advising one to join in trends which are already past their prime, as so many others do.

"And all this for less than almost anybody else charges. What a bargain!"

My comment - Thank you for this inspirational email which highlights our theme of Empowerment Through Knowledge. You were the one who made the decision to short silver and can consequently take full credit for your results. It has always been the aim of the Fullermoney Global Strategy Service to educate investors about how best to make their own decisions. Through the Subscriber's Comment of the Day, the Subscriber's Audio and our full trade and investment details we reveal the processes we employ in our own decision making. The Fullermoney Collective Brain Trust is invaluable in sharing its experience and wisdom and constantly helps to further our education. Thank you all.

It would not be accurate to say that Fullermoney is without a commercial motivation as we are trying our best to run a profitable business, but it is true that we have always demurred at the lure of the hard sell. We continue to believe that we should let our research speak for itself.

However, I believe it is justified to point out Fullermoney's best kept secret: no subscriber pays the headline rate on continuous renewal. While the Fullermoney subscription is never discounted for new subscribers, everyone who renews before their subscription expires receives a loyalty discount.

Email of the day (2) - on questions about the Service:

"I understand the Fullermoney themes as being: emerging (or rather progressing) Asia, resources, energy, global infrastructure development and precious metals.

"I have earlier asked how the global infrastructure development theme was represented in your personal portfolio, and you responded by mentioning Rio Tinto, BHP Billiton and MLWM. This made me confused regarding the difference between resources and global infrastructure as I considered them resources.

"Is it because the two themes are widely overlapping?"

"In an interview with BRW in June 2005, you highlighted Investec Global Energy Fund as one of your favourite investments. I don't see it in your top 10 any more - what happened? Out of intellectual interest, do you consider energy a separate theme or a sub-theme under resources?"

"In the same article, you also highlighted silver as one of your favourite investments. Personally, I hold a not insignificant amount of gold and silver in the form of a bullion pool account, while I note your investments in this theme is in the form of precious metals mining shares. Could you say a little about the advantages / disadvantages of these two different vehicles for investing in the precious metal theme, and why you prefer shares?"

"As I understand it, you do not consider bonds and treasuries attractive elements of a portfolio these days, but prefer cash in the form of NZD.

"May I ask for a rough estimate of the various Fullermoney themes allocation in your personal portfolio?"

"Thank you so much for providing a dedicated, outstanding and exciting service to all the Fullermoney team!"

My comment - Thank you for your well researched email. Taking your questions in order: the growth in global infrastructure is the hard fundamental behind demand for a large number of industrial resources. So yes, global infrastructure and mining themes very much overlap. When we come to investing in the global infrastructure theme, Western miners, with good governance and access to secure reserves in politically stable parts of the world and selling their products to the progressing economies of Asia are a convenient and highly effective way of tapping the global infrastructure secular theme.

David sold the remaining portion of his investment in the Investec Global energy Fund on [October 10th 2007](#). Here is a section from his commentary on that sale.

I sold my initial investment in the Investec Global Energy Fund (Guernsey-listed) last April and sold my latter purchase in the London-listed, sterling-denominated vehicle (INVGEEA LN) today, receiving 200.94p against my purchase at 153.51 on 19th August 2005. This had been the 11th largest

position, by capitalisation, in my personal portfolio.

The Investec result is disappointing, not least because I remain a long-term bull of energy and the fund chart still looks promising. However, I am concerned about the long-term fundamentals for companies in this fund. They are dominated by big, Western oil shares which cannot replace their reserves. Moreover, in recent years we have seen how vulnerable they are to expropriation of reserves, which mostly reside in countries with authoritarian regimes, keen to nationalise oil fields now that they are so profitable. And oil-rich democracies such as Canada are raising taxes once again. This may be good for the countries involved but it does no favours for minority shareholders.

In summary, big oil owns very little of its reserves relative to top-tier mining companies. Also, Investec's managers have stuck with low valuation companies, which was once commendable, but in recent years the drillers and equipment suppliers have shown by far the best performance. Eoin last made this important point in his excellent review on 17th September, in commenting on Martin Spring's report.

I will probably reinvest cash raised from the Investec Global Energy Fund sale in resources, favouring mining companies.

As for precious metals, I know that David primarily tends to focus on trading the precious metals futures quite actively and invests in mining companies as a longer-term way of playing the market. Holding silver or gold bullion as a long-term investment is an equally effective way of benefitting from their rise over the long term.

As you will see from this Comment dated [February 29th 2008](#), the relative performance of individual positions has a direct impact on how they are weighted in any investment portfolio.

Email of the day (3) - on the NYSE breadth index:

"I thought you might enjoy this breadth index/graph of the NYSE. On your Bloomberg its TRADPAUS ."

My comment - Thank you for alerting us to this interesting [chart](#), which can now be found in the Chart Library. The extreme oversold reading on this indicator corresponds with the lows reached in 2002 and 1998, which were both market bottoms. While this is not strictly a timing tool, it does suggest that we are close to an important area of support.

Quote of the week - on teaching:

"If you would thoroughly know anything, teach it to others."
Tryon Edwards

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