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 21st April 2008

Tim Price: 'Stuff' versus paper - I am delighted to post the latest issue of this witty and refreshingly iconoclastic letter, produced by Tim price of PFP Wealth Management. Here is the opening:

"Unfortunately, self-regulation stands in relation to regulation the way self-importance stands in relation to importance.."
- Willem Buiter, in The Financial Times, on the latest laughable attempt by banks to weasel out of any kind of real regulatory oversight.

"There was a time when a fool and his money were soon parted, but now it happens to everybody."
- Adlai Stevenson.

Judging from admittedly unscientific anecdotal evidence, investors seem to believe that equity markets have dodged something of a bullet. And while certain sectors (leisure goods and retailers, telecoms, financial and media - the list is not exhaustive) have all slumped since the start of 2008, the FTSE 100 as a whole is holding up pretty well against its European and even North American peers - financial relativism, perhaps, always being the last refuge of the scoundrel. But just as there is more to banking than specious attempts to evade accountability, so there is more to investing than just lobbing one's savings into the stock market. How have other major investment sectors and asset classes fared ? We can debate subjective fundamentals, after all, until the bulls come home, but the price is where the price is. As Mrs. Thatcher said, *you can't buck the market*. (And as Hank Paulson and Ben Bernanke are now discovering, *you can't market the buck*.)

As at the end of the first quarter, the FTSE 100 index was showing a total return of -10.3%. This compares with -9.4% for the S&P 500, and with an altogether more miserable -15.6% for the FTSEurofirst 300. The Nikkei 225 was showing a total return of -17.5%, the Hang Seng an almost identical -17.4%, and Shanghai a somewhat more striking -34%. Whatever the Chinese economy is doing, in other words, its stock market hasn't exactly decoupled from the west - more like entered a suicide pact.

So much for stocks. If you liked them in January, you have to love them now. As to those certificates of confiscation known as government bonds: UK Gilts, as represented by the FTSE Actuaries UK Gilts All Stocks index, have returned 0.19%. After inflation, of course, that is a loss. Bloomberg's US Government Bond Index has delivered a total return of 4.49%. Whether that represents a meaningful real return largely depends on whether you trust US inflation data. Euro zone government bonds were almost exactly in the middle, with a return of 2.29%. As we never tire of writing, the optimal risk / reward - if there is any value inherent in government debt - is likely to be in the inflation-linked market.

My view - All investors should develop a healthy level of scepticism, check to see if financial products are priced more for the vendor than the purchaser, and subject forecasts to the reality check of price action.

My personal portfolio: Where to invest some spare cash in my ISA accounts: Part 2 - This item completes last Thursday's feature on my personal SIPPs and ISA positions.

Last week's review concluded with a look at the considerable industrial mining component in my personal portfolio. I remain very bullish of this sector but will only buy on weakness, so they are not candidates for a top up today.

For similar reasons, I will not add to my position in the Merrill Lynch Gold & General Fund, which is my 4th largest equity holding by portfolio weighting. However I have no intention of reducing this stake, viewing the management's performance as outstanding, albeit somewhat flattered by its USD denomination. I could justify adding to A$-denominated Lihir Gold, which has fallen back to a previous support level, but probably won't as I am already overweight in this sector. I also hold DRD, a speculative recovery candidate, which currently occupies 10th position in the portfolio. Moreover I suspect gold bullion is in another of its medium-term consolidations, albeit within a long-term upward trend.

I am more inclined to invest in developing (progressing) Asia, which remains my favourite region for long-term GDP growth. I could justify adding to the JP Morgan Indian Investment Trust following its setback and subsequent steadying, but it is already the largest holding in my portfolio. For a similar reason I will not add to the Aberdeen New Thai Investment Trust, as it holds third position by weighting.

The Aberdeen New Dawn Investment Trust is a candidate, despite testing its highs currently. This was criticised by some for underperforming last year, due to the management's conservative policy, subsequently justified by market events. I suspect it will do well from here on and as it is only in 9th position by weighting, I could easily justify increasing the position.

ABD would give me regional diversification but I am also tempted by Vietnam, which has taken quite a pounding. If I am ever going to buy a Vietnam fund or tracker (see Chart Library), I would want to do it following a big setback, even though I do not know how much base building may be necessary before the next significant uptrend occurs. China is interesting for the same reason and I would not be surprised to see a bottom near 3000.

While it is difficult to invest in mainland China, I could add to my position in the Atlantis China Fortune Fund, which invests mainly through Hong Kong, not least the H-Shares. Still the 2nd largest position in my long-term portfolio by weighting, this has experienced a bigger pullback than I expected. Nevertheless in my view this volatility is due to the nature of markets, not China's long-term prospects. The time to buy, I have long maintained, is following setbacks.

One caveat regarding this and too many other open ended funds: Having to make forced sales due to redemptions, Atlantis lengthened exit periods to twice monthly. I think this was a mistake and have told them so. I know why they did it, ostensibly to protect other investors in the fund, but I maintain it is a short-sighted policy. If you can invest in Atlantis China Fortune or any other fund on a daily basis, you should also be able close the position without time constraints.

Among alternatives for China would be trackers or futures. Currently, I have a spread-bet long in China's H-Shares Index. Also, I regard Taiwan, following its recent election, as a very promising way to participate in China, indirectly. Taiwan's valuations are much lower than China's and it is also strong in the technology sector, which is coming back into form.

Lastly, I am also considering a Brazil tracker. While I would prefer to buy this on a setback, I may not get another chance within the current range, given the interest in resources shares. Brazil provides unique exposure to the Supply Inelasticity themes with its minerals, energy sources and foods.

Where will I invest the ISA cash that I was able to add as of 6th April? I have yet to make up my mind and feel 'spoiled for choice'.

Rod Smyth's The Weekly: Formerly with Wachovia Securities, Rod has resurfaced with Riverfront Investment Group - Many readers will recall Rod Smyth's interesting market analysis, which was often posted by Fullermoney in recent years. He is now Chief Investment Strategist at Riverfront Investment Group and forwarded his last three issues. Here is the opening from the 14th April edition:

Are we there yet…Are we there yet?

The bear market probably isn't over so long as we are asking the question. In our view this one has had its first major leg down, from 1560 to 1270 and is now in the corrective rally. The S&P 500 rose to 1390 last week, just above our minimum 1370 target for the rally, and then retreated rapidly on disappointing earnings from GE. The market clearly misjudged GE's earnings since it had been one of this year's best performing mega cap stocks.

Typically during recessions earnings fall well below trend. So far in the current cycle only the financial sector has had earnings fall significantly below trend, and this has been enough to lower S&P 500 forecast earnings per share to its long-term trend of around $70. If non-financial earnings have a normal recessionary downturn, as we expect, then there will be more negative surprises before the bear market is over.

Falling demand and rising costs from higher material prices and greater financing costs are likely catalysts for further disappointment. That said, we think labor costs - roughly 70% of corporate costs (source High Frequency Economics) - will remain subdued. In this week's Strategic View, CIO Michael Jones shows that unit labor cost growth is decelerating rapidly, and makes the case that 1970s-type stagflation is unlikely to reoccur. Instead we expect the economy to go through a prolonged period of slow growth, some of it recessionary. S&P 500 consensus earnings estimates for 2008 have fallen steadily over the last eight months but still anticipate positive earnings growth. We think 2008 earnings will probably be negative, as they have been in every recession, and thus remain concerned that the earnings downturn is not yet fully reflected in stock prices.

My view - Prior to its latest and disappointing earnings, GE had been a relatively strong performer in the US market this year because of its international scope. However the earnings disappointed because of credit problems relating to the domestic economy. In addition to its profitable manufacturing businesses, GE is involved in private label credit cards, real estate and loans.

I maintain that the US has a two-speed economy, with most multinationals progressing, cushioned against the slowdown at home by stronger growth overseas, with consolidated earnings helped by the weak dollar. Conversely, America's consumer discretionary sectors are in deep recession, and the ongoing credit problems clearly remain an Achilles heel for GE.

However, other US multinational companies, less affected by credit difficulties, pleasantly surprised Wall Street with their earnings reports last week. We can expect these two-speed economic developments to remain a significant influence for the US stock market in the months ahead.

Investors in US equities may wish to weight their portfolios accordingly, using relative strength as a filter. In other words, any sectors or companies that are clearly outperforming the S&P 500 Index, will probably continue to do so, more often than not, in the months ahead.

For instance, the S&P 500 Index has yet to clear its February highs, unlike the Nasdaq 100 Index recently, and IBM shows outstanding relative strength.

Here are two earlier issues of The Weekly by Rod Smyth - 1st April and 7th April

Additional Commentary by Eoin Treacy

Africa: The commodity warrant - Thanks to a subscriber for this well-researched, heavyweight 108 report by Richard Kersley and team which covers medium to long-term opportunities in Africa. Here is a section:

Growth in the commodity sector is likely to fuel significant growth in African infrastructure for three reasons: (a) because some governments are demanding the expense as part of granting oil and mining concessions; (b) since infrastructure is so poor, growth in extraction or cost-effective exporting requires the upgrade; and (c) because the significant improvement in fiscal accounts means some countries can easily fund improvements directly (Libya announced in late 2007 that it would spend US$123bn [186% of GDP] over five years building roads, ports, schools and housing on the back of rising oil revenues). It is clear to us that Africa is suffering a major power shortage. The World Bank financed African power projects worth US$1bn in 2007 and US$660m in 2006. This investment should deliver c.1000MW of additional generating capacity p.a., yet the World Bank estimate 2000MW p.a. or more is needed to keep pace with demand. There is huge hydro (as well as coal-fired) power potential. Expanding the Inga hydro project on the Kinshasa (also known as the Congo) River could provide enough power for the whole of Africa, according to the development team.

International power generators have so far been reluctant to invest much in African power supply given political instability and problems defining long-term contracts. UK-listed International Power is the only generating company with a major Africa power project in its pipeline.

The other major shortage is the supply of fresh water. The major investment so far has come from Hyflux through its desalination project in Algeria. We estimate the revenue contribution will be around 40% of the total for Hyflux in 2008 and 2009. Revenue exposure of the capital goods companies is not that high for now but the growth forecasts are strong: at Alstom, African orders account for around 10-15% of total order intake in the past 12 months, but, courtesy of the power shortages, demand appears to be accelerating. ABB (5% in sales to Africa in 2007) is another way to play power capex in Africa.

Away from purely power generation, at JGC (a Tokyo-listed engineering and construction company) African projects accounted for 3% of the order book at the end of 1H 3/08, but could rise sharply to over 20% with the expected (by the company) award of a major gas development project in 3/09. At Daewoo Engineering and Construction, 11% of 2007 revenues were generated through sales of LNG and power plant equipment to Nigeria and Libya. We expect African revenue growth of c.33% in 2008 versus 10% growth in group sales. Only 2% of GS Engineering and Construction revenues were generated in Africa in 2007 but nearly 10% of the current order backlog is for Africa. We expect 150% growth in African sales in 2008 compared to group sales growth of just 12%.

Alternatively, infrastructure growth in Africa can be played via the cement and steel sectors. For Cimpor, Africa accounted for nearly a third of total profits in 2007. We estimate sales exposure at Lafarge of c.16% in 2007 and project African growth of c.10% p.a. (roughly twice the group average) over the next three years. About 6% (7mt) of ArcelorMittal's crude steel production for 2007 was in Africa, with the company stating plans to increase production by a further 2mt. But, all in, we estimate that Africa accounted for less than 10% of total revenues last year.

My view - While we have tended to focus on infrastructure growth in its context as a major driver of GDP expansion in Asia; it is a global theme. African infrastructure needs to be built and improved in order to extract and export resources. The more far sighted countries will also invest in the public works needed to sustain their economies beyond the commodities secular bull market.

Developed countries are also in need of upgrades to their existing infrastructure with water, rail, electricity capacity, roads and airports all in need of significant renewal. The global need for industrial commodities to fuel this development continues to drive the Supply Inelasticity Meets Rising Demand theme and shows no sign of relenting.

FT.com View from the Markets: Yang Liu on investing in China - Thanks to a subscriber for these insightful interviews with Yang Liu, chairman of Atlantis Investment Management in China.

India Bonds May Snap Losing Streak After RBI Ends `Uncertainty' - This article by Anil Varma for Bloomberg covers last week's move by the Reserve Bank of India to raise reserve requirements. Here is a section:

India's benchmark bonds may snap seven weeks of losses after policy makers last week asked the nation's banks to hold more money in reserve to curb inflation, easing concern the central bank will raise interest rates.

Yields on debt due 2017 may fall from the highest in 10 months after the Reserve Bank of India on April 17 raised the proportion of deposits banks must set aside to the highest since 2001, removing ``uncertainty'' over policy steps aimed to slow inflation, said Mahendra Jajoo, who manages the equivalent of $2 billion in Indian debt as chief investment officer at ABN Amro Asset Management Co. in Mumbai.

``The market has expected this for a while and factored in a good amount of anti-inflation measures,'' Jajoo said. ``Now that it has happened, traders will find some comfort because the uncertainty is over. Bond prices should be stable to slightly higher in the coming days.''

The yield on the most-traded 7.99 percent note due in July 2017 will decline to 8.10 percent in coming days Jajoo said. The yield closed at 8.12 percent on April 17, the highest since June. India's financial markets were shut April 18 for a holiday.

The Reserve Bank said the so-called cash reserve ratio will be raised to 8 percent from 7.5 percent in two phases. The ratio will be increased to 7.75

percent on April 26 and to 8 percent on May 10. That will drain a total 185 billion rupees ($4.6 billion) from banks, the central bank said. Citigroup Inc., Barclays Plc and JPMorgan Chase & Co. are among banks that predicted the decision.

`Rates Unchanged'

"With the cash reserve ratio hike already in place, we do not expect another to be announced in April," Sonal Varma, a Mumbai-based economist at Lehman Brothers LLC, wrote in a research note on April 17. ``The RBI will keep both the repo and reverse repo rates unchanged'' when it next reviews monetary policy on April 29.

India should limit the amount of cash available for banks to lend instead of raising borrowing costs to curb inflation, former central bank Governor Bimal Jalan said April 7.

The rate of inflation in Asia's third-largest economy more than doubled in the past four months as commodity and food prices rose, undermining support for Prime Minister Manmohan Singh's Congress party before elections due next year. Wholesale prices gained 7.14 percent in the week ended April 5, near the most since 2004. The decision to increase banks' cash reserves will ``have a moderating impact'' on prices, Finance Minister Palaniappan Chidambaram said in New Delhi on April 18.

My view - Yields on the benchmark 10yr bond have risen to life highs of above 8% as concerns mount over the inflationary pressures on the Indian economy. Raising reverse requirements has been a tool used by the Chinese authorities over the last few years and is increasingly being adopted in economies where central banks aim to preserve high growth while also targeting inflation. The continuation chart of the 10yr indicates that yields have been ranging around the current area for much of the last year and are currently approaching the upper side of their congestion area. A sustained move below 7.5% would be needed to indicate that investors are gaining confidence that inflation is being brought under control.

Judging from the performance of the Bombay Banks Index, which led on the downside, the move in reserve requirements was reasonably well received by the market. The Index found support in March near the August lows and would need to sustain a move below 7200 to offset scope for further upside.

Email of the day (1) - on Brazil's Bovespa:

"Since Nov 2006 volume has dropped off a cliff - is there a reason for this except for the obvious? If not is it ringing alarm bells with anyone?"

My comment - Here is the volume chart you are referring to. I'm afraid I have not been able to find out why volume data changed so drastically in November 2006. I can only assume, it has something to do with a change in calculation methods at the exchange or something to that effect. If subscribers know why this is occurring I would be glad to know. It certainly has not affected how the Bovespa has performed.

The Bovespa is consolidating in the region of the prior highs and is one of the main global candidates to sustain a break upwards to new high ground. This would be needed to reaffirm the overall uptrend.

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

"Can you please add to the chart library:

CREDIT SUISSE FUND (LUX) DJ-AIG COMMODITY INDEX PLUS (US$)
ISIN number: LU0230918368
Bloomberg ticker: CSFLCUBLX

"Thanks."

My Comment - This fund has now been added to the Chart Library.

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

"Would you please add DBX Tracker ETF MSCI Taiwan - XMTW (London - £ or $) to the chart library?

"As always thanks for your great service."

My comment - The Euro denominated iteration of this fund can be found in the Asian Funds section of the Chart Library, but I have now also added the Pound denominated version.

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.

Wheat - breaking down from the short-term range and would need to sustain a move above 1000¢ to offset scope for some further downside.

JGB - remains in a short-term downtrend but is looking a little overextended as it approaches an area of historic support near 137. However, a sustained move above 140 would be needed to offset scope for some additional downside.

Orange Juice - found support near 105¢ in late March and rallied well to test the medium-term downtrend. It would need to sustain a move below 110¢ to hinder potential for some further higher to lateral ranging.

Australia - found support in the region of the January lows and is currently testing the upper side of the three-month range. A sustained move below 5000 would be needed to offset scope for some higher to lateral ranging.

Canada - testing the upper side of the medium-term range and would need to sustain a move below 13,000 to offset potential for an upward break.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of April 13th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Andorra, Canada, Denmark, Germany, Hong Kong, India, Ireland, New Zealand, Singapore, the UAE, the UK and USA - 12 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, Ireland and India.

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 22nd April 2008

Triple-A Failure: The Ratings Game - My thanks to a subscriber for this highly educative article by Roger Lowenstein for The New York Times. Here is the opening:

In 1996, Thomas Friedman, the New York Times columnist, remarked on "The NewsHour With Jim Lehrer" that there were two superpowers in the world - the United States and Moody's bond-rating service - and it was sometimes unclear which was more powerful. Moody's was then a private company that rated corporate bonds, but it was, already, spreading its wings into the exotic business of rating securities backed by pools of residential mortgages.

Obscure and dry-seeming as it was, this business offered a certain magic. The magic consisted of turning risky mortgages into investments that would be suitable for investors who would know nothing about the underlying loans. To get why this is impressive, you have to think about all that determines whether a mortgage is safe. Who owns the property? What is his or her income? Bundle hundreds of mortgages into a single security and the questions multiply; no investor could begin to answer them. But suppose the security had a rating. If it were rated triple-A by a firm like Moody's, then the investor could forget about the underlying mortgages. He wouldn't need to know what properties were in the pool, only that the pool was triple-A - it was just as safe, in theory, as other triple-A securities.

Over the last decade, Moody's and its two principal competitors, Standard & Poor's and Fitch, played this game to perfection - putting what amounted to gold seals on mortgage securities that investors swept up with increasing élan. For the rating agencies, this business was extremely lucrative. Their profits surged, Moody's in particular: it went public, saw its stock increase sixfold and its earnings grow by 900 percent.

By providing the mortgage industry with an entree to Wall Street, the agencies also transformed what had been among the sleepiest corners of finance. No longer did mortgage banks have to wait 10 or 20 or 30 years to get their money back from homeowners. Now they sold their loans into securitized pools and - their capital thus replenished - wrote new loans at a much quicker pace.

Mortgage volume surged; in 2006, it topped $2.5 trillion. Also, many more mortgages were issued to risky subprime borrowers. Almost all of those subprime loans ended up in securitized pools; indeed, the reason banks were willing to issue so many risky loans is that they could fob them off on Wall Street.

But who was evaluating these securities? Who was passing judgment on the quality of the mortgages, on the equity behind them and on myriad other investment considerations? Certainly not the investors. They relied on a credit rating.

Thus the agencies became the de facto watchdog over the mortgage industry. In a practical sense, it was Moody's and Standard & Poor's that set the credit standards that determined which loans Wall Street could repackage and, ultimately, which borrowers would qualify. Effectively, they did the job that was expected of banks and government regulators. And today, they are a central culprit in the mortgage bust, in which the total loss has been projected at $250 billion and possibly much more.

In the wake of the housing collapse, Congress is exploring why the industry failed and whether it should be revamped (hearings in the Senate Banking Committee were expected to begin April 22). Two key questions are whether the credit agencies - which benefit from a unique series of government charters - enjoy too much official protection and whether their judgment was tainted. Presumably to forestall criticism and possible legislation, Moody's and S.&P. have announced reforms. But they reject the notion that they should have been more vigilant. Instead, they lay the blame on the mortgage holders who turned out to be deadbeats, many of whom lied to obtain their loans.

My view - Regulators will find it difficult to be objective if they are feeding from the same trough as the people they are supposed to be regulating. Clever opportunists in an industry not noted for its high ethical standards will usually find a way to 'game' the system. This can lead to catastrophic results, extending well beyond the perpetrators, as we have seen too often.

Who will gain from all this?

The opportunist gamesters, at least until the music cynically cited by Chuck Prince of Citigroup eventually stops. Business schools, as they have gained important new case studies. Emerging (progressing) countries, as they have learned how not to run a banking, mortgage and regulatory system, thus avoiding the painful consequences that the west is now experiencing.

The article above is also provided in PDF format, in case the NYT link is eventually dropped.

Email of the day (1) - On sentiment (from a pre-subscriber):

"Firstly, I read your free commentary daily and have to say how refreshing it is to hear a calm voice among the hysterical crowd, which brings me to the purpose of contacting you.

"I have attached a chart which may interest you. It has taken many months to construct by taking daily readings of broker/analysts "buy" recommendations on the constituents of the FTSE All Share Index. It shows the proportion of the constituents which brokers give a accumulate, buy, strong buy etc. rating.

"I am aware of the Investors Intelligence "sentiment" survey and wondered if it were possible to measure analysts sentiment and how it changes with the changing market, after all nobody wants to be wrong on their own.

"I don't have enough back data to tell if it is possible to use this chart as a guide to sentiment in the market, but over time I'll see if it has any predictive power.

"I was wondering if you have seen this kind of research before and how useful it is, hence do you have these kinds of charts in your chart library?"

My comment - Thank you for your kind words and for sharing your sentiment graph. I commend you for effort in creating your own research project.

Logically, what you are doing should have some predictive value but I am unable to evaluate it, because despite your explanation, I do not understand exactly how you are weighting the data plotted. Perhaps you will be able to tell us when it is giving signals?

So in answer to your question, we do not have a similar study in the Fullermoney Subscribers' Chart Library, but we pay close attention to sentiment as you probably realise.

Fascinating interview with the Yang Liu, Chairman of Atlantis China - My thanks to a subscriber for this informative item from the FT's video interview section.

My view - Atlantis China Fortune Fund remains the second largest position in my personal long-term investment account. My position is still substantially in profit but naturally I wish I had had the vision to take profits in October 2007. I didn't and I have absolutely no intention of selling near current levels, which I consider to be a buying range, not least now that China's main indices have fallen 50%. If I ever sell this fund, it will be on strength.

I'm not the only one who thinks this is a good time to invest in China. Yang Liu, who manages Atlantis' China funds, told me recently that she invested $2 million of her own money in the China Fortune Fund over Easter. I think you will also find her comments interesting, not least the section on pre-IPOs which she can buy more cheaply today, and also her remarks on understanding and operating within the Chinese system.

Email of the day (2) - On my investment deliberations, discussed yesterday:

"Might I suggest this Latin American fund as a way to invest in the third great resource/growth area behind China and India. While currently trading at a slight premium, it often trades at a discount to NAV. It's 4th in my portfolio behind miners, India, and China.

"Also Trikona/Trinity Capital - Indian real estate - up 25% in the last 5 mos and still well below NAV."

My comment - Many thanks for these very interesting suggestions, offered in the spirit of Empowerment Through Knowledge.

I think the Merrill Lynch Latin American Investment Trust (MLLA LN) plc is a worthy alternative to a Brazilian ETF. Also listed in the USA and Luxembourg, I note that it has seldom sold at a discount of less than 5% of NAV in the last year, and is currently near par. I would like it even more following another pullback within the uptrend but that would probably require a global stock market reaction, which is always a possibility, not least in this environment.

Trikona Trinity Capital (TRC LN) was last mentioned by Eoin on 11th December, just as it was completing its base. Having lagged previously, as a new fund, it has done so well recently that as a precaution I asked Deepak Lalwani about it. It is listed in page 2 of his report below and he had no qualms about it. He also sent me this news item from Bloomberg. Trikona's fees are not insubstantial, commencing with 2% annual plus performance, as you will see from page 10 of this prospectus.

Incidentally, I asked the source of the email above if he had also sent the email of 11 December referred to above. Here is his reply:

"Actually, I believe I did read about Trikona on your website. I was more reminding you of this vehicle than introducing it."

My additional comment - Thank you, and well done for your vision in having seized this market opportunity.

Email of the day (3) - More on brokers:

"As a note on brokers, I use iDealing.com as an execution only (very) low cost on-line broker and for over 5 years now have always received great telephone support in terms of response and order fill. I had a word with them today and they also confirmed acceptance of non-uk listed instruments into my ISA account. Thought you may like to know there are alternative execution only brokers out there providing the facility. It is also one that quite surprised me, but what also surprised me was that they were surprised I didn't know !!!

"Thanks for the great service look forward to seeing you in May."

My comment - Thanks for sharing your personal experience with iDealing.com, of which I was not previously aware. I look forward to seeing you and other subscribers following Eoin's TCS on 15th and 16th May.

What's Analyst Worth? Not a Penny as Estimates Miss - This is an informative column by Peter Robison for Bloomberg. Here is a sample:

In good times, companies often use the flexibility of accounting rules to choose when they book revenue and costs, creating an impression of predictable earnings, said Thomas Russo, a partner at Gardner Russo & Gardner. The economy's decline and the freeze in credit markets are making that harder.

``Companies are smooth and steady and growing, right up until the point they collapse,'' said Russo, who manages about $3.5 billion. His largest holding is Warren Buffett's Berkshire Hathaway Inc., famous for not providing quarterly forecasts.

The real puzzle is why GE hadn't missed estimates since at least 2000, said Shiva Rajgopal, an accounting professor at the University of Washington in Seattle. If analysts made their own judgments independent of company forecasts, the probability of compiling a record like GE's by sheer chance would be about 1 in 100 billion, based on a standard statistical equation, similar to a coin flip, he said.

`Silly' Game

``The whole game is silly,'' said former U.S. Securities and Exchange Commission Chairman William Donaldson, who led a group that recommended abolishing quarterly forecasts and reducing the amount of executive compensation tied to quarterly earnings per share. ``Earnings themselves are subject to interpretation.''

The so-called earnings game each quarter makes stock prices more volatile, wastes corporate resources and may encourage managers to use aggressive accounting or delay investments, according to a report Donaldson helped produce in June for the Committee for Economic Development, a Washington nonprofit policy group formed in 1942 to promote ``sustained economic growth.''

The earnings game costs anyone who invests in a mutual fund, by obscuring real corporate performance and through commissions from short-term, speculative trades, according to the report. Those extra fees may have cost $70 billion in 2005 alone, it found.

My view - Within reason, in the short term earnings can often be what the company wants them to be. Does anyone other than brokers' analysts predict quarterly earnings? Not many, which tells us something, not least about generating turnover.

Email of the day (4) - More on brokers:

"Re the discussion on ISAs initiated in e-mail (2) on 18/4. You can also get an excellent online service from Selftrade (0845 0700 720) allowing ISA investment worldwide at £12.50 for purchase and the same for sale. So you could get the same service described by your subscriber and probably a similar charge as Barclays."

My comment - Thanks -Selftrade is also known to us.

Email of the day (5) - On stock markets:

"As everyone is wondering if we have seen the low of the correction, here are some simple thoughts, considering the 3 drivers of the markets:

"Sentiment: the survey of Investor's intelligence is very bearish. You have also the Gallup survey on the general mood in the US, which gives an even lower reading than in 1992. Good point for equities.

"Liquidity: all the indicators are OK so far, as long as long term rates do not go too high (they soared recently). And the credit market is not out of the woods yet. Can the equity market really do fine without a healthy credit market?

"Fundamental: rather bad in my opinion, because we have yet to see the worse in housing (no capitulation yet in an very illiquid market) and in the mortgage crisis (the losses currently displayed seem related to borrowers who took their mortgage at a time when the big wave of subprime had not begun yet). These problems will cause wide damages in the US economy.

"So the picture is mixed (and you may say that's why it is not a not a top) but on the other hand, if we look at the history, we see that each time the SP500 went under its 200-day MA for some weeks, it took time to recover and more precisely, it tested this moving average several times, AND AT LEAST ONCE, before posting another bottom. The market never went out of a correction linked to recession problems in one strike (There is some behavioural reasons). The quickest recovery has been the one following the October 1987 crash ("exception qui confirme la regle").

"I do own equity (so I don't talk my books) but I need to have a flexible game plan, to try to time (somewhat) the market. This rally seems to have some legs but if/when it fails on, or close to the MA200, I will be ready to lighten up. And in the meantime and as long we stay below the MM200, I maintain a watch list for trading the rallies.

"Again "kudos" for your work and the soundness of the Fullermoney themes which help to relativize all the above."

My comment - Thanks for your kind words and a sensible summary. It usually takes time for markets to recover following selling climaxes triggered by worrying fundamental problems. But we also need to remember that Wall Street is not the world, although it still influences sentiment in many regions. Among global stock markets, some main indices and sectors are doing well and valuations are attractive. As investors, Fullermoney favours viewing the markets from the perspective of judges at a global beauty contest.

My comments - Thanks, although if I appear calm, it is not just for calm's sake. If I ever *do* sense that the world is ending, I promise to go out kicking and screaming.

Asia is still high beta and markets in the region that have shown relative performance recently, such as Taiwan and Thailand, had underperformed prior to the sell off. Food and resources inflation in general is a serious concern and a hardship for the poor. However Asia has already seen a major correction and the region has much better GDP growth rates than the west. It also has higher savings rates.

Additional Commentary by Eoin Treacy

Is the Nasdaq moving into a period of outperformance? - Over the last year we have maintained that the US economy is two-tiered, with multinational companies remaining quite healthy while the domestic consumer discretionary part of the economy having moved into recession. In tandem with the fact that multinational operations are helping to offset slowing growth at home, the Dollar has been quite weak over the last year, helping companies who consolidate foreign earnings in Dollars.

The Nasdaq-100 outperformed the S&P from its relative lows in July 2006 to its relative peak in late 2007. This move completed the base which followed the zenith of the Nasdaq bubble in 2000. The reaction in the first quarter of this year saw the chart pull back into the base briefly, but it is rallying again, indicating that the Nasdaq-100 is outperforming once more. It would need to fall back below 1.35 to hinder current potential for additional upside.

In this earnings season 16 of a possible 87 companies in the Nasdaq 100 have reported. Of 12 positive surprises 6 have been in the Information Technology sector. Last week, Google surged upwards on an earnings report well in excess of analysts' expectations. It would now need to sustain a move below the March lows to offset scope for further upside. Altera Corp, Linear Technology, Intel, Ebay and Tellabs Inc, also all beat analysts' estimates.

Using the Chart Library filter, to look at Nasdaq-100 stocks, I saw that companies such as Baidu.com, Research in Motion and Apple have been some of the best performing companies in the last year. They all rallied well having found support, are now testing their highs and need to sustain moves to new high ground to reaffirm their overall uptrends. Activision surged upwards in December and has so far maintained the upward break. A sustained move below $25 would be needed to offset scope for further upside.

In the Healthcare sector, Gilead Sciences remains in a consistent staircase uptrend. It would need to sustain a move below $42, breaking the progression of rising lows, to offset scope for further upside. Stericycle has had a relatively shallow reaction and found support at $50. It would need to sustain a move below that level to hinder potential for some additional upside.

Joy Global has been in a medium-term consolidation for much of the last two-years but broke upwards last week and would need to sustain a move below $70 to offset scope for additional upside.

While the consumer discretionary sector is looking distressed, some consumer staples such as Costco remain in quite consistent uptrends. It found support near $60 in March, sustaining the progression of higher lows and would need to break below that level to damage the integrity of the overall uptrend.

Astaire Research: The India Report - Thanks to Deepak Lalwani for his ever-interesting report which this week covers the raising of reserve requirements by the RBI. Here is a section on Indian corporate expansion:

The economic reforms process that started in 1991 has helped unleash the entrepreneurial spirit in India and, combined with a large domestic market and acquisitions abroad, has assisted Indian companies to grow and achieve top global rankings in various sectors. Apart from Tata Steel, which made news last year by achieving fifth position globally as a steel maker after acquiring Corus, there are other success stories also. For example, Indian bike maker Hero Honda has been the world's number 1 two-wheeler company on unit sales by any single company for the seventh consecutive year. Tata Chemicals became the world's second largest soda ash company after it acquired US's General Chemical Industries last month for $1bn. Essel Propack, the world's largest manufacturer of laminated tubes, has recently acquired US-based Catheter and Disposables Technology. Suzlon Energy, started in 1995 with 20 people, is now the world's 5th leading wind turbine manufacturer and operates in 16 countries. Indian consumer durables group, Videocon Group, is the third largest manufacturer of picture tubes in the world and aspires to become the world's third biggest mobile phone maker if, according to press reports, its expression of interest for USbased Motorola Inc materialises into a successful acquisition. It would then displace Sony Ericsson for third place globally after Nokia and Samsung.

My view - India might suffer from infrastructure bottlenecks, but that is certainly not the case in the terms of talent at boardroom level. Also infrastructure can be built while the latter is much more difficult to rectify. Democracy and a respect for the rule of the law as well as a regulatory environment which does not hinder entrepreneurial spirit is allowing the corporate cream to rise to the top. This is of course to be welcomed and in time, should result in India producing a large number of globally significant companies.

Barclays Capital Commodities Research, Feeding the dragon: China's March 2008 commodity trade data - Thanks to a subscriber for this interesting report which contains a large amount of data on Chinese commodities imports and exports. Here is a section on industrial metals:

Aluminium
After remaining a net importer of primary aluminium for five straight months, China turned net exporter in March, albeit only marginally. Exports rose to 3.2Kt due to the widening of the SHFE/LME spread and reduced demand from semi-fabricators, which were forced to cut production due to power shortages. In fact, if exports of semis were included, the total net volume of aluminium leaving China actually fell m/m. Aluminium semis exports fell in the first three months of 2008, and should the current rebate system on rolled product be changed, we would expect semis exports to fall further. Also, if the clampdown on tube exports is enforced, this could significantly reduce the volume of total Chinese aluminium exports. While we believe that this would be bullish for LME prices and stock movements, it would likely put pressure on SHFE prices since domestic supply in China would increase. The size of the impact on SHFE prices would depend on China's ability to absorb the additional metal.

Copper
Data for the last month of Q1 show a picture of strong Chinese import demand for copper. While falling back slightly in March, net refined copper imports stayed at a robust 115Kt. In Q1, refined copper imports totaled 380Kt, a gain of 35% over Q4 07. Concentrate imports also stayed high - though slightly lower than a month ago - while scrap imports picked up significantly, indicating a domestic preference towards secondary production in the face of expensive concentrates. With domestic prices trading at a discount to LME through much of March and April, we see the potential for some easing in copper imports over the coming months. Nevertheless, the China balance this year looks even tighter than in 2007, and we expect total copper imports to increase. Once short-term stocks are worked off, we believe there is the potential for another big increase in imports.

My view - Tin remains in a consistent uptrend, but its trajectory is beginning to steepen. However it would need to sustain a move below $20,000 to offset scope for additional upside. While it continues to lead the sector higher, metals such as copper and aluminium are playing catch up.

Copper remains close to its all-time peak, and looks about to complete a two-year consolidation with an upward break. A sustained move below $3.50 would be needed to question this potential outcome.

Aluminium is also in the latter stages of an almost two-year consolidation and a sustained move below $2800 would be needed to offset scope for an upward break.

Mineweb.com: The smart money isn't in gold and base metals - This article by Barry Sargeant points out the relative strength of bulk commodity companies and lists a significant number of them. Here is a section:

Five years ago, when iron ore was hardly known to stock market investors, Vale was trading around $3.50 a share; its progress since then rates it as a so-called "ten bagger", with a stock price increase of more than 1,000%. During the early stages of the modern commodity supercycle, which commenced early in 2002, investors tended to put money into more familiar areas, such as listed gold stocks. More recently, however, has been the realization of the kinds of cash being made by the bulk commodity names.

There is also the increasing recognition that commodities generally are now classified as a serious asset class by even the most serious and conservative of investors. Philip Verleger, who consults on energy and commodity markets, analyses data from the US's Commodities and Futures Trading Commission, estimates that the amount of money linked to two major commodity indices, the S&P GSCI and the Dow Jones-AIG, has increased from $46bn three years ago to about $250bn as of last month.

Impressive as these numbers may sound, it would take more than $50bn to buy a paltry 10% stake in Exxon Mobil (XOM US, $94.21), the world's biggest listed oil major. It would only cost $22bn, however, to buy a 10% in stake in the world's biggest diversified resources entity, BHP Billiton, which operates in areas that include iron ore, oil, and coal.

My view - Successful iron-ore price negotiations having resulted in large increases and premium coal prices have also advanced. BHP Billiton and Rio Tinto are in the region of their all time highs at least in part as a result and it is little wonder that interest is focusing on this sector. These companies may also be garnering attention because of their relative performance compared with precious metals, whose advance has stalled in the last month.

Many industrial metal miners have been consolidating over the last 6-months, so they have potentially sufficient support to sustain a further rally. Both BHP Billiton and Rio Tinto would need to retreat significantly from their highs to offset scope for further short-term upside.

Email of the day - on an addition to the Chart Library.

"Please can you add a stock called Agfeed which is listed on the Nasdaq to the chart library? The ticker is FEED.

"Thanks."

My comment - Thank you for this interesting suggestion which has now been added to the Chart Library.

Wednesday 23rd April 2008

Erwin Grandinger: ECB to hike rates - I have long valued Erwin Grandinger's European reports, published by EPM Financial Services. This latest report is very interesting and also controversial in some respects. Here is the opening:

Even though it might not have always seemed to be the case at the time, those responsible for piloting a single monetary course for the Eurozone have had, for the most part, a relatively trouble-free early passage. Iron wage and price discipline in Germany - the key benchmark for former DEM-bloc countries - and a broadly complementary fiscal stance in most Eurozone member states (in terms of falling outlays as a percentage of GDP and falling cyclically-adjusted budget deficits) set a benign inflation backdrop at the core of the Eurozone. For the European Central Bank (ECB), this 'undemanding' era has come to an end. In the months ahead it faces its most serious challenge to date: core Europe is no longer setting price discipline. We do not believe that the economic slowdown at the Eurozone's outer edges - which seems set to be partly countered with fiscal measures of a questionable quality (see section on Spain) - will exert a *sufficient* squeeze on overall demand to *fundamentally dampen* inflation pressures at the core. Indeed we believe that the inflation hardliners at the Bundesbank, if not the ECB, already see that the overall monetary mix - taking into account *real interest rates and the real effective exchange* rate - is simply too lax to counter inflation pressures in Germany, which remains the core of the Eurozone. For the moment, the ECB's sense of solidarity with the international financial community (and fear of widespread condemnation for its action) prevents it from acting. Euro appreciation has bought it some time. Indeed we believe that euro appreciation is welcomed and that the lip service paid to the euro/dollar level is driven by the ECB's fear of an *uncontrolled dollar collapse* (and political backlash) rather than genuine concern over the actual level of the euro. We believe that the ECB is now leaning less heavily against higher market interest rates than it did three months ago, tacitly accepting tightening through the money market. We see this as the next phase of a deliberate tightening course that will continue over the next 12-24 months as the ECB seeks to rein in wage and price pressures in the former DEM bloc.

My view - In recent years, the euro has increasingly become the global reserve currency of choice (gold excepted), not least by creditor nations. The ECB and its member states did not seek this role. Instead, they inherited it by default.

Email of the day - More on sentiment indicators:

"Thank you for your reply of last week. Regarding sentiment indicators that didn't move to a bearish extreme, we can list (on the US market) the Market Vane Bullish %, the Commitment Of Traders (COT) figures for large and small traders both for the S&P and Nasdaq 100 futures, and the most amazing one, the Mutual Fund Cash as % of Total Assets which reached an all time low a few months ago and is still very low at 4.2%."

My comment - Thanks for this information. Some people swear by the Commitment of Traders (COT) figures, others such as me have reservations about its usefulness - 'to each his own', as they say. Low mutual fund cash could be important, but possibly less so than the dumping of $50 billion worth of US equity funds in the first quarter - the highest level since the third quarter of 2002, according to Dan Dorfman in an interesting article that I posted on the 15th.

When I consider all the sentiment indicators mentioned on this site since late January, one can always find exceptions and also argue that perhaps readings will become even more extreme. For me, that misses the point, which is that we had the most extreme sentiment readings since 3Q 2002, and more so in a few instances. Back then, they marked the bear market low, although sustainable uptrends were not established until 2Q 2003.

Today, the vast majority of stock market indices are trading above their January - March lows. From an investment perspective, I will assume that those are THE floors, unless they are clearly taken out. The small minority of indices that have moved lower - mainly in Eastern Europe but also including Vietnam and more importantly, mainland China's indices, now look overstretched. However they require sharp rallies (the Type-2 trend-ending characteristic taught at TCS) to indicate that sustainable lows have been reached.

Some indices have also rallied well above their February highs. This relative strength bodes well for the medium to longer-term. The main risk today, I believe, is convalescence time for some stock markets before meaningful gains are seen. Weighing it all up, I regard the current environment as a buying rather than selling opportunity, preferably on dips where markets are still ranging.

My personal portfolio: New investment position opened in China tracker; HSI futures long reopened; lumber trade rolled forward - Following deliberations commencing last Thursday, detailed in Comment of Day, I have invested my personal ISA allocation and some accumulated cash from dividends in the iShares FTSE Xinhua China tracker (FXC LN), paying £75.00, plus a £12 commission. There is also a US-listed version of this tracker. For me, it came down to a choice between the China tracker, now hopefully on a sustainable recovery following a big setback, or a Brazil tracker, currently testing its all-time high. As much as I like Brazil, I prefer to buy following reactions.

In my trading account, I reopened a long in the Hong Kong Hang Seng Index this morning, paying 25210, including dealing costs. Incidentally, I also have a long position in the H-Shares Index, so I am focussing on China at the moment. Masochistically, I allowed an automatic rollover facility to extend my losing lumber long trade. My expiring May position was sold at $218.20 on 17th April, against my purchase at $244.48 on 15th February. I simultaneously purchased July lumber at $243.58 on the 17th. The continuation chart masks contango and price erosion somewhat and I will close this trade if it does not begin to perform quite soon.

Prices for futures contracts include spread-bet dealing costs.

Mrs Fuller's ISA allocation investment decision is pending.

Additional Commentary by Eoin Treacy

Global Equity Strategy In Focus: Oil - Thanks to a subscriber for this interesting report by Jeffrey Palma and colleagues which looks at some of the reasons for the continued strength of the energy complex. Here is a section:

The oil rally is being driven primarily by a very narrow segment of the oil market and that is the accelerating demand for middle distillate products - Diesel, Jet Fuel and Heating oil. These middle distillates comprise nearly 40% of global oil demand but more importantly about 90% of global oil demand growth. And demand for these products is extremely strong everywhere ex US, especially in emerging Asia where demand growth is actually accelerating.

As for the supply of these products, middle distillate inventories were low in Autumn of last year, even though overall oil inventories were un-alarming, and have only been drawn down since then. We have not had a chance to replenish these inventories since demand has been so much stronger than expected. This is so far overshadowing any "shoulder season" or seasonal weakness we would expect to see in demand patterns which usually allows inventory re-stocking to begin at this time of year.

Neither is the refining capacity we have available globally of the right type to support increased production of these middle distillates. We have surplus refining capacity in the US but these refineries are set up to produce 27% middle distillate and 55% gasoline so if they increase middle distillate production the by product is an over supply of gasoline which would suppress its price in the one market most important to these suppliers and indeed the only oil market suffering from demand destruction. So the US refiners prefer not to produce more.

Elsewhere in the world you do have large scale new refinery projects in India and China which should come on stream by the end of the year. It remains to be seen whether the increased capacity in the works will be sufficient to relieve the bottlenecks in the market. If anything we think it will take longer than expected for this new capacity to be fully deployed. Further out, other big projects are already experiencing delays, if not cancellations.

My view - Oil remains in a consistent uptrend but has paused near $120 over the last few days. In Euros, the price is closer to €75, indicating the rise of energy prices is not affecting all areas uniformly. In the past year, oil has almost doubled, with the size of the advances varying quite considerably. However, the size of the reactions have seldom been greater that $13. In March 2007 oil reacted by $6.51, in April 2007 by $7.41, in August 2007 by $10.14, November 2007 to February 2008 by $13.18 and March 2008 by $13.15.

In many uptrends the size of the reactions is often the most consistent feature. This is certainly the case with oil and, as long as it remains consistent, we can continue to give the upside the benefit of the doubt. It would need to post a significantly larger reaction than those of the last year to question the integrity of the overall uptrend.

ECB Officials Signal Inflation Pressure May Force Rate Increase - This article by Christian Vits and Simon Kennedy for Bloomberg covers some interesting policy statements made by ECB council members. Here is a section:

European Central Bank officials are raising the prospect of interest-rate increases for the first time since the global credit squeeze began last August, stepping up their battle to keep inflation in check.

Comments by policy makers including Axel Weber and Christian Noyer are forcing investors and economists into an about-face after they previously bet the bank would follow the U.S. Federal Reserve in cutting rates to shore up growth.

The ECB officials are reacting to a surge in oil and food prices, which pushed inflation to a 16-year high of 3.6 percent in March. They're concerned that faster inflation will feed into wage demands and prompt companies to pass on higher costs. The contrasting stances by the world's two most important central banks helped push the euro to a record $1.60 yesterday.

``They're not threatening an immediate rate hike, but the hawks are framing the debate now,'' said Nick Kounis, an economist at Fortis Bank NV in Amsterdam who expects the ECB's next step to be an increase in mid-2009. The stronger rhetoric ``has been forced on them by the fact that headline inflation has surprised significantly.''

The ECB last month forecast that inflation would average about 2.9 percent this year and 2.1 percent in 2009. The bank aims to keep the rate of consumer-price increases just below 2 percent. The UBS Bloomberg Constant Maturity Commodity Index, which tracks 26 raw materials, has risen 37 percent in the past year, with commodities including oil, corn and rice hitting records.

High Enough?

The Frankfurt-based ECB on April 10 kept its key rate at a six-year high of 4 percent, and President Jean-Claude Trichet said current policy will help the bank achieve price stability. Since then, policy makers including Weber have said they're not sure rates are high enough to contain inflation.

The ECB will ``monitor very closely all developments in the coming weeks and decide whether the current level of interest rates ensures we'll meet our objective'' of controlling inflation, Weber, who heads Germany's Bundesbank, said this week.

'`If needed we'll move rates,'' France's Noyer told RTL radio yesterday. By contrast, on April 4, he said he was ``absolutely certain'' inflation would drop below 2 percent at the end of 2008.

Eonia swap contracts, a widely used market gauge of interest-rate expectations, rose to 4.1 percent yesterday, up from around 3.2 percent in mid-March.

'`The market is starting to quickly re-price its rate expectations as it realizes it was wishful thinking to have thought the ECB would follow the Fed in cutting,'' said Guillaume Menuet, an economist at Merrill Lynch & Co. in London, who predicts the ECB will leave its key rate unchanged through 2009.

My view - The ECB's primary mandate is to control inflation. While they might worry about growth as a secondary issue, they are much less likely to cut rates while inflation is consistently above their target. The strength of the Euro against the Dollar may give them pause before raising rates in terms of the impact it will have on trade. However the stronger Euro is also helping to mitigate some of the impact of rising food and energy prices. Given the assumed desire not to completely stifle growth in the Eurozone, the ECB will probably stand pat for the coming months at least.

Since the bulk of current inflation is originating in the commodity sector, the prospect of food and energy prices entering a medium-term correction would allow the ECB to declare a partial victory over inflationary forces and cut rates. There is no signal yet, that this may be occurring in the Energy sector but most grains have stopped setting new highs, and may take some time to reassert their primary uptrends.

In the meantime, the most cost effective way for the ECB of dealing with the Euro's strength is to talk it down. Jean Claude Juncker's statement today where he said that he didn't like `the way things are developing'' is a case in point.

Tin Rises to Record in London as Stockpiles at 2-1/2 Year Low - This article by Chanyaporn Chanjaroen for Bloomberg covers today's surge in tin prices. Here is the story in full:

Tin rose to a record for a third straight day in London as stockpiles fell to a two-and-a half-year low on growing demand from China, the world's largest user and producer.

Inventories monitored by the London Metal Exchange dropped 2.5 percent to 7,790 metric tons, the lowest since Sept. 27, 2005. China doubled imports of the metal in the first quarter and cut exports by 95 percent, the Beijing-based customs office said yesterday.

``There is a shortfall as stockpiles are quite low,'' said Peter Kettle, research manager at ITRI Ltd. in St. Albans, England.

Tin for delivery in three months climbed as much as $1,525, or 6.8 percent, to $24,000 a ton, the highest ever. That beat yesterday's high by $1,350 a ton. The metal traded at $23,800 as of 10:45 a.m. local time.

LME data showed one firm held between 50 percent and 79 percent of the metal stockpiles as of April 18. Tin for immediate delivery traded $40 higher than the three-month price, suggesting less availability of the metal.

Rising cash prices are likely to encourage holders of tin stockpiles to deliver the metal to the exchange's warehouses, according to Kettle.

``Everything is driven by the investment side rather than anything else,'' said Kettle.

When LME-monitored tin stockpiles were below 8,000 tons in September 2005, prices were a third of current prices.

Copper fell $29 to $8,670 a ton and aluminum gained $31 to $3,116 a ton. Nickel rose $100 to $29,000 a ton and lead fell $49 to $2,791 a ton. Zinc slid $10 to $2,260.

My view - Over the last 7 years, there have few occasions when all industrial metals were advancing at the same time. Tin is currently leading the group and today's action points towards a clear acceleration. This is an ending signal of unspecified duration and the first clear downward dynamic is likely to signal the onset of the next medium-term correction. In the meantime, aluminium and copper are testing their highs and may shortly in a position to resume leadership of the sector.

Today's interesting charts - The Chart Library Filter system allows you to adjust a large number of instruments into a single currency and rank them in terms of absolute and relative performance. Here is a link to the Help pages.

Australian Dollar per 1 US Dollar - The Aussie Dollar briefly moved to a new high today and would need to sustain a move below 92¢ to offset scope for further upside.

Hong Kong - steadily advancing above the three-month range and would need to sustain a move back below 24,000 to offset scope for further upside.

Ireland - significant loss of downward momentum over the last 5 months. A sustained move above 7000 would be needed to complete the current period of consolidation.

Email of the day (1, 2 & 3) - on additions to the Chart Library:

"Can you please add the following stocks and ETFs to the chart library? They are on the Canadian TSX stock exchange. Here are the Bloomberg tickers:

"stocks:
RMX:CN Rubicon Minerals Corp
ARL:CN Africo Resources Ltd

"ETFs:
HXU:CN Horizons BetaPro S&P/TSX 60 Bull Plus Fund
HGU:CN Horizons BetaPro S&P/TSX Global Gold Bull Plus ETF
HFU:CN Horizons BetaPro S&P/TSX Capped Financials Bull Plus
HEU:CN Horizons BetaPro S&P/TSX Capped Energy Bull Plus
HNU:CN Horizons BetaPro NYMEX Natural Gas Bull Plus ETF
HOU:CN Horizons BetaPro NYMEX Crude Oil Bull Plus ETF
HBU:CN Horizons BetaPro COMEX Gold Bullion Bull Plus ETF
HMU:CN Horizons BetaPro S&P/TSX Global Mining Bull Plus ETF
HAU:CN Horizons BetaPro DJ-AIG Agricultural Grains Bull Plus"

And

"Can you please add LonZim(LZM on AIM) to the chart library?

"Thanks."

And

"Can you please add iShares S&P Emerging Markets Infrastructure Index and iShares S&P Emerging Markets Infrastructure (IEMI) ETF, listed on the LSE to the Chart Library.

"Thank you."

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

Thursday 24th April 2008

Gold: GFMS Survey 2008 - My thanks to a subscriber for this important and highly informative presentation. Here are a few bullet points on mine production:

Modest 10 tonne decline equal to -0.4% y-o-y in 2007, nevertheless, pushed output to an 11-year low.

Losses in Peru, South Africa and the United States each of 10 tonnes plus.

Asia was the only region to return a meaningful rise, posted a 66 tonne or 12% increase, pushed higher by China and Indonesia.

US dollar denominated total cash, and total production costs rose by a similar 25%; rose by $45/oz versus $160/oz rise in the gold price. Weighted average cash costs $317/oz. Simple cash margins widened by $13/oz.

Average total production costs in Q4 2007 = $518/oz.

FGMS forecast production to be flat y-o-y in 2008.

My view - I suspect that even those of you who know a great deal about gold will still gain some further perspective from this report. For instance (although veteran subscribers may recall this and it has been mentioned previously here) China now produces more gold than South Africa, but obviously has less need to sell it. Gold accounts for only 1% of China's reserves.

What about other salient features of the report, and Fullermoney's short to medium-term outlook for the gold price, including investment timing?

I was surprised to see the decline in scrap last year (slide 12), and that most of it occurred due to reduced sales from the Middle East. Apparently the only increase in scrap during 2007 came from North America and it was small. However scrap has increased markedly in 2008 to date (slide 20)! Note also that gold fabrication (slides 13/14) (higher end usage) occurs increasingly in developing (progressing) countries.

Investment in gold is still tiny relative to other assets classes but it has grown rapidly recently (slide 18). Do we know how committed these new buyers are to holding gold for the long term? I think GFMS exaggerates the future influence of the sub-prime credit crisis as a reason to buy gold (slide 21 onwards).

GFMS concludes by forecasting an investor driven rally above $1100, followed by a medium-term ranging phase or possibly a slide to the mid-$800s (slide 27). I think that is too bullish, maintaining that gold established a peak in March, in line with its usual medium-term cycle within this long-term uptrend. I expect a further correction which could easily reach the middle to low $800s, followed by another ranging support building phase before new highs are seen.

It has turned from a case of feast to famine for gold. A feast from last August until last month because gold and other commodities had no competition and the US dollar was weak. There was also some carryover momentum from seasonal factors such as inventory purchases prior to Christmas, the Chinese

New Year and the Indian wedding season. Gold also had ample time to discount the current inflation concerns.

We are now in a temporary famine for gold because the period of highest seasonal demand is over; there is new competition from recovering stock markets, and the US dollar has lost downside momentum. Gold faces further profit taking, some selling by central banks and also the IMF. The price has lost upside momentum against all currencies, as you can see from these samples: EUR, CHF, CNY, JPY and AUD.

You may recall that I sold the last of my leveraged gold futures last month. I hope to re-accumulate later, perhaps in Q3 or Q4, subject to price action. I chose not to sell my gold mining shares, as they are unleveraged and in my long-term investment portfolio.

Email of the day (1) - On the prospectus for a new agricultural fund:

"No doubt you have already received this preliminary prospectus. Nonetheless, I'll attach it and note that others may be interested in the information contained on pp 17-22.

"On a personal note, I must add my appreciation for your work. Yes, your followers are far flung….Hobart, Tasmania, Australia is physically rather distant - bottom end of the bottom end. Battery Point to be specific. And disconnected as I am from sources/friends/colleagues I can only say thanks for being there! Please keep up the good work.

"Also would like to say I appreciate the increase in Australian flow seen in the Fuller community. It's a wild and woolly world out here. I kept thinking maybe Oz had 'grown up' but based on the latest market chaos I still find it a scary place to invest. A bit wild-westy and matey still."

My comment - Thank you for the prospectus, which I had not previously seen. Thanks also for your kind words.

I suspect many readers will be amused by your last paragraph, as was I. Judging from the restaurants that I have enjoyed with friends in Australia's major cities, I have always found the cuisine to be sophisticated and often a pacesetter, not least in terms of fusion cooking. I also find all stock markets "a bit wild-westy and matey", which is why I leave the dubious pleasures of most small-cap shares to locals who have both feet on the ground, in every respect.

Rod Smyth's The Weekly View: Testing Overhead Resistance - 1390 to 1440 - This is the latest interesting issue from Rod Smyth, produced by his new firm, RiverFront Investment Group. Here is the opening:

We think the S&P 500's 9% advance over the last month is a bear market rally and technical analysis suggests it will fail somewhere between 1390 (last Friday's close) and 1440. Since we have based our fundamental case on an economic and earnings recession/downturn that is longer than a couple of quarters, we believe more time is needed for the bear market to play out. That said, the stock market has generally been quite effective at forecasting both recessions and recoveries and so we must be attentive to any upside breakout. As our weekly chart shows, stocks typically peak six months before a recession begins and recover four months before it ends. Thus, if a recession/downturn began in the first quarter of 2008 and only lasts a few months, then history suggests the S&P 500 likely made its lows in March and the bear market is over. This is not our view.

We will evaluate the durability of the current rally and if 1440 clearly breaks to the upside we will reconsider our position in line with our maxim don't fight the trend. For now the primary trend remains down. We think the rise in share prices is the result of extremely bearish sentiment working its way back towards neutral and aggressive policy stimulus from both the Fed and the government. We believe that once extreme bearishness is worked off, economic weakness will return as the dominant theme.

Despite the stimulus from the Fed and the government, we see a prolonged period of sluggish economic growth including several down or no-growth quarters. We think consumer spending growth will be kept near zero by the combination of falling home and stock prices, rising food prices, high energy costs, increasing unemployment, restrictive lending and little or no cash-out mortgage refinancing. Additionally, state budgets around the country are deteriorating rapidly as receipts have fallen and cut backs in state spending are just beginning in our view. Finally we expect lower levels of corporate spending in response to weaker earnings and lower demand with financial sector spending likely to fall sharply. Partially offsetting this weakness is strength in exports and the sectors tied to commodity prices, such as agriculture and energy. However, with home prices expected to fall for at least another year, with the inevitable lags that follow monetary easing and with a major credit crunch still playing out in the financial sector, we have a hard time believing the slowdown will be over by the summer.

My view - Fullermoney has never been averse to posting market forecasts with which we disagree, provided they are well argued. This is certainly the case with Rod Smith's letter, and I know, like and respect him. There are no certainties in markets, other than JP Morgan's famous statement in answer to a dinner party question on the future trend: "It will fluctuate."

All of us can gain perspective by knowing both sides of the argument in a market debate. Fullermoney subscribers are more than capable of making up their own minds, and the purpose of this site is to inform, rather than tell people what to do. As an important part of that process, we tell subscribers exactly what we think, and why. We also show you exactly what we do with our own money, as and when trades and investments occur.

Briefly, to summarise the Fullermoney view on Wall Street, we maintain that the January - March lows will hold for the S&P 500 and other broad indices. There is overhead resistance on the charts, as Rod Smyth points out, and the domestic economic system is indeed dire. However we suspect that this will do no more than delay the US stock markets recovery, possibly leading to a longer convalescence, during which indices range above their lows.

The stock market is a discounting mechanism and known fundamental data is a lagging indicator. Therefore we are more impressed by global technical action, which continues to improve, against the background of massive liquidity injections. We do not wish to fight the Fed. And looking at fundamentals, I am more impressed by the quite good GDP growth in many developing (progressing) countries, than weakness in the USA.

The Fullermoney view's Achilles' heel is the financial sector, as I have mentioned before, represented here by the Thrifts and Mortgage Index. Even if the lows hold, we have always expected a lengthy period of convalescence before meaningful gains occur. Meanwhile, the Transportation Index continues to lead on the upside.

Email of the day (2) - On a recent investment purchase:

"Both you and Eoin have explained a couple of times why Taiwan should outperform in this recovery phase. Yet I notice that you choose to buy futures in the China H-shares Index instead of futures in the Taiwan MSCI Index, which are just as easily tradable. Would you care to explain why? Also, is there any particular reason for you choosing a fund which tracks the FTSE Xinhua Index rather than the Morgan Stanley Fund which tracks the Shanghai A-shares index? Just curious.

"Many thanks as ever for your inspirational work, both of you."

My comment - Thank you for your thoughtful words and studious questions, which I suggest will be of interest to many subscribers.

The answer is that I felt spoiled for choice, as I trust I have indicated recently, and could have opted for any of your fine suggestions, or others. My intuition was to move quickly and the actual vehicle was a secondary consideration. China related instruments were breaking upwards, except for the mainland indices, which had fallen 50% and were near levels of likely support, as mentioned previously. Also, the Chinese government was continuing with baby steps measures to increase confidence in the market. (*See also Eoin's update comments below*.)

Email of the day (3) - On funds:

"I was thinking of buying some Latin American and China A closed end funds currently selling at discount. What kind of counter party risk exist for closed end funds? Example would be CAF or Morgan Stanley A shares fund.

"Thanks for all your wisdom."

My comment - Thank you for kind words.

There would be very little counter party risk with closed-end (investment trust) equity funds. These have little or no leverage and trade on stock exchanges, just like shares, so you can buy or sell on any given market day.

Today's interesting charts - The price trends are what really matter for investors and traders, and we need charts to see them clearly.

US 10-Year Bond Yield - This rebound, following a successful test of the January low, confirms a sustainable floor above the June 2003 trough. Downward scope is limited to sideways base extension before yields move higher over the medium to longer term.

Japan 10-Year Bond Yield - Support was encountered near 1.2% once again, and the biggest rally since JGBs fell back from resistance near 2% has broken the downward trend. Downward risk appears limited to a partial retracement of the rally, which is becoming somewhat overextended in the short term, before higher ranging occurs.

UK 10-Year Gilt Yields - Similar to above.

EUR/USD - Downward dynamic from rally highs, which had been losing momentum since mid-March, suggests a peak of at least short-term significance. A sustained break above $1.60 is required to offset sideways to somewhat lower scope and further weakness tomorrow would produce a weekly key reversal.

US Dollar Index - Recent downward drift checked above March low; a close beneath 71.20 is now required to offset scope for sideways to somewhat higher ranging.

China (Shanghai Composite) - Rebounding from the psychological 3000 level and a decline of just over 50%, this explosive upside breakaway gap has broken the steep downtrend. Note also this weekly key reversal (assuming no significant retracement tomorrow) which also occurred from the upper side of a trading range established in 1Q 2007. This is powerful technical evidence that China's bear trend is over, and a sustained break beneath 3000 would be required to question this hypothesis.

Additional Commentary by Eoin Treacy

China's Shanghai Composite Index Surges 9.3% on Trading Tax Cut - This article by Chua Kong Ho and Zhang Shidong for Bloomberg covers today's impressive rally in the Shanghai A-Shares and some of the changes in policy which have contributed to it. Here is a section:

China's stocks surged, sending the Shanghai Composite Index to its biggest gain in more than six years, after the government cut the tax on equity trading to stem a slump that erased $1.7 trillion of market value.

The index rose 9.3 percent, the most since Oct. 23, 2001, with more than half its members climbing by the daily limit. The government stepped in to boost the world's fourth-largest equity market two days after the Shanghai measure sank to less than 50 percent of its October record amid concern earnings growth will slow and share sales will overwhelm demand.

``The government is clearly concerned about the meltdown,'' said James Liu, Shanghai-based deputy chief investment officer at APS Asset Management, which oversees $1 billion. ``It's positive for the market in the short run.''

Citic Securities Co., China's biggest brokerage, gained on speculation the stock market rally will boost trading income. China Life Insurance Co., the country's largest insurer, climbed on optimism gains from equity investments will increase.

The stamp duty on stock trading was reduced to 0.1 percent from 0.3 percent effective today, the government said after the close of trading yesterday, the latest in a series of measures to revive stocks.

Regulators on April 20 required shareholders selling more than 1 percent of a stock to do so in single trades, to keep the transactions off the open market. China in December tripled to $30 billion the amount overseas institutions can invest in yuan-denominated stocks and bonds. Two months later, regulators ended a five-month freeze on the sale of new mutual funds.

Televised Announcement

``In recent weeks, expectations have been mounting on the government to take decisive steps to prop up the domestic markets,'' Jing Ulrich, Hong Kong-based chairwoman of China equities at JPMorgan Chase & Co., said in an e-mail. ``The lowering of stamp duty is among the most aggressive steps the government could have taken to improve sentiment.''

The tax cut was announced on a daily national newscast by state-owned China Central Television last night in a country where individual investors have opened about 140 million accounts to trade stocks and mutual funds.

The government tripled the stamp duty last May in an attempt to cool a rally that was drawing more than 300,000 new investors a day to stocks. The CSI 300 Index, which tracks yuan-denominated shares in Shanghai and Shenzhen, surged almost six fold in the two years through 2007.

The three-year-old index climbed 9.3 percent to 3,774.50 at the close in Shanghai, with all of its 10 industry groups rising. The gauge tumbled as much as 39 percent this year, making it the second-worst performing benchmark in the world after Vietnam.

My view - The bottom of the last important reaction in mid-2005 also coincided with the Chinese government announcing measures to support the stock market. On that occasion, a clear message was sent that the government was willing to buy shares to support the market and 1000 was seen as a floor. This was following more than a year when the A-Shares were the worst performing index in the world, an embarrassing situation for a country aspiring to become a globally significant capital market.

In 2005, the clear upward dynamic from the low near 1047 signalled the end of the bear market. This level was successfully retested in the following weeks, and after a significant short covering rally, moved in a period of consolidation where it built support for the ensuing advance.

The move upwards from the 2005 lows saw China's stock market become the best performing market in 2006 and 2007 before it peaked above 6000 in October. The resulting fall which had gathered pace over the last months placed China once more in the laggard's position in terms of global performance. The market began to find support over the last few days as its correction passed the 50% mark and today's upward dynamic is a clear signal that demand is returning to the market in force. It would now need to sustain a move below the recent lows to offset recovery potential. Interestingly, ICBC, China's largest bank, bottomed in late March and has led the market upwards. It would need to sustain a move below ¥5.30 to offset scope for further upside.

The cut in stamp duty from 0.3% to 0.1% returns taxes to where they were before measures were taken to slow the stock market's advance last year. This has been well received by investors. Given the similarities with the situation in 2005 a similar trajectory for the A-Shares is possible. The sequence of events would run something along the lines of an initial strong rally as shorts are closed which morphs into a consolidation of gains that may last a number of months. A more orderly advance might then ensue. Of course all of this is subject to events and based on the premise that the Index can sustain its current impetus.

Maple Leaf Memo: Central Banker-Speak - This article by Roger Conrad and David Dittman covers the recent rates cuts by the Bank of Canada and the outlook for further moves. Here is a section:

Back in March, the Bank of Canada (BoC) statement announcing a 50-basis-point interest-rate cut told of "clear signs that the US economy is likely to experience a deeper and more prolonged slowdown than had been projected in January."

As of Tuesday morning, according to BoC Gov. Mark Carney, it's all happening. The BoC "is now projecting a deeper and more protracted slowdown in the US economy" and has responded with another 50-basis-point cut to Canada's benchmark interest rate. The BoC's target rate went from 4 percent to 3.5 percent in March and now sits at 3 percent.

It's difficult to make a word-choice change from "is likely to experience" to "is now projecting" sound exciting. Where decades ago we relied on financial gurus known as fed watchers, who monitored system repurchases and reserve projections for signs of Federal Open Market Committee monetary policy feeling, guys like us now simply reach for a thesaurus.

What was once opaque is now (at least in aspiration) transparent--in the big picture as well as the here-and-now. The BoC warned Tuesday of the impact on Canada of global economic weakening caused by the US slowdown and "ongoing dislocations in global financial markets."
The BoC's view on the direction of the US economy hasn't actually changed since March. It's turning down and will be a drag for Canada. The BoC forecast 1.4 percent growth for 2008, 2.4 percent for 2009 and 3.3 percent for 2010.

The BoC's express mission is to keep inflation within a tight band: "The cornerstone of the Bank's monetary policy framework is its inflation-control system, the goal of which is to keep inflation near 2 percent--the mid-point of a 1 to 3 percent target range." Right now, that's a back-burner issue.

In its statement Tuesday, the BoC said, "While both total and core CPI inflation were running at about 1.5 percent at the end of the first quarter, the underlying trend of inflation is judged to be about 2 percent, consistent with an economy that was operating just above its production capacity."

The BoC pointedly referenced its 150 basis points' worth of cuts since December, and said the timing of further stimulus will depend on the "evolution of the global economy and domestic demand, and their impact on inflation in Canada." The BoC said in its statement that risks to its inflation outlook were "balanced," whereas last time it said they were "clearly to the downside." As well, the bank said that "some further monetary stimulus will likely be required."

My view - The USA is Canada's biggest trade partner, so if the USA is slowing some corresponding slowdown north of the border is also probable, hence the rate cuts over the last few months. The strength of the domestic Canadian economy remains in much more robust shape than that of the USA and the threat of recession is much less considerable. However, the performance of the Canadian Dollar must be weighing on companies competing for business with US competitors, hence the desire of the central bank to slow the Loonie's advance.

Lower interest rates should be a boon for equities generally and a number of sectors are already making new highs. The Materials sector remains in a consistent overall uptrend. Although it has had a number of violent pullbacks since late July, none of these downward dynamics have seen significant follow through and they have not succeeded in breaking the progression of rising lows. The Index would now need to sustain a move below 3100 to offset scope for some further upside.

The Energy sector advanced impressively in 2005 to a high near 3500 before entering a tight consolidation which was only completed last week. It would need to sustain a move back below that level to offset scope for some further upside.

The Information Technology sector lost momentum from the November high following an impressive advance from the 2006 lows. It has since found support and is testing the highs near 425. It would need to sustain a move below 390 to hinder potential for a successful upward break.

Today's interesting charts - The Charting tool allows you to save Preset templates so they can be applied to any instrument at a later date with a minimum of hassle.

Swiss franc per 1 US Dollar - the Dollar is breaking upwards from the short-term consolidation and would need to sustain a move below $1 to offset scope for some further upside.

Eurobunds - reasserting the short-term downtrend and while it is approaching an area of potential support near 113, would need to sustain a move above 114.5 to offset scope for further downside.

China H-Shares - breaking upwards from the three-month range and would need to sustain a move below 14,000 to offset scope for further upside.

Nasdaq-100 - reasserting the six-week uptrend and would need to sustain a move below 1850 to hinder further upside potential.

Email of the day (1) - on additions and amendments to the Chart Library:

"Would it be possible to put one of the Chinese Indices into the Major charts list in the chart library please? Also our old friend Rock Phosphate seems stuck at 31 December 2007 and lastly for something completely different - is tea traded anywhere that would provide us with a price chart?

"Thank you and I trust your family are well,"

My comment - Our little family is doing very well, thank you. Fiona is sleeping a bit more soundly at night, which is a blessing for her parents and Aisling is very comfortable in her own room which also helps with her parents sleep.

I've added the Shanghai A-Shares to the Major Charts section. Rock Phosphate has also been updated to the end of January. Tea prices are unfortunately not available on Bloomberg, but they appear to be testing data from FO Lichts Tea which I will add as soon as released.

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

"Can you please add Padiberas Nasional Berhad to chart library?

"Thank you!"

My comment - This interesting stock, related to the Malaysian government's 'Guaranteed Minimum Price' for rice has been added to the Chart Library.

Friday 25th April 2008

Some inconvenient truths - In this issue, Tim price of PFP Wealth Management bravely and refreshingly indicts the industry to which he belongs, for the fees it charges but seldom earns. Here is the opening quote and a latter section:

"We are born brave, trusting and greedy - and most of us remain greedy." - Muriel Strode.

As we have noted before, egregious fee extraction is not restricted to so-called hedge funds. Traditional fund groups are perfectly comfortable charging high fees for substandard performance. If future market returns are likely to disappoint by comparison with the now almost mythical 1980-2000 bull market, and they surely may, then the imposition of any fees whatsoever will hinder portfolio returns. As Alistair Blair, writing for Investors Chronicle, wrote last year:

"consumers simply cannot grasp the fact that the man sitting in front of them and the people behind him are being paid via a long-term and hugely expensive levy on the returns from their savings.. here's a suggestion.. Investment products should be required to be sold with a warning comparing the total impact of fees over 20 years with the impact of fees on the least expensive indexed product on the market. I believe this slot is currently occupied by the Fidelity Moneybuilder UK Index Fund, which has an annual management charge of 0.1% and total expenses of 0.3%. The warning would run like this:

1) This product aims to deliver you a greater return than you would obtain by buying the Fidelity Moneybuilder Index Fund directly. It will need to do so because our costs are much higher. Very few people understand the effect of fees - even apparently small ones - on investment returns, SO PLEASE READ THE FOLLOWING CAREFULLY.

2) If you invest £5,000 in the Fidelity Moneybuilder Index and it achieves 7% growth a year for 20 years, your £5,000 will grow to £18,000. If you invest in our product and it achieves 7% growth for 20 years, the effect of our higher fees will be that you will end up with only £12,000.

3) But we aim to do better. In fact, even to match the Fidelity Moneybuilder, we'll have to outperform the index by an average of 2.4% every year for 20 years.

4) In the FSA database of 15,000 funds offered to the public over the past 20 years, only 10 funds have achieved this kind of performance. We aim to be the 11th."

Of course, not everyone wants index performance, hence the continued rise of the hedge fund sector. But the recent divergence of the asset management industry between low-cost tracker products (now ETFs) and high-cost "market neutral" structures leaves an increasingly awkward-looking no man's land in the middle of mongrel vehicles of no real underlying merit: funds which at best could track the market but are destined to underperform due to high active management fees. Just as the banking sector is going to see an inevitable compression in returns (if not outright consolidation) as the credit crunch allies with heightened regulation to stifle growth, so the number of managed funds should, if there is any natural justice whatsoever, finally contract as investors become increasingly familiar with both the lower cost exchange-traded proposition and with the higher cost absolute return offering. No man's land is not a pleasant place to spend any length of time.

My view - People will readily and understandably pay for superior performance because it does not actually cost them anything. However statistics on the performance of unleveraged funds versus a tracker for the same benchmark are not encouraging. Leveraged funds should have a better chance of outperforming their benchmark but the inevitable tradeoff is a much higher level of risk.

Meanwhile, there is little evidence of hedge funds lowering their fees in line with increased competition, but there are numerous instances of management companies introducing new long-only funds that charge higher (hedge fund style) fees.

How can this be, given the performance statistics cited by Tim Price above and the increasing availability of low-fee tracker funds? There are at least three reasons: the gullibility of investors; the effectiveness of marketing, and collusion within the financial industry due to fee sharing or other benefits in kind.

However investors are learning, especially during turbulent market conditions in which positive returns are more difficult to achieve. In future, I believe they will increasingly opt for low-fee trackers funds, rather than participate in what Warren Buffett described as "a compensation scheme dressed up as an industry."

Email of the day - On gold and the influence of negative real rates:

"Further to your reply to the GFMS Report, to what extent will the negative REAL rates of interest influence the gold price? The attached link to the chart by Adam Hamilton of Zeal highlights the outperformance of gold during the 70's and early 80's when real rates were hugely negative. Will it be different this time?

"Thanks for you thoughts."

My comment - Thanks for this informative article and your important question.

My comments yesterday, concerning the risk of an additional correction for gold, apply only to the medium term, in line with the cycles that have occurred within the secular uptrend for bullion. So I remain a long-term bull, for all the reasons previously discussed at such length. Negative real interest rates can only add to this eventual upside potential for gold. It is part of the same story in which we have seen and continue to see massive infusions of liquidity, and no country really wants a strong currency. However some countries need a weaker currency more than others.

The next important buy signal for gold will be when it is clearly appreciating against all paper money once again. Meanwhile, I posted some charts of gold in other currencies yesterday, and you can find many more in this section of the Library.

Chart of the Day: Sell in May and go away? - You probably know the adage and this fine graphic from Chart of the Day compares the performance. Historically, Wall Street has averaged most of its gains between November and April, while considerably underperforming from May through October. What can we expect this time?

My view - Although the S&P 500 Index is well above its January - March lows as we near the end of April, it is still down since the beginning of November. This is due to two factors: the made-on-Wall-Street credit crisis and the Fed's blunder last October, when Bernanke said: "…the upside risks to inflation roughly balanced the downside risks to growth." This showed that the Fed was behind the curve of events and put Wall Street into a tailspin, until Bernanke & co began to catch ups in late January by slashing interest rates dramatically.

Looking at the S&P 500 Index (weekly & daily), it obviously does not have significant gains to consolidate as we enter the historically weaker seasonal period. Instead, the pattern shows base formation development, so the worst that I expect between now and November is a sideways extension of this pattern. However there is a reasonable chance that the S&P will sustain an upward move, outperforming the November 2007 through April 2008 period. This latter prospect will be helped by election year optimism.

Meanwhile, a number of other stock markets, underpinned by better GDP growth prospects, are leading on the upside.

Quote of the week - On timing:

"Nine-tenths of wisdom consists in being wise in time."
Theodore Roosevelt

Additional Commentary by Eoin Treacy

Japan's Notes Fall Most Since 1999; Futures Trading Suspended - This article by Theresa Barraclough and Yumi Teso for Bloomberg covers today's downward dynamics on Japanese government bonds. Here is a section:

Japanese government bonds tumbled, causing the biggest jump in five-year yields in nine years, after inflation accelerated, stocks climbed and the dollar rallied against the yen.

Ten-year bond futures plunged as much as 1.8 percent, forcing the Tokyo Stock Exchange to order a 15-minute halt in trading for the first time since September 2002. The statistics bureau said consumer prices climbed 1.2 percent from a year earlier in March, adding to speculation the Bank of Japan will increase its overnight interest rate this year.

``The market is in a bit of a panicked state,'' said Masahiro Sato, joint general manager of the treasury division at Mizuho Trust & Banking Co. in Tokyo, a unit of Japan's third- biggest lender. ``I can't say how far Japanese bond yields will rise, because they've already broken through my forecast levels and the selling pressure could snowball from here.''

The yield on the 0.8 percent bond due March 2013 rose 19.5 basis points, the most for five-year notes since 1999, to 1.24 percent as of 5:04 p.m. in Tokyo at Japan Bond Trading Co., the nation's largest interdealer debt broker. The price fell 0.887 yen to 98.973 yen. The yield was at the highest level since October 2007.

Ten-year bond futures for June delivery lost 1.49 to 135.59. Yields on 10-year bonds increased 12.5 basis points to 1.605 percent, the highest since Nov. 2.

U.S. Treasuries also fell today, pushing 10-year yields up 6 basis points to 3.89 percent, as traders increased bets the Federal Reserve will stop cutting interest rates. The dollar advanced 0.2 percent to 104.50 yen, bringing the week's gains to 1.1 percent.

My view - JGBs had rallied impressively over the last 9-months to test levels last seen between 2003 and 2005. They encountered resistance near 142 and have pulled back significantly from that level. They now look set to at least test the lows near 132, over the coming months, but are somewhat overextended in the short-term and potentially prone to a short-term rally. They would need to sustain a move above 138 to offset scope for some additional upside. Today's action saw that decline gather pace on the news that CPI inflation was picking up in Japan. There are two ways of interpreting this news:

The bullish case is with inflation, Japan's deflation appears to be over. This inflation will be met with higher rates, which will encourage some Japanese investors to repatriate part of their offshore investments. This cash could easily find its way into stock and property markets and help to fuel a recovery in those assets.

The bearish case stems from the fact that this inflation has not originated in consumer demand but in the rising price of commodities outside of the control of the Japanese monetary authorities. In other words, the deflation may have ended but for the wrong reasons.

Between the bullish and bearish cases outlined above, I believe chart action should be the final arbiter. Stock markets responded well to the news as did the Topix Banks Index. Both are in short-term uptrends with progressions of rising lows and highs, but are now approaching areas of potential resistance. They both need to sustain moves above their February highs to challenge the integrity of the medium-term downtrends. Given the size of the correction to date, a lengthy convalescence is now likely but as long as they can hold above their March lows, the upside can be given the benefit of the doubt.

Deutsche Bank: Vietnam Primer III, At a Crossroad - Thanks to a subscriber for this interesting report by Juliana Lee which offers a comprehensive view of the Vietnam market. Here is a section:

Why has the VN Index performed poorly?

In our view, there are a number of factors that resulted in the decline in the VN Index from Mar 07 to Mar 08:

Reduced liquidity due to the government's moves to prevent speculative investment and momentum trading
The credit crunch in the US
Lack of foreign buying
Unsuccessful IPOs due to over-pricing of auction
Monetary tightening

There was reduced liquidity due to the government's moves to prevent speculative investment and momentum trading. Expectation of superior returns on securities investment by retail investors pushed the VN Index to reach an all-time high of 1,170.67 on Mar 12, 2007, implying a forward 07PE of approximately 40x. This was too high, in our opinion, compared with other emerging markets such as China, India, and Indonesia, whose forward 07PE were below 20x, whereas earnings prospects in these countries were expected to be higher than that of Vietnam.

Fearing a possible bubble in the stock market, the government introduced policies in order to discourage speculative investment and momentum trading by retail investors. In Jul 2007, the government introduced Instruction 03, which requires the ratio of stock market lending to total outstanding loans in a bank to be capped at 3%. Although the Instruction was not effective till Jan 01, 2008, many banks started reducing securities lending in order to meet the deadline. This discouraged market speculation by limiting the funding available to stock market investors. The passing of another regulation, the capital gains tax, also discouraged securities investment by reducing its expected profitability (although this regulation would not be effective until Jan 2009 and there are talks of a possible delay in its application).

My view - Vietnam broke upwards from a long base in late 2005 as it began to garner international attention as a host of state-run companies came up for IPO and the country was seen as a bargain for those nimble enough to be able to participate.

It reached a high near 1200, following an accelerated advance throughout the latter half of 2007 before peaking, losing momentum and moving into a ranging phase. The break below 900 completed this medium-term top and signalled that the market was going to take longer to recover.

Since then, the Index has fallen considerably, but has lost momentum over the last month and is starting to look more interesting from an investment standpoint. Considering the speed of the decline, the Index needs to find support, which it is arguably doing right now, and build a base before it can support anything more than a technical rally.

There has been a dearth of Instruments allowing low-cost access to the Vietnam market but a helpful subscriber made us aware of the UK listed, DB x-trackers FTSE Vietnam ETF recently. It can now be found in the Chart Library.

Eoin's personal portfolio: investment position opened and trading long opened in the Hang Seng - When Mrs. Treacy and I opened a trading account in Shanghai last year we kept one third of the capital attributed to this account in reserve in the event of a pullback. All four positions opened back in October are at a loss. ICBC, Bank of China and Bank of Communications have all fallen less than the broader index and remain good recovery candidates to lead the market upwards following the current correction.

Yunnan Chihong Zinc & Germanium's shares were suspended for three months on foot of an announcement they wanted to make regarding a takeover. It only returned to trading in the last few days. The industrial metals miners in China are going through a period of consolidation and Yunnan Chihong Zinc is part of that process. In any case, I believe it will either be successful or be taken over itself in due course. We will not be selling our holding at these levels and are prepared to sit out this correction. (Also see Comment of the Day on October 30th).

Today, we put our remaining cash to work in Citic Securities, China's largest brokerage. The share had fallen more than 50% during this correction and found support since the beginning of April above ¥25. It surged following the cut in stamp duty and was one of the few shares to be limit up both days. If the Chinese market has bottomed and I believe it has, then increased trading volumes should see brokerages doing well.

Last night, I also opened a trading long in the April Hang Seng paying 25518.8. The Hang Seng broke above 25000 this week and as long as it can sustain the gain, the upside can be given the benefit of the doubt.

Today's interesting charts - It is possible to create your own inflation-adjusted charts using the Charting Tool in the Chart Library, just divide anything with the US CPI Index.

British Pound per 1 Euro - posted a short-term lower high and lower low, which are the foundations of any downtrend. The Euro would need to sustain a move above 80p to offset scope for some further upside.

Wheat - remains in a 6-week downtrend and needs an upward dynamic to check momentum beyond a brief pause.

Amex Goldbugs - breaking down from the short-term range and needs to sustain a move above 450 to hinder scope for a test of the December lows near 375.

Sweden - pressuring the top of the three-month range and would need to sustain a move below 950 to offset potential for an upward break.

Mineweb.com: Silver could be low-cost substitute for platinum in autocatalysts - This article by Dorothy Kosich covers an interesting potential use for Silver. Here is the story in full:

Tokyo-based Mitsui Mining & Smelting announced Wednesday that it has developed a new catalyst to clean exhaust gases from diesel engines using silver, rather than the much more pricey platinum.

In a news release, Mitsui claimed that the new catalyst, which has particle matter purification efficiency that currently equals that of platinum now used in autocatalysts, can reduce precious metal costs by 90 percent or more.

A company spokesman told Reuters that Japan, Europe and the United States are all planning to impose tighter regulations on exhaust emissions for heavy equipment, such as that used in construction and farming, beginning in 2012. "We hope this catalyst will be used in these vehicles, and this is the market we are targeting."

Platinum demand from automakers for catalytic converters is increasing due to strong sales of light-duty diesel vehicles in Europe. Platinum and increasingly palladium are used in autocatalysts to reduce carbon monoxide and particulate emissions.

Previously, silver has not been used in autocatalysts because of its poor heat resistance. But Mitsui Mining said it has succeeded in making silver withstand heat of up to 800 degree centigrade by adding metal composite oxide.

The company said the catalyst is now undergoing performance evaluation tests.

My view - Over the last number of years, I have seen a number of new uses emerge for silver which would never have been dreamed of when the loss of the photo film market drove the metal to historic lows. It will probably take many years of testing before a product comes to market which can substitute platinum or palladium in catalytic converters. However silver remains in a secular bull market and while it is now in a medium-term correction, the potential for it to fall back to the lows seen before 2004 remain remote.

Email of the day (2) - on iShares S&P global index fund (IOO):

"I think there is some thing wrong with the chart for IOO in the library as the figures just do not match up with the actuals.

"I use Yahoo, and the closing figures for the last five days are as follows:

"21/4 - 77.07
18/4 - 76.83
17/4 - 75.71
16/4 - 76.02

"As you can see, these figure do not tally with the chart figures!

"Many thanks and kind regards"

My comment - The iShares global 100 Fund in the Chart Library is listed in Australia as opposed to the US listed IOO quoted on Yahoo. I have added the US version to the Chart Library.

Email of the day (2) - on aviation fuel:

"It is nice to hear the family is travelling well. On the subject of travelling is it possible to have the price of Aviation fuel placed into the chart library please?"

My comment - Thank you for the kind words, I can't find a future for aviation or jet fuel with reliable pricing. If subscribers know of any available on Bloomberg, I would be happy to add them.