

Fullermoney

Global Strategy and Investment Trends by David Fuller

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

Monday 21st July 2008

Guinness Atkinson: Asian Market Update - [This is an interesting summary of perceptions and developments regarding Asia, which are not always the same, with particular emphasis on China. Here is the opening:](#)

Recent falls in Chinese and Asian stock markets have been driven as much by global fears as by local matters. Higher commodity and food prices have come alongside slower economic activity and falling asset prices raising the spectre of inflation and economic stagnation. In Asia the impact of food prices is felt that much more keenly since the two, but especially food, comprise such a high proportion of average household spending - anywhere between 25% and 50% depending on the country, compared to around 15% in the U.S.

Asian markets are now responding to the possibility that higher prices and the additional price shocks caused by the reduction or outright removal of fuel subsidies will spill over into a broader inflation problem. Furthermore, it is believed by some that Asian Central banks are unwilling to take the necessary steps, by tightening monetary policy and raising interest rates, for fear that domestic growth will slow at a time when exports are also under pressure.

My view - [I agree with the two concluding paragraphs of the full report, which are in line with Fullermoney secular themes.](#)

Email of the day (1) - [On platinum's leadership role and implications of current performance:](#)

"I seem to recall that you have sometimes said that Platinum tends to lead where the other precious metals will follow. Do you think that the current direction of Platinum is telling us something about precious metals and possibly commodities in general? Gold does seem to be doing exceptionally well considering you have said this is not normally a good period for gold, do you think this is largely the exceptional influence of the oil price?"

"As always I thank you for your in-depth analysis of the markets which is tremendously helpful in keeping my nerve [in] this very turbulent period."

My comment - [Thank you for your feedback and topical question, which I at least partially addressed in a recent Audio, probably Friday's, as I recall.](#)

Initially, leadership within a sector usually occurs for fundamental reasons, and then often becomes behavioural as well. In other words, people expect it, which can help it to become self-fulfilling, for a while, before something else become more influential.

In recent years, we have benefited considerably by using [platinum](#) as a leading indicator for [gold](#) and [silver](#), as anyone can now see from the historic Archives.

Platinum's last upward surge occurred with the help of power outages in South Africa, and probably pushed it to uneconomic levels for consumers. Currently, platinum is underperforming, which makes it a potential headwind for the recent rallies in gold and silver. Incidentally, platinum needs an upward dynamic near prior support in the \$1800 region to reaffirm support from the lower side of its present range.

I say potential headwind because fundamental and behavioural circumstances may have changed. For instance, veteran subscribers will recall that in addition to platinum's lead, gold has also tracked the USD (moving inversely), and rather bizarrely it moved with the Dow for a while in 2005 and 2006; it can firm during times of fear, and oil was certainly an influence recently (*see also Eoin's lead item below*).

Seasonally, 2Q and 3Q are not usually periods of strength for gold, as you can see from the weekly chart. However demand usually picks up in 3Q and 4Q, with the help of buying ahead of Christmas, the Chinese New Year and Indian wedding season.

In conclusion, these are influences that one should be aware of but they wax and wane, and none of them are necessarily constants. For this reason, I personally attach the greatest weighting to price chart action. Consequently I have played the upside in gold recently, although to a lesser extent than I have in the 3Q and 4Q periods during recent years. If gold were to hit a new all-time high anytime soon, I suspect it would coincide with renewed weakness for the USD.

The best strategy for gold over the last seven or eight years has been to nibble on setbacks within the primary uptrend; use trailing stops on the rallies and to lighten positions when the price clearly accelerates higher.

Email of the day (2) - On the relationship between crude oil and the performance of oil shares:

"David, I have a question about the medium term correction in oil which you feel has commenced. The power point presentation from Timothy Guinness which you posted in comment of the day this week, included a table (pg.6) which showed how the energy equities performed during each of the corrections in the price of oil going back to 2000. In each case the energy equities held up significantly better. However, since the May high in stock markets the energy shares in the US and Canada have had significant

corrections. The XOI is back at its march lows and has corrected about 22% while the price of oil has dropped 12% and is still \$30 above where it was at the march low. The Canadian energy index has also had a 22% correction. You stated in Friday's audio that you believe energy shares will continue to weaken if the oil correction continues. My question is, do you feel the relationship demonstrated in previous corrections has now been broken or do you think the energy equities may start to show relative strength to the price of oil which is what Timothy Guinness was suggesting? Thank you for all your insights and for providing a great service."

My comment - Thanks for your kind words and for raising an important question.

I think the difference in performance which you describe can be explained by overall bullish or bearish perceptions regarding equities. Most stock markets were generally strong from 2003 through 2006, while bearish influences have certainly held the upper hand over the last year.

We remain long-term secular bulls of [crude oil](#) and therefore oil shares, particularly in the [Drilling](#) and [Equipment & Services](#) sectors. However, this has been a very crowded trade recently. I also think too many people have been talking about the Goldman Sachs forecast of \$200 and also Peak Oil recently, rather than the fundamental evidence of peak demand, temporarily, which we also saw following price spikes in the 1970s.

Email of the day (3) - [On bank lending, from a banker:](#)

"I have emailed to you several times since the beginning of the credit crisis to update you of levels of business lending activity (you may recall I work signing off new business in a commercial European bank not directly affected by the credit crunch). Well, this latest update is prompted by the attached article in the Telegraph. The news is not much better from the lending side; new business is still very thin on the ground. Commercial property is definitely on a further downturn, private equity shows mild signs of activity where it had previously been at a standstill. Commodity finance is still the strongest sector but not at levels of lending anywhere near prior to the credit crunch.

"As ever I enjoy your service immensely, please keep up the good work."

My comment - Thank you for your thoughtful comments. We certainly appreciate your insights, contributed in the spirit of Empowerment Through Knowledge.

Thanks also for the [article](#). I have known Roger Bootle professionally for many years and have a high regard for his views.

I note in particular both of your comments on commercial property. They are in line with my view that the risk of recession in the UK is high. However a good portion of this risk has already been discounted by the stock market and I am encouraged by the rebound commencing in financials last week (see

also Friday's Comment and chart review).

Jim O'Neill: Boom time for the global bourgeoisie - [My thanks to a subscriber for this recent column](#) in the Financial Times - a bit of welcome fresh air amidst the excessive gloom that seizes western commentators from time to time. Here is the introduction:

In the midst of the current widespread gloom and doom in the west, it is important not to lose sight of the true structural themes shaping our era.

Linked to the current mood, commentators often depict an embattled and shrinking middle class, with sharply rising financial inequality. However, globally, this is simply not true. One of the most startlingly positive phenomena for many generations continues to unfold around the world. We are in the middle of an explosion of the world's middle class.

As two of my colleagues, Dominic Wilson and Raluca Dragusanu, showed in a paper Goldman Sachs published last week (The Expanding Middle: The Exploding World Middle Class and Falling Global Inequality), about 70m people a year globally are entering this wealth group, as defined by those on incomes of between \$6,000 and \$30,000 (€3,800-€19,000, £3,900-£15,000), in purchasing power parity terms.

The phenomenon may continue for the next 20 years, with this global middle accelerating to 90m a year by 2030. If this happens, an astonishing 2bn people will have joined the ranks of the middle class. This demonstrates that, contrary to widespread opinion, global inequality is declining significantly, not increasing.

Behind this powerful development is, of course, the unfolding story of the Bric, as we dubbed Brazil, Russia, India and China back in 2001. In addition to the gloom surrounding cyclical challenges in the US and other developed economies, it is currently becoming fashionable to believe that the Bric story is about to be tipped over the edge by rising inflation, scarcity of resources and their own backlash against globalisation. Some slowing of rapid growth in these economies is bound to happen. Indeed, the sustainability of it might be helped by some softening.

But I believe this negative mood is overstated. In China, we are seeing evidence that inflation may have peaked three months ago. This week we are likely to hear consumer price inflation slowed to 7.1 per cent in June, the third consecutive monthly slowing, and we think annual inflation will be back below 4 per cent by early next year.

My view - [I agree with Jim O'Neil \(see also Friday's Comment of the Day\).](#)

Additional Commentary by Eoin Treacy

Oil is a commodity, gold is money - decoupling will happen - [This article](#) by Lawrence Williams for Mineweb covers the recent underperformance of oil relative to gold. Here is a section:

With the oil price falling more than 10 percent over the past few days - a level sufficient to be termed a 'correction' - the gold price has also suffered, but not nearly to the same extent percentage wise, at least so far. This could be taken as an indication of a beginning of the mooted decoupling of gold from the oil price which would have to happen if gold is to be the answer as a true hedge against inflation and economic carnage

In reality though, oil is a commodity and just like any other commodity is primarily subject to supply and demand considerations, while gold is, despite the views of some figures in the Central Banking community, a currency. Gold is still 'money' as far as much of the world is concerned and thus behaves differently from most other metals.

Oil price fundamentals are not supportive of a continuing price surge. A very significant fall in U.S. gasoline consumption over the past few months as drivers have been beginning to experience European style petroleum prices, coupled with increased oil output from a nervous Saudi Arabia - and a market which was probably not in deficit anyway - has outweighed developing nation growth. After all the U.S. is the world's most profligate oil consumer and a 5 percent fall in gasoline usage there represents more than a 1 percent fall in world consumption. And the U.S. decline in consumption will continue. Gasoline was cheap. It is not now. And if anything will drive the U.S. public towards more economic vehicle usage, and lower consumption, \$4 a gallon gasoline most certainly will.

My comment - [This overlay](#) chart of oil and gold shows that both commodities have been in impressive uptrends for much of the decade to date. However within this secular uptrend, there have been periods when one has outperformed the other. We have just gone through a significant phase where oil outperformed not only gold but a host of other commodities and asset classes. Gold has also performed well, but the question remains how well it will perform on its own if oil enters a medium-term correction.

From the beginning of the year, [oil](#) has outperformed in spectacular fashion and has rallied to less than 7 times the price of gold in relative terms. This area marks the lower side of a more than [five-year](#) range and last week's bounce probably indicates that this period of outperformance is over for the medium-term. In this environment gold is likely to be the better investment. However, in absolute terms, the raw price chart is likely to be of more value.

Gold found support at the upper side of the three-month range today and would need to sustain a move below \$950 to question potential for a test of the psychological \$1000 and potentially higher levels.

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

"Sorry for the questions, but if I don't ask, I won't learn.

"Re: Reversion to the mean

"Is there a reason why reversion to the mean happens I have seen this discussed in many books and thrown around by many commentators but never seen or heard a good explanation why it happens. I have searched the archives but may have missed the answer I seek.

"Where I don't doubt the fact that mean reversion happens. What's the physiological behaviour behind why it happens? Why can't a commodity such as oil or gold just under go a paradigm shift and not revert.

"Re: Golds appreciation

"You mentioned last night and in past audios to watch gold not only appreciate in terms of US dollars, but in other currencies. Whets the significance of gold appreciating in other currencies and not just in US dollars terms. Does this have relevance to spread betters where currency is not an issue or someone with a currency hedge in place?

"As always you market wisdom would be much appreciated.

"By the way, as a new relatively new subscriber, do you have a list of the key articles over the years from the archives which cover off in detail all the broader Fuller money themes? You seem to have a phenomenal amount of material in the archives, which can seem daunting when trying to find where to begin. Time is money as they say!

"I found The Big Picture Outlook for Global Markets (Part 1) from 2005 which is a super article. Could you be kind enough to point me in the direction of others like this? "

My comment - Thank you for these questions which may also be of interest to more recent subscribers. Reversion to the mean is an important investment concept. Without going into the logic behind a statistical bell curve let us simplify the matter. If the mean is the average price, then the instrument spends the majority of its time near that level. If it is not at that level now then, statistically, the average level will eventually move towards the price and the price will eventually move back towards the average. In a powerful uptrend both of these activities will occur on a number of occasions. The psychological impact of investors is observed when a market diverges from its mean for a sustained period and is often indicative of a developing extreme of sentiment. This propensity to overreact also helps to explain why markets often overshoot as they revert to their means. Here is a section from the featured Articles section on [moving averages](#).

When we talk about reversion to the mean, it is important to be clear about what mean is in question. For example, investors will often look to the 200-day moving average because it is a handy tool to gauge the average price of the last year.

When we talk about paradigm shifts, we need to look at much longer-term averages. For example, the question as to whether commodities are in a cyclical versus secular move can be boiled down to whether one believes they are going to revert back to their extremely long-term averages or whether higher marginal costs of production have raised that average price to a new sustainably higher level.

[Gold's](#) appreciation in different currencies is important because gold is itself a currency. One of the key arguments in favour of gold's long-term appreciation is that it is increasingly being considered a store of value by international investors. If gold is outperforming in lots of different currencies, its status as a legitimate investment is bolstered and increased investment demand is usually the reason.

The Featured Articles section of the site contains what we consider to be the most important articles from Comment of the Day and many more can be found using the Search engine. All of these topics are covered in depth at The Chart Seminar.

Eoin's personal portfolio: two investment positions taken on behalf of my four-month old daughter and four spread-bet positions opened - I have been slow to make an investment on behalf of my second daughter, Fiona, because I was nervous about any potential investments being overextended relative to their means'. I was also keen to give her as much exposure as possible to our long-term themes and have invested accordingly.

I put half the money I have allotted to her into the [JP Morgan India Trust](#) because the market is looking oversold and I continue to believe that its long-term potential is outstanding. The position was opened at 302.76p.

I put the other half into [Frontline Inc.](#), which is a high yielding (15.39%) oil tanker company, paying 3300p. The share has recently broken upwards from a three-year range and while it is exposed to the oil sector, I believe that the yield more than offsets any potential energy related drawdown.

The Irish market has been one of weakest in the world, has some of the largest short positions and potentially could have one of the largest counter trend rallies. I bought the September [Irish](#) Top-20 ETF at 936.3 including spread-bet dealing costs.

I also bought the July [Nifty](#) contract at 4151, including spread-bet dealing costs for the same reasons as JII above.

Japan has been one of the better performers during this corrective phase and has the potential to rally from the lower side of its range. I purchased the September [Nikkei](#) contract at 13025 including spread-bet dealing costs.

Taiwan is also looking overextended. I bought the September [Taiwan Greater China Fund](#) at 598.8 including spread-bet dealing costs.

On my wisdom teeth extraction - Thank you all for your wonderful support. My dental surgeon, Paul Keogh, and the staff at the Bon Secours in Tralee did a great job and the wounds appear to be healing well. My family is probably enjoying the peace and quiet and I can't wait to bite into something more substantial than soup and yogurt.

Email of the day (2) - on lithium:

"The largest producer of lithium in the world is Sociedad Quimica y Minera de Chile (SQM) who dredge the metal from brine pools high up in the Atacama desert in Chile. SQM's share price accelerated very sharply before a correction a few weeks ago. The acceleration in the share price was as much to do with SQM's potassium production as their lithium production.

"Another company worth looking at is Admiralty Resources (ADY) of Australia who are beginning to produce lithium from similar brine pools in the Atacama desert but on the Argentinean side of the border.

"By the way, Western Lithium ([WLC](#)), the spin-off from Western Uranium made their debut on the TSX Ventures exchange today.

"I also think lithium will do well as we move away from vehicles powered by petrol to vehicles with lithium batteries."

My comment - Thank you for this informative email and I can confirm that all of these shares are now in the Chart Library.

[SQM](#) soared to a high near \$60 in June but has since entered a medium-term correction. It found support near \$35 earlier this month and would need to sustain a move below that level to question prospects for some further higher to lateral ranging. (Also see Comment of the Day on [July 11th 2007](#).)

[Admiralty Resources](#) peaked in July last year and has since retraced the entire advance. It is currently testing the upper side of the 2005 - 2007 base and needs to sustain a move above 20¢ to question potential for some further downside.

[Lithium](#) remains in a consistent uptrend but the shares are not reflecting the price of the metal. This may change in time if lithium fulfils its potential as a vital component for advanced battery design.

Email of the day (3) - on creating your own Preset templates;

"Please can you tell me how to save changes to charts. i.e. if I make changes on one chart can I save it and apply it to all charts?"

My comment - Thank you for this interesting question which I'm sure will also be of interest to other subscribers. How to create your own Preset templates was discussed in Comment of the Day on [March 18th](#) and [April 16th](#).

Today's interesting charts - The Chart Library has two Search Engines. One searches the more than 17,000 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.

Corn - pulling [back](#) sharply having encountered resistance near 800¢ but is approaching an area of potential support. However, an upward dynamic is needed to check momentum beyond a brief pause.

Taiwan - looking [overextended](#) and beginning to find support in the region of 7000. A sustained move below 6700 would be needed to question scope for some further upside.

Lead - breaking [upwards](#) from the short-term [range](#) and would need to sustain a move below \$1800 to question scope for some further upside.

Email of the day (4, 5, 6 & 7) - on additions to the Chart Library:

"Can you please add these USA listed funds to the chart library? Thank you.

"Kayne Anderson Energy Total Return [KYE](#) BlackRock Global Energy and Resources [BGR](#) BlackRock Real Asset Equity Trust [BCF](#)? "

And

"Do you think it would be at all possible to add the following to Mr. Fuller's Chart Library?

1. [India Infoline](#)
2. [Axis Bank](#)
3. [Unitech](#)
4. [BSE Realty](#)

"I hope these four are ok

"Thank you very much. "

And

"Please can you put Energybuild Group plc ([EBG](#)) which trades on the LSE AIM market in the Chart Library."

And

"Would you place ASX listed [Gold Bullion Securities Ltd \(GOLD\)](#) in the chart library. Each share represents 1/10 ounce of gold in Australian dollars."

My comment - Thank you all for these interesting suggestions, which have now been added to the Chart Library.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of July 13th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Brazil, Chile, China, Cyprus, Denmark, Ireland, the UAE, the UK and USA - 10 in total. In descending order, which topped the list in terms of the last week's new signups? It was the UK, Australia and the USA.

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

Tuesday 22nd July 2008

Total net outflows from Asian funds at US\$14b year-to-date - My thanks to a subscriber, who also contributed Email (1) below, for this informative [report](#) by Elaine Chu and colleagues at Citigroup. Here is the opening:

85% of new money taken in by offshore Asian funds is now redeemed - EPFR reported outflows from Asian funds at US\$800m in the week ended last Wednesday after running at an average US\$1.2b in prior seven weeks. YTD, weekly redemptions have been reported 72% of the time, taking total net outflows to a record US\$14b. Contrasting this with net inflows of US\$16.4b in 2007 suggests that 85% of net cash received by these funds is now gone.

Selling pressure of Global funds intensifies - Redemptions from Global equity funds tripled from an average US\$645m per week between June 19 and July 9 to US\$2.2b last week. As Global funds are still overweight Asia and their cash levels just 30bps bigger than historical average (3%), the chance for Global funds to sell their Asian stakes is increasing.

My view - The flow of foreign funds into emerging markets usually peaks close to the top, and is therefore a contrary indicator. Conversely, outflows usually peak near the bottom and are a sign of capitulation.

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

"I have read the attached report with interest. It suggests to me a move towards capitulation, but as I have not had the benefit of your chart seminar,

(although I am hoping to rectify that in 2009), I would appreciate your comments.

"Regards and thank you for your research-I enjoy your audio on the way to work in the mornings here in Western Australia."

My comment - Thanks for the feedback and the informative report, which I have posted above.

As you will have noted, I agree with your perception - we have seen capitulation selling recently.

It would be a treat to see you at TCS in 2009.

Mobius Sees 'Good Bargains' in China, India Stocks - My thanks to a subscriber for this [article](#) from Bloomberg, which contributes to the debate. Here is the opening:

Stocks in China and India offer "good bargains" after benchmark indexes in the nations declined more than any other major market this year, Templeton Asset Management Ltd.'s Mark Mobius said.

"We've been rearranging the portfolio based on valuations, which have come down pretty dramatically in places like India and China," Mobius, who oversees about \$47 billion of emerging-market equities as executive chairman of Templeton, said in an interview from Toronto. "There've been big declines."

Mobius joins investor Jim Rogers in favoring Chinese stocks after they plunged 46 percent this year. China and India, the two most populous nations, are the worst performers among the world's 20 largest stock markets as soaring raw material prices and slowing economic growth weigh on profits. Last year, China's main index surged 162 percent and India's advanced 47 percent.

China's CSI 300 Index is valued at 21 times reported earnings, near the lowest in more than two years, and down from a peak of 53 times in October 2007. In India, the Sensitive Index is trading at 14 times reported earnings, down from a high of 31 earlier this year. That compares to a multiple of about 22 times for the Standard & Poor's 500 Index in the U.S.

"Markets like China and India are no longer expensive but neither are they cheap," said Leslie Phang, the Singapore-based head of investments at the private-clients unit of Schroders Plc, which oversees about \$260 billion globally. "In the longer term, is earnings growth in those markets sustainable? We're still unconvinced that we're out of the woods."

Rogers, who said he hasn't sold any of the Chinese equities he started buying 1999, told investors on June 28 not to "give up" on the nation's stock markets.

Faber, Rogers, Mobius

Marc Faber, publisher of the Gloom, Boom & Doom Report, disagrees.

My view - Historically, global deleveraging and recession fears have exacted a heavy toll among high-beta markets. It has been no different this time.

Among the crucial questions for investors today are: Will the bearish deleveraging continue, dragging these stock markets lower, or have they already fallen enough, and if so why? Analytical opinion on these points varies widely, needless to say.

Needless to say, no one knows, so the best any of us can do is hope to make an educated guess.

If this *really* is a replay of the Great Depression - as some have suggested and the western financial press has enjoyed discussing - then obviously all stock markets will fall considerably further. Presumably they would not stop declining until valuations had returned to some of the most attractive levels in stock market history.

Conversely, if the west's banking crisis is beyond its nadir, and if energy and food inflation are peaking, then what I have often described in recent months as a perfect storm for stock markets should now be subsiding.

I have previously said that this year's spike in crude oil prices had become by far the biggest global problem. Spikes in the price of oil have proved to be much more damaging economically than slow, steady rises. Unfortunately, my chart data for crude oil only goes back to 1986 but you can see on this [chart](#) the spikes that certainly contributed to recessions in 1990-1991 and 2001-2002. I also recall the oil shock recessions of 1973-1975 and 1980-1982, as will many veteran subscribers.

Today, I feel increasingly confident that crude oil established an important medium-term peak last week. The recent technical evidence has been compelling, as you can see on this daily [chart](#). However it remains to be seen whether or not oil continues to fall back even more quickly than it rose, as it could, or ranges in a phase of top extension before declining to what I suspect will be at least \$100. The difference in timing is important because it will be a crucial factor for central banks, which continue to express more concern over inflation than slowing economic growth. It will also influence the level of speculative activity in other commodities.

Meanwhile, I think Mark Mobius is right to be interested in [China](#) and [India](#) at these levels, and given the size of the funds that Templeton manages, he cannot really afford to hold out for historically low valuations. Circumstances may not produce them and they probably would not stay there very long in any event.

The main reservation most strategists have about China, India or any other promising market today, is inflation. That is why *oil really is everything*. At \$100 a barrel, investors would obviously be a lot less concerned about inflation, and able to refocus on all the attractive aspects of emerging (progressing) markets. If we see \$100 oil later this year, which I think is a real possibility, I suspect most stock market indices will be higher than they are today, led by those with the best combinations of sound governance and economic growth.

To those who might ask: would we not then see oil move back up and renew its uptrend, my answer is not immediately. Lower demand for oil in the USA, due to more efficient usage, could easily offset rising demand in China for a while. Also, it is only a matter of time before Iraq's oil production increases dramatically.

Email of the day (2) - [More on oil as an influence on gold](#):

"I often listen to replays of musical shows on BBC2 while reading on the Internet - they have a wonderful range of programming not available on radio here in the U.S. While reading the section on oil/gold decoupling my program was playing G&S "When a felon's not engaged in his employment" - actually I was studying the overlay of oil and gold and reminded of an economics prof. at the local university who used to talk about some of his research showing that every U.S. admin since Eisenhower would step on the gas in the runup to the four-year elections (just as LBJ was the man from Brown and Root, Bush is known as the man from Exxon Mobil) - the chart shows the decline in oil not only before the Presidential elections but also the mid-term Congressionals. Foreknowledge of this was for example a great investment aid in Oct. '06, but will the pattern hold.

"You may have noticed that FT has quietly but assiduously been covering developments in the thaw of U.S. diplomatic relations with Iran. I wonder if just as in your comments on platinum, for oil also "fundamental and behavioural circumstances may have changed". As a precious metal investor my main concern for some years now has been a possible very long-term collapse in oil during this period (Beijing Olympics to Nov. 11), and the impact it will have on gold.

"Though out of my element in the investing world I did appreciate the Pirates of Penzance, which encouraged me to send this note.

My comment - I am glad to hear you are enjoying the music, without which our lives would be much diminished. I hope you can also receive the [Proms](#), which are currently being broadcast over here on BBC2 TV and also the UK's Radio 3.

You cite an interesting theory, of which I had not previously heard, concerning the White House incumbents' efforts to lower the price of crude oil prior to important elections. There is an opportunistic logic to it, although after a quick look I am not convinced that your professor's theory is confirmed by long-term

price charts. Perhaps we should only look at election years when the price of crude was relatively high and therefore detrimental to the 'feel good' factor?

Meanwhile, I would regard further weakness for crude oil as a headwind for gold. However at Fullermoney we also maintain that gold will not remain at historically low levels relative to oil indefinitely.

My personal portfolio: A gold futures stop triggered - Instead of just thinking about it, I should have followed my own advice on gold futures trading during its ranging consolidations and support building phases. That is, nibble on the setbacks within the range and lighten on rallies. I was stopped out of two-thirds of my remaining [gold](#) longs at \$948 for the August position, versus my purchase at \$946.90 on 2nd July, including spread-bet dealing costs.

Email of the day (3) - [On TCS and stock picking](#):

"David if only I'd heard of your site 12 months ago, I'd be a wealthier individual today. Your website is terrific, my favourite section is the Subscriber's Audio. I'm a chartered accountant in industry interested in equities for many years now. I thought I was a marvellous stock-picker until the bear run commenced almost a year ago. Is your chart seminar course pitched at individuals like me or is it geared towards people who have careers in equities/markets? Keep up the great work."

My comment - Thank you for your generous comments and encouragement, but I have never looked back on a market cycle without feeling that we really should have made fewer mistakes and taken greater advantage of opportunities. For me, this will apply to the last year more than most.

Investment and trading are hard work, not least because the financial environment is never constant for very long, and we can only deal with the realities that markets provide. However we can also find inspiration in knowing that with some small refinements in our analysis and strategy, any of us can improve our performance. I view this as a life-long quest.

In answer to your question, The Chart Seminar is pitched towards people who have a passion for the markets, plus a desire to both learn and share insights in a workshop environment.

Today's interesting charts - [Markets seldom sit still for very long](#), and because price charts help us to see change in perspective, we are better able to assess its potential implications ahead of the crowd.

USA (S&P 500 Banks) - This [rally](#) is only 5 days old but has already become the strongest since banks peaked last year, providing further evidence that an extremely important low was reached last week following an accelerated and therefore climactic decline. As former delegates to [The Chart Seminar](#) will

recognise, this is a Type-1 (V-bottom) base, which will commence a right-hand extension phase once the current rebound loses upside momentum.

USA (Transports) - The third powerful upward [dynamic](#) this month; while some resistance can be anticipated at the former highs are approached, a close beneath 4925 would be required to question current scope for further gains.

USA (S&P 500) - Testing the [underside](#) of the January to June range and a close under 1250 is required to question current potential for a push into overhead trading.

Australia (AS51) - Yesterday's big upward [dynamic](#) broke the overextended downtrend; a new closing low, which seems unlikely, is required to offset current scope for an additional recovery.

Additional Commentary by Eoin Treacy

How have Bank and Financial sectors performed in the last week?- It is no secret that the financial sector has borne the brunt of bearish sentiment over the last year and a number of Bank indices have returned to levels not seen since 2002. Banks led the move on the downside; in the majority of cases topping out well in advance of their broader indices and they continue to be a lead indicator for most stock markets.

Sentiment deteriorated steadily from May and bearish extremes were reached by a host of stock markets in the last week. The resulting rally is being led by bank shares, at least in part because they were also some of the most heavily shorted sectors and are benefitting from a short covering rally. Oil's reaching of a medium-term peak and the changing of rules relating to 'naked shorting' were two catalysts for this move by financials and the wider market.

This article from John Mauldin's [Outside the Box](#) contains a number of quotes pertaining to the changing in rules relating to shorting and is worth a look. The extent to which bank shares can sustain their moves above their recent lows will be a key determinant as to how well stock markets, generally, can rally from current levels.

In an effort to determine which bank and financial indices are rallying fastest, I put 40 of these indices into a section in my Favourites and then Filtered the list sorting by 1-week performance. Here is the resulting [list](#). Instructions for how to create this and similar filters can be found via the [Filter](#) and Chart Library [Help Pages](#).

The only bank indices to record positive returns in the last year were in [Saudi Arabia](#) (19.9%) and [Kuwait](#) (3.3%). The worst performers have been those most heavily exposed to the western mortgage markets. However, in the last week, rallies by banks have been led primarily by US based indices. The [S&P500 Banks](#), [S&P Regional Banks](#), [Philadelphia Banks](#), [S&P 500](#)

[Diversified Financials](#), [S&P 500 Financials](#) and the [AMEX Broker/Dealer Index](#) occupy the first six places on the list. This supports our intuition that the markets where the biggest short interest was evident are now those that are rallying fastest. This is likely to continue as long as short positions are being closed. The question thereafter will be whether they can find support above last week's lows, which would be a necessary prerequisite for any more significant recovery.

Also of note is the [CNX Bank Nifty Index](#). It led the wider Nifty Index lower and is now rallying faster than its parent. It would need to sustain a move below 4700 to question scope for further upside.

Apart from the Indian Banks sector, other Asian Banks have been better relative performers throughout the fall and have consequently not had as significant a rally to date. This is also an indication that the Asian region's banking sector is less exposed to the source of the global credit crunch.

GSI Investment Notes July 2008 - Thanks to a subscriber for this interesting fund [report](#) focusing on a number of Asian markets. Here is a section on Taiwan:

Taiwan is the only market in the Asian ex Japan region that enjoys the combination of a strong current account surplus, no domestic wage-hike cost-push pressures (as its business cycle is flat on its back) and a strong political consensus to reflate. These conditions allow a strong dose of domestic pump-priming in the months ahead to drive a business cycle upturn, a backdrop conducive for Taiwan equities against the backdrop of a global growth slowdown.

Government-sponsored infrastructure projects in Taiwan, after years in decline (Chart 4 Source: KGI Securities) are projected to rise substantially, from 3% of GDP in 2007 to over 6% by 2009/2010. Spending for 2008 is allocated at NT\$500bn, of which only NT\$86bn had been spent in 1Q08. We can expect a spending boost by 2H08 under the new regime. Our regional funds have 38% in Taiwan.

Much of the rest of our investments are in sectors and themes that are beneficiaries of the above-mentioned global trends that can be expected to continue for a while, e.g., the shortage of engineers, the search for alternative energy.

We have over 27% of our regional funds' assets invested in a range of sectors and themes covering energy-related areas (coal, wind power related, bio-diesel), pulp, vegetable oils, engineering companies in oil services, environmental and infrastructure arenas.

My view - Relations between Taiwan and mainland China continue to thaw in a gradual process which should be a net positive for Taiwanese related securities over the long term. The Taix peaked near [12,000](#) in 1990 before giving up almost its entire advance. In the last 18-years it has rallied on three

separate occasions to test 10,000, only to fail at that level. Over the longer-term it needs to sustain a move above that level to indicate that this lengthy consolidation has ended.

The Taiex was one of the better relative [performers](#) throughout this year, but investors [capitulated](#) from May and the Index is now looking oversold. It has been losing momentum over the last week, as it finds support in the region of 7000, but needs to sustain a rally above 7250 to break the progression of lower highs and the 6-week downtrend.

The Taiwanese Banks and Financials Index topped out almost a [month](#) before the overall Index and accelerated to a low last week from which it is now rebounding. This bounce is occurring in the region of the psychological 900 level, which is towards the lower side of a [5-year range](#). It would need to sustain a move below the most recent lows to question scope for further upside.

The Taiwanese [Dollar](#) has been one of the better performing currencies against the US Dollar over the last year. The Greenback found support near TW\$30 in March but would need to sustain a move above TW\$31 to question potential for a reassertion of the overall downtrend.

India's Singh Wins Parliament Vote on Nuclear Deal - This interesting [article](#) by Cherian Thomas and Bibhudatta Pradhan for Bloomberg covers some potentially important events in India which could have positive ramifications for the stock market. Here is a section:

The 2005 accord signed between Singh and President George W. Bush gives India access to fuel and nuclear reactors without joining the 1970 Nuclear Non-Proliferation Treaty. It will lift restrictions imposed on suppliers to provide India with atomic technologies since it tested a nuclear weapon in 1974 without being listed as an atomic weapons state.

As a first step, the IAEA board will vote Aug. 1 in an extraordinary meeting on whether to endorse the plan, which will give inspectors access to 14 civilian atomic reactors. The inspections agreement is a key condition for a U.S. Indian nuclear cooperation treaty.

'More Support'

``There's more support here than there," for the nuclear deal at this point, White House spokeswoman Dana Perino said at a press conference in Washington before the vote. ``They're going to need a lot of energy, and one of the best ways to do that is through clean burning nuclear energy."

Singh says the accord will help increase nuclear generation 10-fold and end blackouts in the world's second-most populous country after China. Shortage of power and other infrastructure shaves 2 percentage points from India's annual economic growth, the finance ministry estimates. India needs to bridge that deficit to sustain growth of over 10 percent and end poverty.

``India needs to grow at the rate of at least 10 percent per annum to get rid of chronic poverty, ignorance and disease which still afflict millions of our people," Singh said in a prepared speech distributed at parliament. ``A basic requirement for achieving this order of growth is the availability of energy, particularly electricity."

Investment Limit

Besides securing India's energy needs, the prime minister also wants to increase the foreign investment limit in insurance to 49 percent from 26 percent, remove a 10 percent cap on the voting rights of foreign investors in non-state banks and open pensions business to overseas companies -- plans which have been blocked by the communists since he came to power in May 2004.

Amar Singh, whose Samajwadi Party replaced the communists as the government's main ally, said July 10 he may back legislation easing curbs on foreign companies expanding in insurance, pensions and banking.

Financial reforms, including development of a corporate bond market, pensions and insurance will spur investment and add as much as 1.5 percentage points to India's economic growth, according to Lehman Brothers Holdings Inc. India's \$912 billion economy has grown an average 8.9 percent in the past four years.

My view - The positive result of today's vote of confidence in the government should bolster the nascent rally in India's stock market. In the last month, the Sensex has broken the hallmark progression of rising lows and become quite severely oversold. Support was found near 12,500 and a sustained move below that level would be needed to question scope for some further upside.

India's more than 5-year [uptrend](#) has undergone some significant technical damage since breaking down in January, from its Type-2 top as taught at The Chart Seminar. As a result of this technical deterioration, a sustained move above 18,000 is needed to indicate that the bulls have regained the upper hand and that the long-term uptrend is about to be reasserted.

Today's interesting charts - Did you know it is possible to create your own chart templates in the Chart Library, so you can save your favourite settings?

Argentina - rallied well having found [support](#) near the January lows and would need to sustain a move below 1900 to question scope for some further upside.

US Treasuries - continues to back [away](#) from the 118 level and would need to sustain a move back above 117 to question potential for some additional upside.

Israel - finds [support](#) near the March lows and would need to sustain a move below 900 to question potential for some further upside.

Recession-Plagued Nation Demands New Bubble To Invest In - [Thanks to a subscriber for this humourous satire from www.theonion.com. It is posted without further comment but here is a section:](#)

A panel of top business leaders testified before Congress about the worsening recession Monday, demanding the government provide Americans with a new irresponsible and largely illusory economic bubble in which to invest.

"What America needs right now is not more talk and long-term strategy, but a concrete way to create more imaginary wealth in the very immediate future," said Thomas Jenkins, CFO of the Boston-area Jenkins Financial Group, a bubble-based investment firm. "We are in a crisis, and that crisis demands an unviable short-term solution."

The current economic woes, brought on by the collapse of the so-called "housing bubble," are considered the worst to hit investors since the equally untenable dot-com bubble burst in 2001. According to investment experts, now that the option of making millions of dollars in a short time with imaginary profits from bad real-estate deals has disappeared, the need for another spontaneous make-believe source of wealth has never been more urgent.

"Perhaps the new bubble could have something to do with watching movies on cell phones," said investment banker Greg Carlisle of the New York firm Carlisle, Shaloe & Graves. "Or, say, medicine, or shipping. Or clouds. The manner of bubble isn't important-just as long as it creates a hugely overvalued market based on nothing more than whimsical fantasy and saddled with the potential for a long-term accrual of debts that will never be paid back, thereby unleashing a ripple effect that will take nearly a decade to correct."

Wednesday 23rd July 2008

Peter G Peterson's documentary, 'I.O.U.S.A': Spending \$1 Billion to Restore Fiscal Sanity - [This article \(also in PDF format\) from The New York Times announces what I assume will be an interesting and important documentary. Here is a section:](#)

Mr. Peterson, 82, says he yearns for the can-do spirit that helped politicians forged by the Depression finance the G.I. Bill of Rights, the Interstate highway system and the Marshall Plan from the ashes of World War II. Yet he is uncertain of finding it through the torrent of trivia from the 21st-century politics of rapid response teams, microtargeting, cable television rants and angry bloggers.

"Has something fundamental happened to the character of our people or our societal structure, or has no one stepped up to provide the leadership?" Mr. Peterson asked. "We're not going to know that until we try."

At the center of Mr. Peterson's plan lies "I.O.U.S.A.," which will be screened for the news media in Washington on Monday and opens in 400 theaters next month. Directed by Patrick Creadon, who shot "Wordplay," about crossword-

puzzle enthusiasts, "I.O.U.S.A." hopes to give as much cachet to long-term fiscal policy as "An Inconvenient Truth" gave to environmentalism.

Mr. Peterson's foundation is planning an active Internet strategy, tapping bloggers and social networks to reach young voters, who typically pay little heed to far-off fiscal obligations. In early 2009, as the new president takes office, the foundation will try to draw attention with programming on public television, and possibly television advertisements and infomercials.

The effort resembles those of public policy advocacy groups, with a big exception: the money Mr. Peterson has put behind it. After decades in and around public life, he knows that is his only chance to make an impact.

"You can buy a lot of airtime" with \$1 billion, Mr. Peterson said. "People are going to hear from us."

My view - An absorbing and extremely important question will probably be answered in the next decade or two:

Will we once again see the US economy's legendary regenerative powers of the last century, or will its importance and influence continue to decline, as we have seen with every other overextended empire throughout history?

Fullermoney's view throughout this decade, to date, is that the world is rapidly evolving from a unipolar to a multipolar world, and that subscribers' investment portfolios should reflect this change.

I would welcome feedback from US subscribers on 'I.O.U.S.A.', which I hope will be screened overseas as well.

Bill Gross: Dear President Obama - As we move beyond the drama of [crude oil's](#) medium peak and a climactic low for [stock markets](#), assessed last week, I'm including some items addressing longer-term issues, such as the article above and this recent breezy and bold [item](#) by Bill Gross of PIMCO, which some of you may not have seen. Here is a section:

Anyway, so you're gonna do the tax thing, Mr. President, and throw in some form of universal healthcare to boot that your buddy Hillary will help spearhead. You hope you can get a lot of this passed despite a potentially long string of filibusters from a Senate that won't quite have sixty Democrats. In addition, you'll need to provide some immediate relief to homeowners in the form of FHA (Federal Housing Administration) subsidies and low mortgage rate loans that somehow have been studied and studied in Congress for the past six months yet still haven't been passed into law. By January, home prices will be down another 10 percent or so and our Japanese-style property deflation will be in full stride. Congress will have had its summer recess though and spent September and October on the campaign trail. They had to get re-elected you know, so those homeowners just had to wait.

But you'll have your tax bill and your healthcare bill and your housing fix, and somehow it'll all be paid for by wealthy hedge fund managers, oil companies or, pray tell, a robust economy that's creating good jobs at home instead of exporting them abroad. Uh, I don't think so, Mr. President. That's where the "yes we can" morphs into "no we can't." Not that you won't accomplish most of that - the robust economy and the good jobs notwithstanding. It's just that you won't be able to pay for it and it's better to admit it now as opposed to later. No David Stockman confessions in your administration. You're smarter than Ronald Reagan and too nice of a guy to distort reality like King George. So let's start out by dropping all of that "budget neutral" rhetoric and admit where we're headed. Your administration will produce this nation's first trillion dollar deficit!

While the Republicans will blame you for years and label you "Trillion Dollar Obama" in future campaigns, there is in fact not much that you or any other President can do. You've inherited an asset-based economy whose well has been pumped nearly dry with lower and lower interest rates and lender of last resort liquidity provisions that have managed to support Ponzi-style prosperity in recent years. Foreign lenders have cooperated by purchasing Treasuries at yields which when combined with dollar depreciation have resulted in negative returns on their money. Even if these charades continue (and they may not), their stimulative effects - their magical powers to transform a 110-pound weakling into a Charles Atlas/Arnold Schwarzenegger mensch of an economy - are gone. What you need now is fiscal spending and lots of it. No ordinary Starbucks will do, Mr. President, you need to step up for a six-pack of Red Bull.

Now I know, Mr. President, that you're already addicted to those nicotine smokes and I'm not trying to promote a caffeine habit here, but this economy will need an additional jolt of \$500 billion or so of government spending real quick. It must replace both reduced residential investment and consumption whose decline has placed the US economy near, if not in a recession. Some quick math for you Sir: gross private domestic investment (machines, houses, inventories) has declined by \$200 billion since its peak in late 2006. Due to higher unemployment and energy costs, domestic consumption will soon be \$300 billion less than it should be if we are to return to historical economic growth rates. According to that old $C + I + G$ formula (scratch the trade deficit for now) when $C + I$ is reduced by \$500 billion, then G should increase by that amount in order to fill the gap. The G , Sir, is you - the government deficit, the fiscal stabiliser popularised by Keynes following the Depression. And since the fiscal deficit for 2008 is likely to press \$500 billion even before you take the oath of office, well there you have it: \$500 billion + \$500 billion = \$1 trillion big ones, probably by sometime in 2011 or so. It takes time to spend those types of bucks.

My view - As I write this, the [US Dollar Index](#) is experiencing a relief rally within its range as hedges against disaster are being unwound, from [crude oil](#) to [gold](#) as it falls back from its highs, and [US Treasury Bonds](#) which were a temporary haven during the so-called 'flight to quality'.

A key question for investors everywhere: Which of these recent trends will endure and which are temporary?

Predicting is among the most hazardous of professions, as you know, because we can only guess. Nevertheless we need to focus on these challenging questions, so here are my guesses:

US 30-Year Treasury Bond futures - I think Bill Gross' deficit forecast is probably right, and I also maintain that the US government will err on the side of inflation, as debtor nations invariably do. Therefore increased government borrowing is likely to face a buyers' strike at some point, turning [US 30-Year T-Bonds](#) into one of the better shorts of the decade. Tactically, I will look to short the rallies as they lose momentum.

The US Dollar Index - While the US government does not want a currency freefall, it can ill afford a strong dollar because it needs an export led recovery. Moreover, while the dollar remains the world's main reserve currency, the US is unlikely to kick its addictive habit of printing too many greenbacks. This will also lead to a buyers' strike, eventually forcing the [US Dollar Index](#) lower, with an even bigger decline occurring against the Chinese renminbi and the currencies of other high-growth economies. Tactically, I will look to short rallies as they lose momentum.

Gold - In a fiat currency world, with the main reserve unit enfeebled, and resources inflation continuing when global GDP growth increases, people everywhere will continue to regard gold as real money for investment purposes. This will eventually support an extension of [bullion's](#) secular uptrend, once the current medium-term consolidation has been completed. Tactically, I will continue to buy following setbacks within the overall upward trend.

Crude oil - Assuming and very much hoping that there will not be a military strike against Iran's nuclear installations, I maintain that oil has peaked for the medium term, defined by Fullermoney as anything from a few months to two years and occasionally even longer. However as with gold and many other resources, there is a scarcity factor for oil resulting from increasing costs of production and finite supplies of light crude. Also, demand will rise following any significant correction in prices, not least because cheaper oil will boost GDP growth. Therefore [crude oil](#) will eventually resume its secular uptrend following what I suspect will be a lengthy correction. Tactically, I would consider longs in petroleum futures and also oil drillers and equipment stocks on evidence of renewed support building following a significant setback.

Note - While one can obviously trade in both directions and many people do, I prefer to trade in line with secular trends, not least because this should lower risks and there are so many opportunities available to us in the global beauty contest, in terms of market selection.

Email of the day (1) - On the duration of rallies:

"You mentioned on the audios you expect the technical rally to last over a month or so, perhaps longer. From my own educational standpoint what are the key points you look at to conclude as a best guess how long you anticipate the rally will last. Is this something which can be applied to all rallies? I am looking for a questioning methodology I can use to improve my own trading to ensure I have my bases covered when making trades.

"I have found it's often more important to ask the right questions before taking a position in the market than to search for a specific answer."

My comment - These are good questions but there are no definitive answers. Instead, it is part observation, part experience and part intuition.

I said last week that the technical rallies should last at least a month or two because that was the duration of the mid-March to mid-May rebound, and therefore would be perceived by many as 'normal' for another bear market rally. However, I was being cautious in my appraisal because we recently completed a persistent downward move taking most indices to new lows, on additional capitulation selling and record short selling, and values have generally improved. Additionally, crude oil shows clear evidence of a medium-term peak.

However the price charts will guide us, as they did last week, also in late May as the orderly rallies lost momentum, and at the climactic lows in January and March. The important point to remember is that it is foolish to tell the market what to do, because it won't listen, but it will give us the clues we need, particularly at crucial turning points.

Thailand, China Stocks Are Cheap, Merrill Tells Wealthy Clients - My thanks to a subscriber for this [item](#) from Bloomberg. Here is the opening:

Thailand and China offer the most attractive stock selections in Asian markets after prices fell, making them cheap as earnings growth accelerates, Merrill Lynch & Co. told its wealthy clients.

The nations have the lowest valuations among 11 Asian markets, followed by the Philippines, Stephen Corry, investment strategist for Merrill Lynch Global Wealth Management in the Asia Pacific region, said in an interview today. Australia is most expensive.

"Thailand will benefit from rising exports of rice, tuna and other agricultural commodities," said Corry. "The good news about China is that consumer prices may have peaked and started coming down."

Thai shares trade at about 9.8 times profit forecast for 2008, and Chinese stocks at about 12.3 times, Corry said. The countries' indexes may have started to rebound after slumping to their lowest in more than a year last week as falling oil prices ease concern inflation may accelerate. Thailand's SET Index has climbed 4.2 percent this week, headed for the biggest gain in six months, while China's CSI 300 Index has climbed 3.2 percent.

Thailand's exports gained 27.4 percent from a year earlier to a record \$16.3 billion, the commerce ministry said yesterday. The Southeast Asian nation, the world's biggest exporter of rice and rubber, is benefiting as surging commodity prices help counter slower demand from the U.S., the nation's largest single export market.

My view - Asian stock markets certainly are a lot cheaper following their declines over the last year, not least because GDP growth has continued at an enviable rate by western standards. Thailand is among the cheapest because governance remains a concern.

Email of the day (2) - [On China's monetary policy](#):

"Here is some ground feel on China's monetary policy. Hope it aids your analysis."

Monetary relaxation is fast becoming a reality. Yesterday, Mr Jiang Jianqing, chairman of ICBC, the country's largest commercial bank, stated the bank would provide more commercial loans to small and medium-sized enterprises. Mr Chen Yuan, president of China Development Bank, the largest policy bank in China, has also expressed a similar tone in supporting the small companies.

But more importantly, in our opinion, is the speech by Mr Liu Mingkang, chairman of China Banking Regulatory Commission (CBRC). Mr Liu called for banks to pay attention to changes in the property market, and that they should "meet the reasonable funding needs of property companies in order to ensure a healthy growth of the market". He also made a remark that loan growth for small companies should not be lower than that for the overall commercial loan. The speech was reported on Mon but was not really picked up by the market.

"We don't know, even if there is relaxation, how "relaxed" the banks would be and how that would help the developers. But we know that, if the stock market believes that there is a definite change from a credit tightening stance to a more lenient position, there will be a major sentiment uplift in the sector. Our top picks remain: China Resources Land, Guangzhou R&F and Shimao.

*Sylvia Wong
UOB Kay Hian (Hong Kong) Limited*

My comment - Many thanks for this item, which makes sense to me. I would not be surprised to see China's [Shanghai Composite Index](#) break upwards from its current range, with sentiment improving on clearance of the psychological 3000 level.

Email of the day (3) - [On the New Zealand dollar](#):

"During these challenging times your guidance has been invaluable in attempting to keep on an optimum course as an investor. However, one point I would like your outlook on is the NZ dollar per £s which has been rising slowly since March of this year.

"Thanks again for your continuing support."

My comment - [Thank you for your kind words.](#)

In markets, we aspire to an optimum course but it is often a will-o'-the-wisp at the best of times. In switching my main cash holding out of sterling in [January](#), I did so because I feared further sterling weakness and more interest rate cuts than we have seen to date. I get a much better yield, currently 8.1% on my latest monthly rollover, but New Zealand's central bank has been talking the NZD down and Mervyn King of the BoE has been hawkish. Consequently recent slippage in the cross rate as the [pound](#) ranges higher is now more than offsetting the higher yield advantage. I am mildly concerned about this trend but hope that it will prove to be no more than swings and roundabouts.

Additional Commentary by Eoin Treacy

Platinum, Palladium Plunge in N.Y. on Concern Demand May Wane - [This article by Halia Pavliva covers the recent weakness in the platinum group metals. Here it is in full:](#)

Platinum fell, extending the longest losing streak in six years, and palladium slid on concern that slowing economic growth will cut demand for the metals.

More than half of all platinum consumption is for emissions-control components for car and truck engines. U.S. auto sales fell to the lowest annual pace in 15 years last month, raising concerns purchases of the metal for industrial use will decline. Earlier today, palladium futures in Tokyo fell by the exchange-imposed daily limit on signs of lower demand.

The big news this morning is the drop of both platinum and palladium as investors seem to be bailing out," Miguel Perez-Santalla, a sales vice president at Heraeus Precious Metals Management in New York, said in an e-mailed note. "The general sentiment of investors has changed because of the overall weak demand due to the global downturn and the stabilization of power supply in South Africa."

Platinum futures for October delivery plunged \$56.10, or 3.1 percent, to \$1,752.10 an ounce at 9:59 a.m. on the New York Mercantile Exchange. The price dropped 9.4 percent last week, the biggest such decline since March. Most-active futures sank for an eighth consecutive session today, the longest losing streak since an eight-session slide that ended July 9, 2002.

Most-active platinum futures still have gained 19 percent this year before today, after a 33 percent rise in 2007.

South Africa's Eskom Holdings Ltd. spent more on coal and fuel oil to stabilize supplies and sought price increases, the company said last week. Platinum reached a record \$2,308.80 on March 4, partly because of output cuts caused by power shortages in South Africa, the world's biggest producer of the metal.

Except for gold, metal output rose at a 2.6 percent annual pace in May, Statistics South Africa said this month.

Palladium Plunges

Palladium futures for September delivery dropped \$23.75, or 5.8 percent, to \$387.75 an ounce in New York. The price declined 9 percent last week, the most since March. Still, the most-active contract climbed 8.8 percent this year before today, compared with a 12 percent rise in 2007.

"I expect there to be support for platinum at the \$1,750-an-ounce level as pent-up physical demand should come in to hold it close to current levels," Perez-Santalla said. "Gold is holding above \$930 an ounce, which is a significant level. If it holds here, it will mark a significant break in the complex."

My view - Platinum has filled an important role over the last few years as a lead indicator for the other precious metals. Its non-conformation of [gold](#) and [silver's](#) upward break last week was a cause for concern as to the ability of those metals to sustain the upward move. This relationship may not always be in evidence (as discussed in Comment of the Day on [July 21st](#)), but platinum continues to lead gold and silver in the current environment.

[Platinum](#) broke upwards from an 18-month consolidation in September and soared to over \$2200, before entering the current medium-term correction. Today's action sees the metal [dropping](#) below the March reaction low and down from the five-month range. It needs to rally smartly back above \$1800 to question potential for a further correction.

[Palladium](#) bottomed out near \$200 between 2003 and late 2005, before moving into a gradual uptrend which gathered pace in early 2008. The spike following the break above \$400 was the largest move in palladium since 2000 and has now been completely retraced. A sustained move back above \$400 would be needed to question scope for some further downside.

Email of the day (1) - [on an African ETF](#):

"There is now a US listed Africa [ETF](#) that is more evenly spread than the others, which were mostly South Africa."

My comment - Thanks to colleague John Ritchie for this interesting addition which can now be found in the Chart Library. Here is a link to the [constituents](#) of the [fund](#) which are well spread across African listed companies and international companies with a focus on Africa.

Africa has been a safe haven for many internationally mobile investors over the last year and equity indices in the region have been uncorrelated to the markets most affected by the credit crisis. However, now that investor interest is returning to more conventional products, African investments may come under some short-term pressure. As with all investments, Africa is best bought following corrections.

Email of the day (2) - on potential secret copper stockpiles:

"I have much benefited greatly from your website, particularly concerning commodities. I would be very interested to hear your comments on the enclosed. I have always been blindsided by moves in copper and the suggestion that the x-factor is China rings true. Does this appear plausible to you?"

My comment - Thank your kind words and for this interesting [story](#), from Dow Jones Newswires, on the potential for secret stockpiles of copper. Here is a [section](#):

It's a conundrum: Copper consumption, usually a barometer for economic activity, has fallen, yet known stocks are dwindling. Where is the metal going?

Market participants are in no doubt that the metal is going to China.

China has over 300 main hub ports, 200 of which are seaports and 128 open to foreign vessels. As with any port, it's very difficult for observers to be sure of the exact content of vessels arriving and unloading.

Yet representatives of international metals trading companies based in China say they have witnessed large shipments of copper being delivered to ports. People within international copper producers, including Chile-based sources at Codelco, told Dow Jones Newswires that they even send local staff down to ports to try to estimate how much metal is coming in. But these shipments don't show up in Chinese customs data.

The reason for this is that the copper is being shipped into free trade zones where it can be warehoused in bond.

Since the metal doesn't pass through customs, it doesn't show up in official trade data. This provides an ideal way to store the copper out of the public gaze for an unlimited period of time.

Duty is only paid if the metal is imported, but not if it stays in a bonded warehouse or is shipped to another country, even if its ownership changes.

While hiding copper away isn't a new phenomenon, the volume of metal the people say is being stored away is.

David Threlkeld, president of Resolved Inc., estimates that the copper market ought to be in a surplus of 2 million tons by the end of 2008. Official data, in

contrast, have led the International Copper Study Group to forecast a surplus of just 85,000 tons this year.

Threlkeld was the first trader to publicly allege in 1991 that former Sumitomo Corp. trader Yasuo Hamanaka was cornering the copper market. Threlkeld was later proven right.

"To keep the ball in the air, anyone attempting to disguise or misrepresent this surplus is going to have to buy and finance more and more physical inventory, a task that will become more and more difficult as the sheer quantity and cost increases in a very hostile credit market," he said. "Eventually, just as it did when the International Tin Council went bust, this operation will collapse under its own weight."

The International Tin Council acted on behalf of tin producers to buy up surplus tin stocks to maintain prices at a steady level. But tin demand fell in the 1980s, and ITC attempts to maintain prices caused the organization eventually to run out of money.

[Copper](#) remains in a more than two-year consolidation of gains following an accelerated move to its peak at \$4 in 2006. Allegations of secret copper stockpiles have been circulating for years and have been a favourite argument for those who contend that copper and indeed commodities generally are in nothing more than a cyclical upswing.

It is possible that some group is hoarding the metal with the intention of driving prices higher, but so far they haven't been very successful; if they exist at all. While an attempt to corner the copper market occurred in the early '90s, that move corresponded with a period when prices doubled. Since prices remain rangebound, I question the evidence for a large hidden reserve.

If such a large inventory were to be released onto the market, we would quickly see copper dropping below [\\$3.50](#), which would be a necessary condition to question current scope for higher to lateral ranging.

Eoin's personal portfolio: two stock market and one fund position increased - I placed an in-the-money-stop and doubled up on my [Nifty](#) long this morning, paying 4446 for the July contract.

I doubled up my long in the [Irish Top-20 tracker](#) behind an in-the-money stop paying 983.70 for the September contract.

Following the strong action on the Taiwanese market this morning, I also increased my small initial position in the [Taiwan Greater China Fund](#) by 400% this afternoon, paying 625.90 for the September contract.

I would also like to correct the prices quoted for the investments I made on my daughter Fiona's behalf on Monday. I got the confirmation of these trades from my broker yesterday and the completed prices were at 3300p for

Frontline and 302.76p for the JP Morgan India Trust. Monday's Comment of Day has been amended to reflect these prices.

Today's interesting charts - Did you know that sector indices for a host of Asian markets can be found in the Chart Library?

Topix Banks - [rallied](#) well having found support well above the March lows. A sustained move below 260 would be needed to question potential for at least a test of 320.

Nifty Index - rallies [impressively](#) to test the first area of potential resistance near 4500. However a sustained move below 4000 would be needed to question current scope for further upside.

Taiwan - rallies to [break](#) the two-month downtrend and would need to sustain a move below 7000 to question potential for some further upside.

Email of the day (3) - on a Freudian slip:

"Don't miss the very funny Freudian slip in Bloomberg's European equity market news this morning; "BHP Billiton Ltd rose 1.2%.....The company said production may rise 23percent to 137 million tons this year and that it may have uncovered a new copper despot in Northern Chile" There lies the risk I suppose."

My comment - Thanks for this pointing this out and well spotted. I couldn't find the story, probably because they got to it before I could. However, the despotic theme is one that was quite evident on Bloomberg this morning. There was also a story about how Chinese companies are benefitting from [child labour](#) in Congo and another relating to how [Peruvian workers](#) are dying from lax safety standards at Chinese owned mines. It would not be surprising to see international human rights agencies attempt to highlight the misdeeds of Chinese companies in advance of the Olympics.

Thursday 24th July 2008

Oil Below \$120 Will Reverse 'BR-IC' Fortunes - My thanks to a subscriber for this topical [column](#) by Andy Mukherjee for Bloomberg. Here is the opening:

Merrill Lynch & Co. strategist Mark Matthews has a checklist for investors in India and China.

If the price of oil goes below \$120 a barrel (from about \$126 yesterday), if China's annual inflation rate slows to 5 percent (from 7.1 percent last month), and if the U.S. banking crisis comes to an end, then the sagging fortunes of equity markets in the two Asian countries may reverse in relation to their better-performing ``BRIC" cousins: Brazil and Russia.

At the beginning of this year, Indian and Chinese stock markets, taken

together, were almost three times as large as the combined value of shares traded in Brazil and Russia.

Since then, the gap has almost halved.

Brazil's Bovespa Index, the world's 10th-best-performing, has risen more than 5 percent in U.S. dollar terms this year, while Russia's Micex Index has declined 11 percent.

By comparison, Indian and Chinese benchmarks have taken a hammering, falling 36 percent and 42 percent, respectively. BRIC has become ``BR-IC": two disjointed halves.

With runaway commodity prices, such an outcome was only to be expected. After all, Brazil and Russia produce a lot of the stuff that 2.3 billion people in India and China guzzle.

By contrast, Indian and Chinese energy and resource producers have little exportable surplus and are forced to satisfy domestic demand at less-than-remunerative prices.

These companies have, therefore, been nowhere as appealing to investors as their counterparts in Brazil and Russia.

`Good Bargains'

Templeton Asset Management Ltd.'s Mark Mobius said this week that Indian and Chinese shares offer ``good bargains."

On July 16, the average price-to-earnings multiple for India's key equity index fell below 13, making the underlying stocks less than half as expensive as they were at the start of the year. In the five trading sessions since then, the benchmark has risen 19 percent, including a 6 percent gain yesterday.

The Chinese index is valued at 21 times reported earnings, the lowest in more than two years.

My view - There is a short-term logic to this view but I would also add some qualifications and suggest that we also consider a longer-term perspective.

Many commodities performed spectacularly, not least during 4Q 2007 and the first half of 2008, with [crude oil](#) being by far the dominant influence. Commodity futures and commodity shares became very crowded trades, and this weighed on other investments as concern over inflation increased.

This process has been thrown into reverse following clear evidence of crude oil's medium-term peak last week, an event that the BRIC indices seem to have anticipated, evidenced by the weaker action for [Brazil](#) and [Russia](#), while [China](#) and [India](#) firmed.

Fashion trends play a big role in the financial markets which, incidentally, is another reason why we use price charts. I think the exodus from China and India, not least due to inflationary concerns, was overdone. Simultaneously, the fashion trend for commodities was temporarily overdone, since this sector has always been prone to big cyclical swings, even within secular upward trends.

Looking further ahead, if you believe as I do that Asian-led global GDP growth will pick up once again as central banks become less concerned about inflation, then logically that will be followed by increasing demand for most resources. Fullermoney's key investment themes of the last seven years - emerging markets led by Asia, the commodity supercycle, and global infrastructure development - are more enduring than the 'perfect storm' that has ravaged stock markets over the last year.

Where Asian indices are still ranging above their January and February lows, are their current patterns bear market distributions or developing bases? - [Mainland China](#), [India](#), [Malaysia](#), [Pakistan](#), [The Philippines](#), [Taiwan](#), [Thailand](#) and [Vietnam](#) all fell significantly beneath their January and March reaction lows.

Are they likely to extend their downward trends or are they beginning to bottom? Will the others follow their lead, or have they been stronger for a reason. What sort of practical, objective assessment can we make based on the charts, sentiment indicators, valuations, leadership and monetary policy?

In terms of leadership, bears have certainly had the upper hand over the last year. Therefore, before we can assume that the worst is over, we will need to see base formations, followed by upside breakouts and the establishment of uptrends. However by the time that occurs, stock markets will be significantly above their lows.

Consequently we will learn more today from lead indicators, of which the most important at bottoms, I maintain, concern sentiment. The recent and numerous examples of extremely bearish sentiment, often discussed in Comment of the Day and in the Audios, are contrary indicators and therefore bullish.

However if the underlying economic conditions are still deteriorating, as many would argue, bullish sentiment indicators may not support more than a technical rally, as we saw last August, this January, again in March and this month commencing last week. Nevertheless we need to bear in mind that each extension of the downtrends and evidence of climactic selling brings us closer to the eventual bottom.

Is the fundamental background still deteriorating or is it now improving? People could debate this question all day, every day, without necessarily reaching agreement. Therefore, I will focus on four obvious concerns - the price of crude oil, the performance of bank shares which we have always

regarded as lead indicators, central bank policy, and what I often refer to as the Wall Street leash effect.

[Crude oil](#) has broken its medium-term uptrend, which is an improvement in terms of investor concerns, but it needs to fall considerably further to reverse its shock effect on stock markets and GDP growth. [Western bank indices](#) have bounced sharply after clear evidence of capitulation selling in the west, which is a recent improvement, but will need to demonstrate further evidence that the overall trend is reversing. Bank indices in other regions have often fared considerably better in recent months, not least in [Japan](#). Central banks are still hawkish on inflation although there is some tentative evidence of a softening in this stance. The [Wall Street](#) leash effect had been very negative before providing some respite commencing last week, although it hit a speed bump today as the rally reached initial resistance from the January and March lows.

Net it all out and we have some improvement. However to revive animal spirits among bulls, the technical rallies which commenced last week will have to be larger and more durable than what we saw following the January and March lows.

Returning to Asian stock market indices, [Indonesia](#), [South Korea](#) and [Taiwan](#) need to extend current rallies, to demonstrate failed breaks beneath their March lows. Also, an upside breakout by [China](#) from its current range, which now looks possible, would introduce a positive leash effect from the region's largest country.

Asia's best performers, in terms of remaining above their March lows, are Hong Kong ([HSI](#) and [H-Shares](#)), [Japan](#) and [Singapore](#). They need to hold above this month's lows to provide continued evidence of base formation development.

Email of the day (2) - On 'Anatomy of the Bear':

"I am currently reading 'Anatomy of the Bear' by Russell Napier, which analyses the characteristics of the four large bear market bottoms of the past century, in 1921, 1932, 1949 and 1982. It's a dense read but repays the effort. However for subscribers with less reading time than I have, I noticed today that John Auther's published a neat summary in the [FT on July 11](#).

"Here is his summary of the conclusions contained in Russell Napier's book. I would appreciate your comment on this vis a vis where we are in this bear market, and in particular for investment in Fullermoney themes which strongly reflect those of my own portfolio."

"But two things are clear. First, bear markets are bad for your wealth. Once a big secular bear market is under way it generally lasts a decade and no asset class performs very well. Second, if you buy at the bottom, you make fantastic sums. There is no better time to buy. It is dangerous to leave stocks altogether.

Since 1900, there have been only four secular bear market bottoms: in 1921, 1932, 1949 and 1982.

"Anatomy of the Bear", a book by Russell Napier that was published three years ago, deserves another read. He looked for common factors in those inflection points for US stocks.

Four is not a big enough sample for firm conclusions, but he did find a number of factors in common. None is now present.

According to Napier, bear markets bottom when there is a recession; when there has been recent extreme disturbance to price levels, and when commodity prices are stabilising.

The developed world is only at the start of what looks set to be a recession (Friday's US economic data showed continued resilience); we are in a debate over whether inflation or deflation is the greater risk and, of course, commodity prices are not stable. Oil on Friday hit a new record.

More technically, Napier found that stock recoveries coincide with economic recoveries (still far in the future) and that recovery for the auto sector is a good leading indicator. Shares in carmakers are in freefall, so once more, summer 2008 looks nothing like a bear market bottom. The bottom is preceded by a period when the market falls on low trading volume and rises on high volumes. Rather than a final "capitulation" which

Napier finds to be a myth (although, short and sharp "cub markets" can end this way), a bear market instead ends when investors simply lose interest.

This is nothing like recent huge falls on record volume.

As for valuation, cyclically adjusted price/earnings ratios need to be far below their long-term trend. They are above it."

My comment - Thanks for the summary and the article, for which I have provided a link above.

To the extent that bear market cycles rhyme, the current one reminds me more of 1973-1974, not least because of the oil spike and western banking crisis.

Also, we should not expect many people to identify the bottom of a bear trend as it is reached, since we know from previous extreme moves that most people are bearish at important lows, not least because they have sold. Conversely, we know that most people are bullish at a top because they are long and often leveraged.

Important market peaks and troughs are overshoots, so the best evidence of trend endings are likely to be technical factors. You will find that I have discussed this in some detail in the items above.

Additional Commentary by Eoin Treacy

Goldman Lowers Target for Australia's Benchmark Index - [This article by Shani Raja for Bloomberg](#) covers the rotation now taking place in Australian stocks. Here it is in full:

Goldman Sachs Group Inc. lowered its forecast for Australia's benchmark stock index by about 6 percent as a slowing global economy crimps demand for resources.

The S&P/ASX 200 Index will finish the year around 5,600, compared with an earlier estimate of 5,925, Melbourne-based Goldman analysts led by Chris Pidcock said in a strategy note published today. The lowered forecast reflects a higher risk premium for resources and industrial stocks, they said.

“Resources are at risk of underperforming in the short term on sentiment shifts around a slowing global economy and the potential impact on China,” the strategists wrote. “Resources will struggle over the next three months.”

The World Bank said last month that global economic growth will probably slow to 2.7 percent this year from 3.7 percent in 2007, amid spiraling food and fuel costs and mounting losses tied to credit-market investments. A measure of material stocks on the benchmark has dropped 21 percent from a record on May 19.

My view - Prior to the financial crisis, Australia's stock market was dominated by the banking sector and it remains the largest sector in the S&P/ASX 200 today. This heavy weighting of financials was at least part of the reason why the [ASX](#) performed worse than other resources markets. The S&P/ASX 300 [Resources](#) Index performed much more in line with markets such as Canada, Brazil and Russia during the recent persistent decline in global stock markets when resources markets outperformed.

Considering that oil has now entered a medium-term correction and a number of other commodities have fallen in sympathy with it, there is a strong likelihood that resources related markets have given up their position of global leadership for the medium term. These ratios of the S&P/ASX 300 Resources Index against the [S&P/ASX 200 Banks Index](#) and the [S&P/ASX 300 Financials Index](#) shows that Resources broke upwards against financials more than a year ago and outperformed in spectacular fashion before peaking in June. This week, the correction has taken out the higher lows and appears to be a clear break of trend. To question this view, the ratios would need to sustain moves to new high ground.

Considering that the [Financials](#) are still the largest weighting in the [S&P/ASX 200](#) and bearing in mind that the Index has bounced well in the last week, the upside can be given the benefit of the doubt as long it holds above 4800.

India May Lift Foreign Restrictions on Banks, Chidambaram Says - [This article](#) by Paul Gordon and Cherian Thomas for Bloomberg covers recent political developments in India, which could have a significant impact on investment potential. Here is a section:

India's government, fresh from surviving a confidence vote this week, will push to lift restrictions on overseas investors controlling privately-run banks, Finance Minister Palaniappan Chidambaram said.

Stalled legislation removing a 10 percent cap on foreigners' voting rights in banks may be revived before laws on pensions and insurance when parliament convenes next month, Chidambaram said.

"Bills in advanced stages of consideration will be taken up first," Chidambaram said in a telephone interview from New Delhi. "We seem to have acquired the political space to take the liberalization process forward."

The banking index tracking 17 lenders is set for its biggest weekly gain after Prime Minister Manmohan Singh remained in power with support from new allies who replaced communists opposed to foreign investment. The bill would give ING Groep NV, the largest Dutch financial services company, more control over Bangalore-based ING Vysya Bank Ltd. with its 44 percent stake.

"There is likelihood of further reforms," said Tushar Poddar, a Mumbai-based economist at Goldman Sachs Group Inc.

"Given the limited time at the government's disposal, and the motley group of new allies, reforms are by no means certain."

Manmohan Singh's five-year tenure comes to an end in May.

Amar Singh, whose Samajwadi Party replaced the communists as the government's main ally, said on July 10 he may back legislation easing curbs on foreign companies seeking to expand in insurance, pensions and banking.

Removing Cap

The bill to remove a 10 percent cap on the voting rights of foreign investors in non-state banks is pending in parliament while a parliamentary committee is considering the bill to open the pensions business to overseas investors, Chidambaram said.

The draft bill to raise the foreign investment ceiling for insurers to 49 percent from 26 percent is with the government, he said. The banking and pension bills have been languishing in parliament for three years and the finance minister announced the insurance measures in 2006.

"All three are on the agenda of the ministry of finance,"

Chidambaram said. "We are looking into various aspects of the foreign direct investment regime, trying to see whether further liberalization is possible."

New York-based American International Group Inc., the world's largest insurer by assets, New York Life Insurance Co. and Prudential Plc, based in London, are among insurers that are restricted to 26 percent stakes in their ventures in India.

Reviving the reforms may entice Lloyd's of London, the world's largest insurance market, to scale up its operations in India, where it writes about \$400 million of business, spokeswoman Louise Shield said July 10.

Greater Role

Manmohan Singh's plans to give overseas companies a greater role in India's financial industry were blocked by his erstwhile communist partners, who this month withdrew support over the nuclear accord with the U.S.

Singh got 275 votes in his favor and 256 against in the confidence vote in the 541-member lower house, a margin that will force Chidambaram to secure backing from opposition parties to ensure the government's pending legislation is approved.

My view - Rapid economic development has proven to be the fastest way to lift large numbers of people out of poverty. This has been demonstrated time and again in the Asian region as well as across the globe. India has developed to an extent that its financial system needs to expand and evolve in order to create the liquid capital markets needed to fuel continued economic growth. Fullermoney has not been alone in calling for greater liberalization of the economy and investment in crucial infrastructure.

If Mr. Chidambaram is successful in pushing through increased liberalization of the financial industry, this will be viewed as a positive event by investors and is likely to be a tailwind for the stock market. The Indian banking sector led the move on the downside, regardless of the fact that it has little or no exposure to the US subprime market. Their problem stemmed more from a drying up of liquidity, shared by a host of other banks in the Asian region.

If investors are now more inclined to invest in India, then the banking sector could be one of the better performers domestically but also compared to its international peers. (Also see Comment of the Day on [July 22nd](#))

Deutsche Bank Research: South Korea - Thanks to Deutsche Bank for this [report](#) by Syetarn Hansakul covering the macro economic outlook for South Korea. Here is a section:

We find the push to promote the financial industry in South Korea encouraging, particularly the Capital Market Consolidation Act, which was passed in July 2007 and will be fully implemented in January 2009. Under the Act, barriers between different businesses providing financial services are relaxed, which should help consolidate the sector and ultimately create a stronger and more efficient industry with higher capability to support the investment needs of the corporate sector (see text box on p. 5).

Moreover, the pursuit of the Free Trade Agreement (FTA) with the US (yet to be ratified by the National Assembly) and the EU is expected to facilitate market access for Korean manufacturers and services providers to the world's richest and largest markets with obvious positive implications for investment prospects for South Korean firms. South Korea has also signed FTAs with Chile, Singapore and ASEAN. FTAs with China and Japan are under consideration (see text box on the left).

FDI inflows averaged USD 11.3 bn annually between 1998 and 2007. In 2007, FDI of USD 10.5 bn was recorded, equivalent to around 1% of GDP. The major sources of FDI in 2007 were the key European countries¹⁴ (30%), the US (22%) and Japan (9%). The US has been a major source of FDI for decades, accounting for around 34% in the 1980s and 32% in the 1990s. Key European countries have seen their share of FDI rise from an average of 13% in the 1980s to around 30% currently. Japan's role as a major FDI source has declined. It used to account for 43% of FDI inflows into South Korea in the 1980s, but its share has fallen to around 10%. While FDI inflows are substantial, they have been stable, showing neither a strong increase nor a decline over the past 10 years. This reflects to a certain extent South Korea's success in attracting continued interest from foreign investors, but maintaining the status quo may not be sufficient as the global competition for foreign investment is intensifying.

All in all, there is a strong recognition in South Korea that investment policies need to be adapted from the past interventionist pattern of resource allocation, which led to the chaebols' success. The attitude toward foreign investment and international trade, though improved and generally more liberal, has suffered occasional setbacks. At times, the signals to foreign investors have been mixed. Among some positive trends, the efforts to improve the investment environment have now been extended to reach out to sectors not prioritised in the restructuring that took place after the financial crisis. A lot of work needs to be done with regard to boosting the productivity and potential of the SMEs and the services sector. If South Korea continues to build upon these efforts, it could at least sustain and may even increase the current investment ratio in the medium term.

My view - South Korea has the advantages of a large well educated population and has a number of globally significant, household name companies. The potential upside from the ratification of the USA Free Trade Agreement has probably already been priced into the market, but other such treaties with the EU, Japan and China could also be net positives. However South Korea is competing in a highly competitive environment in a region where countries with large Chinese communities are forging increasingly important alliances. What do the charts tell us?

The South Korean market broke upwards from a [16-year consolidation](#) in 2005 and more than doubled in the following three-years. The market is now in a corrective phase following the fall from the accelerated peak above 2000. The Kospi fell below the January / March [lows](#) earlier this month but steadied close to those levels and rallied back above 1550 this week. A sustained move below 1500 would be needed to question scope for further higher to

lateral ranging, while a sustained move back above [2000](#) would be needed to reaffirm the medium-term uptrend.

Eoin's personal portfolio: natural gas long opened - [Natural gas](#) has been aggressively sold this month, losing more than 35% from the July 2nd high to today's lows. This move is looking increasingly overstretched and I opened a long this afternoon paying \$9.254 for the August contract. In view of the fact that this is a somewhat risky speculation, I have also placed a linked stop on the position below today's lows.

Today's interesting charts - Did you know that it is possible to customize and save your settings using the Charting Tool in the Chart Library?

Shanghai A-Shares - [pressuring](#) the upper side of the short-term consolidation and would need to sustain a move to new lows to question potential for further higher to lateral ranging.

New Zealand - rally [breaks](#) the short-term downtrend and the upside can be given the benefit of the doubt over the coming weeks, provided it can sustain the move above 3000.

Philippines - has now posted the first [higher low](#) and higher high since October. A sustained move below 2400 would be needed to question scope for some further upside.

Friday 25th July 2008

Pring Turner Capital Group: Time To Be Optimistic - [My thanks to a subscriber for this important report](#). Here is the opening:

Yes, the financial news gets worse every day. Yes, the average stock is down more than 25% over the past thirteen months. Yes, the housing market is still reeling and foreclosure activity is rising. Yes, the price of gas is skyrocketing. And yes, this too will pass, and the economy and stock market will begin a new expansion and sustainable bull market, as all business cycles have. Over our several decades of investment management experience, we have witnessed many business cycle recessions and stock market declines. They all have one thing in common. In the midst of the most negative financial news, the stock market (fulfilling its role as an accurate leading economic indicator) begins to move higher in anticipation of the next economic recovery. We believe the market has more than discounted all the bad news out there and is putting the finishing touches on the bottoming process for stocks. Yes, a significant advance is set to begin that will take stocks much higher in the year ahead.

Considering all the negative financial headlines, is it any wonder investor psychology has reached a gloomy extreme? Legendary value investor and philanthropist Sir John Templeton made a career (and fortune) taking

advantage of bargains that showed up during recessionary periods and bear markets. His foremost investment discipline was geared to wait patiently for stock prices to "reach the point of maximum pessimism" and then he invested. It is somewhat ironic that this pioneer of value investing, who began his career in the 1930's, would pass away this month at the age of 95, just when the markets have hit an emotional low point. We know Sir John would be buying stocks during today's financial turmoil. Investor psychology has reached that pessimistic extreme and conversely sets up the year ahead to be a very profitable one. In the remainder of this newsletter, we expand on four potent reasons to support our forward-looking optimism.

My view - This reports shows the diligent research and prescient analysis of my old friend Martin Pring, who I note will also be speaking at the [Contrary Opinion Forum](#) in October. Readers considering this event may be interested in this much earlier report from [Time Magazine](#) in 1983.

I think subscribers will be very interested in the informative graphs and table on Bear / Bull Stock Market Cycles in this report.

If you have been following Comment of the Day and our Audios, you will know that Fullermoney agrees with the Pring Turner report.

Email of the day - [On Peak Oil](#):

"Hope all is well.

"I know you don't share my view about "Peak Oil" but if I am right in my view that the global supply of oil can't increase much from 85 mb/day and is in fact likely to fall in the years ahead, then I am afraid, the global economy will also contract. The boom of the past 35 years (since gold was removed from the monetary system) was built on easy money and cheap oil. Well, both conditions are now over. The massive boom in the world was brought about by an ever increasing supply of oil - if you superimpose the chart of world GDP and oil consumption, you'll see a direct correlation. Now, if Peak Oil nuts like me are right and if in fact, global consumption of oil declines due to supply shortfalls, then there is no way global GDP will expand (BRIC included) UNTIL we find another source of viable energy to replace our dependence on oil. I am afraid, we have left it too late and there is no other alternative. I am hopeful some genius will find a solution to this historic problem but time is running out. If oil drops to \$100-\$100 per barrel, I am going to load up the proverbial truck because I am convinced that unless we find a lot of easy oil quickly, prices may eventually go past \$250-300 per barrel. I know people believe that high prices will cause demand destruction so prices may never rise to \$300 - but if Peak Oil is real and the global supply of oil indeed falls by 3-4% every single year due to depletion, then global supply of 85 mb/day will drop to 75mb/day by 2013-2014 - you can imagine what will happen to the oil price when supply falls by roughly 10 million barrels per day! Needless to say, we can't consume more than we can produce so demand will also have to forcibly drop by 10 mb/day - so not everyone will get oil and the global economy will SHRINK."

My view - Thanks for an interesting assessment of what is probably the most important fundamental consideration, today and probably for a number of years - the cost of energy. Fullermoney has been discussing the possibility of Peak Oil for several years (*readers interested in reports and comments on this subject can find it easily in the Archives, by using the Search facility upper left*). We do think peak conventional oil is a real prospect, and that the cost of crude is in a secular uptrend.

However, price spikes such as we saw recently have always resulted in peak demand, until the cost of oil falls back to a more affordable level.

Another medium-term correction has commenced and it may be lengthy, as we have seen with other commodities.

If crude production falls from 85/86 mb/day to 75mb/day by 2013-2014, as the email above forecasts, then the global economy will be in much more serious trouble than we see today. My own guess, and we are all guessing, is that the forecast is too pessimistic in its time frame.

Long-term forecasts are extremely difficult and therefore often wrong, not least concerning oil, as veteran subscribers over the age of 50 will recall. That does not mean that we should not attempt them, because we do need to think and plan ahead. Most of us will agree that time is running out for fossil fuels. However, on a needs must basis, I would not underestimate the efforts of inventive genius and technology to address this problem, now that the incentive is no longer in question.

Meanwhile, the price charts ([p&f](#), [monthly](#), [weekly](#) & [daily](#)) will remain our guide, and they indicate that crude oil has peaked, as we have pointed out daily since the 15th of July. I will always tailor my views in line with the price action, but right now I would not be surprised if this turns out to be a lengthy correction for crude oil.

What the SEC Really Did on Short Selling - This is an informative [Opinion column](#) in The Wall Street Journal, written by SEC Chairman Christopher Cox. It may require registration but here is a section:

Already, heeding one important lesson, both the Securities and Exchange Commission and the Fed have strengthened liquidity and capital tests for the firms we regulate. Another central lesson is that financial institutions, which depend on confidence, are uniquely vulnerable to panic fueled by suspect information and market manipulation.

A run on a bank can take hold quickly, and can be fatal. In the wake of IndyMac's demise and Bear Stearns's desperate sale to JPMorgan Chase, even far-better capitalized financial firms may be threatened. What's needed now, therefore, is reliable information for investors, and confidence that trading can be conducted without the illegal influence of manipulation that can fuel stampedes.

When an irrational panic is fueled by false rumors that investors believe must be acted on immediately -- lest everyone else get out first -- market integrity is threatened. In such circumstances, it is the job of market cops to provide a measure of confidence that information about public companies is accurate -- and when it is not, to punish those responsible.

Who profits from intentionally false information in the marketplace? Those who are in on the scam and positioned to benefit from the predictable response of people who believe the fraudulent information to be true.

The classic "pump and dump" scheme, in which a stock is inflated through false information and then dumped on unsuspecting investors when the perpetrators flee, is one example of how this works. "Distort and short" is the same thing in reverse.

"Naked" short selling can turbocharge these "distort and short" schemes. In an ordinary short sale, one borrows a stock and sells it, with the understanding that the loan must be repaid by buying the stock in the market (hopefully at a lower price). But in an abusive naked short transaction, the seller doesn't actually borrow the stock, and fails to deliver it to the buyer. For this reason, naked shorting can allow manipulators to force prices down far lower than would be possible in legitimate short-selling conditions.

Last week, in close consultation with the Treasury and the Fed, the SEC issued an order to further the objective of existing commission rules that restrict naked short selling. It applies to precisely those financial firms that the Fed has designated as eligible for access to its liquidity facilities -- and for which the taxpayer could be on the hook.

My view - These changes are inevitable and sensible. No one objects to short selling, which is a legitimate and at times, sensible practice. However if the SEC really wants to stamp out cowboy capitalism, it should admit that it was wrong in removing the uptick rule last autumn, and reinstate it (*see also Tuesday 17th June's more detailed Comment on this [subject](#)*).

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

"It requires very unusual mind to make an analysis of the obvious."
Alfred North Whitehead

Additional Commentary by Eoin Treacy

Russia's RTS Enters Bear Market After Putin Rebukes Mechel - [This article by William Mauldin for Bloomberg covers the RTSI's underperformance over the last few weeks. Here it is in full:](#)

Russia's dollar-denominated RTS Index fell the most in six months, plunging it into a bear market, after Prime Minister Putin said Russia will investigate steelmaker OAO Mechel.

The 50-stock RTS index sank for a fourth day, declining 5.2 percent to 1,960.19 at 2:22 p.m. in Moscow, bringing its decline from a record reached on May 19 to 21 percent. A drop of 20 percent from a peak within a year is the common definition of a bear market.

The Micex lost 5.1 percent to 1,494.11, its lowest since November 2006, and the biggest retreat today among equity markets included in global benchmarks.

Putin rebuked Mechel's billionaire shareholder Igor Zyuzin for not attending a meeting with steelmakers yesterday and said prosecutors will investigate whether Mechel sold raw materials in Russia at twice the level as abroad. The company's American depository receipts fell 38 percent yesterday in New York. Mechel said it would release a statement later today.

“It seems that Russia has decided to control everything with centralized oversight,” said Zina Psiola, who manages \$1.1 billion in Russian equities at Clariden Leu AG in Zurich. “This is the way that Venezuela already took, and we know the outcome:

It's bad for investors and bad for the country.”

Putin is seeking to curb inflation, which quickened to an annual 15.1 percent in June, the most since December 2002. He is also pushing his Cabinet to investigate instances of price collusion among oil refiners and food producers.

Steel Stocks

Stocks of steelmakers and coal producers fell after Putin's comments. OAO Magnitogorsk, Russia's third-biggest steelmaker, lost 2.20 rubles, or 7.9 percent, to 25.80 rubles in Moscow.

OAO Sberbank, Russia's biggest bank, slumped 4.66 rubles, or 6.2 percent, to 71.06 rubles. The bank said net income in the first quarter climbed 16 percent to 31.1 billion rubles (\$1.33 billion), or less than the mean estimate of seven analysts surveyed by Bloomberg News.

OAO Rosneft declined 4.2 percent today to 229.88 rubles, heading for a weekly loss of 9.3 percent. Oil prices have declined 13 percent from their July 3 high.

The RTS climbed as high as 2,487.92 on May 19, after Putin, who became prime minister after Dmitry Medvedev was elected president, said oil producers would get tax breaks.

My view - If Mechel is indeed charging domestic consumers higher prices than those to foreign customers, then the government is more than justified in sanctioning the company for such action. However, if this is simply a ruse by the Kremlin to gain more control over another Russian company, then minority investors are unlikely to greet such action with any enthusiasm.

The [RTSI](#) has been in a volatile uptrend for much of the last 18 months. It has a history of being unable to sustain rallies and the most recent new high was

no exception. The Index has now fallen back to an interesting level and today's action is looking climactic. It needs to hold above 1880 to sustain the progression of rising lows which have been the hallmark of this trend and offset potential for a more prolonged correction.

Resources shares have underperformed of late. Is this a buying opportunity or a break of trend? - Commodities have been stellar performers this year, outperforming in both relative and absolute terms. Countries with high weightings of resources shares have been some of the best performers internationally and commodity funds have seen record inflows. However, in the last few weeks, resources have lost their position as market leaders and have entered corrective phases.

The majority of investors in this arena have been heavily influenced by oil and the regression of that commodity into a medium-term correction has had negative repercussions for many commodity related equities, regardless of their exposure to the oil price.

Russia profiled above has, of late, been one of the worst performing resources related markets. However, significant draw downs have also been witnessed in [Norway](#), [Brazil](#), [Canada](#), [Mexico](#), [Argentina](#), [Peru](#), [Australia](#) and [South Africa](#). Commodities such as [natural gas](#), [sugar](#), and [corn](#) among others have also experienced selling pressure. Shares in a host of commodity companies have also come under fire.

While we remain long-term bulls of the commodity sector, the fact remains that the energy complex has entered a medium-term correction, Industrial metals are clearly out of fashion and food related commodities have fallen back from their highs.

We define a medium-term correction as anything from a few months to seldom more than two years. While many commodity related shares have fallen back towards interesting levels, there is now a strong possibility that they will underperform relative to their broader markets over the medium-term. We have long held that these shares are best bought following corrections and this is unlikely to be any different on this occasion. The more prudent investor will wait until they begin finding support relative to the wider market before committing cash in this environment. Keeping an eye on how the oil price is doing will be key to this timing.

In any recovery of commodity shares, some will do better than others. Of the many commodities we follow, there are only two which are now showing signs that they continue to attract investor interest. Neither is exchange traded and they offer very different prospects. These are [potash](#) and [uranium](#).

Potash continues to hit new highs in a remarkably consistent uptrend. However, potash related equities have lost their consistency. [Potash Corp of Saskatchewan](#) has been one of the best performing shares on the TSX over the last year. However, this is the first time it has been unable to sustain an upward break, it has pulled significantly back into the previous trading range

and broken the MDL stop. This is also a larger reaction and from a higher level than any to date. Taking these considerations into account, the risk premium for potash related equities has risen considerably, even though the price of potash itself remains elevated. It needs to sustain a move to new high ground to reaffirm its uptrend.

Uranium is a different story. The metal has found support, following an almost 60% drawdown and has rallied every week this month. Moves in the uranium price tend to be linear and we can assume that the metal has bottomed unless proven otherwise. Uranium equities such as [Cameco](#) and [Denison Mines](#) have come under some rather significant selling pressure over the last few weeks, succumbing to contagion selling from other energy related equities. However, in my opinion, with uranium price recovering value is accruing in these shares as their prices fall. There is a good chance they will rally faster than other resources shares, whenever the commodity sector comes back into fashion, provided the uranium price continues to improve.

Incidentally, the best performing major uranium share continues to be, Rio Tinto owned, [Energy Resources of Australia](#). It remains in a medium-term uptrend and while it recently encountered resistance near AU\$25, A sustained move below AU\$20 would be needed to question potential for an upward break.

Email of the day (1) - on oil sector indices:

"If you look at a weekly chart of the XOI in the US it is just above where it was in 2006 mid year. The Canadian oil index is back to where it was at the beginning of 2006. It is possible the stocks consolidated for two years. spiked up and are now pulling back getting ready to follow New York up? New York turned up March 10th, the Canadian Resources turned up the 20th."

My comment - Profiting from oil's advance through equities has been a challenging proposition because investors automatically gravitate towards the biggest oil companies and these have not performed in line with the oil price. This can be explained by the fact that they are not replacing their reserves as quickly as they are being depleting, they are losing resources due to nationalizations and many have written contracts where they have to pay higher royalties to host countries when oil moves above a certain level. The better performers have been smaller producers, more leveraged to the price of oil, with assets in politically secure parts of the world. The services and drilling sector has also done very well.

The [Amex Oil Index](#) began to rally from the lower side of its year-long range in March and moved to a marginal new high which it was unable to hold. This has occurred on two separate occasions since July 2007. It has since given up the entire advance and is now looking overstretched as it tests the lower side of its range, near 1200. It needs to hold above that level to indicate that interest is returning.

The [S&P TSX Energy](#) Index broke upwards from a more than two-year consolidation in March and rallied to in excess of 4000. It has since given up the entire advance and is looking somewhat overstretched as it tests the upper side of the range. A sustained move above 3500 is needed to question scope for some further downside.

With both of these indices, I am reluctant to believe that they will rally significantly while oil is in a corrective phase, although a short-term technical rally in [oil](#) could be broadly supportive.

Email of the day (2) - on The Chart Seminar:

"Hello. I was interested to see one subscriber's concern regarding the Chart Seminar possibly being pitched to "professionals" and not necessarily to individual investors. I'll point out that I attended TCS in 1990 and there were 85 attendees in total, and only about a half dozen were not associated with any firm, and I'll admit I felt a little out of place.

"The seminar is so fascinating that after about 60 seconds I was so absorbed that who the others were and where they were from made no difference whatsoever. Go and learn and enjoy."

My comment - Thank you for this generous testimonial. The number of delegates is capped at 50 these days, in order to preserve the workshop environment, Much of what I know about trading and investor psychology I learned under David's tutelage especially at The Chart Seminar. I am delighted to have the opportunity to continue this learning experience through teaching The Chart Seminar and foresee doing so for decades to come.

The November seminar is now half full. For those interested in attending, an early booking rate is available at £875 + VAT for those who book and pay before September 30th.

Eoin's personal portfolio: Nikkei long stopped out a profit and half my Nifty long stopped out at a loss - My Nikkei long was stopped out last night at 14355 against my purchase at 14205 on July 22nd. I was also stopped out of half of my Nifty long at 4349 against my purchase at 4446. This was substantially below the stop I had placed on this position but, unfortunately, the market gapped down to that level before recovering somewhat during the course of the day.

I also removed the stops I had placed on my Irish Top-20 Tracker because when I logged into my account I saw that the market had gone through the stop but it had not been triggered. The position is small enough that I am willing to sit with it a while longer, in the hope that my belief it will recover somewhat is proved correct.

Email of the day (3) - on the Irish market:

"Do you have any thoughts on the Irish market?"

"Inflation is running high, real assets are deflating (both property and stocks). Confidence in general has been lost in the Government; The PMI index is very low. Retail sales and exports are slowing. The euro is strong against Sterling and USD, & interest rates have been going in the wrong direction for most people liking..."

"Nobody wanted the property market and the house of cards that came with it to collapse. There were many stakeholders involved in the game. (Developers, banks, real-estate agents, the government, and even long term house owners) who all cheered as the property market went from strength to strength. The old cliché 'it's different this time' was widely commented in the past number of years.

"The stock market has also taken a far hammering in the last 12 months, perhaps unduly so. The banks don't seem to be overly exposed to sub-prime, but does it matter. Perception is everything & sub-prime contagion took hold and the big players took all their money away..."

"The dreaded "R" word is being bantered about and the banks have pulled up the draw bridge on credit for the foreseeable future. Many young Irish people have a 'tight' rope around their neck for the next 30 years with large mortgages..."

"& then there was the Lisbon treaty just gone. Two fingers towards Europe means Ireland's name will be scratched off its list of favourites. "Please sir can we have some more" might well be ignored next time.

"Of course a new house of cards will be built in time; isn't it always! But with the lack of Cash, Confidence and Credit (founding pillars of any new house of cards, ones even with solid foundations) the government seems a bit stumped as to what's next..."

My comment - Thank you for this interesting email encapsulating the bearish argument for the Irish market. Contrary to what many commentators believe, exposure to the subprime issue has little to do with the difficulties experienced by the Irish banks and wider economy. A drying up of liquidity globally resulting from the subprime debacle, which has affected just about every bank, coinciding with a peak in domestic property prices has more to do with the current malaise. Most of the growth in the Irish economy came from the construction sector, over the last few years, so with that sector now in recession, the wider economy is feeling the pinch.

Judging from the performance of the [ISEQ](#), most of this bad news has already been priced in. There remains the possibility that more bad news will cause stocks to fall further and the property market is unlikely to recover to the dizzy heights of 2006 anytime soon, however, valuations have contracted considerably in the last year and Ireland is now one of the cheapest markets in the world in terms of trailing P/Es.

The speed and size of the descent suggests that a potentially lengthy period of support building is needed before the Irish market can sustain anything more than a technical rally. I am betting with my position in the Irish Top-20 tracker that we are in the early stages of such a rally and the ISEQ would need to sustain a move below the recent lows at 4300 to question scope for some further upside.

Hydrogen fuel stations - Thank to a subscriber for this a link to this interesting [site](#) which contains a wealth of information on hydrogen technology. Here is a section on Home Hydrogen Fueling Stations:

Imagine in the future, driving your hydrogen car into your garage and gassing it up with your very own home hydrogen fueling station. Sounds pretty out there, doesn't it? But, as far off as it sounds, there are people right now working to make this concept a reality.

Take for instance Honda Motor Company, which has developed the Home Energy Station III that not only refuels a hydrogen car such as the Honda FCX, but it can also power a home as well. The Home Energy Station III uses natural gas and an onboard reformer to separate out the hydrogen for refueling the car. In order to create energy, it runs the hydrogen through a fuel cell and can thus generate power for a home as well.

In November 2007, Honda announced its new Home Energy Station IV that uses steam reforming of natural gas to derive hydrogen from both the steam and natural gas in equal parts. The Home Energy Station IV is 75-percent smaller than older units and provides hydrogen for a car as well as heat and electricity for the home.

The home refueling station is being tested at the Honda R&D Americas facility in Torrance, California. Honda is stating that the Home Energy Station IV will reduce CO2 emissions by 30-percent and energy costs by 50-percent compared to an average home that is on the grid and uses a gasoline-powered car.

General Motors has announced that they are developing a home hydrogen fueling station for use with their line of Equinox Fuel Cell vehicles that they will begin rolling out in limited numbers in 2007. The General Motors hydrogen generator will be able to run on either solar energy or electricity.

In 2008, British firm ITM Power announced that they were building a home hydrogen fueling station that would be available by the end of the year. This H2 refueling station uses an inexpensive plastic membrane and electrolyzes water to produce the hydrogen. Through economies of scale the price of this unit could drop as low as \$4,000.

Hydrogenics (formerly Stuart Energy) also has developed a home hydrogen fueling station called the HomeFueller that is based upon the larger HyStat-A Energy Station. The HomeFueller uses electricity to electrolyze water, generating hydrogen for refueling cars. The HomeFueller may also be hooked

into a wind energy or solar power for a home hydrogen fueling station based upon renewable energy resources.

My view - Personally, I find this technology fascinating and look forward to when I can install one of these systems in my home.

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