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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 8th December 2008

David Smith: Crude's collapse oiled the Bank's wheels - [This excellent column](#) (also in [PDF](#) in case link is withdrawn) appeared in yesterday's Sunday Times. [Here is the opening:](#)

Another week, another point off Bank rate, coupled with a 0.75 point cut by the European Central Bank. The dive in official interest rates towards zero is an extraordinary facet of an extraordinary time.

After a cascade of bad news, notably very weak purchasing managers' surveys for manufacturing, construction and services, the Bank had no option but to go for another cut that only a few weeks ago would have been regarded as unthinkable.

Activity is sliding fast everywhere, and certainly in all advanced economies. The OECD reckons the fourth quarter will see the biggest gross-domestic-product declines in this recession (Britain contracted by 0.5% in the third) and it feels that way. Much depends on when policy actions, including aggressive rate cuts, start to have an impact.

Members of the Bank's monetary policy committee (MPC), having taken these dramatic steps, are feeling a bit misunderstood. They think people do not appreciate the pressures they were under until recently to balance rising inflation - and people's heightened expectations of future inflation - and recession.

And, while I would have liked to see them cut aggressively much sooner, they have a point. In August, before the near-meltdown in the global banking system that started with Lehman Brothers' bankruptcy in mid-September, only two forecasters out of 44 monitored by the Treasury were predicting outright recession in 2009. They were Standard Chartered and Peter Warburton's Economic Perspectives.

The consensus among forecasters was that Bank rate would remain at 5% until the end of the year, falling only gradually to 4.25% by the end of 2009. Inflation would remain above the 2% target throughout. Things have changed, and they have changed dramatically.

We know about the damage this most deadly phase of the financial crisis has

inflicted on growth and confidence. It has also transformed inflation prospects, and one useful measure of this is the oil price. In August, economists expected the price to average \$115 a barrel in 2009. It had come down from its July record of \$147 but most did not expect it to come down much more. Last week Brent crude dropped below \$40, a figure that seems strangely familiar.

The oil price and I go back a long way. Having repeatedly said the price rise was a spike, significantly driven by speculation, I found myself at odds with many apparent experts and many readers.

T Boone Pickens, the legendary US energy investor, said oil would never again go below \$100 a barrel and his view was echoed by many lesser lights. Some journalists went out of their way to deny a speculative element in the spike, even as some investment banks continued to pump up the oil story and funds poured into commodity-index futures. Arjun Murti, Goldman Sachs's energy strategist, said the price could reach \$200 in the second half of this year and plenty of rival banks pushed the rising oil story. Jeff Rubin, chief economist at CIBC World Markets, was also a \$200 man.

Peak-oil enthusiasts explained every price rise as further evidence that global production had reached its maximum. Weekly rags spouted "sell your house, buy commodities" nonsense. I hope nobody did.

The more the financial crisis dragged on, at least until the September-October tumult, the more oil bulls became certain the price of crude would continue to rise. That seemed illogical to me. Even before the latest banking troubles the world economy was heading into a period of slower growth and restricted oil demand.

That did not stop the vested interests, like Chakib Khelil, the Opec president, who predicted a rise to \$170 this year, or Alexei Miller, chief executive of Gazprom, who summoned journalists to an awayday in Deauville to say the price would hit \$250 "in the foreseeable future".

We have to be thankful they were wrong, though not before such views, in helping to drive the oil price higher, did a lot of damage. The scale of the market turbulence and intense banking strains of recent weeks took everybody by surprise and hastened the fall in the oil price because some investors were forced to unwind their speculative positions. But its main effect was to bring forward the inevitable.

In the short term, then, this is unalloyed good news. The full-year effect of a sustained oil drop from nearly \$150 to \$40 a barrel is, according to Mark Cliffe, global head of financial-market research at ING, a \$2,700 billion transfer from producing to consuming countries. This is a tax cut much bigger than the one western governments are implementing.

More directly, the oil fall has liberated the Bank, and other central banks, in spectacular fashion. The mainstream view now is that retail-price inflation will go negative during 2009 and consumer-price inflation will skate close to zero.

Will it go below zero and, in a recessionary environment, usher in a long and potentially devastating period of deflation - a falling price level? The danger of that is not that people delay purchases in anticipation of further price falls; that is an everyday story on the high street. It is that debt, already at high levels, becomes even more burdensome by rising in real terms.

My view - Arguably, there was more speculative participation in the [crude oil](#) market up until the trend peaked so decisively in July, than for any other single instrument in history. NYME data will not confirm this but we have to remember that oil is also traded on many other exchanges in various financial centres.

Behaviourists will recognise that forecasts of \$200 for a barrel of crude by yearend 2008 were a contrary indicator. In other words, bull talk in a very crowded trade. Similarly, last week's forecast of \$25 will most likely prove to be a contrary indicator as well, although there are far fewer short positions today than there were longs in July.

The International Energy Agency's Executive Summary, posted here on [27th November](#), provides plenty of reasons why crude oil prices may not remain depressed for a lengthy period, as we saw following previous recessions, even though this economic downturn is particularly severe, at least among OECD countries.

I would not be surprised if the low for crude oil in this cycle coincided approximately with a peak for the [US Dollar Index](#). This latter prospect may now be unfolding and would look increasingly likely on a clear break beneath last month's low just below 85. Conversely a sustained break above 88.50 is now required to reaffirm the uptrend which commenced in July.

I maintain that a weaker dollar and yen would signal waning downward pressure from global deleveraging. Consequently it would be bullish for commodity prices, not least precious metals. It could also usher in a steadier period for most stock markets.

Email of the day - [On gold in various currencies](#):

"In David's audio today [*Ed: Friday*] he mentions the likelihood of PM's appreciation vs USD. The USD has to tank if it has more printing presses than most other countries combined, surely?!"

"So whilst gold ultimately appreciates against the USD the question then becomes how good an investment will gold be in other currencies. I suspect that when the USD has its logical decline it will be more pronounced against resource currencies. This could result in a gold appreciation in USD but little to no appreciation in resource based currencies. I'd appreciate your more enlightened thoughts on this argument."

"In regard to current markets I am reminded of Newton's 1st law of motion (or Galileo's concept of inertia), i.e. Every object in a state of uniform motion tends to remain in that state of motion unless an external force is applied to it. Let's hope that the CB's efforts to reflate will be the external force that reverses the current inertia down.

"To David, Eoin and all those who contribute to this great site can I extend my best wishes for a Christmas filled with joy and a New Year filled with prosperity."

My comment - Thank you for some interesting points, and your thoughtful good wishes, which we return in kind.

The US is certainly printing; it needs a weaker currency over the medium to longer term, and long US dollars and yen are currently crowded trades. However failure to weaken would suggest that global deleveraging was continuing.

I think the answer to your question on gold's performance in resources currencies, once the USD weakens, depends on the strength of global sentiment towards the yellow metal. This is seldom constant for long but since we live in a fiat currency world, and no country wants a strong currency, I maintain that gold has more upside than downside potential.

That said, it is often volatile and the market is likely to be "surprised" by IMF sales at some point. For these reasons, we maintain that precious metals are best purchased following setbacks. It is also a good idea to lighten positions, or at least use trailing stops, when the PMs accelerates higher.

My personal account: Gold long opened - With the US Dollar Index looking topy, I decided to buy some [gold](#) this afternoon, as it has steadied near \$750, which is also the upper side of the late-October to late-November trading range. I paid \$780.4 for an April position, including spread-bet dealing costs. I have trading longs in [platinum](#) and [silver](#) as well.

Deepak Lalwani's The India Report - Published by Astaire & Partners Limited, this is a good [letter](#) for anyone interested in one of the world's most promising emerging markets. Here is a section on the economy:

While tourism/travel is an obvious victim and will definitely suffer, overall there will be little economic effect from the recent atrocities. War is not currently expected between India and Pakistan and diplomacy is expected to win, with increasing international diplomatic pressure on Pakistan. As Bombay returns to business as usual the focus reverts to economic fundamentals. So, what are these? The economy is clearly decelerating but is not in the parlous state of many developed economies. The Indian Rupee has fallen 21% this year vs the US\$, the most since 1991. Despite this, exports shrank in October by an annualised 12.1%, the first YoY decline in nearly 3 years. Exports recorded their last contraction in November 2005 when they fell 11.4%. Lack of liquidity

and high interest rates are hurting demand in many sectors, especially property and autos. The Government's forecast of 7½-8% GDP growth this year and 9% next year sounds like pre-election talk and too optimistic. We estimate growth at 7.1% this year and a slower 6.2% next year. This is still much higher than in developed markets at or entering recession. India needs economic growth of at least 6% to generate badly needed jobs. Below that level it would be considered to be in "recession". Earnings downgrades across sectors will continue into next year.

My view - Of all the emerging markets, India is probably least dependent on exports. However it is extremely vulnerable to surging prices for industrial commodities, which we saw in 2007 and the first half of 2008. India's much needed infrastructure development program is either a non starter or destined to develop very slowly without comparatively cheap industrial resources, not least regarding energy.

Consequently, on a relative comparison basis, India is arguably better off (perhaps I should say less badly affected) in this extremely difficult economic climate than many other countries, including those of the OECD.

India's political and social problems are myriad, and corruption remains endemic. Nevertheless the fact that its GDP growth has been second only to China's over the last few years is testimony to India's creativity and managerial skills.

Deepak Lalwani forecasts that the Sensex Index ([weekly](#) & [daily](#)) will test 6000-7000 by March 2009. A fall of that additional magnitude could only occur, in my view, if global stock markets broke decisively beneath their October and November lows. This is what most investors currently expect, and they may be right because the overall downtrends remain.

However, stock markets have been shrugging off bad economic news recently and a mean reversion yearend rally appears to be underway. Some share indices show rising lows, including India's Sensex, while others have failed to maintain breaks beneath their October lows. While the recent lows hold, we should not rule out the possibility of a further recovery.

Additionally, it is not inconceivable that a bottoming out and base building process has commenced, in response to the massive stimulus packages, [known](#) and pending. Whatever, I would not be surprised if India is among the leaders of the next sustainable rally.

Tim Price: What a wonderful world - This popular [letter](#), published by PFP Wealth Management, has an interesting section on government securities:

Now that UK base rates are back down to levels last seen during the Festival of Britain, it is becoming increasingly difficult to shelter in cash, as the government's War on Savers moves into full throttle. Gilt yields, similarly, are starting to look eye-wateringly slender; but they could easily become even

flimsier. As James Ferguson, Chief Strategist at Pali International, has observed:

"..all things are not equal.. the experience of systemic banking crises and their attendant recessions suggest that bond demand, from both non-bank investors but especially from the banks, could explode beyond anything seen for decades, completely swamping new supply. Meanwhile, the banks' de-risking of assets will pump powerful deflationary pressures into the real economy."

The idea that banks could comfortably absorb the colossal supply of "new" Gilts is, at first sight, somewhat counter-intuitive - but James makes a convincing case for Gilt bulls. Increased demand for UK government debt will likely come from two specific areas:

"First, a normal rebalancing of portfolio preferences in favour of a heavier weighting in government bonds, as is quite usual in recessions and at other times of increased investor liquidity preference.

"Second, and less obvious, it is a feature of systemic banking crises that banks, once recapitalised by state funds and whilst working to shrink their risk assets, concentrate their efforts particularly on de-risking the profile of their remaining assets."

It is certainly becoming acutely obvious that banks remain unwilling to lend, both to individuals and to corporations. Instead, they may simply elect to park capital in the Gilt market and earn the essentially riskless spread of longer dated Gilt yields over shorter ones. And as James points out, the potential for banks to absorb Gilt supply is startling:

"..a big bank like, say, RBS could potentially soak up this massive excess supply all on its own. RBS has £1.95trn in total assets, of which £728bn is loans.. If we take a muted version of the Indonesian [banking crisis] scenario, within five years it's possible that loans could shrink 20% to £585bn (30% of assets) whilst if Gilt holdings increased to just 15% of total assets (they reached 45% in Indonesia), that would imply demand of £300bn, just from RBS alone: enough to soak up our assumed five-year excess supply of Gilts in its entirety."

Basing an investment thesis on presumptions, albeit well-founded ones, of future buying by third parties is obviously somewhat fraught. Investors seeking quasi-cash alternatives and considering Gilts can comfort themselves that in Japan, a major economy that underwent a property and banking crisis throughout the 1990s, government bond yields fell further than the wildest expectations of the most expectant bulls: 10 year Japanese Government bonds ended up in 2003 yielding just 0.44%.

The world, of course, is not necessarily like Japan. We must at least hope not. But it certainly looks less than wonderful at present. An already astonishing investment environment can be counted upon to throw a few more surprises our way.

My view - James Ferguson's view quoted by Tim Price above is certainly interesting, and music to the ears of those holding long-dated government securities. However if UK Gilts and other OECD long-dated government debt proves to be the best investment over 10 years, then all the stimulus packages will have largely failed. That is not a bet I would care to take, not least as there are more dynamic economies than the UK or USA.

Today's interesting charts - Create you lists of favourites in the Subscriber's customisable Chart Library.

USA (S&P 500) - Pushed above late-November high, indicating a downside failure last month. A close beneath 800 is now required to question current scope for some additional sideways to higher ranging in a process of mean reversion towards the declining MA.

UK (FTSE 100) - Another upward dynamic within range and a close beneath 4000 is required to question current scope for lateral to higher ranging.

Sweden (OMX) - Similar to above, with the downside level to question sideways to higher ranging being 600.

US Dollar Index - Looking top heavy and a close above 88.50 is required reaffirm the upward trend since July and also negate current scope for sideways to lower trading.

AMEX Gold Bugs Index - Steady within upper side of range and a close beneath 190 is required to offset scope for sideways to higher ranging.

Additional Commentary by Eoin Treacy

Cheapest Stocks Since 1995 Show Companies' Cash Exceeds Market - [This article](#) by Michael Tsang and Alexis Xydias for Bloomberg covers some interesting valuations currently evident in global markets. Here is a section:

Stocks have fallen so far that 2,267 companies around the globe are offering profits to investors for free. That's eight times as many as at the end of the last bear market, when the shares rose 115 percent over the next year.

Bank of New York Mellon Corp. in New York, Danieli SpA in Buttrio, Italy and Seoul-based Namyang Dairy Products Co. hold more cash than the value of their stock and debt as the slowing world economy wiped out \$32 trillion in capitalization this year.

Companies in the MSCI World Index trade for an average \$1.17 per dollar of net assets, the lowest since at least 1995, and 39 percent sell at a discount to shareholder equity, data compiled by Bloomberg show.

The cash-rich companies allow investors to pay nothing for future earnings streams, providing opportunities to buyers concerned about deflation,

according to Jean-Marie Eveillard, whose \$16 billion First Eagle Global Fund has beaten 98 percent of competitors this year. Microsoft Corp. and Novo Nordisk A/S, which generate the most money compared with debt, can expand even if lower consumer demand erodes profits.

"Cash is king, not necessarily for the investor but for corporations," Eveillard said in an interview from New York last week. His fund holds both Microsoft and Namyang Dairy. "It's useful to sit on a ton of cash, No. 1 to survive, as opposed to going bankrupt, and No. 2 to seize opportunities either to make acquisitions cheaply or to squeeze competitors."

Falling Prices

Stocks plunged this year after almost \$1 trillion in bank losses and writedowns froze credit markets and pushed the U.S., Europe and Japan into the first simultaneous recessions since World War II. The 40 percent drop in the Standard & Poor's 500 Index is the steepest since 1931, while the MSCI World's 47 percent plummet is the biggest since the gauge started in 1970.

The slump left prices in the global measure at 1.17 times companies' so-called book value, or assets minus liabilities, on Nov. 20, the lowest on record, data compiled by Bloomberg show.

Stagnating growth is heightening the risk of deflation. In the U.S., consumer prices plunged 1 percent in October, the biggest drop since records began in 1947. They may slow next year by the most since 1983, squeezing earnings, according to the International Monetary Fund in Washington.

Businesses with reserves will be cushioned from insolvency and may even benefit from deflation because buying power and the value of dividends increase as prices retreat, said Arlene Rockefeller, chief investment officer for global equities at State Street Global Advisors, which oversees \$1.7 trillion.

Less Than Zero

"You want stocks with good cash flow and are self-funding," Rockefeller said in an interview last week. "This is an opportunity for companies that are large and that do not have a lot of debt to go out and acquire other companies to gain market share."

The firm's SSgA Disciplined Equity Fund held shares of BNY Mellon, the world's largest custodian of financial assets. The bank had \$24 billion in so-called negative enterprise value, or the amount of cash that exceeds the value of its shares and debt.

The stock climbed 24 percent since Nov. 20, when the S&P 500 fell to an 11-year low, outpacing the index's 16 percent gain.

Danieli, Italy's biggest maker of equipment for the steel industry, has \$1.49 billion in cash, or almost 40 percent more than the combined value of its shares and debt after a 73 percent stock plunge this year, Bloomberg data show.

Just 276 companies had cash that exceeded the value of their stock and debt when the S&P 500 bottomed in 2002. Those shares posted a median total return of 115 percent over the next 12 months, according to data compiled by Bloomberg. That's more than triple the return for the S&P 500 during the same span.

My view - I was intrigued by this story when I read it this morning so I contacted the authors to discover what criteria they had used. They were kind enough to share their search criteria with me which was to look for companies with an enterprise value less than zero. According to Bloomberg the definition of enterprise value is:

Enterprise Value. The sum of Market Capitalization, Preferred Equity, and short-and long-term interest-bearing debt, less cash and equivalents. Used as a proxy for the takeover value of a firm. Often used in conjunction with EBITDA (earning before interest, taxes, depreciation & amortization) as an alternative to the P/E ratio.

I am not expert on fundamentals but thought this was a useful measure to determine if a company is relatively cheap. Performing the search on all global equities I came up with the same list of 2267 shares mentioned in the excerpt above. However, many of these shares are quite small companies so I also added in extra filters to narrow the search. The second search looked for companies with an Enterprise value < 0, a market cap > \$100 million and a P/E > 0. This list has 217 companies from a wide number of countries.

Taking the entire list as a whole, banking is by far the most dominant sector. However when we look at individual countries, wide differences emerge. For example, Japan with 36 companies in the list has 20 banks while the USA with 21 listings has 2 banks meeting the criteria. The same pattern can be seen in other countries, The UK has 11 listings and 1 bank, China/Hong Kong has 24 listings and 11 banks and India has 12 listing, 11 of which are banks.

Sentiment towards equity markets remains at rock bottom and investors are justifiably suspicious of the banking sector. However, one is not forced to own US, UK and European banks. If one wants to invest in companies with high levels of cash in growing economies, one could do worse than to look to Asia where banking sectors have been hammered, but do not have same fundamental problems as those in the West.

Some stocks are cheap but many investors will still be asking has the market bottomed? No one can say for certain; but the possibility remains that it has. Today's positive action in Asia and Europe will help to embolden the bulls but volatility remains high and we have yet to see a large enough upside move to shake those short out of what has been a winning strategy. The bottoming out process is still likely to take time.

However, if one is looking to the eventual recovery, then it is time to start thinking about which stocks one wants own and the number of cheap shares has increased considerably in the last few months.

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

"Thank you for your commentaries on Corporate Bonds. High quality Corporate Bond Spreads are probably going to narrow. There is a very good article by Mark Kiesel of PIMCO at their website about this. This is bullish for Corporate Bonds.

"Treasury Bonds, however as you point out are probably near the end of their bull run. This is bearish for Corporate Bonds.

"Rather than buying Corporate Bonds outright, perhaps a better strategy would be to bet that the spreads will narrow (Long Corporates and short Treasuries)

"Is any one in the Fullermoney collective aware of any ETF or ETN that will allow a directional bet on the spread between Corporate and Treasury Bonds."

My comment - [Thank you for this interesting question and article by Mark Kiesel for Pimco. Here is a section](#);

PIMCO's contrarian investment strategy in the credit markets has served our clients well over the past several years. Our historically cautious stance on credit was the result of the combination of our negative cyclical outlook on housing, stocks and employment conditions; our negative secular outlook given the democratization of credit (which we wrote about in U.S. Credit Perspectives: "Credit Innovation and Opportunities" (December 2006)); and poor relative valuations on credit spreads. It turns out that narrow credit spreads, which we wrote about over the past several years, were a rather nasty trick instead of a tasty treat, given the risks at the time.

Now, with credit spreads at all-time wides, we are more positive on credit valuations, simply from the standpoint that investors are finally getting paid now to take selective credit risk. The credit markets today offer some tempting treats, particularly in high-quality mortgages and banks, for investors who can be patient and have a long-term investment horizon. Given large monetary and fiscal stimulus, the U.S. economy will likely avoid a prolonged recession. Nevertheless, the real effects of the credit crunch will be felt throughout the overall economy over the next year, and near-term deleveraging is likely to result in continued near-term negative market technicals.

As we discussed above, the credit markets will likely further differentiate between the winners and losers over the course of the next few quarters. Credit investors, just like those trick-or-treaters on Halloween night, must approach opportunities with a discriminating eye and not always follow the crowd. PIMCO's contrarian approach and high-quality bias in credit portfolios helped avoid many unpleasant tricks, and we are confident this same disciplined approach will uncover many treats in the months and quarters ahead.

I'm afraid, I do not know of an instrument that allows you to take a view on the direction of credit spreads but if any of the Collective have a suggestion, I would be happy to add it to the Chart Library.

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

"Good morning gentlemen, would you please add the following two UK authorised funds to the chart library:

"[Findlay Park](#) American Small Cos GBP (5FPGBP) - last price £15.36

"[Martin Currie](#) North American A (SUNAA) - last price 115.40p"

And

"Can you please add Aussie mineral sands miner Image Resources to your Chart Library? Its ASX code is [IMA](#). Many thanks."

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

[S&P 500](#) and [Dow Jones](#) Industrials Average divergence from their 200-day moving averages - We first posted this indicator on October 10th when the relevant spreadsheet was created for us by a subscriber. The indicator remains at a historically low level but has risen considerably from its early October nadir. This has been achieved by the relevant indices having gone mostly sideways for the last two months. The moving average is now starting to come down towards the price and while it still has a long way to go mean reversion is taking place.

This is not a guarantee that the market will not go lower later but, historically, when the market has diverged from its mean by such a margin, important stock market lows have occurred relatively soon afterwards.

Today's interesting charts - today saw upward dynamics across a range of markets and they can all be monitored in the Chart Library.

China H-Shares - posts the first [higher high](#) in a number of months and would need to sustain a move below 6000 to question potential for some additional upside.

US Dollar per 1 Australian Dollar - breaks [upwards](#) from the short-term range and would need to sustain a move below 0.625¢ to question scope for further upside.

Japanese Yen per 1 Euro - the [Euro](#) finds support in the region of the October lows and would need to sustain a move below 113 to question scope for some additional upside.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of November 30th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, Finland, France, India, Ireland, Israel, South Korea, Portugal, Singapore, the UK and the USA - 11 in total. In descending order, which topped the list in terms of the last week's new signups? It was Ireland, the USA and Australia.

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

Tuesday 9th December 2008

Uptick Rule Debate Continues - [Here is the opening from this article published by Bloomberg](#):

Resurrecting the "uptick rule," the 70-year-old restriction on short sellers, would probably fail to curb bets against equities or damp price swings, according to brokers that trade about 25 percent of U.S. stocks.

Members of Congress, T. Rowe Price Group Inc. and the head of NYSE Euronext blame the Securities and Exchange Commission's 2007 decision to eliminate the regulation for contributing to the worst year for stocks since 1937. New York-based Morgan Stanley, Citigroup Inc. and Lehman Brothers Holdings Inc. blamed short sellers, who profit from declining stock prices, for spreading rumors that drove their shares to their lowest this decade.

Executives at UBS AG, Deutsche Bank AG and Knight Capital Group Inc. say bringing back the rule, which prevented traders from making bets against stocks when they were falling, is unlikely to reduce volatility. Ever since computers started trading millions of shares in seconds and exchanges began quoting stocks in penny increments in 2000, the regulation has become obsolete, they said.

"It was a good rule back when trading was manual, but now that trading is much more automated, I don't see it as a viable solution," said C. Thomas Richardson, global head of transaction services for New York-based brokerage Nyfix Inc.

The guideline barred traders at the New York Stock Exchange from driving down prices by shorting a stock unless its price had increased, or remained unchanged in the preceding trade.

Plunging Stocks

The Standard & Poor's 500 Index tumbled 37 percent since July 6, 2007, when the SEC eliminated the rule, erasing about \$5.7 trillion from the value of stocks in the gauge. Volatility, as measured by the average daily change in the index during the past 50 days, flared to a record 79 percent last week amid the worst financial crisis since the Great Depression.

Policymakers from Washington to London and Tokyo have boosted oversight of short selling, which involves the sale of borrowed shares in the hope of profiting by buying them back later for a lower price.

Five members of the House Financial Services Committee are sponsoring a bill that would force the SEC to reinstate the uptick rule. NYSE Euronext CEO Duncan Niederauer also wants it back, an opinion shared by 85 percent of NYSE-listed companies, according to an October survey commissioned by the exchange.

Reinstating the uptick rule will help restore investor confidence, wrote Charles Schwab, founder of San Francisco-based brokerage Charles Schwab Corp., in an editorial today in the Wall Street Journal.

My view - The most active trading organisations are predominantly against any form of Uptick Rule for short selling. However 85 percent of NYSE-listed companies favour its reintroduction, according to the article above. Interesting.

The Uptick Rule is no panacea. It certainly would not prevent the fundamentally driven bear market that we have experienced, nor should it. However the Uptick Rule was introduced in 1938 to deter pyramid selling. Anything that limits the ability of certain large institutions to game the system by muscling markets is in our collective interests, in my view.

Would we have experienced a more orderly and less volatile bear market if the SEC had not repealed the Uptick Rule on 6th July 2007? We will never know but I suspect so. Here is a suggestion: bring back the Uptick Rule and see what happens.

For more comment on this subject, search the Fullermoney site under Uptick Rule and also Up-tick. You will also find more articles and opinions on this Google [link](#).

Email of the day - [On the overall economic and market situation:](#)

"I admire the consistency of analysis you have employed. The area I do not understand is your over-optimism about China and India; the under-estimation of the general effects of the credit crunch; the actual worldwide level of cash destruction; seen most specifically in what has happened to BlackRock World Mining Trust, Xstrata and Rio Tinto Zinc. I have so wanted to believe that the various stimuli governments have employed would work. But even Bernanke who was first to act has been too late. And in the UK we have been so behind the curve in interest rate reductions that I think here the effects will be much

much slower than even the limited benefits in the US. I used to think that careful printing of money would work (only the US has so far properly actually considered this) because so much money has disappeared. In my own music and video industries the bank/credit crunch and the law of unintended consequences will wreak havoc with the knock-on effects of the end of Woolworth, EUK, Pinnacle and many others to follow. As a businessman I think that events are moving far faster than are understood and have been for some time. As a good Keynesian I have hoped that the interventions were not too late - but I fear they are. Against all my instincts I fear we will have to accept deflation and a Schumpeter defined "creative destruction" though all my instincts and knowledge of economic history and theory make me rebel against this. I am so sad about what has happened, how much destruction there is still to come and how avoidable so much has been and could be. It looks so serious and there still seems to me so much denial of what we are witnessing and experiencing."

My comment - Thank you for your considered thoughts, which will resonate with many of us. Thanks also for your perspective.

I do not know anyone who is not shocked by the speed with which markets and particularly economic activity has collapsed. And while stock markets have been largely rangebound since their persistent declines led to climactic activity on 10th October, I see little evidence that economic activity has bottomed, aside from some flourishing restaurants.

However, I think we should be careful in our extrapolations. People are now talking about a global depression with an air of certainty. In reality, no one knows how this situation will play out, particularly globally, although our worst fears, heavily influenced by deleveraging in markets, are not that far from the surface.

Perhaps you remember the Crash of 1987, which many people also felt signalled a global depression. While market events were briefly traumatic, and the fear lingered for a long time, economically the global economy barely paused for breath in 1987.

I think there is substantial evidence that economic events are infinitely worse today than twenty years ago. However it is very unlikely that all economies suffer to the same degree as the debt-plagued West. My optimism about China and India has less to do with the near term. It is based mainly on my long-term view that a major transfer of power is occurring, from West to East. If correct, I would expect this to be reflected by stock markets during the next recovery.

Meanwhile, yes, governments have been behind the curve of economic events. They almost always are. However global deleveraging is not all bad. Actually, it is probably a necessary precondition for a more stable global economy in future. Our immediate problem is that we are living through the painful adjustment, which causes fear and uncertainty. The economic stimulus packages, recent and pending, should stem economic deterioration, but it takes time for this to occur.

Nick Train: The History Man - [My thanks to Tony Smith of Brewin Dolphin for this thought-provoking and topical essay by Nick Train of Lindsell Train Limited. Here is the conclusion:](#)

Over the 10 years to end September 2008 UK Equities have returned 3.7%pa - effectively their dividends - compared to Gilts 4.9% and cash 5.0% and this before a horrific October. Before we Brits start to flagellate ourselves or blame the Socialists in Number 10 for a lost decade, note that Global Equities performed even more poorly than in the UK, generating only 3.3%pa.

The good news, therefore, is that equities have already been disappointing and today's bears risk extrapolating past returns into the future, just as optimists like me were doing 10 years ago.

The less good news is that what will make real money for equity investors over the next decade is unanticipated, "proper" growth. By "proper" I exclude the leveraging of structurally low growth companies and "concept" companies with no revenues, whether Internet start-ups or Siberian diamond mines. We have some inkling as to where that proper growth may be found, but, necessarily, we are not sure.

The 14% pa return generated by Emerging Market Equities over the same decade is at least comfort that the equity asset class still has the potential to deliver superior returns, but the iron law is that you have to take the risk of allocating capital to Bolivia or Estonia, or similar, in order to earn the outsize return.

In the UK we must pick and choose carefully. Surprising myself - never having heard of Hardman, quoted above, before stumbling across a piece of their research - I now conclude by quoting Hardman's conclusion on UK Equities, which I could not have put better myself:

"The game is the same as it has always been, to spot the Racal of 1980, the Capita of 1990, the Cairn Energy or Chemring of 2000. The upheaval has taken place and the need now is to spot the new winners emerging out of the fog. This is not the time to be buying an index."

Good luck in 2009.

[My view - The most efficient way to "spot the new winners emerging out of the fog", I maintain, is by combing through price charts with the emphasis on relative strength, followed by some due diligence in terms of a fundamental assessment of potential candidates.](#)

[The most useful time to do this, I suggest, is when investor confidence is generally low but stock market indices show evidence of base formation development. We might just be there, although the evidence is tentative, to say the least.](#)

Nevertheless, stock markets will eventually bottom out and some will do much better than others during the next recovery. I suggest a top-down process, looking for leadership among broad market indices, then sectors and finally among individual shares.

This is a big task, but interesting and potentially very lucrative. Fullermoney aims to do its share of the spadework, but for best results this is a collaborative effort. Any motivated subscriber can search the Chart Library, remain on the lookout for intelligent, farsighted reports and articles, and contribute their own thoughts to the analytical process. We look forward to a constructive dialogue with the Collective.

I commend the remainder of John Train's essay to you.

My personal portfolio: Silver long partially stopped out; corn long opened - Yesterday, I placed a breakeven stop on half of my [silver](#) long (the alternative strategy considered was to take the short-term profit yesterday, which with hindsight would have been better, and I could have repurchased during the setback). The tactic chosen was overly cautious and my stop was triggered today. Accordingly, March silver was sold at \$9.75 this afternoon, against my purchase at \$9.705 on 3rd December.

This evening, on seeing the [US Dollar Index](#) lose its early gains, I bought some corn which looks overstretched ([weekly](#) & [daily](#)). Also, I would not be surprised if an imminent harvest report is more favourable than the recent price action suggests. I paid 332.8¢ for a March position.

Prices above include spread-bet dealing costs.

Additional Commentary by Eoin Treacy

Commodity Heap Iron Ore: What's up - Thanks to a subscriber for this interesting [chartbook](#) for industrial metals by Alan heap and Alex Tonks for Citigroup. Here is a section on iron-ore:

Spot Prices Pick Up - Iron ore spot prices have been rising since early November. Domestic ore prices in China have improved in major steel provinces Hebei, Tangshan and Liaoning. Indian import prices have also increased. This had led to a steady improvement in the spot index from lows of US\$64/t to US\$74/t over the month. Most of the buying appears to be in lower grade products as steel mills are content with lower yields.

Surpluses Build - Recent iron ore production cuts are insufficient to offset announced steel production cuts in 2009. Iron ore de-stocking still has some way to run, port inventories are dropping from high levels (Figure 35). Adverse data points continue, including weak Chinese steel production (down 17% in October) and sharply weaker economic data (recent PMI data pointing to further sharp declines / possibly negative industrial production growth).

Spot versus Contract - The gap between spot prices in China and the delivered contract price of Australian ore has narrowed and currently implies price fall of 20% for parity. Freight rates continued to slide and this helps in improving imported ore's competitive position (US\$3.80/t WA to China and Brazil China now US\$9/t).

Not To Trough - We maintain our expectations of a 20% decrease in JFY2009/10 contract prices. Trough prices imply a ~50% fall in contracts. Our price forecasts have trough cycle prices reached in 3 years.

My view - Iron-ore producers succeeded in extracting record prices from the steel industry over the last three years. They will be seeking to hold on to as much as possible in the next round of negotiations. Lower demand for iron-ore will certainly be a factor in these talks but so will the projected increase in infrastructure spending as efforts to kick-start economies unfold in the coming year.

Companies such as [BHP Billiton](#), [Rio Tinto](#) and [CVRD](#) all soared to new highs earlier this year on expectations that global growth could continue undiminished for years. Now however, while that belief has been discarded, the new pessimism is that growth will not pick up again for a decade. This is also an extreme view and the truth is probably somewhere in between. The price these shares are currently trading at would suggest investors are heavily biased to the latter view. If they are wrong, and I believe they probably are, then the risk for these shares is to the upside over the medium to longer term.

Email of the day (1) - on deflation and money supply:

"Glad to see you are continuing to battle sagely through the travails of the market - although I think you are too sanguine about the prospect for emerging markets (and I do wonder if Jim Roger's is working for China's PR department, sometimes).

"However, just to mention that John Mauldin's latest article (I think on Wave2000.com) is quite salient, when juxtaposed with today's interesting comments from James Ferguson (via Tim Price) contained in your Daily Comment.

"To a large extent, they agree that the deleveraging process, and rush to safety, will continue to exert deflationary pressure. But the question remains, can the authorities expand the supply of money enough to counter act the slowdown in the velocity of money, and the answer has to be, yes they can!! But when this takes effect, who knows? (Get it right, though, and you will do very well!!)."

My comment - Thank you for your thoughtful email. I would add that we feel far from sanguine about the prospects for India and China. However, they share little of the root causes of this crisis and are not at risk of deflation in the same way as Western economies. India and China should emerge faster and stronger from this global recession than Western markets.

I would also commend John Mauldin's [article](#) to subscribers not least for its excellent graphics. Here is a section:

And now we are watching the Great Unwind of financial innovations, as they went to excess and caused a credit crisis. In principle, a CDO or subprime asset-backed security should be a good thing. And in the beginning they were. But then standards got loose, greed kicked in, and Wall Street began to game the system. End of game.

What drove velocity to new highs is no longer part of the equation. The absence of new innovation and the removal of old innovations (even if they were bad innovations, they did help speed things up) are slowing things down. If the money supply did not rise significantly to offset that slowdown in velocity, the economy would already be in a much deeper recession.

While the Fed does not have control over M2, when they lower interest rates it is supposed to make us want to take on more risk, borrow money, and boost the economy. So, they have an indirect influence.

I expect the Fed to cut at least another 50 basis points next week, and to give us a statement with a nod toward difficult economic conditions. The latest Beige Book from the Fed was simply dreadful, so you can bet the governors will have a deteriorating economy in mind. Given the 25-plus-year low in consumer confidence, they have little choice.

I agree with Nouriel that the Fed will soon move rates close to zero. For all intents and purposes, the markets have already moved there. But is it having an effect on the willingness of banks to lend? Not hardly. Standards for lending are tightening every week. Look at the graphs below. The willingness of banks to make consumer loans is dropping to a 28-year low. And they are tightening standards on all sorts of business loans.

Now, I argued above that the Fed is not really expanding the money supply, so far. But within a few quarters, we will be facing outright deflation. The Fed is going to monetize at least a portion of what will be a \$1+ trillion dollar US deficit. They have announced they are going to purchase \$800 billion in mortgage-backed and other types of consumer loan assets. That will be a direct infusion of dollars into the economy. That is serious monetization. But they may feel they have no choice if they want to keep the US economy from going Japanese.

When someone becomes a Fed governor, they take them into a back room and perform a DNA transplant on them. They come out of that room viscerally, almost genetically, focused on preventing deflation from happening on their watch.

How much monetization will be enough to halt deflation and overcome the slowdown in the velocity of money and the rise in personal savings? No one knows. There is no fancy equation or model which can encompass all the factors, or at least not one I know of.

We will also soon see which of the additional deflation-fighting policies that Bernanke outlined in his 2002 "helicopter" speech the Fed will adopt. It is highly likely that we will see more than a few of them. It is quite possible that we will see the Fed start to set rates on longer-term bills and even bonds in an effort to pull down longer-term rates for corporations and individuals.

We will explore all the deflation-fighting options and what the results might be in future letters, but remember that there will come a time when the Fed will have to "take back" some of the liquidity they are going to provide. That means we could be in for a multi-year period of slow growth after we pull out of this recession. And this recession could easily last through 2009.

The US economy has some difficult challenges which will necessitate massive spending on behalf of the government and the flooding of the market with liquidity in order to avoid the present threat of deflation. The Japanese deflation was initiated by policy mistakes which included three years of tightening following the bursting of the bubble. This mistake has not been made by the Federal Reserve. One can argue that the TARP has been mishandled and there has been significant flip flopping about policy, but there is no disputing that money is being made available to the banking community and the outright risk of mass default has dissipated.

I don't know how long this recession will last, but we can say for a certainty that not all countries will be affected equally. The relative attractiveness of the USA as an investment destination has dimmed over the last decade and it has been a contention of Fullermoney's for a number of years that we would prefer to have our long-term investments in Asia.

Liquidity contraction has affected all markets not least in Asia, and as a result many shares are now selling at attractive levels. We do not have conclusive evidence that markets have bottomed, however, we should not forget that the odds are in favour of Asian markets posting better returns over the medium to longer term than the USA or Europe.

Canada Stocks Slide on Oil, Canadian Natural Drops; BCE Rises - [This article](#) by John Kipphoff for Bloomberg covers the continued pressure on the Canadian Income Trust sector. Here is a section:

Also weighing on companies with tarsands units was StatoilHydro ASA's decision not to build an upgrader plant at its oilsands project, bought for about C\$2.2 billion last year.

Baytex Energy Trust dropped 11 percent to C\$14.90, the lowest intraday price in three years, after cutting its monthly dividend by 28 percent to 18 cents a unit. Penn West Energy Trust, Canada's second-largest energy trust by market value, dropped 11 percent to C\$14.30, the lowest intraday price since August 2003. Arc Energy Trust slid 11 percent to C\$16.75.

Yesterday's dividend cut by Baytex may kick off a series of distribution cuts among income trusts as oil "lingers below \$50," Scotia Capital analyst Jeremy

Kaliel wrote in a note to clients today. Penn West and Arc, among others, are among the most likely trusts to lower their payouts, he said.

Crude oil fell 6.7 percent to \$43.67 a barrel and touched \$43.51, the lowest in almost four years, as the deepening recession in the U.S., Europe and Japan cuts fuel consumption. Copper dropped to the lowest closing price since May 2005.

My view - We have made much of the potential investment opportunities in the corporate bond market because yields have risen to such an extent that investors are now willing to take a second look at the asset class. However, the Canadian Income Trust sector has also seen yields rise considerably over the last few months. They are not without their risks and we can be assured that distributions will be hit, particularly at resources producers, but opportunities are emerging. This is also an area where not all trusts will be affected equally and each should be judged on its merits.

The [S&P/TSX Capped Income Trust Index](#) peaked in early 2006 and gave way to a ranging Type-3 top formation before breaking downwards in September. Since then it has returned to levels not seen since 2003 and the downtrend, while intact is losing consistency. There has been a marked loss of momentum over the last month and a sustained move above 105 would suggest that base formation development is underway.

The Index is currently yielding 17.98% with a P/E of 8.27. That yield will most likely come down as distributions are cut, but should still compare well with comparative yields in other securities. This [list](#) of the 58 trusts in the Index ranked by 12-month yield illustrates the spread of returns available and also indicates that one should do thorough due diligence before thinking of investing.

Email of the day (2) - on put options on US Treasuries:

"Would it be possible to add put options on US Treasuries? (my view that it would be an early warning of investor's defiance on US creditworthiness)"

My comment - Thank you for this suggestion. I looked at a number of options this morning which were close to in-the-money and had significant open interest. The March 2009 [Put](#) with a strike at 130 is liquid has more open interest than other options maturing at the same time and has plenty of back history.

It fell considerably over the last month, but found support near 3-19 and would need to sustain a move below that level to question potential for some additional upside. I agree that puts such as this one may offer an advance clue as to when Treasuries top out.

Email of the day (3) - on shorting credit spreads

"Your comment asked how to play the spread between corporates and Government bonds.

"In the USA there are ETF's that an investor could use.

"[TLT](#) and [LQD](#) are the NYSE symbols for ETF's in Long term Government bonds and Investment Grade corporate bonds.

"So go Long LQD and Short the TLT if you believe the spread will close."

My comment - Thank you for this suggestion which to my knowledge is the only way to play the spread between the two instruments. Both funds can be found in the Chart Library.

Email of the day (4) - on insider purchases / sales:

"Are you able to monitor insider purchases/sales easily both current and historical?"

My comment - Thank you for this interesting question. I do not know of a way to chart insider purchases or sales but I know that some data providers do collate totals for this type of data. MSN Money provide a useful site where you can enter a company name and it will provide you will all the dealings reported to the SEC under disclosure rules. Here is a [link](#) to the page for General Motors.

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. The other searches through the rest of the Chart Library for indices, commodities, currencies bond prices and yields, ratios, spreads and overlays. You can also customise these charts and save any of them in your Favourites section. Check the Library's Help section for further details.

Singapore - breaks [upwards](#) from the short-term range and would need to sustain a move below 1500 to question scope for some additional higher to lateral ranging.

Aluminium - remains in an overextended [downtrend](#) and the first upward dynamic is likely to mark a low of medium-term significance.

Euro per 1 US Dollar - testing the [upper](#) side of the two-month range and would need to take out the progression of higher lows on a sustained basis to question potential for an eventual upside [break](#).

Please note - I will away from the office until December 16th as the Treacy family is taking a brief sojourn in Germany to visit some of the wonderful Weihnachtsmarkt (Christmas markets) and do some belated Christmas shopping.

Wednesday 10th December 2008

Jonathan Davis: The dysfunctional Mr Market family - [This is an outstanding column](#) - full of behavioural insights, written by the veteran journalist for the Financial Times (*link may require registration, or eventually be removed, so I have also included a [PDF](#) version*). Here is the opening:

A great many things have changed since Ben Graham introduced the investing world to Mr Market, the vociferous and excitable character who is addicted to making daily offers to buy or sell the things that participants in the stock market own.

The defining characteristic of Mr Market is that, while he may not always be right (and in fact he is often glaringly wrong), he is always there as a siren voice to tempt the investor into action, for good or ill.

One of the things that has most obviously changed in the past 40 years is that Mr Market no longer sleeps. Whereas before for large parts of the day it was possible to escape from his views, now he has become a ubiquitous presence, ready to offer his opinions 24 hours a day to anyone with a computer terminal and an internet connection. Those with a Reuters or a Bloomberg screen can listen to him in real time.

Just as importantly, the Market family has been breeding. In the old days, while Mr Market mainly confined himself to offering his views on a finite number of equities, preference shares and government bonds, now he has cousins all over the world, many of them specialising in new and exotic instruments that did not even exist when Ben Graham first brought the pater familias to our attention.

In principle, like population growth everywhere, the proliferation of the Market clan is a good thing. Some well known but foolish folk in the land of academia have gone so far as to endow Mr Market and his many relatives with certain god-like qualities, including the gift of omniscience (or to be more precise, the gift of being the most consistently credible prophet in the land).

This elevated status is curious for many reasons, not least because there are times, like the present, when the various members of the Market clan all speak with conflicting voices that cannot be easily reconciled. Although we know that Mr Market himself can sometimes be downright silly, it is a bigger stretch of faith to believe that all the members of the clan might be foolish at the same time.

Yet is it possible that we might be living through just such a time? There may be clever investors out there who can reconcile the divergent current views of Mr Market and his cousins in the bond and commodity markets, but it is not easily done - especially when, judging by bond market spreads, the various members of the bond market clan cannot themselves arrive at a consistent view. The simplest explanation of current prices is that most members of the Market clan are in a serious funk. If debt deflation is the spectre at the market feast, and the security of banks is at issue, it is just about understandable why three month Treasuries should yield as close to nothing as makes no

difference. That price, coupled with the extraordinary surge in the value of dollar, is the market equivalent of someone crying fire in a crowded cinema - a cry that is made more credible when it comes from the chief fire officer himself (aka the chairman of the Federal Reserve).

My view - The stock market, or any other freely traded market, has always behaved like a manic-depressive mob. Created by mankind, as a place where we gather, socialise and participate in the action, the market could never represent anything other than crowd psychology, influenced by liquidity, fundamental perceptions and the trend. The market accurately mirrors our greed and fear, and all other collective states of mind over any economic cycle.

Does this mean that we should ignore Mr Market? Far from it, if timing is a concern. Success in the market business is so often dependent on anticipating what the crowd will do next. This is most easily achieved by the use of price charts, as veteran subscribers have long known.

So, where are we in this cycle?

As the West's credit and solvency crisis became increasingly apparent, the pendulum of sentiment moved from optimism in early-2007, rotationally towards fear, reaching an extreme in October 2008. Until that low, buyers were mostly inert and selling pressure dominant.

Extremes of sentiment are never sustainable beyond the short to medium-term. Forced selling due to deleveraging and fund redemptions, plus capitulation selling due to anxiety and ennui, appear to have passed their nadir, at least for the near term. On seeing this, buyers have started to nibble at shares, tempted by valuations and economic stimulus packages.

The recovery process is being led by China, as we have pointed out before. You can see the evidence in these three indices - Shanghai Composite ([weekly](#) & [daily](#)), Hong Kong H-Shares ([weekly](#) & [daily](#)) and the Hang Seng Index ([weekly](#) & [daily](#)). While the reaction lows continue to rise for these and any other indices, we should give the upside the benefit of the doubt.

Puru Saxena's Money Matters: Sowing the Seeds - My thanks to Puru Saxena for allowing Fullermoney to post his fine [letter](#). Here is a brief sample:

STOCK MARKET - This nasty bear-market is in its latter stages and I suspect that the bulk of the declines are now behind us. Although it is premature to claim that the bear-market definitely ended on 10 October, it does look increasingly likely that the lows recorded on 21 November, were in fact a successful 'test' of the prior month's lows.

History shows that following a major bear-market, it is common for the major indices to retest the lows. In a recent study undertaken to review recovery patterns, JP Morgan examined all the bear-markets going back to 1900 and it came up with a few interesting observations. The study revealed that market

bottoms were almost always retested and that such 'tests' resulted in a new marginal low about 40% of the time.

The study also found that 75% of the retesting events occurred within 44 days of a major bottom (*Figure 4*); so if 10 October marked the bottom of this bear-market, the retest on 21 November was bang on target from a timing perspective.

At this stage, I am only guessing that 10 October was the pivotal turnaround of this bear-market. It may well be that this market breaks below those lows in the days ahead, however given the favourable technical and sentiment data, at the very least, there is a strong possibility that we will get a multi-month rally from these oversold conditions.

It is worth noting that new bull-markets are always born amidst abject pessimism; at a time when the majority are convinced that economic activity will never pick up again. Furthermore, it is interesting to note that frightening economic news continues to surface, long after a new bull-market has begun. So, the time to buy is during such scary times. This was also highlighted by Warren Buffet who recently wrote - "*If you wait for robins, spring will be over*".

Now, I cannot say with any certainty whether we are already in the early stages of the next cycle. However, the recent rout in the markets has set the stage for above-average long-term returns. Under my best case scenario, we are in the very early stages of a new multi-year bull-market. And under my worst case scenario, we are going to get a very strong rebound (30% move higher in the S&P500) over a short period of time, which will probably take the markets back to their 200-day moving averages.

My view - I agree with this assessment, and believe that readers will be interested in the JP Morgan table referred to above.

Among the other interesting sections in this issue, Money Matters comments on deflation versus inflation, the outlook for energy, metals and currencies, and an assessment of China's economy. Don't miss them.

My only comment on the deflation versus inflation debate, is that inflation will not be a problem until the velocity of money picks up dramatically from current levels. The deflation advocates piling into long-dated government bonds are betting that either money velocity will not increase anytime soon, or when it does, that they will be able to get out in time.

Meanwhile, just about every government is now committed to fighting deflation. This may not be a bad time to recall the adage: "Don't fight the Fed", only it is obviously not just the Fed. As the velocity of money increases with the return of confidence and the global economy recovers, central banks will need to move quickly to withdraw excess liquidity. They know this but may encounter political obstacles.

My personal portfolio: Platinum long trade increased - [With a breakeven stop](#)

on my recent gold purchase, I decided to increase my [platinum](#) position by 50% this afternoon. I paid \$837.1 for a January position, including spread-bet dealing costs.

Why platinum I was asked: Because it is a precious metal in scarce supply. I also suspect that bearishness regarding its industrial uses is already reflected in the price. The disadvantage of buying platinum, at least through spread-bet firms, is that the spreads are large, currently \$3.8 with the firms I use, for a contract that will expire later this month.

For the record, my biggest precious metal position, by far, is the recent [gold](#) purchase, followed by platinum and then [silver](#), although this does not necessarily reflect my preferences. I like them all, and maintain that silver is high-beta gold. This can make trading a bit more difficult but so many markets are volatile these days. Timing success in these positions depends in no small measure on the US dollar falling further (illustrated here by its [Index](#)).

Gold Statistics for North America - My thanks to a subscriber for this authoritative and timely [report](#) from Tanya Jakusconek, Farooq Hamed and Joanne van Ballegooie, published by National Bank Financial. It is posted without further comment.

Please note - Eoin is away until next Tuesday.

Thursday 11th December 2008

Commodities: Are they the most promising asset class today? - [Commodities?](#) Most people would say certainly not, given the global economic slump, risk of deflation and talk of depression. They have a point.

A considerable number of investors clearly think that long-dated [government bonds](#) are the best investment, citing the reasons mentioned above and performance since June. They also have a point.

However, some of us think that government bonds have become the latest and last remaining bubble, quantitative easing notwithstanding. I should add that those who bought long-dated government bonds a few months ago have been cleverer than I, who did not participate. Considering today's valuations, I personally, am not willing to lend the US government money for 30 years at a yield of less than 4%, knowing that the supply of government paper is increasing in line with the deficit. I maintain that there is better value in [corporate bonds](#), despite the economic uncertainty, although they have seen a good bounce recently.

Some value investors have recently concluded that [equities](#) are the best of the liquid asset classes today. They too have a point. However, given the uncertainty over corporate profits, they need to be selective. I maintain that the best valuations and prospects are in emerging markets.

Returning to my headline question above, I do think commodities have significant recovery potential, despite the global economic slump, deflation threat and depression fears. Moreover, I believe that the fundamentals for commodities have now improved more than for all other asset classes.

Consider the following bull points:

1. Interest rates have fallen, which is currently better for commodity speculators than commodity producers, because contangos have shrunk considerably, lowering rollover costs.
2. However, the credit crunch means that it is now more difficult for commodity producers to obtain necessary financing. Consequently, miners and oil producers are deferring development projects and laying off workers, while farmers find it more difficult to finance the purchase of fertilizers and equipment. These problems are not fully offset by the lower cost of energy.
3. Prices for all commodities are much lower today than during the first half of 2008, not least because speculators have been shaken out and traders are actually short. This is good news for those who wish to buy oversold commodities. However it is a big disincentive for commodity producers, many of whom are now reducing production.
4. While the global economic slump has reduced demand for commodities somewhat, these are essential resources which the world cannot do without, unlike luxury goods, the latest fashions, lavish holidays or expensive restaurants.
5. The US dollar has peaked and commenced what is likely to be a significant retracement of gains seen since July. This is bullish for commodities because most are priced in US dollars.

What could significantly delay or even prevent a big rally for commodities? The reflationary efforts could fail, or more likely take many more months before they turn a global economy that is still contracting. If so, there could be some additional downside risk and base formation development would most likely be lengthy. The US Dollar Index could fail to maintain its downward break. Improved weather patterns could lead to increased supplies of agricultural commodities.

For these reasons, Fullermoney maintains that commodities are best purchased following setbacks. Positions are most safely built incrementally. Within trends, one should only leverage up behind trailing stops. Money control discipline is essential. As traders, we will inevitably make some good guesses and bad guesses but poor money control discipline is the biggest risk for most of us.

Investors who agree with my bullish outlook for commodities but who do not trade or use any leverage, can still participate via the trackers, or various commodity funds and shares mentioned on this site or in the Chart Library.

For perspective, here are some recent articles which may be of interest: [FT](#), So long, super-cycle - [WSJ](#), China's Pursuit of Coal Assets Proceeds - [Fortune](#), Jim Rogers' Latest on Commodities.

Gold lease rates soar - This is an interesting item from Scotia Mocatta's Metal Matters; the [full report](#) is posted without further comment:

One interesting development has been the rapid increase in Gold lease rates that is likely to put an end to the Gold carry trade, at least for a while. With interest rates falling the profit margin on Gold carry trades has diminished significantly. This means that as former carry trades come to the end of their term, Gold will be withdrawn from the system and returned to central banks. Three month Gold lease rates were last 1.9%, up from an average of 0.46% in Q3 08 and an average since the start of 2002 of 0.21%. As carry trades are closed the pressure on the spot market will switch from selling pressure to buying pressure.

My personal portfolio: Longs opened in MSCI Brazil and ETC nickel trackers - Brazil ([weekly](#) & [daily](#)) is one of my three favourite BRICs because it produces more of the agricultural resources that the world needs and wants, than any other country. It also produces metals and will be an increasingly important exporter of crude oil in the latter half of the next decade. For the record, my other two favourite BRICs are China and India. Russia is interesting and valuations are cheap once again but I do not trust its government to respect minority shareholders' interests. This afternoon I bought the MSCI Brazil - IBZL tracker, paying 1817 for a June position. As this is a top-of-the-range trade and I bought before Brazil opened and rallied initially, I have already protected this position with a breakeven stop. Somewhat later, I bought nickel (illustrated with the LME 3m position, [weekly](#) & [daily](#)) via the ETC nickel tracker paying 1356.5 for a June position. These prices include spread-bet dealing costs.

I used IG Index for both these trades, via their online platform. I should caution that spreads are fairly high in these instruments, and it is always a bit unsettling to see the open position loss immediately after completing the transaction. Nevertheless I am comfortable with spread-betting as it enables me to leave most of my cash on deposit elsewhere, and involves no CGT in the UK. I hasten to add, that spread-betting is not for everyone.

Having mentioned IG Index above, I will add that I bought my gold and platinum through City Index. While I usually start with small positions and give them some breathing space, I am using tight stops on positions in profit, in case the volatility returns.

Alex Seagle's The Contrary Investor: Deflation Expectation? - My thanks to Alex Seagle for this ever-interesting letter published by Fraser Management Associates. The current [issue](#) focuses on deflation, and quotes Irving Fisher

from his book: *100% Money*, published during the middle of the Great Depression. Here is a section:

Fisher believes there are two key factors that lead to a major depression as opposed to a run-of-the-mill slowdown in the business cycle: over-indebtedness and deflation. He believes that other factors can play a role in business cycles but they are basically secondary factors when it comes to real economic upheaval. Over-indebtedness and deflation are the main players in any extended economic downturn.

"Assuming, accordingly, that, at some point of time, a state of over-indebtedness exists, this will tend to lead to liquidation, through the alarm either of debtors or creditors or both. Then we may deduce the following chain of consequences in nine links: (1) Debt liquidation leads to distress selling and to (2) Contraction of deposit currency, as bank loans are paid off, and to a slowing down of velocity of circulation. This contraction of deposits and of their velocity, precipitated by distress selling, causes (3) A fall in the level of prices, in other words, a swelling of the dollar. Assuming, as above stated, that this fall of prices is not interfered with by reflation or otherwise, there must be (4) A still greater fall in the net worths of business, precipitating bankruptcies and (5) A like fall in profits, which in a "capitalistic," that is, a private-profit society, leads the concerns which are running at a loss to make (6) A reduction in output, in trade and in employment of labor. These losses, bankruptcies, and unemployment, lead to (7) Pessimism and loss of confidence, which in turn lead to (8) Hoarding and slowing down still more the velocity of circulation.

The above eight changes cause (9) Complicated disturbances in the rates of interest, in particular, a fall in the nominal, or money, rates and a rise in the real, or commodity, rates of interest. Evidently debt and deflation go far toward explaining a great mass of phenomena in a very simple, logical way."

Of his list of nine items, it is clear that most, if not all, are playing out now. But Fisher offers a possible solution, and it looks a great deal like the plan Chairman Bernanke and the Federal Reserve are utilizing to address our current situation.

"Unless some counteracting cause comes along to prevent the fall in the price level, such a depression as that of 1929-33 (namely when the more the debtors pay the more they owe) tends to continue, going deeper, in a vicious spiral, for many years. There is then no tendency of the boat to stop tipping until it has capsized. Ultimately, of course, but only after almost universal bankruptcy, the indebtedness must cease to grow greater and begin to grow less. Then comes recovery and a tendency for a new boom-depression sequence. This is the so-called "natural" way out of a depression, via needless and cruel bankruptcy, unemployment, and starvation.

On the other hand, if the foregoing analysis is correct, it is always economically possible to stop or prevent such a depression simply by reflating the price level up to the average level at which outstanding debts were contracted by existing debtors and assumed by existing creditors, and then maintaining that level unchanged."

My view - Currently, most evidence indicates that the global recession is still deepening. However there is also some technical indication that stock markets are trying to look beyond the eventual economic trough. Since this is tentative to date, if stock markets are going to resume their downtrends, initial evidence that selling pressure was regaining the upper hand would be sustained breaks beneath the early-December reaction lows. For the [S&P 500 Index](#), that level is 815.

Today's interesting charts - Most subscribers find that Fullermoney's large, customisable Chart Library is a valuable resource in planning their investment and trading strategies.

US Dollar per 1 Euro - Following an increasing number of upward [dynamics](#) (the large blue candlesticks) within the recent trading range, which was also characterised by gradually rising lows, we have now seen a decisive upward break. While a brief consolidation of today's strong gains may be seen, a close back beneath \$1.29 would be required to suggest a possible upside failure and offset current scope for sideways to higher ranging.

US Dollar per 1 Pound Sterling - Sterling remains [weaker](#) than the euro above. Nevertheless it has lost downward momentum against the dollar, evidenced by the first downside failure since it fell back from \$2.00 in July. A move beneath \$1.44 is now required to reaffirm the downward trend.

Swiss Franc per 1 US Dollar - The dollar's accelerating rise was checked by a downward [dynamic](#) on 24th November and it has subsequently ranged. A new high at SF1.2310 would be required to offset the current top development characteristics of this pattern and reaffirm the upward trend.

US Dollar Index - This was a potentially significant [downward](#) break today, following the earlier loss of momentum. A close back above 85.50 is now required to question further scope for sideways to lower ranging.

US Dollar per 1 Australian Dollar - [Edging](#) higher in a range dominated by upward dynamics since the October low; this looks like a probable base formation which would be completed by a sustained break above US\$0.70.

China Renminbi per 1 US Dollar - Drifting back to upper side of [range](#) and requires an upward dynamic and / or a break above R6.9 to indicate further upside scope for the US dollar.

Please note - Eoin is away until next Tuesday.

Friday 12th December 2008

Fear and Loathing; Is there a light at the End of the Tunnel for Commodities - My thanks to a subscriber for this superb, highly informative [presentation](#) by Bart Melek of BMO - one of the best that I have seen.

My view - Bart Melek does not expect a quick recovery for commodity prices. That may be correct, particularly if there is further deleveraging to come from tracker funds. However my impression is that more of the non precious metal tracker positions are in agricultural commodities and oil, which were the last to peak, rather than industrial metals, copper excepted.

Whatever, we should look for base formations before aggressively backing this sector. They will take time to form. Meanwhile, the majority of upside moves may be no more than technical rallies, within the overall bottoming out process.

On metals, note slides 11: China and India import 55% and 63% of their copper, respectively, much more than for other metals.

Also, note slide 12: it is very likely that the supercycle has only paused in line with the global recession, as Fullermoney has long forecast.

Surprisingly, slide 14 forecasts a steady rise in demand for iron ore from 2009 through 2013. That would be very good news for BHP, Rio and Vale.

Email of the day (1) - [Our subscription manager Sarah Harrison, who forwards all the site emails so that we do not miss them, described this as from an "annual subscriber \(due for renewal next month\)":](#)

"Thank you again for your great service. With the move in the dollar today I thought it prudent to renew early."

My comment - [Thank you for your thoughtful comment and continued interest in Fullermoney.](#)

[There is a recession on and people need to watch their overheads. For that reason, I am pleased to see that a Fullermoney subscription, priced in sterling, has seldom cost so little for holders of US dollars and its linked currencies, euros, yen and renminbi.](#)

[Jackson Wong's Monthly Banker: Confronting Bubbles - My thanks to colleague Jackson Wong for this informative summary of the US Federal Reserve's bubble creation under Greenspan. Here is the introduction \(note: while this analysis is clearly written, bear in mind that English is not Jackson's first language\):](#)

[The crumbling financial system has exposed a deep flaw in a modern day central banking doctrine: no longer can they - the central banks - ignore asset bubbles.](#)

[During Alan Greenspan's 18 ½ years at the helm of the US Federal Reserve, the world had witnessed one asset bubble after another. The formation of these speculative manias is no coincidence. Many of them have roots tracing to a single source - lax monetary policy by the Fed.](#)

Greenspan's tolerance of asset bubbles came in two steps. First, he categorically denies it; second, he refuses to do anything about it. In fact, he cheered the rallies on numerous occasions. The Maestro's reasoning behind this doctrine is as follows. Bubbles are intrinsically difficult to identify (never mind he himself coined the phrase 'irrational exuberance' in 1996). It is therefore pointless and counterproductive to fight against the market. Accordingly, the Fed should not meddle in the free-market capital allocation exercise, no matter how absurd this process had become. If the Fed kills the bubble early on, arguably it risks damaging other parts of the economy. Greenspan asserts that a hands-off approach should be adopted until the bubble implodes. And then, the Fed must ease aggressively to contain the damage. After all, it has all the monetary tools available to contain the bubble.

The fact that Greenspan succeeded in cushioning the fallout after the dotcom bubble imploded vindicated this approach. In early 2004 he announced triumphantly: "There appears to be enough evidence, at least tentatively, to conclude that our strategy of addressing the bubble's consequences rather than the bubble itself has been successful. Despite the stock market plunge, terrorist attacks, corporate scandals, and wars in Afghanistan and Iraq, we experienced an exceptionally mild recession-even milder than that of a decade earlier...much of the improved ability of the US economy to absorb these sequences of shocks resulted from notably improved structural flexibility. *But highly aggressive monetary ease was doubtless also a significant contributor to stability.*" [Emphasis added]

It was a Pyrrhic victory.

Unbeknownst to him, another gargantuan bubble had already commenced. This time: US housing. The excessive monetary easing after the collapse of technology bubble inflated property values all over US. As in earlier manias, the bubble has a way of legitimating its cause. Analysts, realtors, bankers, and particularly, the Fed, kept repeating the mantra 'national house price never fall since great depression.' Speculative forces grew rampant; fraud abounded. Surging house prices allowed US households to extract equity from their houses like ATMs, mainly for consumption. Savings dropped to zero. Economic imbalances ballooned.

Again, Greenspan denies a mania: "we were facing not a bubble but a froth - lots of small local bubbles that never grew to a scale that could threaten the health of the overall economy." When asked about the shady subprime lending, Greenspan claimed in an interview that 'while I was aware a lot of these practices were going on, I had no notion of how significant they had become until very late. *I didn't really get it until very late in 2005 and 2006.*' [Emphasis added] A weak defence. How could he not 'get it' when there was already plenty of evidence during 2003 to 2004 that suggested high-risk behaviour in the sector?

Moreover, he lauded the new financial technologies - namely, credit derivatives - that dispersed risk across the globe. Enamoured by the complicated risk models, he thought these credit derivatives make the financial system more 'stable'. Wrong again. When these toxic financial

instruments, largely based on the booming US housing market, leaked into the global financial system, instead of stabilizing the system, everyone who bought into Greenspan's illusion was now at risk. But then, investors could rely on the US Fed to blow the next bubble to bail them out. Greenspan's asymmetric approach to financial markets created the 'Greenspan put', in that market participants could always count on Fed to sent them home safely after a wild party. Starting from the 1987 crash, moving onto the Savings & Loans crisis, Mexico bailout, LTCM, Y2K, and dot-com bubble - each crisis, real or unreal, resulted in more money being thrown at the financial system.

With this noted history in mind, it is only natural to expect risk-seekers such as banks, hedge funds, and private equity to become more and more aggressive over time. Against a backdrop of ineffective and ever-weakening regulatory oversight, mischief proliferated. Off-balance sheets speculative activities became rampant. So much so that outside the normal credit system, a 'shadow' financial system boomed. Bated in an ocean of cheap liquidity, investors chased the riskiest markets at the fringe of the system: subprime (the riskiest of all property loans); CDOs & CDS (the newest of all derivatives); hedge funds and funds of funds (the most leveraged of all funds); Structure Investment Vehicle (the biggest off-balance sheet products); and contemporary arts (the newest collections). Debt became dirt cheap; leverage was the order of the day. Financial profits soared as a self-reinforcing benign market cycle took hold. Wall Street pay swelled to stratospheric levels. Effectively, a 'casino-style' financial system developed. Laissez-faire capitalism was at its height.

My view - My own take on this is that Alan Greenspan lost his grip on events, and his perspective, when he was so roundly criticised for his highly rational, "irrational exuberance" warning in 1966. Although not by Fullermoney - my view at the time was that he should have at least raised the margin requirement.

Greenspan was always a product of Wall Street. He appeared shocked, when so many people known to him, from Wall Street to Congress via The Wall Street Journal, rounded on him so savagely in 1966. It was so much easier for the Fed Chairman to accommodate their wishes, and bask in the accolades.

Perhaps a more independently minded outsider such as Paul Volcker would have resisted the temptation. Anyway, it is goodbye to laissez-faire capitalism for at least a generation, and hello to statism.

Email of the day (2) - On Puru Saxena's report:

"I read the Puru Saxena MM [article](#) last night and it was interesting.

"He has the right themes, but he is a quarter or more early. The increase in money supply and "quantitative easing" which are the foundation of his optimism will likely lead to all his conclusions, but timing is another thing. None of the money is having traction and absolutely no business plans are being contemplated. Specifically, his observations that the "Ted Spread has

peaked and is now in decline, Credit spreads are narrowing, Japanese Yen seems to have peaked versus the US Dollar, US Dollar Index has peaked and is weakening, Volatility Index (VIX) has clearly peaked, Bearish sentiment is at an extreme" are a stretch in many cases. Most are in classic back and fill mode but remain at extremely high levels. The negative news flow ahead will be much worse than expected, preventing these measures from significant easing.

"I know you think the odds favor up, but you are wrong. The housing market has much more to fall, unemployment has much more to rise, consumer spending will continue falling and the debt supercycle has much much much more unwinding to do. It is what it is and nothing can stop it, only policy measures can reduce the duration."

My comment - Thanks for your thoughts, with which many people agree. I agree with some of them. However, forecasts expressed as facts trigger my alarm bells. They can be more faith based than analytical.

Puru Saxena's letters are interesting, which is why we post them when offered. So let's assess some of the points above, with the help of chart facts. Starting with the [US M1](#) explosion, I have already said that it will have little effect until the velocity with which money changes hands picks up (see also [John Mauldin's definitive item on this, posted by Eoin](#)).

Regarding the Ted Spread ([monthly & daily](#)), which we have often commented on, I maintain that it needs to be below 150 basis points, and preferably nearer 100 basis points, to alleviate concerns. At least it is headed in the right direction.

As for [JPY](#) (shown as the dollar weakening), in my view there is no confirmation that the yen has peaked. This is a serious problem for Japan's exporters. Also, as the yen was the main carry trade currency, it suggests that some global deleveraging continues. However this pressure may be easing somewhat as [EUR/JPY](#) is steadying in a potential base. The euro-weighted [US Dollar Index](#) certainly shows a top and I cannot think of why it should move higher, unless another massive round of deleveraging occurs (the USD was a carry trade currency second only to the yen). VIX ([weekly & daily](#)) saw an important peak just beneath 90 on 24th October, although it remains historically high. I see no evidence that it is about to resume its previous rise but more importantly, a bullish level for VIX would be below 30 and ideally below 20.

I agree that the US economy is in serious trouble. Commencing over two years ago, Fullermoney concluded that, sadly, the US was at the epicentre of global economic risk. However our best guide to the future will be stock market action. Share indices are likely to bottom out before the global economy, just as they have on many other occasions.

My personal portfolio: Stops triggered on IBZL, corn and gold longs - Perils of trading a market that operates partially in a different time zone from the

instrument it tracks. I thought I had a safe stop yesterday afternoon on my MSCI Brazil - IBZL tracker. However it closed in the UK before Wall Street dragged [Brazil](#) down and knock-on weakness in Asia caused IBZL to gap below my slightly in-the-money stop. Consequently, My June position was sold this morning at 1669.45 against yesterday's purchase at 1817. With hindsight, I should not have used the stop since spreads are outrageous prior to Brazil's opening. My [corn](#) stop was also triggered, taking me out of a March position at 338¢ against the purchase at 332.8¢ on 9th December. My [gold](#) long, the biggest of these three positions by far, was stopped out at \$815 for the April position this morning, against my purchase at \$780.4 on 8th December.

On the basis of today's additional evidence, I would have been far better off with looser stops. All of the prices above include spread-bet dealing costs.

Gold is the position I am most keen to repurchase, particularly if there is a dip in price. Given yesterday's item: "Gold lease rates soar", and reports that coin dealers are asking for a premium of 15% or more on purchases of Krugerrands, investment demand for gold is increasing once again. The main caveat - at some point we can expect the market to be "surprised" by news of IMF gold sales. As short sighted as this may seem, they need the money for bailouts.

Email of the day (3) - On inflation versus deflation:

"I think that a lot of current concern is around the inflation/deflation argument. What data do you think we should be monitoring which will help us to decide which way this will go and do you consider that there should be any dates involved?"

My view - Inflation, I maintain, is the year's earlier problem, fast in retreat today. The current fear and concern is the risk of deflation. Looking ahead, the situation is not date specific. The best lead indicator signalling that deflation fears are waning and inflation risks in response to the stimulus packages increasing, should come from a sharp reversal in the current decline for long-dated government bond yields. We will also see evidence of a steady increase in the velocity of money in circulation.

If we are lucky, this will occur against the background of another synchronised economic expansion in late 2009 or 2010. When it does occur, central banks will need to withdraw excess liquidity and raise interest rates, to mitigate the risk of another inflationary problem. They will know this but may face populist and political opposition to removal of the punchbowl, just as the party is getting started.

Email of the day (4) - On a metals and mining recovery:

"1. Regarding a recovery play for metals and mining why is your preference for the Blackrock fund over something like a metals and mining ETF, eg ticker - XME. Do you generally prefer funds to an ETF ? If so why?"

"2. There must be times when it is better to be buying a US ETF in preference to a UK ETF. Would it be when the dollar is stronger relative to the pound?"

My comment - I maintain that this sector would be an early beneficiary of China-led global economic recovery. With so many ETF-style instruments, I would often prefer them to funds, provided they are liquid instruments. The obvious exceptions are when there is historic evidence that management enhances performance, preferably by skill rather than leverage in a rising market. BlackRock does have a very experienced mining and minerals team. Regarding a US versus UK ETF, I think this is largely a matter of convenience, assuming they cover the same index. However I might opt for what I considered the weaker currency if buying on a leveraged basis, as in spread-betting.

Email of the day (5) - [On a gold backwardation](#):

"Gold's Backwardation an indication those with it don't want to sell it. Please find a site [url](#) on this subject. Very interesting though if no-one is selling why wouldn't the offer prices be going up? I'd appreciate your thoughts on this interesting article."

My view - In a fiat currency world, characterised by instability as we see at present. It is inevitable that many investors wish to own gold. Fullermoney has always regarded gold as hard money, of fluctuating value. Therefore it needs to be traded on a medium to longer-term basis, just like any other financial asset.

I cannot comment on every article received, but I have posted it above. I would describe it as a rather extreme view.

Email of the day (6) - [On the Coppock Indicator](#):

"E.S. Coppock designed the indicator to identify significant lows in the stock market. The Coppock Curve is very good at discriminating between bear market rallies and true bottoms in the stock market. Stock markets tend to make spike bottoms and rounding tops. That is a result of the fact that fear is a stronger emotion than greed. At the end of a bear market in stocks, investors fear losing their money. As prices fall, they fear further losses, and sell stocks, accelerating the decline, and creating the spike bottom. Stock market tops tend to be much more gradual affairs. As stocks get more overvalued, companies are only too happy to satisfy demand by issuing more paper. The supply of stocks gradually overwhelms demand.

"Attached is my version for the FTSE Future. When the final column crosses from negative numbers to positive numbers provides a final confirmation that

a bottom is in place. It's a slow indicator and misses some of the bounce back so is a supplement to other techniques and strategies being used.

"I hope you find it useful."

My comment - Thank you for sharing your work. I have placed your spreadsheet in [PDF](#) format so that it can be posted on Fullermoney. For other readers who may not know of Coppock, here is a [link](#) to Wikipedia.

Email of the day (7) - [Articles contributed](#):

"Attached are two part series of articles written on [U.S. Treasuries](#) and [Japanese Yen](#)."

My comment - Fullermoney is blessed with some of the most interesting and knowledgeable readers, around the world. My thanks to Rohit Chawdhry for his two articles, published by The Gulf.

Please note - [Eoin](#) is away until next Tuesday.

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

"Opportunity is missed by most people because it is dressed in overalls and looks like work."

Thomas Edison

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