

# Fullermoney

Global Strategy and Investment Trends by David Fuller

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

## Monday 15th December 2008

Stephanie Pomboy: The US economy, gold and China - [My thanks to a subscriber for this excellent interview with the founder of MacroMavens, conducted by Lawrence Strauss of Barron's. Here is the opening:](#)

"LIKE THE BUBBLE IN FINANCIAL ASSETS, THE NEW REAL-ESTATE bubble has its own distinctly disturbing characteristics," Stephanie Pomboy wrote in an April 2002 note titled "The Great Bubble Transfer." The founder and president of MacroMavens was on to something, even if she was early, and she worried about the big buildup of consumer debt fueled by rising home prices. Pomboy, whose Manhattan firm analyzes macroeconomic themes and their investment implications, remains bearish, convinced that a long period of paltry U.S. economic growth is in store -- akin to what happened in Japan in the 1990s. For more of her views and forecasts, read on.

*Barron's: How bad has the macro economy gotten?*

Pomboy: It is certainly the toughest one any of us has lived through. My fear is that it's actually just in the early stages and that it is going to get substantially worse on the economic side, although all the government measures that have taken place so far might help to insulate some of the damage on the financial side.

*What about the short-term outlook?*

Having been bearish, for me the real challenge is to identify the turn. One thing at work right now is what I call the cattle prod -- essentially the Fed poking people to take risk. They are taxing cash by having negative real returns on cash. At the same time, yields on investment-grade and junk bonds are incredibly alluring. You can pick up 15 percentage points over cash buying junk bonds. Or you can pick up 8.5 percentage points on investment-grade paper. At some point, the cattle prod will get people moving, as it did in March of '03 when the market turned.

*What else do you see happening in the near term?*

With the government guaranteeing all manner of private-credit claims, many investors may decide to get long "socialism," for lack of a better term. Or, as some euphemistically put it, this is partnering with the government. So in the

short run, we could see a rally in risky assets and a selloff in Treasuries. But the economic deleveraging has barely begun, and that's my longer-term thesis. It all revolves around the idea that U.S. consumers are actually going to do the unthinkable -- they are going to save -- and that we will be more like Japan than anyone believes is possible.

*Hence, consumption declines.*

Right. Wages have been silently crowded out by benefits as a share of total compensation, as companies look to offset rising health-care costs. The result is that the share of income that consumers can actually spend is at its lowest in the post-war period. It had not been a problem, because consumers would just borrow to fill that gap. But now, they don't have appreciating assets against which to borrow. So while we could get a rally in risk assets -- including high-yield debt -- it's likely to be a short-term rally within a context of a secular bear market.

*Any other important longer-term trends you expect?*

We are going to see a secular rotation from paper assets to hard assets like gold. The whole global competitive currency devaluation, including that of the dollar, plays right into that.

My view - As an independent analyst, Stephanie Pomboy is free press, and therefore does not have to represent the interests or needs of a larger institution. You can see the difference in her candour throughout this interview. After all, how many other economists are comfortable in talking about bonds and gold in the same breath?

A convenient story recently, at least for those participating in the US dollar's momentum rally, was that investors preferred the "safety of US assets".

Fullermoney has described the move as commencing with intervention in July, successfully triggering a reversal of US dollar short positions, followed by a momentum trade fuelled in no small part by the deleveraging of carry trade positions around the world. This latter factor resulted in a temporary shortage of both US dollars and Japanese yen.

More recently, we have seen significant deteriorations in the US dollar's trends, not least against the [euro](#), which is the alternative reserve currency of choice for some governments and investors, provided the ECB is not actively attempting to reverse the tide, as we saw earlier in the year near \$1.60.

Stephanie Pomboy mentions that further deleveraging in the US economy will occur. I would agree but this should have little influence on the US dollar. My guess is that the only deleveraging capable of giving the dollar's rally a second wind, would come from outside the USA. However this is not evident in the recent price action.

While Stephanie Pomboy was mainly questioned about the US economy by Barron's, I was particularly interested in this section, of relevance to all Fullermoney subscribers:

*Where do you see opportunities?*

In terms of absolute returns, it is going to be very hard to come up with really compelling ideas. I like hard assets in this environment, gold in particular, where basically the major currencies are all being debased. I also think emerging markets, on a relative basis, are going to do much better than developed markets are.

We are all hanging on the edge of our seats to find out if China can pull off keeping its economy going while the rest of the world goes down the tubes. This shock-and-awe stimulus that China is applying to its own economy certainly speaks to its urgent motivation to ensure that its GDP growth stays at 10%-plus. So with the arsenal of foreign reserves they can continue to tap to support growth, I would be looking at going long equities in emerging Asian countries, including China, as well as commodities, which move hand-in-hand with emerging markets.

Gold is clearly the alternative currency or preferred asset of choice for some investors and bullion's technical action is slowly improving. As for China, we are indeed "all hanging on the edge of our seats to find out if China can pull off keeping its economy going...". I believe that risks to China's economy, although not necessarily its stock market, are still to the downside. However the stock market can only look beyond the economic risk if there is a good chance that the PRC's stimulus will begin to succeed in the next few months. Watch the rising lows on the Shanghai Composite's [chart](#), as they are an important and encouraging feature of base development to date.

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

"Welcome back...just trying to get some clarity on the situation...seems investors are looking in the wrong areas in terms of comparison to valuations and are not taking a realistic view of the current situation. This is not 29..73..82..02..this is 08.

"Comparing current valuations and situation to the 74, 82, or any other historic low would seem to have little bearing on the current situation. Reason being...1) Its called leverage on Wall Street and living beyond your means on Main Street...this will need to get unwound on the consumer level (70% GDP) 2) in 82 the boomers (70M strong) were starting to invest in households not to mention Reagan grew the deficits due to the cold war. The major difference in those deficits to the current mess is that we have produced a bubble in housing which was financed with debt.

"As the boomers begin to sell off assets to use for retirement this will put most assets on offer...while, the next generation (that's me) is ill prepared to purchase them. We have been thru stock market bubbles, housing bubbles,

and now a credit bubble. There is clearly no pent up demand for speculation in this generation. They have played and lost. Repeatedly. I envision some downsizing and saving which should put a lid on most longer term rallies.

"The rally in bonds only makes the situation more difficult to navigate. I'm hoping I'm positioned properly when that rally reverses! Gold makes more and more sense.

"The developed world has lost TRILLIONS in wealth and their (developed worlds') work force is being challenged by lower waged labor (Emerging markets).

"It seems this is a battle between Central Banks and Corporations and Developed vs Emerging populations. As Bob Dylan said, when u got nothing you got nothing to lose.

"Hope I made my point and didn't ramble to much. Very confusing stuff to think about/position for let alone write about.

"I'm sticking with being long NEEDs and Short WANTs. At some point the USD or US Bonds are going to run into problems...Let the charts lead the way."

My comment - Thanks for your summary, which will resonate with other subscribers. Yes, historic comparisons with other economic cycles are less helpful this time. Cycles in sentiment are perhaps more useful, which brings us back to the charts.

With all the uncertainty, the one thing that we can agree on is that in markets, price charts will always lead the way. Assuming reasonable tactics and not too much leverage, we mainly get into trouble when we ignore the trend information revealed by price charts. We do that for all sorts of reasons, from overconfidence to denial. I suspect that given all the questions and uncertainties, most of us reading this copy will pay extra close attention to the price trends, as they unfold. I know I will.

Meanwhile, there have been some interesting clues recently. Here are a few:

The US Dollar Index ([weekly](#) & [daily](#)) has completed a small top. Gold ([weekly](#) & [daily](#)) is firming. Government long-dated bond prices ([weekly](#) & [daily](#)) remain firm, albeit somewhat overextended. Stock markets ([weekly](#) & [daily](#)) are still in overall downward trends but have seen some ranging mean reversion towards the declining 200-day moving averages since mid-October.

John Husselbee: Keep following the Fundamentals - My thanks to the Chief Executive of North Investment Partners Ltd for this interesting and timely [report](#). Here is the opening:

It was George Soros, the trader that made a fortune betting against the British Pound in 1992, who once said "short term volatility is greatest at turning

points and diminishes as a trend becomes established..." Volatility remains a key feature of today's financial markets with investors not knowing whether to squeeze the trigger or pull the plug. The market's daily ups and downs are not driven by fundamental factors but rather by emotion. The VIX, the Volatility Index, is the gauge most widely accepted as the best indication of investor's risk appetite. It measures the market's expectation of short term volatility of S&P 500 Index. Commonly referred to as the index of fear and greed, it provides scale of 'fear' from zero to hundred. On average, it hovers around 20 or below. This is the level where investors are considered to be relatively confident about the future. Throughout this recent credit crisis we have seen this indicator reach record heights of 80 and above.

As the pendulum of fear and greed swings, it allows the extremities to be reached as investors become too optimistic in bull markets and too pessimistic in bear markets. As the markets go through cycles so too does investor behaviour. This is illustrated by the investor psychology cycle diagram below which was produced by South African based RMB Unit Trusts.

Before trying to establish what stage of the cycle most investors find themselves in this current market situation, let's consider each of the stages.

My view - [There are variations on the Investor Psychology Cycle and I think John Husselbee has reproduced the best one. I also agree with his assessment as to where we are in this cycle.](#)

Here is a second [report](#) by John Husselbee - [You don't want to be Alice! It arrived when I was away for family medical reasons but is no less relevant today.](#)

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

"David, I forgot to mention that Fred Harrison tried to warn the Conservative Government in 1987 of an impending [*Ed: economic?*] crash (which I believed began in 1989) and he again warned the newly elected Labour Government in 1997, but as we know they did not appear to listen to him. I would strongly recommend the book 'Boom Bust' as he draws on a very long period of history in his analysis."

My comment - [Thanks for the recommendation.](#)

Email of the day (3) - [On Rio Tinto bonds versus shares:](#)

"David - pls see the below item that appeared in Bloomberg today [*Ed: last week*] regarding Rio Tinto. This was after their debt reduction announcement.

"The yield on Rio's \$2.5 billion of 5.785 percent bonds maturing in 2013 fell for a second day, declining six basis points to 16.64 percent, according to prices from BNP Paribas SA. The price of the bond rose 0.2, or \$2 per \$1,000 face value, to 66.38 by 5:42 p.m. Sydney time"

"Q: Would Fullermoney subscribers who are currently invested in Rio stock be better off switching into the above bond?"

My comment - I did not see the full article but suspect that this is a subordinated rather than senior bond. Nevertheless, the yield is attractive for bond investors. However the answer to your question depends on how pessimistic or optimistic you are, regarding Rio Tinto's long-term prospects. If you think a global economic recovery will commence in the next few years, as I do, then my guess is that the shares have more potential between now and 2013.

My personal portfolio: Gold futures long reopened; silver futures long increased - Early this afternoon, I reopened half of my previous [gold](#) long, paying \$825.3 for a February position. I then increased my small remaining [silver](#) long by 200%, paying \$10.31 for a March position. I might have been more aggressive except that both were trading near the top of recent ranges. However after they rallied further as the afternoon progressed, I decided to err on the conservative side and introduced breakeven stops. I think that leveraged positions need to be managed fairly actively given the likelihood of continued volatility. This evening, I increased the gold holding by 50%, paying \$833.9 for an additional February position. Prices above include spread-bet dealing costs.

Email of the day (4) - On gold:

"Having listened to what you have been saying recently in the audios and daily comments I couldn't help thinking how plausible this [article](#) appears to be. On its own I would be prepared to dismiss it as cranky but I would be most interested to know your reaction to it."

My comment - Thanks for including a very interesting article. It is well written, which attracts my interest, and a lot less cranky than some articles we have seen. However I am always wary of extreme forecasts and am not interested in the eyebrow-raising numbers mentioned for gold, which we have heard before. Targets are guesswork and can too easily distract us from reality.

I suspect it does not matter whether the article is prescient or far fetched, because I think all gold bulls are currently onto something. These are scary times. [Gold](#) feels comfortable in this environment. It is still appreciating against most currencies, including [sterling](#), and also [stock markets](#) (shown inversely).

Against this background, gold could spike higher once again - watch out if / when it maintains a break above that last high just over \$900. I am not saying a huge move will occur, because I do not know. However I want to be positioned for an upside move in precious metals at this time. The price charts are increasingly showing us that gold and [gold shares](#) are performing once again.

Email of the day (5) - [On the current financial crisis:](#)

"As an investor, not a trader, I am particularly interested in how the current financial crisis will be resolved long term. I see nothing in any government actions taken or planned that point towards a resolution one way or another.

"I wonder how the world can pay off the debts created in the now popped bubble? It can't. It can only inflate currencies and pay debts at perhaps 25 - 50% of their original value. The US and other countries have thrown \$Trillions into re-liquefying markets with no certain impact yet evident, good or bad. These schemes are camouflaged currency inflation plans. Now US Treasury Bill yields have gone negative. The \$Trillions pumped into the system are flowing back in the US Treasury!

"Instead of complicated rescue plans, perhaps the simple, direct solution is to give vouchers to US consumers to use to purchase GM, Ford, or Chrysler cars, pay down mortgages, or spend on education, food, etc. A sum of \$10,000 for every US citizen would equal the \$3Trillion already spent. Of course that would unveil the naked truth to the public of what a fiat currency, and all the bailouts really mean. Instead of a naked emperor who thinks he is clothed, we have the crowd thinking the naked emperor is clothed.

"As always, the FM forum is a psychic oasis of thought and knowledge."

My comment - [Thanks for a great summary. In a way, are we not seeing a less democratic and less all encompassing version of your \\$10k handout to every citizen? If I was one of the recipients, I would put the \\$10k into a gold bullion fund.](#)

Email of the day (6) - [More on Tobin's Q:](#)

"Below is a self-explanatory excerpt from the Moneyweek newsletter. I would be interested in your reaction to this. Also, can you produce a chart of Tobin's Q in the library?"

*"Cue Tobin's Q. This is a ratio developed by Nobel Prize-winning economist James Tobin to compare the market value of companies to the cost of their constituent parts, i.e. their real net asset value.*

*"When the gauge is more than 1.0, it indicates that the market is overvaluing company assets, while a reading of less than 1.0 suggests shares are undervalued because it's cheaper to buy quoted companies than build them up.*

*"The Q ratio on US equities has now dropped to 0.7 from a 1999 peak of 2.9. That could indicate shares are now cheap.*

*"But think again. The ratio needs to fall to 0.3 to signal the final stage of a major bear market like this one, says Russell Napier at CLSA. How does he*

*know? Because that's what it did at the end of the four largest US stock price declines in 1921, 1932, 1949 and 1982. That translates into the US S&P 500 index plunging another 55% by 2014. Ouch.*

*"But between now and then, there's certainly a good chance of a bear market rally - maybe up to two years long, so those strategists may be right about 2009 - as Obama and the US Fed manage to delay the start of deflation with New Deal II. But those efforts will eventually blow up as ballooning government debt devalues the dollar and prompts a massive share sell-off - on both sides of the Atlantic.*

*"Bear markets always end when they begin 'pricing in' deflation, as the value of assets falls and the value of debt stays up, so equity gets crushed", say Napier. "The results are always horrific, and equities will become incredibly cheap". Albert Edwards at SocGen has christened this period the Ice Age.*

*"Another bull market will start in time. But as Edward's description suggests, it's still a long way away."*

My comment - Thanks for this item. We cannot put the Q Ratio in the Library because it is not quoted in Bloomberg. However I suspect we will continue to hear about it, from subscribers, articles and reports.

The Q Ratio could drop into the 0.3 region, as we have seen before, but the S&P Index does not have to fall another 55% to accommodate it. Valuation lows are seldom seen at numerical troughs for stock market indices. In the generational long valuation contraction mentioned by Fullermoney on occasion throughout this decade, the process has occurred against the background of GDP growth and investor apathy. We last saw this in 2Q 1982, as I have mentioned before. However the background was very different then - with high interest rates and inflation fears. I think a Q Ratio in the 0.3 region is more likely to next occur against a similarly inflationary environment.

Please note - Eoin returns on Tuesday 16th December.

## **Tuesday 16th December 2008**

Fed Cuts Rate to as Low as Zero, Signals Asset Buying as Next Step - [Here is the opening from today's big story:](#)

The Federal Reserve cut the main U.S. interest rate to as low as zero for the first time and shifted its focus to the amount and type of debt it buys, seeking to revive credit and end the longest slump in a quarter-century.

The Fed "will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability," the Federal Open Market Committee said today in a statement in Washington. "Weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time."

Stocks soared, while Treasury notes rallied in anticipation the Fed will buy the securities to reduce borrowing costs for consumers and companies. Nine rate cuts in the prior 14 months and \$1.4 trillion in emergency lending had failed to reverse the economic downturn. The Fed said today it will target a federal funds rate of between zero and 0.25 percent, a reduction from the 1 percent level that the Fed failed to hit.

Announcements of new lending programs or asset purchases will now be principal signals of policy, a senior Fed official said in a conference call with reporters. The central bank is considering whether to provide more information about the composition and targeted size of its balance sheet, the official said on condition of anonymity.

### Stimulate Economy

"The focus of the committee's policy going forward will be to support the functioning of financial markets and stimulate the economy through open market operations and other measures that sustain the size of the Federal Reserve's balance sheet at a high level," the FOMC said.

The dollar tumbled against the euro and yen. Stocks climbed, pushing the Dow Jones Industrial Average up 359.61 points, or 4.2 percent, to 8924.14.

"The Fed is sending a message that it will print money to an unlimited extent until it starts to see the economy expanding," William Poole, former president of the St. Louis Fed and now a senior fellow at the Cato Institute in Washington, said in an interview with Bloomberg Television. Poole is also a contributor to Bloomberg News.

The statement noted that the Fed has already announced it will purchase the debt issued or backed by government-chartered housing finance companies, and said the Fed is ready to expand the program. The central bank said it continues to weigh the potential benefits of buying longer-term Treasury securities.

My view - It has been fashionable to say in recent months that the Fed and other central banks have variously lost control, or run out of ammunition and that they are powerless to prevent a deflationary depression. It may have looked and felt that way at times, given previously slumping markets and shocking corporate disclosures, followed by delayed and erratic policy responses, but this view seems unduly pessimistic today. It is not the Fullermoney view.

Yes, the economic outlook remains dreadful and that includes corporate results. I assume that the recessionary trend will become worse before it next improves. However the difference between another wave of capitulation selling in the stock market and the beginning of a bottoming out process is usually a matter of liquidity and confidence.

The debate will continue but watch the price charts; they are our reality check in terms of market supply and demand, and also sentiment.

In Audios during the last two weeks, I have been saying: Watch the early-December lows because if they hold, the yearend and 1Q 2009 rally potential is intact. Moreover, indices cannot retest their lows, let alone undergo another downward leg, without first breaking the early-December lows. And if Wall Street's action on Tuesday triggers a further rally this week, many indices will have a new, higher low following the small reaction in mid-December.

For some interesting and revealing technical patterns, see the chart review below.

Email of the day (1) - On sterling's devaluation:

"Thank you for a great service which I have found invaluable in helping to make some sense of these interesting times in which we live.

"I have read remarkably little commentary in the press about the impact of the recent fall in Sterling. Surely, this is (perhaps unwittingly) a 'competitive devaluation' (a la 1930s) and I am surprised that there have not been more protests from European neighbours!

"To put it in perspective, from one year ago, the Euro has risen by 23% against Sterling, the Dollar by 39%, the Chinese Renminbi by 49% and the Yen by a staggering 69%. These are large movements and remind me of when Sterling dropped out of the ERM in 1992. I would suggest two potential consequences that perhaps have not been fully recognised by the markets.

"Firstly, despite the sharp falls in basic commodity prices, there is surely an inflationary bias in the impact of these changes on import prices - particularly goods coming from the Far East. This makes it less likely that lower yields on Gilts will be sustainable compared to Treasuries or Bunds. I would anticipate a brief fall in UK retail prices next year before rising inflation into 2010 as the VAT cut is reversed.

"Secondly, the effective devaluation should be beneficial for UK companies in the medium term (as happened post 1992) - both in terms of overseas earnings translated back into Sterling and for UK exports.

"The FTSE 100 is currently on a lower PE and higher DY than the S&P 500 and perhaps it is therefore better value (spread bet: long FTSE/short S&P ?). To my inexperienced eye, the FTSE chart is beginning to form a more convincing base than the S&P and indeed has started to outperform on a relative basis. On a 20 year view, it could outperform by a lot more.

"One caveat is that the FTSE has a heavier weighting in Financials and Resources versus the S&P which is heavier in Technology and Health stocks. So whether this is a profitable trade depends partly on one's views about the relative merits of these sectors. And of course exchange rates can quickly

reverse although at present Sterling does appear to be in freefall...  
£1=e1=\$1=Y100 ????"

My comment - Thank you for your kind words, and a very knowledgeable and informative email.

I agree with your comment about, "remarkably little commentary in the press about the impact of the recent fall in Sterling." I can only think that it has been overshadowed by even bigger stories of the ongoing credit and solvency crisis, 'deflation and depression' talk during a precipitous decline into global recession, and the US dollar's strong rebound from July until this month.

I suspect we have not heard more protests from European neighbours because they have welcomed the euro's slump from \$1.60 against the dollar. Also, Eurocrats would accept sterling's decline if it paved the way for the UK's ERM entry at a somewhat higher level. President of the European Commission José Manuel Barrosa has been wooing the UK recently.

Regarding two potential consequences which you suggest as a result of sterling's weakness, I agree that there are long-term inflationary risks for the UK, in any environment other than a Japanese-style deflation. Many think this could occur but I continue to doubt it given the quicker response and massive policy stimuli from the UK and other governments, compared to Japan in the early 1990s.

I maintain that governments could mitigate this eventual inflationary risk if they raised interest rates and reduced public spending early on in the next recovery, but they seldom find it politically expedient to do so. Meanwhile, sterling's slide provides some welcome respite for exporters, as you point out.

Regarding relative stock market performance, I have always felt that the UK tracked the USA, albeit with a somewhat higher beta. Therefore your proposed spread-bet pears trade should provide a modest profit in a rising market. You will appreciate that the more lucrative trade by far is to anticipate successfully the short to medium-term trend and participate without the hedge.

These markets have been full of surprises, not least in terms of volatility, but with the currency race to the bottom (competitive devaluation), I would not bank on the round number targets mentioned in your concluding paragraph.

As carry trade currencies, when the yen and US dollar next weaken in tandem, I would expect resources currencies to become stronger. They have frequently been on opposite sides of the same story.

Email of the day (2) - On when to buy China and India:

"I am a new subscriber of a few months who would like to be able to buy Emerging Market ETF(s), including China and India, at a time favorably recommended by this site.

"I had thought that there might be discussion of appropriate vehicles for us to consider but have not really seen that to date. The information I am presently able to glean from reading charts is minimal.

"You have a wonderful service and I thank you in advance for your guidance here. I read/listen to the daily sharings and the daily audio and have been much benefited in doing so."

My comment - Welcome to Fullermoney and I am delighted to hear that you are finding the service beneficial in this challenging environment.

I assume from one of your comments that you are comparatively new to price charts. Do not worry; I suspect you will learn quite a lot from observing the chart illustrations and discussions, since our approach is factual / behavioural.

Fullermoney does not actually make recommendations, for two reasons. 1. It would be a question of recommendations for whom? We have a global subscriber base, comprising different interests, approaches and priorities. 2. Recommendations are not our style. It is a control issue and we think subscribers are in the best position to know what is appropriate for them.

Consequently, Fullermoney is about Empowerment Through Knowledge. We want this service to empower subscribers by providing views - our own every day and also those of an often knowledgeable Collective, which send us emails, articles and reports of interest. Eoin and I also tell you exactly what we are doing with our own money. Last and not least, we provide a comprehensive, customisable Chart Library, containing instruments of interest to subscribers.

The Library has two Search Engines. One searches approximately 17,000 equities, funds and ETFs in the International Equity Library. The other searches through indices, commodities, currencies, bond prices and yields, funds and ETF-type instruments, plus ratios, spreads and chart overlays. In other words, there is some overlap among funds and ETF-style instruments.

This may sound complicated but the Search Engines make it simple, once you know that there are two sections to the Library. For instance, you specified ETFs for China and India. Enter the Library, click on Search, type in China and click on Find. It will show you a list (subscriber logon required), containing everything with China in the name, including a number of funds, ETFs and iShares, some of which are likely to be of interest to you. Then click on the International Equity Library, and also click Find. It will provide you with another list. There may be some duplication but you will soon spot what you are looking for.

I suggest the following route for finding specific items in the Chart Library. First, type the name of the instrument in the Search window and hit Find. If you do not get the desired result (spelling must be correct as we are not Google) click on the 'Search the International Equity Library' tab to the right of the Search box. This will bring up the Search box for the International Equity Library. Just click on the Search button to search the equity database.

Among iShares for China, which are very similar to ETFs, I happen to have a position in the [iShares FTSE Xinhua China \(UK\)](#), which invests in a portfolio of mainly Hong Kong listed companies and is denominated in sterling (additional information is available via Google). Since you live in the USA, you may prefer the US dollar-denominated version ([FXI US](#)). Or you may want a closed-end fund such as the [China Fund Inc \(CHN US\)](#), which currently trades at a 12.66% discount to NAV.

You can do the same searches under India. For instance, I have a position in the [JPMorgan Indian Investment Trust UK \(JII LN\)](#). On a quick search, the US-listed iShares and ETNs for India were thinly traded, so if you want a US vehicle you may prefer one of the funds, such as the [India Fund Inc \(IFN US\)](#) and there are many other choices. We always suggest that you do your own due diligence regarding funds and shares.

On timing, I have said for several months that these markets had fallen sufficiently so that one could nibble on weakness, taking a long-term view. My guess is that [China](#) has not only bottomed but is also leading the way back up. However the case is not proven, and will not be until we see base formations for China and most other markets, plus breaks above the 200-day moving averages, which have also turned up. At that point, the next bull market should be well underway.

Email of the day (3) - [On our approach to technical analysis:](#)

"I continue to find Fullermoney a useful service, glad to have been recommended this service.

"As a relatively new subscriber I am unaware of which types of technical analysis you typically use. I often read in your comments of the day regarding possible support and resistance levels or trends. How do you typically reach that conclusion?

"For example do you use double moving average, Fibonacci ratios etc. Do you follow a strict rule with weighting to allow various technical analysis of the chart to guide you. Or do you rely purely on your past experience and fundamentals. I imagine it's a combination of all the above depending on market conditions."

My comment - [Welcome to Fullermoney and thanks for your comments.](#)

The Fullermoney approach to technical analysis has evolved over nearly 40 years. Essentially, it is factual / behavioural, which is why it is called Behavioural Technical Analysis at The Chart Seminar, which Eoin now conducts. Scroll down on this [TCS link](#) to 'David Fuller's Behavioural Technical Analysis'. You can read more about this by also searching the Home Page for Behavioural Technical Analysis.

At Fullermoney we love chart facts but are not really interested in technical theory. What are chart facts? Here are a few examples. Is the market trending

or ranging? If trending, is it consistent, indicating an imbalance of supply and demand, or inconsistent? If becoming inconsistent, indicating a struggle between supply and demand, does it show any evidence of Type-1, 2 or 3 top or bottom formation development, as taught at TCS?

I have also described myself as a technical naturalist, observing the market herd. Analytically, I let myself down when I become a pundit rather than an observer.

My personal portfolio: Gold and silver trading longs partially closed; BRWM long rolled forward - Suspecting that there may be some volatility following this evening's FOMC meeting, as a precaution I took partial profits in [gold](#) and [silver](#) today. One-third of my February gold longs were sold at \$840.3 this afternoon against yesterday's purchase at \$833.9. I also sold one-third of my March silver long at \$10.755, against the purchase at \$10.335 on 28th November. However I then repurchased the February gold at \$836.6 and resold it at \$841.50, just before the FMOOC announcement. My premature purchase of a trading position in the BlackRock World Mining Trust ([BRWM LN](#)) was rolled forward at a loss today. My expiring December position was sold at 220.863p, against my purchase at 321.9p on 14th October. A March position was simultaneously purchased for me at 220.37p.

Lastly, as I will be away tomorrow, I also took advantage of this evening's additional strength in gold and sold the remaining two-thirds of my futures positions at \$851.3 against my purchase at \$825.3 on 15th December. I will certainly remain a buyer of precious metals on setbacks. Currently, my biggest futures position in precious metals is now in [platinum](#), the flat lining laggard, produced almost entirely in South Africa and prone to supply shortages as we saw earlier in the year. The remaining two-thirds of my silver position is protected with a trailing stop.

Prices above include all spread-bet dealing costs.

Today's interesting charts - This is a good time to review items of potential interest in the Library. It is usually time well spent and you may be surprised by some of what you see.

USA (S&P 500) - A mean reversion [ranging rally](#) towards the declining 200-day moving average is underway. This could even be the beginning of base formation development given the previous climactic sell off. On the daily [chart](#), a close beneath the early December reaction low near 815 would be required to question current scope for an additional ranging recovery.

USA (Gold Bugs Index) - One of the best performers [recently](#) and back to initial resistance; however a downward dynamic is required to check [momentum](#) beyond a brief pause.

UK (FTSE 100) - [Same](#) as above and a close beneath [4000](#) is required to offset scope for sideways to higher ranging.

Germany (DAX) - [Same](#) as above and a close beneath [4300](#) is necessary to offset potential for sideways to higher ranging.

China (SHCOMP) - Loss of downside momentum [evident](#), including a failed break beneath the September low, but needs to hold above [1850](#) and push above early-December high to signal additional recovery.

Silver - Upward [break](#) from small, rounding base; would require a close beneath \$10 to signal upside failure and offset current scope for sideways to higher ranging.

Platinum - [Potential](#) base and would require a new closing low to offset scope for an upward break.

US Dollar Index - Fallen back to first [level](#) of potential support and looking somewhat overstretched, but this pattern is unlikely to support more than a temporary bounce before a further retracement of previous gains occurs.

US 30-Year Treasury Bonds - Resumed explosive [advance](#) which looks overextended but a close beneath [135](#) is now required to question current upward momentum.

Please note - [I will be away on Wednesday.](#)

Additional Commentary by Eoin Treacy

The Financial Crisis and the Policy Responses: An Empirical Analysis of What Went Wrong - [Thank to a subscriber for this interesting study](#) by John B. Taylor at Stanford University covering policy mistakes made to date and practices that can be instituted to prevent them being repeated. Here is a section from the conclusion:

"Conclusion and Policy Implications: Domestic and International  
In this paper I have provided empirical evidence that government actions and interventions caused, prolonged, and worsened the financial crisis. They caused it by deviating from historical precedents and principles for setting interest rates, which had worked well for 20 years. They prolonged it by misdiagnosing the problems in the bank credit markets and thereby responding inappropriately by focusing on liquidity rather than risk. They made it worse by providing support for certain financial institutions and their creditors but not others in an ad hoc way without a clear and understandable framework. While other factors were certainly at play, these government actions should be first on the list of answers to the question of what went wrong.

What are the implications of this analysis for the future? Most urgently it is important to reinstate or establish a set of principles to follow to prevent misguided actions and interventions in the future. Though policy is now in a massive clean-up mode, setting a path to get back to these principles now should be part of the clean-up. I would recommend the following:

First, return to the set of principles for setting interest rates that worked well during the Great Moderation.

Second, base any future government interventions on a clearly stated diagnosis of the problem and a rationale for the interventions.

Third, create a predictable exceptional access framework for providing financial assistance to existing financial institutions. The example of how the International Monetary Fund set up an exceptional access framework to guide its lending decisions to emerging market countries is a good one to follow.

Some of these reforms require a rethinking of the international financial architecture and others are purely domestic. For example, to keep policy interest rates on track in a globalized economy it would help to introduce the notion of a global inflation target. This would help prevent rapid cuts in interest rates in one country if they perversely affect decisions in other countries. Policy makers could then discuss global goals for inflation and the impact that one central bank might have on global inflation. In contrast, developing exceptional access frameworks for central banks and finance ministries could be done in each country without a global structure. Similarly setting controls on leveraging at the financial institutions could be done in each country.

Finally I want to stress that the research presented in this paper must be considered preliminary. We are still in the middle of the crisis and more data need to be collected and analyzed. There are and will continue to be differences of opinion. Carefully documented empirical research is needed for sorting out these differences. We should be basing our policy evaluations and conclusions on empirical analyses not ideological, personal, political, or partisan grounds.

My view - I have not read this report in its entirety, but I agree there is certainly a need for some guidance on what companies can be allowed to fail and which cannot. The Lehman Brother debacle is a clear example of where policy mistakes sent the market into the tailspin it is still struggling to recover from.

Weak companies need to be allowed to fail without that process upsetting the whole financial system. It would be helpful for investor confidence if it were made clear what the criteria are for this type of decision.

A global inflation target is probably too much to ask for at this stage, but we now know that concerted international intervention is possible when the health of the global economy is at stake.

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

Indian markets have returned to business as usual following the horrendous attacks in Bombay on November 26. Since then the SENSEX is up 11%. Investors have shown defiance to terrorism and sentiment has been aided by the local 100bp interest rate cut and US\$4bn economic stimulus package (cut in taxes plus measures to help business and industry, including property). The planned EU-wide stimulus package of Euro 200bn, together with talk of US President-elect Obama favouring a further US\$1000bn stimulus package for the ailing US economy, should support global stock markets. This, in turn, should help the SENSEX to rally to around 11,000 points from recent oversold levels. However, fresh lows are expected, given the Indian economy's rapid deceleration (as shown by sharply lower industrial production and exports). GDP growth averaged 9.2% for the last 3 years but we expect it to slow down to 7.1% to March 2009 and 6% the following year. Foreign Institutional Investors have sold a record US\$13bn of Indian equities in 2008 as they faced heavy redemptions in home markets and deleveraged emerging market risk. Last year they bought a record US\$17.4bn. Hope comes from the falling trend in inflation, which allows room for further interest rate cuts of up to 100bp in the next 6 weeks. This should stimulate demand. Since the economic reforms of 1991, "normal" bear markets in India have lasted on average 15 months and have bottomed out around a P/E of 10x. This is not a "normal" bear market and P/E valuations may well bottom out around 8x. Currently, the SENSEX - which is 51% down YTD at 9,832 - trades on a P/E of 10.8x and could test the 7000 area by March 2009 before consolidation sets in. The bear market has more bite left.

My view - The US Dollar encountering resistance near [R50](#) is one of the most important things that has happened in the Indian markets over the last few weeks. It would now need to sustain a move above that level to question further potential for top formation development.

The Rupee's significant weakness over the last year has been a headwind for the foreign investors but has improved India's relative performance for domestic investors. Its weakness has made sure that gains made by foreign investors were eroded more quickly than has been the case in reactions since 2002. If, as seems likely, the Dollar is forming a top around current levels, foreign investors may be tempted to reassess the bullish potential for many emerging stock markets, not least India's.

The Indian economy faces a number of challenges, in common with just about everywhere else, but inflation is not going to be a problem for the foreseeable future. The [Sensex](#) Index found support near [7700](#) in October and rallied from near 8300 in November. These lows would need to be taken out to offset current scope for some additional upside.

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 hit historically oversold levels in early October as the [S&P 500](#) and [Dow Jones Industrials](#) hit important lows. The Indices and indicator have both consolidated over the last two months and mean reversion is certainly occurring.

Although both indices are likely to be well off their lows by the time it occurs; sustained moves above their moving averages will indicate that a new uptrend has commenced.

Email of the day (1) - on commercial paper rates:

"In the Financial Times of 10 Dec. there is a very good article about A1/P1 and A2/P2 com. paper. The Fed is supporting the A1/P1 market and there is a big difference in yields between the first and second tier paper.

"Could you please give us graphs of A1/P1 paper yields?"

"I have a related question. The chart library already has a graph of A2/P2 paper. There is a big difference between the yields of the 30 day and the 90 day paper. I do not understand the reason for this difference. I would appreciate your comments."

My comment - Thank you for this interesting question. When I went to the Financial Times' website to search for the article you refer to, the server was busy so I couldn't access it. I added charts for A1/P1 [30](#) and [90](#)-day yields supplied by Prebon Yamane to the Chart Library however, the data is quite spotty.

I'm afraid, I do not know why the [30](#) and [90](#)-day A2/P2 yields are trading so remarkably differently and would welcome an explanation from an informed subscriber.

Email of the day (2) - on the relisting of the Investec Global Energy Fund:

"Investec Global Energy Fund [GUIGLEI](#) is not price up dating since October...suggest this is because fund has changed domicile from Guernsey to Luxembourg and ticker has changed."

My comment - Thank you and other subscribers for alerting us to this change. I have downloaded the data for the new listing and this can now be found in the Chart Library.

Email of the day (3) - on Proshares Ultrashort Lehman 20yr+ Treasury Fund:

"Thank you for every day commentaries. TLT is not the only way to go short long us bonds. You can buy [TBT](#), which is 200% short the long U.S. bonds."

My comment - Thank you and other subscribers for pointing out this interesting fund which can be found in the Chart Library.

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

"Firstly thank you for your great web site I am finding it very informative and helpful. Please could you add the following funds to the chart library?"

"OMG Thames River [Emerging Markets](#) Equity fund  
OMG Aliquot [Commodity](#) fund

"Thanks in advance"

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

Email of the day (5) - on additions to the chart library.

"Can you add the M2 money supply and the velocity of money for Ireland and the UK to the chart library if they are available within Bloomberg?"

"It would be interesting to keep an eye on these figures and to see if they are reducing or increasing."

My comment - I've added [M2 indices](#) for the EU but could not find relevant statistics for the UK. Bloomberg appears to only carry data for M0 and M4. The M4 data is already in the Chart Library. I'm afraid I couldn't find velocity of money numbers for either of these economies.

Email of the day (6) - on Canadian Income Trust yields:

"Do you have any information in the chart library on Canadian income trusts and the current dividend yields available for investors who look for high income paying equities and who understand the risks?"

My comment - Thank you for this interesting question, however it is not possible for us to display this type of data in the Chart Library because we do not get it in our feed from Bloomberg.

Email of the day (7) - on Chart Library development:

"Although you probably do not use Bollinger Bands, would there be any possibility to adding the indicator to the chart analysis options presently available? For me, Bollinger Bands provide an indication of existing volatility for any equity that I may be monitoring (particularly useful when interested in buying/selling options). Please advise."

My comment - Thank you for this suggestion. The addition of Bollinger Bands is on our development list. However, our two highest priorities are to introduce the ability to rebase charts to a common base and to combine the Chart Library search engines.

Email of the day (8) - on more additions to the Chart Library:

"Would it be possible to add Volgatelecom ([VTEL RM](#)) to the chart library? There is a Volgatelecom stock already in the library (NNSI RU) but this appears to be traded infrequently and on low volumes. Similarly for Norilsk Nickel, would it be possible to [GMKN RM](#) to the chart library. Thank you for an excellent product."

My comment - Thank you for alerting us to these additional listings which have now been added to the Chart Library.

Last week's signups for the Free (Abbreviated) Comment of the Day - For the week of December 7th new signups, including subscribers and pre-subscribers, live in the following countries or regions: Australia, China, Hong Kong, India, Ireland, New Zealand, Sweden, the UK and the USA - 8 in total. In descending order, which topped the list in terms of the last week's new signups? It was Australia, the USA and the UK.

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.

### **Wednesday 17th December 2008**

Commentary by Eoin Treacy

Email of the day (1) - on Canadian Income Trusts:

"This is in reply to yesterday's e-mail re Canadian Income Trusts (Funds). All can be found under the International section of the chart library and each is distinguished by having "-U" at the end of the market code. Some are relatively invulnerable to the present market down turn and others not. e.g. Pembina Pipeline Fund (PIF-U) has pipelines that convey oil or natural gas from the producer wells or oil sands to the refinery at prices that are determined for medium to long term and are relatively unaffected by market downturns. It yields 10.2% at today's price that is only 8% down on the price that I paid in Q4. 2007.

"Similarly Northland Power Income Fund , that produces electricity that it sells to municipalities under long term contracts is fairly immune to market influences, strongly into wind power as well as conventional, yields over 10% p.a. and is only 6% lower than I paid in Q4 2007 so that on the year I am showing a profit.

"There is a good, small conservative newsletter (in which I have no financial interest - except that I am subscriber), costing only a hundred Canadian dollars a year ( 100 pounds approximately) or so, that monitors and reviews every two weeks a selected group of 20 or so Income Trusts, giving good financial and business analyses. They are not promoters. It is called "The Money Reporter" and is the fixed income letter of the Investors Digest Group.

"One can get very much higher yields from vulnerable Trusts such as oil and gas producers whose yields of 15 - 20% reflect earnings of 3 - 9 months ago and are presumably due to reduce their yields fairly soon. But their share prices have discounted this eventuality already (I have some of those too).

"Finally by keying [www.tsx.com](http://www.tsx.com) you can reach the Toronto Stock Exchange and dialing the corporate name or symbol, a good statistical thumbnail sketch of the Trust can be readily seen but note the yield quoted is a monthly yield not annual."

My comment - Thank you for this informative email contributed in the spirit of Empowerment Through Knowledge which I'm sure will be of interest to many other subscribers. We have a large number of income trusts in the Chart Library but are unable to display charts of their yields so the link to the TSX site should be useful.

The [S&P/TSX Capital Income Trust's](#) downtrend continues to lose consistency and a sustained move above 105 would signal base formation development. This index is made up of some widely differing members, many of which have come under significant downward pressure as earnings from the energy sector have fallen. However, they may also be good recovery candidates when oil shows more convincing signs that it is bottoming.

[Pembina Pipeline Income Fund](#) found support near the 2006 lows in October and continues to rally from the C\$13 level. A sustained move below that area would be needed to question scope for some additional upside.

[Northland Power Income Fund](#) has been in a volatile downtrend from its 2006 peak. It found support near C\$10 in October and would need to sustain a move below that level to question potential for some additional upside. A sustained move above \$13 is needed to indicate that the bulls have regained the upper hand.

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

"Please let me know, as I am not sure if you have a feature in Chart Library which allows us to see Year on Year % changes of say commodities prices for

example over a long period of time. I think it is interesting to see how this year compares with long term history for price changes of say oil, copper, shipping rates etc... My guess is that copper down move was unprecedented...

On China - personally I am a bit skeptical that China will drive us out of current problems. If anything everything I hear from people who been there recently suggests that country is full of capacity. Massive oversupply of real estate which no one uses or has money to use. They grew for over 30 years at 10% rates - this will end sharply as global consumption for their produce disappears. And mind you, having been born in Soviet Union (know how communists operate), I also think that Chinese Communists are cooking their stat data, especially debt data....If China crumbles we will be in trouble for much much longer..."

My comment - Thank you for an interesting question and comment. I'm afraid it is not possible to create percentage change charts in the Chart Library and in the case of some of the commodities you mention we do not have the extremely long-term data that would be needed to make such comparisons.

What is not in question is that commodity prices have fallen considerably over the last year. Demand destruction has quickly given way to supply disruption and a war is currently being fought between bulls and bears. The bears remain in control, although downtrends are beginning to lose consistency for a number of key commodities. The ultra low interest rate environment is also broadly supportive of this sector and suggests it may not pay to become increasingly bearish from here on.

I share your distrust of communist statistics. A system without a rigorous set of checks and balances is invariably corrupt and that doesn't just apply to communism. This [article](#) by Clifford Coonan for the Irish Times highlights the lack of free speech.

(This [article](#) by Hugo Restall for the Wall Street Journal, kindly forwarded by a subscriber also makes some interesting historical points.)

China could well slow more than many are forecasting, but they also have more cash with which to combat the problem that just about any other government. Inflationary pressures are much reduced, leaving considerable room for fiscal easing and infrastructure development remains a priority.

As long as economic growth is identified by the Communist Party as in line with its key ambition of remaining in power, then investors are likely to look past the lack of civil governance. However, if for any reason civil unrest were to spread beyond relatively isolated incidents and affect the functioning of the economy, then China's markets could come under considerable pressure.

I am a long-term bull of China and have a great love for the country and people but it will not be without its challenges. I believe communist autocracy is unsustainable in the long-term and how China evolves will have significant repercussions for the rest of the world.

Email of the day (3) - [on shipping rates](#):

"Good morning David, thank you and Eoin for your continued excellent service. The Collective may find the following of interest from the FT, another sign things are on the move - literally!

"Shipping charter rates soar Posted by Stacy-Marie Ishmael on Dec 15 05:30.

"One of the world's key shipping markets has begun to recover from a slump, with a revival in Chinese demand for iron ore and coal pushing some average charter prices up almost threefold in the past week. The revival in prices, after a disastrous six months for the industry in which charter rates fell nearly 99 per cent for the largest vessels, could encourage shipowners to bring mothballed vessels back into service. Average rates for Capesize ships, the largest dry bulk carriers and which move coal and iron ore, have nearly tripled over the past week. However, smaller ships have yet to show the same recovery as Capesize vessels, the FT said."

My comment - [Bulk shipping rates have collapsed over the last six months to levels not seen in a number of years. While the price of charters was an obstacle to increased demand earlier in the year, current rates are appetizing for anyone thinking of shipping goods in the short to medium term.](#)

[Capesize](#) rates fell from almost \$20,000 in June to a low of \$830 two weeks ago. The downtrend has been losing since late October and a sustained move to new lows would be needed to question scope for further base formation development.

The [Bloomberg Dry Ships Index](#) topped out in late 2007 and broke downwards from the extended top in September. The downtrend lost momentum from October and is currently rallying having found support near 1000. A sustained move below that level would be needed to question recovery potential. The yield on this index probably still resembles the returns available in June, but at 25.48%, it has significant room to pull back and still provide a very competitive return, assuming that shipping rates are bottoming out.

Email of the day (4) - [referring to David's comment on the Pound yesterday](#):

"That is a good email and your response is as well. I do have a little bit to say here for you. As you and the email-er know, the Euro and Pound have been very highly correlated against the \$US (as have all other currencies excepting Yen). Over many years the dollar collapsed against currencies around the world as we all know. In our investment circles we knew eventually the dollar would rally at some point. Well, it has and now looks as if it is going to continue its long downward trend. It might do so.

"However, I think the dollar might make a reprise rally in the coming months. It isn't because it deserves it, but this is based simply on my contrarian senses.

It took years (I live in Dallas, TX) for me to overhear random people talking about the weak dollar in restaurants and shops, etc. Between July and now I have heard tons of people talking about it. They didn't realize during the big dollar rally that, well, there was a big rally. So, my thinking is that it will take a while for the masses to realize something changed. I may be wrong but I think that soon (who knows when) the \$US will rally again and put in a longer term more complex bottom. That is not to say I am long-term bullish on the dollar, nor that I think world currencies won't rally for a while against it as the charts look very strong for many, if not all. In my opinion the Euro looks too strong for sustainability. It needs some consolidation at least. Yen? I have no idea. I am bullish on Yen but it has recently gone beyond what I thought was possible near-term. Perhaps, I am wrong about the \$US and we here are the new Japan with %0 interest rate carrying all trades around the world?"

My view - Thank you for this interesting email. You raise an important question about what follows a completed Type-2 top formation. We identified the loss of momentum and failed upside breaks for the [US Dollar Index](#) as potential Type-2 top formation characteristics from late [November](#) and we are now seeing the [massive reaction](#) against the prevailing trend. (For a definition of a Type-2 ending see Comment of the Day on [November 16th 2004](#).)

This appears to be a top of medium-term significance and almost certainly caps the impressive advance from June. A sustained move above 88 would be needed to question this hypothesis. From here, either the Dollar will fall directly back to test its lows or consolidate and decline more gradually.

Following a completed Type-2 top a period of right-hand extension is not unusual because the speed of the decline has such shock value that few of those long have time to get out. Sentiment remains bullish of the Dollar and we continue to see extrapolations of the upward trend forecast. This may fuel a relief rally before the downtrend resumes. A clear upward dynamic is needed to suggest that this outcome may unfold.

Central bankers will be alert to the threat of a Dollar collapse, so we should also be wary of becoming too bearish beyond the short to medium-term. Taking a step back, the impressive move from June broke the 3-year [downtrend](#) and while the move got overextended, the potential for a lengthy bottoming out process remains in place.

Email of the day (5) - on shorting the US Dollar:

"Do you or any of the collective know of an ETF that increases in value as the USD declines, referred to as an 'inverse tracker' I think. I may be dreaming, but sure I have heard it exists. I'm not knowledgeable, sophisticated or confident enough for futures at this stage in my investment career, but would like to participate in the USD decline over the next year or so, in addition to indirect exposure with PM's and the oil ETF - (USO:NYSE) etc."

My comment - I was having difficulty finding an inverse Dollar tracker until I saw this email this morning.

"Would you add the ProShares Ultra Euro ETF symbol [ULE](#) to the library?"

The ProShares Ultra Euro offers 200% exposure to the Euro and might be a vehicle that meets your criteria, if you are prepared for some additional leverage. I also added the ProShares [Ultrashort](#) Euro Fund to the Chart Library. Both of these funds have been launched recently so they do not have very much back history.

Email of the day (6) - on emerging market government bond yields:

"Deutsche Bank has a very interesting ETF, the Emerging Markets Liquid Bond Index (PCY). I would like to review the graphs of the components of this index. Many of them are already in the chart library.

"Could you please see if we can get the graphs of the following 10 year sovereign debt yields that are not in the library: Bulgaria, Brazil, Chile, Colombia, El Salvador, Hungary, Indonesia, Panama, Peru, Poland , Qatar, South Africa, Turkey, Ukraine, Uruguay, Venezuela and Vietnam.

"I would also appreciate any comments about this ETF."

My comment - Thank you for this interesting email. 10yr Yield charts for [Indonesia](#), [South Africa](#) and [Poland](#) can already be found in the Bond Yields section of the Chart Library. I added yields for [Brazil](#) (10yr US Dollar debt), [Hungary](#), [Peru](#) and [Turkey](#) (5yr). The Deutsche Bank fund is holding individual bonds but we are not able to display yields for specific instruments. All of the bond yields displayed in the Chart Library are generic indices compiled by Bloomberg.

Emerging market sovereign yields all rallied impressively in October to panicky heights and many have since contracted quite considerably. The Powershares Emerging Markets [Sovereign Debt](#) Fund broke downwards from its tight range in late September and found support near 12,5 by late October. It continues to rally and would need to sustain a move below 16 to question recovery potential.

Email of the day (7) - on wave energy:

"I am starting to get more interested in wave power technologies. As I only know one credible (US) company called "Ocean Power Technologies Inc" (ticker=OPTT) so far, I would be very appreciative if our family (FM Subscribers ) could kindly contribute by advising few but credible names of Canadian & Australian companies they may know involved in this particular technology field .

"Thank you very much, and please continue to keep alive your noble and exciting mission of "knowledge empowerment"."

My comment - Thank you for an interesting email and your kind words. I found two other listed companies through this Wikipedia [link](#), one based in Australia, the other in Canada but I know nothing about their technology or management.

[Ocean Power Technologies](#) Inc hasn't made any money yet but found support in late November and rallied three weeks ago to break the medium-term downtrend. A sustained move below \$5 would be needed to question scope for some further upside.

[Finavera Renewables](#) (Canada) hasn't made any money either. It fell consistently from its IPO but the downtrend has lost momentum over the last quarter. An upward dynamic is needed to evidence bullish interest in this share.

[Carnegie Corp](#) is primarily a mining company but is also developing wave energy technology. It had positive earnings until 2006 but has made a loss since. The share accelerated to a peak near AU5¢ in January but quickly pulled back and moved into a downtrend. It found support near AU1¢ in September and remains in that region. A sustained move above that AU1.5¢ is needed to suggest that bullish interest is returning.

If subscribers know of other companies involved in this sector, I would be happy to add them to the Chart Library.

Today's interesting charts - The Chart Library has a large number of currency crosses which may be of interest to subscribers.

Japanese Yen per 1 US Dollar - The [Dollar](#) continues to extend its downtrend and would need to sustain a move above ¥93 to threaten the progression of lower highs and question scope for additional downside.

British Pounds per 1 Euro - the [Euro](#) continues to accelerate higher and is looking quite overextended. However, a downward dynamic is needed to check momentum beyond a brief pause.

Hang Seng - [testing](#) the upper side of the two-month range and would need to sustain a move below 14,000 to question potential for an upward break.

Email of the day (8) - on the link to John B. Taylor's study:

"The other day you posted a link to a study at Stanford done by John Taylor. I could not access the study. Any help would be greatly appreciated."

My comment - Thank you for pointing this out. I have corrected it in yesterday's copy but here is a [link](#) to the pdf.

Please note - David is away today but will return tomorrow.

**Thursday 18th December 2008**

Browning Newsletter: Cold - [My thanks to Alex Seagle for this fascinating letter on climate change](#), written by Evelyn Browning Garriss and published by Fraser Management Associates. Here is a brief sample from a section on piracy:

Beware, that bearded fellow greeting you this holiday season may not be a jolly old elf.

This year seems to be the season for piracy. Somali raiders are grabbing ships and headlines. Meanwhile, piracy is spreading throughout the tropics, from Brazil to Singapore, Sri Lanka to Cameroon.

For years piracy was declining. Then in 2007, it began to return. The last 18 months have seen an explosive growth of crime on the high seas. By now pirates are not only lurking along their usual coastal hunting grounds, but using GPS and capturing oil supertankers and liners out in the middle of oceans. They are battling, even attacking military naval vessels. Over the past three months, they have forced increasing numbers of shippers to abandon the convenient Suez Canal and travel the much more expensive route around the Cape of Good Hope. Indeed, Iraq's defense minister has warned that pirates will infest the Persian Gulf if US forces leave the country too soon.

There are many reasons for the increase in piracy. Some are political and cultural. In other areas, however, the changing climate has played a role. When fishing cultures are impoverished, many turn to raiding passing sea traffic. A change in ocean currents can disrupt local fish populations. Recently, the Pacific has undergone a major sea change and maritime populations, both fish and fishermen, throughout the world are feeling the impact. It is driving millions into poverty and thousands into crime.

In other words, it's the ideal climate for piracy.

My view - [We have plenty of pirates in the so-called developed world. The worst of them wear suits and work in the financial sector.](#)

USA: The frugal future - [My thanks to a subscriber for this interesting and informative report by David Rosenberg of Merrill Lynch](#). Here is a sample:

This recession has more in common with the pre-WWII era

However, most of the data we have and most of the analysis still being conducted is done within the context of post-World War II cycles. That will not work, as this is a balance sheet recession and not just within the confines of the financial sector, but within the broad US household sector. This involves debt repayment and asset liquidation, and for the first time in recorded history, the entire \$70 trillion household balance sheet is in the process of shrinking. In turn, this implies a rising personal savings rate and ongoing economic contraction. It is also very deflationary, and Ben Bernanke certainly now

knows that the conditions for deflation exist, This is why I believe he made the December FOMC meeting a two-day affair for the first time. You do not need two days to debate whether to go 50 or 75bp on the funds rate, but you do need two days to effectively communicate to the public what quantitative easing is all about, which the Fed has been engaged in recent weeks.

Recessions, in a true historical context, last 18 months

In the post-World War II era, recessions last 10 months on average. We were spoiled. This recession is already in month No. 12 and, while the equity market may see a light at the end of the tunnel, I'm not sure I even see a flicker yet. If we are willing to go beyond the 10 recessions of the post-WWII era and gather a bigger sample size, say looking at the 32 we have endured since the Civil War, we see that recessions are 18-month affairs. Therefore, even if this is average in a true historical context, it will not be over until mid-2009.

This kind of recession lasts at least 20 months

Now, we do not have a lot of experience with credit collapses of the magnitude we are seeing today. We have the 1930s and we have Japan of the 1990s. And we have to respect that there are differences as well as similarities. One of the similarities is that these sorts of recessions last at least 20 months. In our forecast, with the tea leaves at our disposal, we have the recession ending in either late 2009 or 2010, accompanied by a saucer-shaped recovery. Our forecast is for GDP to contract 3.0% next year, which would be the worst year since 1946. The housing recession of 2007 morphed into a capex recession in 2008, which is now morphing into the intense consumer leg of this recession story in 2009.

Stimulus needs to be at least \$600 billion

This obviously has implications for global growth and commodities because it is one thing to have a housing downturn, which accounts for 5% of GDP, or a business spending downturn (capex accounts for 10% of GDP). Now, this is quite a different order of magnitude because the US consumer accounts for 70% of GDP and still very close to 20% of global GDP. Of course, the situation is fluid, and we are going to be more than willing to change our numbers depending on how vigorous and effective the upcoming round of fiscal stimulus is going to be. Let's just say the task is daunting because just to offset the withdrawal of private sector spending in 2009, based on our forecast, this fiscal package has to total at least \$600 billion. Note that is in one year, not two years. Just to keep the unemployment rate at its 15-year high of 6.7%, we would need to see a \$1 trillion package on top of the near-\$1 trillion deficit we are already incurring as we head into this upcoming round of largesse.

My view - Most of us, I suspect, would be well pleased if the US recession ended in either late 2009 or 2010, as mentioned above. Meanwhile, investors should watch the technical action. Neither the [S&P 500 Index](#) nor any other stock market index can retest its lows, let alone experience the additional

decline widely feared, without first breaking the current progression of higher reaction lows.

Email of the day (1) - [On bearish Merrill report above](#):

"In the spirit of sharing amongst fellow subscribers, I was sent David Rosenberg's latest writings entitled "The Frugal Future." My contact based in the US wrote:

*"As to the US, this is a truly interesting article; I have the feeling that David (Rosenberg) has successfully predicted sixteen of the last nine recessions, but that having been said, I think he's spot on in terms of where the US is right now. That's especially so about the baby boomers being surfeited, and scrolling down on assets, not up, as well as about the saving with a vengeance syndrome that's hit here. My buddies who own malls are quaking in their boots, as retail sales are just awful, and I mean truly awful, so lots of those commercial properties go under in January. And in the geographical areas where finance is big, i.e., NYC, Connecticut, it's a depression, not a recession.*

*But I'm not as bleak as this guy - remember, nigh everybody in the US has a very parochial bias - there's the rest of the world out there that is much, much less leveraged than the US. A more balanced view is the US declines, the ROW advances (except for Spain and the UK, which have the same debt problems the US does). Though the US is bigger in economic scale, the ROW certainly had a good time while Japan was languishing over the past dozen years; I wonder whether we're getting towards a tipping point where the US languishes, but the ROW shrugs it off and motors forward (maybe at not as quick a scale initially as would be so if the US were out there still consuming with both hands, but over time accelerating regardless of the US). At the end of the day, there are lots of BIC consumers out there, frankly, looking for their first whatever.....Also, I think fertilizers and energy are very cheap now (maybe that's backwards looking, but the collapse in spend in the energy area portends serious capacity problems a bit further out with any sort of recovery, I would think, and food prices given the upgrade in what people globally want to eat will support/drive fertilizer use more and more over time.....Lastly, I'm not partial to the equity/investment strategy set forth in Rosenberg's paper, myself. It makes sense for a US centric investor, but that's the parochialism again; better opportunities elsewhere, I would think."*

My comment - [I agree that there are pockets of investment opportunities in the US market today, but also that in terms of overall performance one can do better elsewhere.](#)

Email of the day (2) - [On, On Balance Volume, from a veteran](#):

"David, is it possible to add a form of J. Granville's On Balance Volume charts to your charts section? I found these helpful when working in Hong Kong when there was an odd movement in data, which I put down to insider trading.

This is a common occurrence in Asia with small companies, mostly family controlled.

"You first interested me in charts with the articles in the Investors Chronicle. Lost touch, but found your paper newsletter and have been with you thru' to the internet.

"Keep up the good work, and let us hope the next Chinese New Year, the year of the Ox, is a "Bull" year."

My comment - [Wow, the Investors Chronicle articles were written in 1Q 1970, so you really are a veteran subscriber. Thanks for your interest.](#)

[The Subscriber's Chart Library is always a work in progress and we have a function similar to On Balance Volume, which I would like to see added next year.](#)

[We have yet to hear from Mrs Treacy on the Year of the Ox but I assume that it can only be better than the Year of the Rat.](#)

Martin Spring's On Target: Saving the Friends of Paulson and Pelosi - [This veteran commentator is free press and takes no prisoners. Here is the opening:](#)

Are serious mistakes being made in dealing with the global economic crisis, with policies that favour the bad guys at the expense of the good guys?

Around the world governments and central banks are scrambling in panic to react to the rapidly worsening situation. Essentially their policies amount to creation of vast amounts of state credit to compensate for the implosion of private credit and its savage impact on business activity.

Some of that money is starting to move into the right things such as bank capital, infrastructure investment and bolstering consumer demand. But far too slowly, nor to the most deserving victims of the credit crunch.

The harsh reality is that a huge price has to be paid for the craziness of the credit bubble.

Asset values based on all the past ridiculously cheap, easy money have been devastated, and there is no way we can avoid recognizing that serious destruction of personal and corporate wealth. Economic growth driven by all that money - although also by the real benefits of globalization, free markets, privatization and technological advances - is now being hit hard by the irresponsibility and distortions that accompanied it.

The world cannot avoid the pain. It has to be suffered. But who should be required to suffer that pain?

Policymakers' priorities ought to be to safeguard essential economic interests (not those of the politically well-connected who were responsible for the crisis); to cushion the weak, who were not responsible for it; and to ensure that recovery, when it comes, is based on sound and just fundamentals.

Those principles are not being followed. I am becoming increasingly worried about the potential longer-term implications of many of the policies now being introduced in an atmosphere of panic:

The good guys are missing out. Resources are being channelled overwhelmingly to the least-deserving - the worst-managed of the mega-banks and big companies who were primary drivers of the credit mania, yet are now emerging as being among its main beneficiaries.

Despite the politicians' waffle, little is being done to give direct aid to the small and mid-sized enterprises (the so-called SMEs) that are overwhelmingly in all countries the most important providers and creators of jobs, and engines of economic growth.

They are being deprived of roll-over credit, charged exorbitantly for what they get (no zero-interest central bank money or capital injections for them), and left to survive the hurricane of falling demand... if they can.

The best-managed enterprises, such as the banks that kept their clients out of toxic waste, and auto manufacturers in the US who have been making the products that consumers most want, are going to be forced to compete in contracting markets against undeserving rivals granted state subsidies and privileges despite their past incompetence.

All in the name of protecting jobs, of course. Not votes and campaign funds!

Why should jobs in uncompetitive high-cost businesses - General Motors' workers, for example, are among the highest-paid in manufacturing in America - be preserved at the cost of jobs in the most efficient enterprises?

The policy bias is all wrong, towards saving the executives, shareholders and employees of incompetent entities - the friends of Paulson and Pelosi -- instead of letting them go to the wall; pouring the same amount of economic stimulus directly into the pockets of consumers, SMEs, and the most efficient banks and large companies.

My view - [The bailout is going to be controversial, whatever happens. We also know that it will be very expensive.](#)

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

"Can you please advise me how I can identify Silver Stocks from your services? In the UK I have looked at Fresnillo which has had an excellent movement from its low point, and I do appreciate that some of the UK quoted general miners will be involved in Silver but not as a dedicated product. I am

presuming that there will also be companies' outside the UK which you can identify.

"Having tried to acquire physical Silver, this only appears available from a very limited number of sources and at substantial premiums, and perhaps you may be aware of some suitable contacts.

"Your help will be greatly appreciated, and no doubt the answer may be of interest to your other subscribers.

"Wishing you, and your hopefully now recovered, wife and family a very healthy happy and successful New Year."

My comment - Sure, for silver shares, enter the Chart Library, click on Search, type in silver, click on International Equity Library and then Find. It will give you a substantial list. There is also an [iShares Silver Trust](#). I trade silver futures, as you know. You can also find quite a bit on silver by using Google.

Thank you for your good wishes, which I return in kind.

My personal portfolio: Longs opened in Singapore and Japanese stock market futures; latest on GBPNZD cash rollover - I wanted to increase my stock market exposure, in line with Fullermoney themes, only without drawing down on my cash reserves at this time. Therefore I have opted for indices. This afternoon, I bought the MSCI Singapore Index (SGY, listed on IG Index as the Singapore Blue Chip Index) ([weekly](#) & [daily](#)). Singapore is a conservative choice, being one of the world's best run economies, with the revamped Straits Times Index trading on a current PER of 6.12 and more importantly, yield of 5.63% according to [Bloomberg](#). The SGY chart shows a dramatic Type-1 accelerated ending in late October, followed by the best bounce since the March-April rally, a successful retest of the low and right-hand base formation extension. Upward dynamics have dominated during this bottoming out phase. Provided Singapore maintains a sequence of higher reaction lows, I would not be surprised to see SGY reach 300 next year. Unfortunately there are only monthly contracts available for SGY, so there will be more rollover charges than with quarterly contracts. I paid 219.8 for a December contract.

I also bought the Nikkei ([weekly](#) & [daily](#)), paying 8880 for a March contract. The chart pattern shows similar basing activity and there is plenty of room for a mean reversion rally towards the 200-day moving average. I was also encouraged by comments from the BoJ that it will intervene to stem the yen's rise, if necessary. Given that Japan is an export-based economy, the yen's rally has weighed on the Nikkei's performance this year. As an additional trade, I will probably short the yen (see also [EUR/JPY comment on 12th December](#)) although I have yet to decide against which currency.

My 'just in case' cash reserve remains in NZD on a monthly rollover basis. I am likely to invest some of this money in equities at some point. However in uncertain times the compounding yield also appeals. This had been at a rate of over 8% for most of the year before dropping to 6% last month. The latest

rate, as of yesterday, is 4.95% - not too bad in the global context but likely to move lower in coming months. However the exchange rate experience has not been good ([monthly](#), [weekly](#) & [daily](#)), particularly in October, although it has improved significantly this week. I may reconsider this position in the event of a move beneath NZ\$2.50, even though I maintain that a weaker US\$ bodes well for most resources currencies.

Email of the day (4) - On Rio Tinto:

"It's interesting Rio Tinto has been given a hair cut by Moody's and had its credit rating trimmed. Do you think the old reliable correlation weak Dollar = higher commodity prices will hold strong...."

"Every relationship in this crisis seems to be bring challenged and new shotgun marriages seem to be any every day occurrence.."

"Who knows what 2009 will bring... Either way it will be interesting; and as you say, the charts will tell us...."

My comment - Rio's balance sheet was leveraged up following its takeover of Alcan last year. The aluminium price is obviously important in terms of servicing that debt, and it has been a torrid six months for the [metal](#). A weaker US dollar would be a tailwind for \$-quoted commodities. However supply and demand are by far the most important influences on prices, and flight from tracker funds have exacerbated the decline in aluminium. I think 2009 will be daunting economically but 'surprisingly' good in terms of market opportunities.

Please note - I will be away tomorrow, due to family medical reasons, but back on Monday.

Additional Commentary by Eoin Treacy

Email of the day (1) - [3 questions/observations](#)

"1) Have we seen the end of a 19-year BEAR market here in Japan? Topix attached.

"2) Like the DJ between [1966](#) and 1982, is the S & P now half way through a 16 year range? S & P attached.

"3) Could the rate of return from the Japanese property sector now turn +ve? REIT Index attached.

"PS Eoin with your view on future global infrastructure expenditure, with which I concur, take a look at Komatsu (6301)"

My comment - Thank you for these interesting observations / questions which raise important issues for how we can make money in the coming years.

The [Topix](#) has encountered resistance on 6 different occasions near 1800 since 1993 but is currently testing the lows posted in 2003. It has been a rollercoaster for those trading this market but there is no denying that the Index is now at an interesting level. Steadying is currently taking place around the 800 level which has historic psychological significance. Even in this long bear market, significant rallies have occurred which have lasted for a number of years.

Right now, it is not unreasonable to bet that we are on the cusp of just such a rally. We won't be able to say with absolute confidence that the market has completed its bear market until it breaks above 1800, but that could take years. Anyone who waits that long, will be kicking themselves for having hesitated when the Index was comparatively cheap.

We have only tentative evidence that base formation development is underway and the Yen will probably need to weaken before a convincing rally gets underway. However, this is not a time to become increasingly bearish of the Japanese market.

Technically, the [S&P 500](#) has also come back to an interesting level. It encountered resistance near the 2000 high late last year and is now testing the 2002-03 lows. Potential exists for this market to rally over the coming years, but we should also be prepared for some fairly lengthy base formation development. It took 9-months for the market to bottom earlier in the decade. This time around it has fallen much more quickly and considering the extent of the USA's economic problems and bearish sentiment, a 'V-shaped' recovery is probably too much to hope for. If the S&P 500 manages to rally back towards 1600 over the coming years, I think a lot of investors will be raising stops as it approaches that psychological level.

The [TSE REIT](#) Index accelerated higher in late 2006 before entering a consistent downtrend which accelerated to the October lows. The present range is similar in amplitude to that below 2000. However, this congestion area is much lower down and the Index would need to sustain a move below 700 to question scope for further base formation development.

In nominal terms the [Topix Real Estate Index](#) tested its 1989 highs in 2007. It peaked below 2500 following an impressive acceleration and is now testing the bottom of the 1992-1995 base. The Index is remarkably overextended and would need to sustain a move below 500 to question potential for some further higher to lateral ranging.

Looking at the long-term charts for these three markets, I see opportunity for the patient investor. All three have fallen back to historic areas of support and have steadied. Volatility remains high and we have no guarantee that we have seen the absolute lows. However, the question now is how long base formation will take before the next uptrend begins, rather than how much further they will fall before bases formation begins.

In line with other resources related shares, [Komatsu](#) fell aggressively from September before finding support near ¥700. It would need to sustain a move below that level to question potential for continued base formation development.

60 Minutes - A Second Mortgage Disaster On The Horizon? - Thanks to a subscriber for this interesting [feature](#) from the popular CBS News channel. Here is a section:

Asked what roles these exotic mortgages played, Zalewski says, "They were essential. They were necessary. Without the Alt A or option ARM mortgage, this boom never would've occurred."

It never would have occurred because without the Alt As and the option ARMs, many buyers never would have qualified for a loan. The banks and brokers were getting their money up front in fees, so the more they wrote, the more they made.

"They stopped checking whether the income was even real. They turned to low and no-doc loans, so-called 'liar's loans' and jokingly referred to as 'ninja loans.' No income, no job, no assets. And they were still willing to lend," Tilson says.

"But help me out here. How does that make sense for the lender? It would seem to be reckless, in the extreme," Pelley remarks.

"It was," Tilson agrees. "But the key assumption underlying, the willingness to do this was that home prices would keep going up forever. And in fact, home prices nationwide had never declined since the Great Depression."

My view - The rates at which adjustable rate mortgages reset is tied to the yield on the long bond. [30-yr yields](#) are at historic lows and continue to accelerate lower. The Fed has stated that it is buying Treasuries. At least part of the reason for this is to make sure that the vast number of resets due in 2009 do not occur at levels which will put additional pressure on vulnerable homeowners. Obviously, those homeowners who cannot afford repayments at the current rates will not be helped, but for those intent on keeping their homes, this could prove a vital rescue measure.

The US 30-yr [bond](#) is overextended but continues to accelerate higher and is still attracting momentum driven traders. The first clear downward dynamic should signal a medium-term top.

Email of the day (2) - on Dollar bears and ADRs:

"Regarding the gentleman that was interested in an ETF that would perform inversely to the USD index, perhaps the following may be of interest: PowerShares DB US Dollar Index Bearish (NYSE:[UDN](#))

"On a parallel thought to the above, do you know if international stocks bought as ADR's on the NYSE would experience appreciation due to currency fluctuation alone. As the USD declines, many would say it would be best to be underweight the US stock market (US companies, particularly those without international exposure). As a proxy to directly holding international equity, from a currency perspective, would an ADR perform in a similar manner?"

My comment - Thank you for an interesting email and useful fund suggestion which I have added to the Chart Library.

ADRs for companies whose home market currency is appreciating versus the Dollar should do comparatively better than otherwise, but this may not be on a one-for-one basis. [Siemens](#) is a good example of where the [ADR](#) is outperforming because of the currency move. However, you will also note that the ADR has not advanced nearly as much as the Euro has against the Dollar.

Email of the day (3) - on shipping rates:

"Your newsletter continues to prove a great read, thank you!

"With regards the shipping rates item, you might be interested in taking a look at [www.ShippingPodcasts.com](http://www.ShippingPodcasts.com) - these are a range of podcasts provided for free by Coracle Online ([www.CoracleOnline.com](http://www.CoracleOnline.com)) - eLearning provider for the Institute of Chartered Shipbrokers.

"The reports are from a variety of sources, including The Baltic Exchange (dry cargo reports), Braemar Seascope (Tanker reports) Ince&Co, Reed Smith (law reports), etc...."

My comment - Thank you for this informative email and your kind words. These sites should provide a valuable resource for anyone interested in the shipping industry and related rates.

Email of the day (4) - on the Madoff ponzi scheme:

"What should we read into the market reaction to the Madoff scandal? Is it not a signal that a \$50 billion fraud has been revealed and the equity markets have taken this news in their strides. There has been no crash following this horrendous news. Is this not a sign that bad news is already in the market prices and that we may be somewhere near the low point?"

My comment - Thank you for a thoughtful email. I agree with your contention that if markets will fall on good and bad news in a downtrend; when they stop doing this we need to pay attention. \$50 billion is not small change and many large investors have been burnt by this scandal, but the market response has been muted.

This is perhaps because, the losses are spread over a wide number of people and according to this [story](#) from Bloomberg, some of the losses can be

recouped through tax write-offs. However, it is not so long ago that such a story would have rocked investor confidence. This could well be an indication that a lot of bad news is already priced into the stock market and that the October selling climax marked the beginning of the base formation development for a large number of markets.

For the most extreme bearish views to be proven correct in their continued belief that the [Dow Jones](#) and [S&P500](#) are going to almost halve; at the very least, they need to sustain moves below their early December lows. In the meantime, they continue to rally towards the upper side of their two-month ranges and both sport short-term progressions of higher lows.

Email of the day (5) - on a composite European index:

"Can we chart (or you) the whole of Europe i.e. combination of old Europe: Dax FTSE etc. and new Europe 50% / 50%"

My comment - I don't know of an index that gives equal weight to developed and emerging Europe but would be happy to add one if subscriber's can suggest any. We cannot create composite indices in the Chart Library so I created this index by getting the average of the MSCI Europe and the MSCI Emerging Europe in Bloomberg.

The [MSCI Europe](#) Index broke downwards in January and began to accelerate lower from September. The most recent range has been more volatile than previous distributions, which is an inconsistency. It needs to sustain a move below 65 to question potential for some further higher to lateral ranging.

The [MSCI Emerging Europe](#) is probably heavily weighted to Russian equities and certainly looks similar in terms of its price action. It broke its hallmark progression of rising lows in August and collapsed to 200 where it continues to find support. A sustained move below that level would be needed to question potential for continued base formation development.

The [average](#) of these two indices gives [Russian](#) equities a rather large weighting and the Index resembles the MSCI Emerging Europe above.

Today's interesting charts - A number of markets are pressuring their two-month highs and all can be found in the Chart Library.

South Africa - testing the [upper side](#) of the two-month range and would need to sustain a move below 21,000 to question potential for an upward break.

China H-Shares - continues to [hold](#) the move above 8000 and would need to sustain a move below that level to question potential for some additional upside.

Mexico - pushing above [22,000](#) for the third day and would need to sustained move below 21,000 to question potential for some additional upside.

## Friday 19th December 2008

Commentary by Eoin Treacy

Applying commonality to global markets - Like any other service, we have our good calls and our bad calls. Historically, where some of our best have come from is in our use of commonality to identify emerging trends. Commonality can be defined as the study of related instruments. If one is looking at a potential investment, look at all the related markets. Of, say, 10 possibilities (there may be more or less), the odds are 1 in 10 that yours is leading on the move. However, if some have already commenced there next trending move then the odds are in favour of the instrument you are interested in also participating.

Every day, I do a click through of equity indices, bonds, currencies and commodities. In stock markets most country indices continue to range in the region of their October lows. Globally insignificant market such as Pakistan and Sri Lanka continue to make new lows. However, [Hong Kong](#), [South Africa](#), [Colombia](#), [Argentina](#), [Mexico](#), [Brazil](#) and [Gold](#) share indices have either made new two-month highs or are very close to doing so.

What do these markets have in common? Hong Kong, with a currency pegged to the US Dollar now has rates close to zero and continues to offer access to China. It has also fallen considerably from its peak and may now be attracting some speculative interest. All of the other indices share a heavy weighting to the commodity sector. I should also add that they are looking somewhat overextended in the very short-term and are best bought following reactions.

Commodity related shares are also showing signs of having reached at least medium-term lows and show tentative signs of base formation development. Commonality is also of use to us here. [BHP Billiton](#), [Cameco](#), [Anglo American](#), [Antofagasta](#), [Barrick](#), [Newmont Mining](#), [Newcrest](#) and [Goldcorp](#) among others are showing relative strength when compared to their parent indices. Notable exceptions to this list are [Rio Tinto](#) and [Xstrata](#) which both have ongoing concerns relating to their credit ratings.

Commodity related currencies have not outperformed over the last two weeks. The [Dollar](#), having completed its Type-2 medium-term top has fallen most against the [Euro](#) and [Swiss Franc](#). It continues to look topy against the [Australian Dollar](#), [New Zealand Dollar](#), [Canadian Dollar](#), [Brazilian Real](#) and [South African Rand](#) but has yet to break conclusively downwards. It needs to sustain moves to new highs to question potential for downside breaks against these currencies.

This leaves commodities themselves. Do we have evidence of base formation development? The evidence is mixed. [Oil](#) remains in a consistent downtrend and needs to post an emphatic upward dynamic to check momentum beyond a brief pause. [Gasoline](#) and [heating oil](#) have not been sold as aggressively

and their chart action may suggest that we are approaching the endgame for oil. We need to see that dynamic though. [Uranium](#) remains in an overall downtrend but found support near \$45 and rallied well. It needs to sustain a move above \$65 to break the progression of lower highs. [Coal](#) has also fallen considerably from its accelerated peak and needs to sustain a move above \$70 to break the progression of lower highs and suggest base formation development is underway.

Precious Metals: [Gold](#) has been a relative performer among commodities and found support near \$700 following a sharp decline from near \$900. It is now pressuring the 9-month downtrend and would need to sustain a move below \$750 to question potential for some additional higher to lateral ranging. [Silver](#) has been moving laterally for two months and would need to sustain a move below \$9 to break the short-term progression of higher lows. [Platinum](#) remains in a tight range between \$750 and \$900 and would need to sustain a move below that former level to question base formation potential.

Industrial metals: [Tin](#) is testing the lower side of the two-month range and needs to rally from here to suggest base formation will not begin at somewhat lower levels. [Aluminium](#) has been very consistent on the downside and is currently ranging near \$1500. An upward dynamic is needed to break the medium-term downtrend and suggest bullish interest is returning. Any positive move is likely to coincide with a corresponding move in oil. [Copper](#) remains in a downtrend but is losing momentum and looking wedgy. These are Type-2 bottoming characteristics and a sustained move to new lows is needed to question potential for an impending upward dynamic. [Lead](#) remains in a downtrend and needs to push smartly back above \$1000 to question potential for base formation to occur at somewhat lower levels. [Nickel](#) continues to range around \$10,000 and would need to sustain a move below \$8000 to question scope for further base formation development. [Zinc](#) is similar to nickel with \$1000 being the relevant potential support level.

Agriculture: [Cocoa](#) is a relative and absolute leader and would need to sustain a move below \$2450 to question scope for some further upside. [Corn](#), [wheat](#) and [soybeans](#) have all had sharp declines but their downtrends have all lost momentum and they remain in ranges that have lasted two months. All three had failed downside breaks in early December and they would need to take out those lows to question the hypothesis that base formation is underway. [Arabica](#) and [robusta](#) coffee both broke their four-year progressions of rising lows and fell considerably before finding support in the last two-months. These are no longer consistent trends, but they would need to sustain moves below their late October lows to question potential for some further higher to lateral ranging. [Feeder cattle's](#) downtrend has also lost consistency and it rallied strongly this week. A sustained move below \$85 is needed to question scope for further higher to lateral ranging.

Let's attempt to draw all this together. The Dollar looks like it is topping out against commodity currencies. Commodity related stock markets are relative outperformers. Commodity shares are also beginning to outperform their parent indices. Being completely objective, we cannot have a high degree of confidence that base formation development is underway for most

commodities. The level to which commodity shares and currencies have fallen is pricing in a global depression and commodities themselves probably only need to stop going down for some related vehicles to outperform more convincingly.

A sustained upward break of the [Euro](#) against the Yen would probably indicate greater risk appetite globally as would a peak in government bond prices. A weaker Dollar is an important catalyst and certainly helps to start the recovery process of but more is needed.

Blockbuster Commodity report - Thanks to a subscriber for this comprehensive, heavyweight [report](#) by Francisco Blanch and colleagues from Merrill Lynch posted without further comment.

Email of the day (1) - on corporate bonds and Treasuries:

"Recently I re read your descriptions of how trends end. I think that this was extremely useful to me.

"Could you kindly give us your analysis on how the current trend in Corporate Bonds will end?"

"If you look at a chart of [LQD](#) (Investment grade US Corp Bonds), the graph has essentially gone parabolic. The graph makes you want to get out of the position. However if you look at the spreads between 10yr Corporate Bonds and 10 yr Treasuries (these spreads are in the chart library) you can see that the spreads are still too wide with much scope of narrowing.

"I would appreciate your thoughts on how you would approach a long position in LQD or the US Corporate Bond Sector. What kind of stops would you use?"

My comment - Thank you for an interesting question. There is a difference in how one would manage an outright purchase of corporate bonds and how one would manage a hedged spread trade where you buy the credit and sell the sovereign bond.

Corporate Bond yields surged in October as the worst of the panic selling hit the sector and fears about mass defaults were rife. Since then yields have fallen quite sharply in line with the diminution of default fears and the iShares iBoxx Investment Grade Corporate Bond [Ed. Price] Fund (LQD) has rallied back towards parity. This is a natural reassessment area and you correctly point out that it has rallied from the lows near 80 very quickly. However, it would be incorrect to assume that this is the same as a parabolic move following a well developed uptrend. In this case the market experienced a shock and has quickly recouped the loss. The fund is now testing the 5-year downtrend and further upside will be more difficult to achieve from here.

The extent to which corporate bond spreads ([AAA](#), [AA](#), [A](#), [BBB](#)) have expanded are not so much a comment on weakness in the corporate bond

market but are due rather to the extraordinary strength in the sovereign market. In fact at these spreads, corporates appear to provide excellent value to Treasuries.

Treasury bonds are accelerating higher in a move which is unsustainable beyond the short term. The first clear downward dynamic is likely to signal a medium-term top and will probably be a catalyst for the above spreads to contract violently.

Bank of Japan Cuts Rate to 0.1%, Adds Funds to Ease Credit Woes - [This article](#) by Mayumi Otsuma for Bloomberg covers today's cut to Japanese interest rates. Here is a section on how they are also planning to buy corporate assets:

"I've never experienced such a sudden change in conditions," Shirakawa said at a news conference. He said the reduction doesn't mean a return to the bank's 2001-2006 zero- rate policy, while adding that he couldn't rule out the possibility of another cut.

The central bank said it will raise its monthly government bond purchases from lenders, its main tool for adding funds into the banking system, to 1.4 trillion yen (\$15.6 billion) from 1.2 trillion yen, the first increase since October 2002. It will broaden the range of debt it buys to include 30-year, floating- rate and inflation-indexed bonds.

The bank may start buying other assets as well. Staff will "investigate how other corporate financing instruments may be employed" and report their findings to the policy board "as swiftly as possible," the statement said.

#### Support for Companies

"Whereas the Fed is dramatically expanding its balance sheet to offer support to financial institutions, the Bank of Japan is now expanding its balance sheet to support the corporate sector," said Glenn Maguire, chief Asia-Pacific economist at Societe Generale SA in Hong Kong.

The government also decided to purchase commercial paper last week, and today said it would buy as much as 20 trillion yen of shares held by banks to boost their capital.

Chief Cabinet Secretary Takeo Kawamura said the central bank's decision was "timely and appropriate." Prime Minister Taro Aso and Finance Minister Shoichi Nakagawa said over the past week they wanted the bank to play its part in helping companies borrow. Commercial paper markets this month touched the highest in at least the past four years.

Japanese banks' borrowing costs fell for a third day today on speculation the central bank would cut. The Tokyo three-month interbank offered rate, or Tibor, declined to 0.905 percent after reaching a decade-high 0.922 percent on Dec. 16.

My view - The Yen remains at elevated levels against a range of currencies and its strength is a hurdle to the export oriented Japanese economy. If the Bank of Japan is prepared to consider buying assets from corporate Japan and not only banks, as is the case in the USA, then currency intervention is also a distinct possibility.

The Euro has lost downward momentum against the Yen and while it is now pulling back from the upper side of the range a sustained move below ¥115 would be needed to question potential for some further higher to lateral ranging. The stronger the Yen gets against the currencies of its major trading partners, I believe, the greater the possibility that the BoJ will intervene to weaken the currency. With this in mind, it is not a time to become more bullish of the Yen.

Stratfor The Geopolitics of India: A Shifting Self-Contained World - Thanks to a subscriber for this insightful [assessment](#) of the geopolitical factors affecting India by George Friedman. It is posted without further comment but here is a section:

In 1992, India's strategic environment shifted: The Soviet Union collapsed, and India lost its counterweight to the United States. Uncomfortable in a world that had no balancing power to the United States, but lacking options of its own, India became inward and cautious. It observed uneasily the rise of the pro-Pakistani Taliban government in Afghanistan - replacing the Indian-allied Soviets - but it lacked the power to do anything significant. The indifference of the United States and its continued relationship with Pakistan were particularly troubling to India.

Then, 2001 was a clarifying year in which the balance shifted again. The attack on the United States by al Qaeda threw the United States into conflict with the Taliban. More important, it strained the American relationship with Pakistan almost to the breaking point. The threat posed to India by Kashmiri groups paralleled the threat to the United States by al Qaeda. American and Indian interests suddenly were aligned. Both wanted Pakistan to be more aggressive against radical Islamist groups. Neither wanted further development of Pakistan's nuclear weapons. Both were happy to be confronting the Pakistanis with more and more aggressive demands.

The realignment of Indian relations with the United States did not represent a fundamental shift in Indian geopolitics, however. India continues to be an island contained by a ring of mountains. Its primary interest remains its own unity, something that is always at risk due to the internal geography of the subcontinent. It has one enemy on the island with it, but not one that poses a significant threat - there is no danger of a new generation of Muslim princes entering from Pakistan to occupy the Indian plain. Ideally, New Delhi wants to see a Pakistan that is fragmented, or at least able to be controlled. Toward this end, it will work with any power that has a common interest and has no interest in invading India. For the moment, that is the United States, but the alliance is one of convenience.

India will go with the flow, but given its mountainous enclosure it will feel little of the flow. Outside its region, India has no major strategic interests - though it would be happy to see a devolution of Tibet from China if that carried no risk to India, and it is always interested in the possibility of increasing its own naval power (but never at the cost of seriously reshaping its economy). India's fundamental interest will always come from within - from its endless, shifting array of regional interests, ethnic groups and powers. The modern Indian republic governs India. And that is more important than any other fact in India.

Email of the day (2) - [on wave energy companies](#):

"[Information](#) on companies associated with this emerging renewable energy source may possibly be found here. Public traded companies with strong associations to this sector are included here for the collective to make an informed decision should they want some portfolio exposure with an emphasis on North America."

My comment - [Thank you for this contribution made in the spirit of Empowerment Through Knowledge.](#)

Email of the day (3) - [on Gold Bullion Securities Ltd Australian listing](#):

"Please add ticker [GOLD](#) to the Australian share lists - if already included I apologise.

"I think/believe that physical gold is held by this trust in the ratio of 10 shares to an ounce of gold."

My comment - [Thank you for this suggestion, GOLD AU was already in the Chart Library but can now be found in the International Equity Library as well.](#)

Email of the day (4) - [on additions to the Chart Library](#):

"Could we please add the chart of 'iPath GS crude oil total return ETN' (NYSE: [OIL](#)), to our chart library?"

My comment - [Thank you for this suggestion which has been added to the Chart Library.](#)

Please note - [David is away today but will be back on Monday.](#)

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