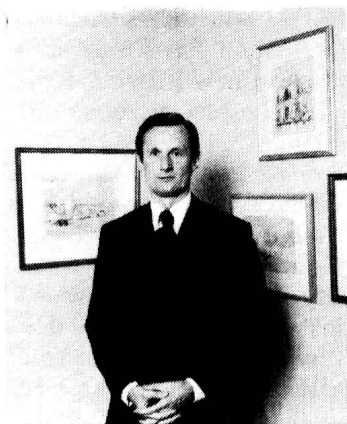


Late October 1984

THE INTERNATIONAL INVESTMENT NEWSLETTER

*A market letter doesn't have
to be dull to be good*



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Apply for British Telecom shares – they are a political handout

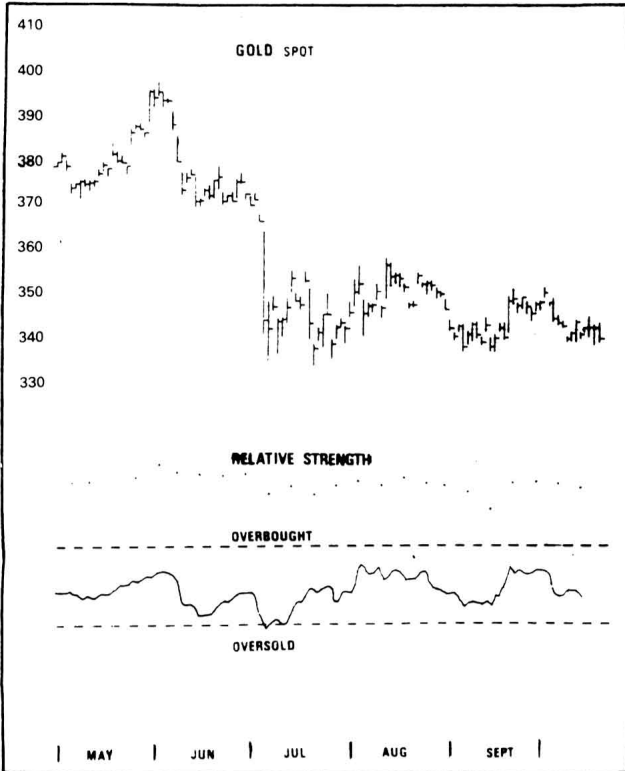
The Thatcher government is quite rightly trying to turn Britain's large proletariat into yuppies, or at least property and share owning conservatives. The yob mob screaming for revolution at Blackpool's Labour Party Conference this month has increased the government's popularity as a "lesser evil", but the gain will be temporary unless more capitalists emerge from the electorate.

The Government has been disappointed by the institutional domination of its previous privatization share offerings, and the big £3.5 billion British Telecom (BT) issue is just the vehicle to attract new shareholders provided the carrots are sufficient. Of course the risk to these new shareholders must be minimised or the whole exercise backfires. A successful launch in November will be guaranteed by a high nominal yield near 7%. This compares favourably with actual yields of 4.7% for the F.T. All Share Index, 4.1% for Standard and Poors Industrials or 6% for A T & T, the company most likely to be compared to BT. However, the true BT yield is much greater over the first sixteen months due to a generous deferred payments schedule. Investors will pay only 40% down, another 30% in June and the final 30% in March 1986. Additionally, investors will have a choice of two special bonuses. UK residents with a small BT holding will want the vouchers, worth £36 for each £500 of shares up to a maximum of £3,000, which can be set against telephone bills. Long-term institutional investors will choose the other bonus which is a free share for every 10 held three years from the flotation date.

A recent opinion poll indicates that one in every four adults in Britain is interested in buying BT shares, which could provide the small investor with an annualised tax free return of over 30% after eight months, due to a down payment of only 40% and the initial vouchers. The 7% dividend, deferred payments and eventual bonus issue make BT almost as attractive a proposition for non-UK investors. This unique flotation is a handout rather than a speculation and I recommend that all FM's apply for shares. The issue is going to be over-subscribed but will, I assume, be spread as widely as possible. Write or telephone British Telecom Share Information Office, P O Box 2, Bristol, BS99 7TT, UK. Tel: 0272 276540. Oh, by the way, BT does make money, has a captive market and a profits orientated management.

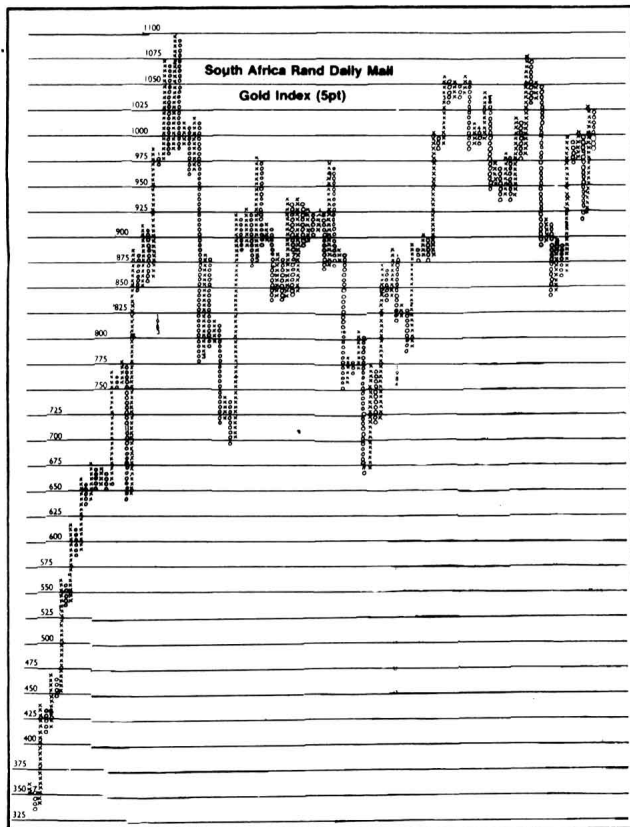
Gold shares – could they take off?

In FM3 (late May) under the headline, "Gold tarnished by dollar strength", I concluded: "Gold shares now look shaky after a big rise. Traders should take profits but look to buy back if prices



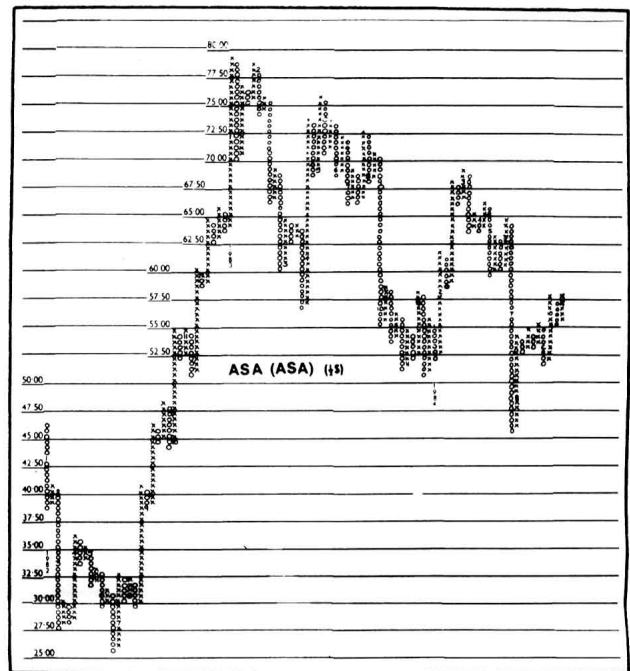
return to the 1983 lows. Gold shares always bounce back because there aren't very many of them relative to the potential investment demand. I have it on good advice that the capitalization of British Petroleum, for example, is greater than the entire South African gold sector".

That wasn't bad trading strategy because gold shares rallied slightly further in early June as bullion



recovered to \$396.5, before tumbling in two stages to \$332. Naturally gold shares were hard hit, with all but the very low cost producers falling back to the bottom of their wide trading ranges. Even the Rand Daily Mail Gold Index, which is a truer reflection of the lower cost per ounce mines, fell 22%. A few mines such as Driefontein, Kloof and Randfontein have now seen their quotations in rand move to new highs and the whole sector has strengthened considerably since the July lows.

Naturally a dollar quoted stock such as ASA does not look nearly as strong as the rand quotations, but even ASA has regained over half of the June-July decline. Why are these gold shares so steady when bullion at \$338 is only slightly above its recent low and the dollar is pressing against its peak? It's not that unreasonable for sentiment to improve slightly as gold stopped falling, at least for the time being, but even ASA rallied as the dollar accelerated to its September peak. Certainly it takes an act of faith to say that gold has bottomed when the metal has shown so little life, and you won't find many forecasters predicting that the dollar has peaked, so what gives?

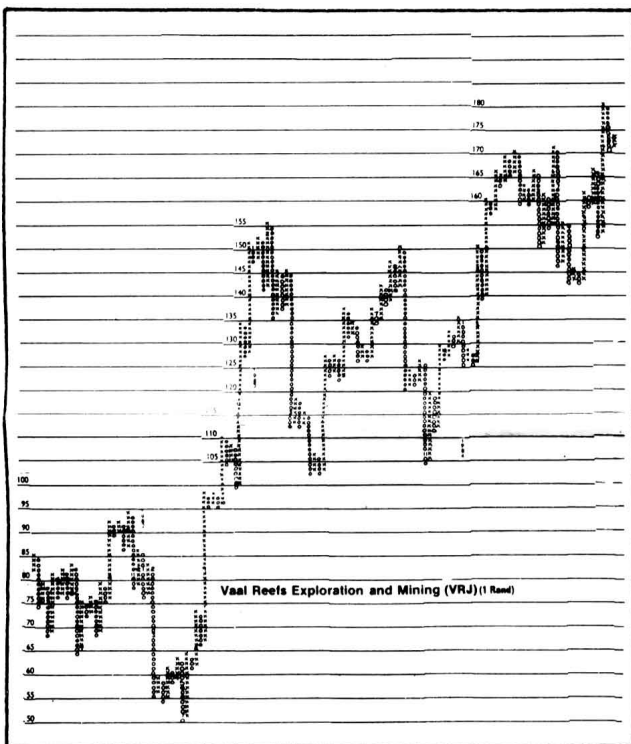


We all know that stock markets discount future expectations and that mining shares usually move in advance of the big changes in metal prices. Perhaps today's buyers of gold shares are saying that even if gold has another decline, and even if the dollar moves higher, these two opposite trends have already seen the best of their moves. After all, the entire accumulation of market history shows us that several years of persistent trends warn of reversal rather than continuation. Pragmatic chartists will say wait for confirmation, but by the time gold is advancing strongly and the dollar falling, those gold shares could be 30% higher. I prefer to risk a little more to make considerably more. Gold now has to break convincingly below its summer lows and the dollar decisively above its September peak to signal a continuation of the previous trends. In the

meantime we should buy up to half of our maximum gold share portfolio, because if gold continues to hold above the lows, let alone rally above \$350, and if the dollar is at a peak then gold shares will be among the best performing sectors.

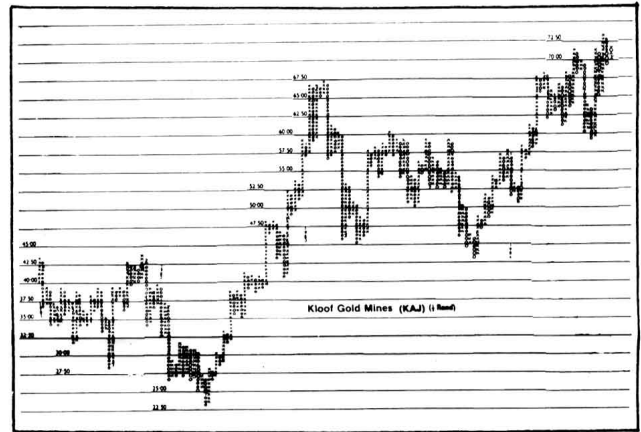
FM7 mentioned that share recommendations will always include a closing stop. I should have added, with the exception of gold shares where I won't introduce a stop until positions are showing a reasonable profit. I justify this relaxation of discipline because we can hedge if necessary, and quality gold shares have the best bounce-back record of any market sector because there are very few of them relative to the potential demand. Prices are often volatile and scarcity is no protection against bear markets, but you can always count on "life after death" for gold shares provided, of course, the mines have proven reserves. Do you know the old chestnut about how many a good mine has been ruined by drilling a borehole?

Should you buy the marginal producers or the low cost per ounce mines? That is a personal choice depending on how optimistic you are that gold is in a bottom area, and also your willingness to speculate. Obviously a mine with high production costs will be much more volatile than a share like Kloof, for example. A big portfolio should probably contain gold shares with a wide range of production costs, and everyone can hedge their positions against a further decline in bullion if necessary.



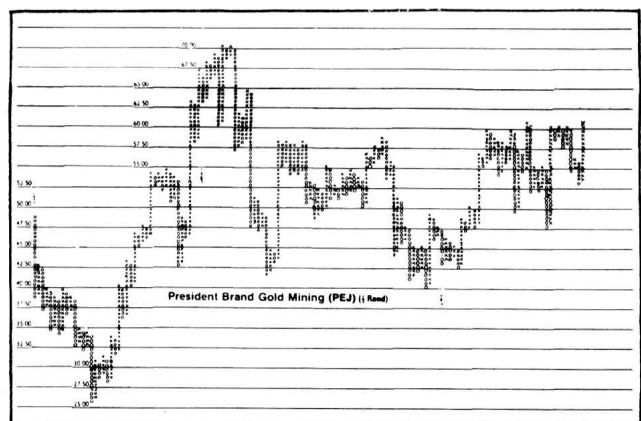
Vaal Reefs is at the top of my quality list because of its outstanding relative strength. All that underlying support could sustain a big advance over the intermediate term. The new and initial support level starts at R170, but we probably need a floor under gold at today's price of \$338 for that to hold. A move below R160 would warn of further selling pressure to follow,

but if you think that gold will go back to \$500 in the next year or two, Vaal Reefs would double in that event. Incidentally, with the exception of ASA all the SA gold charts shown are plotted in rand. I prefer to see them in rand because that is the currency in which they report their earnings and the biggest positions are still held by South African institutions.

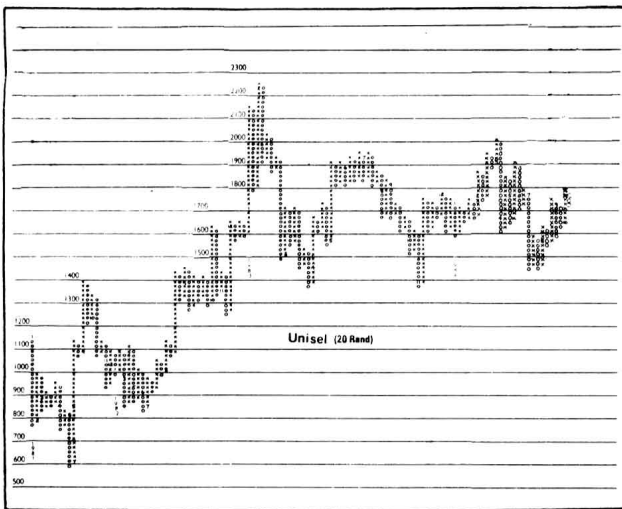
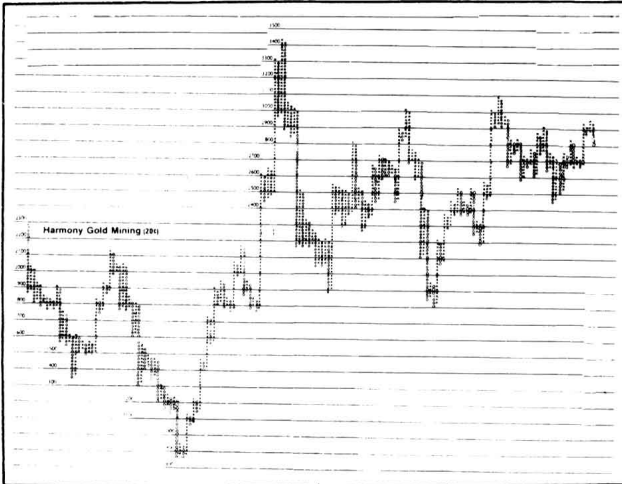


Randfontein (not shown) and Kloof are nearly in the same relative strength category as Vaal Reefs. They have a habit of not maintaining breaks to new highs so you might want to hold out for a reaction before you start to nibble.

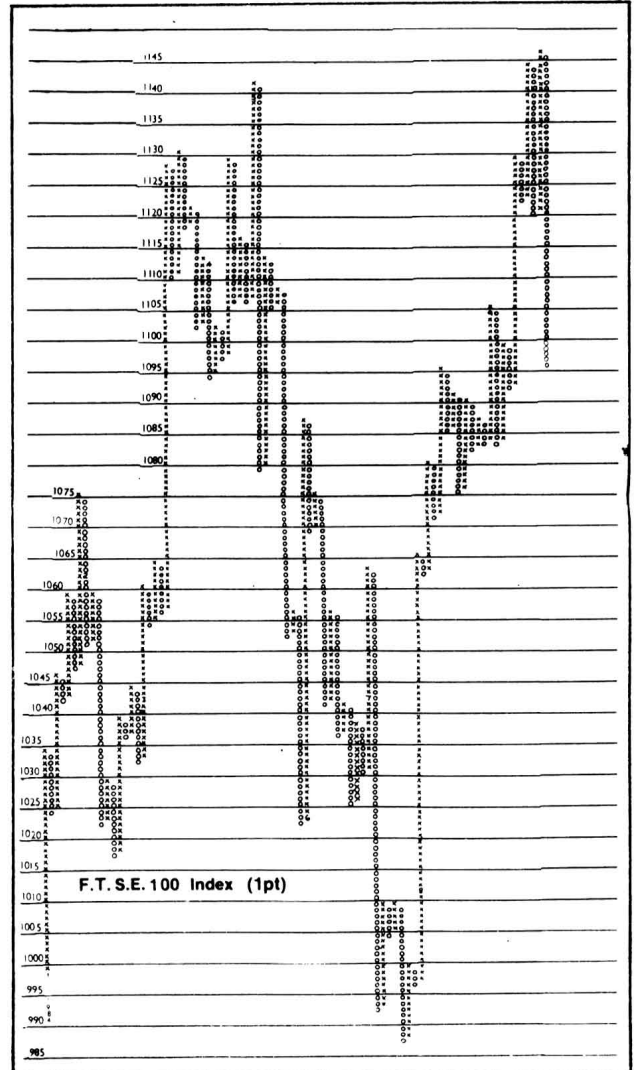
Personally I favour some of the big name South African gold mines that have remained steady, but underperformed the leaders, usually because of slightly higher production costs. The chart for President Brand reveals the intermediate term upward potential more clearly than most. It has one of those big "sleeper" base formations that represents accumulation. I won't quote the eventual point and figure target (the width of the base times three) because most people wouldn't believe it; however, I remember similar bases in the late '70s before the shares advanced over fivefold.



Harmony shows an almost identical pattern to President Brand, while my last recommendation in this sector, Unisel, has lagged slightly. This share reconfirmed the strength of support near R1400 in July and that big trading range should eventually support a major advance.



Index for example: after a May peak at 1141 it plunged to 987 in July, only to soar back to the high last month.



In conclusion, I re-emphasise that these shares are worth buying for their intermediate term upward potential as you continue to diversify out of dollar deposits. That does not mean that they cannot perform in the short term if the gold price is stronger than I am willing to forecast today. I would view these purchases as your initial beach-head position, and you should be prepared to buy more after a significant move in either direction. This does not mean that we must masochistically endure a demoralising loss of capital if bullion plummets and gold shares follow in its wake. Only a fool would write off that possibility until gold has established an upward trend. Therefore we need a hedge strategy if the market weakens, which is preferable to selling shares that provide a yield. I recommend that you sell short gold futures if bullion falls below \$330 to fully hedge your gold share portfolio. Alternatively you could take a down bet on gold through either City Index (283-3667) or Ladbroke Index (427-4411).

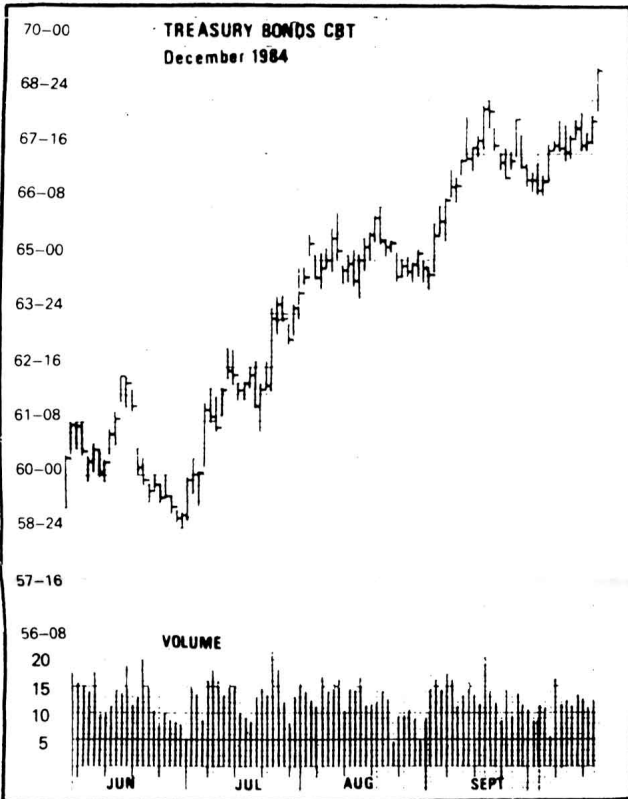
The Arthurian thunder-bolt

They say lightning seldom strikes twice in the same place. That may be true of thunder storms, but it happens all the time in the emotion charged environment of the stock market, not to mention every other financial market. It's all to do with psychological support or resistance points. Take the UK's FT-SE 100

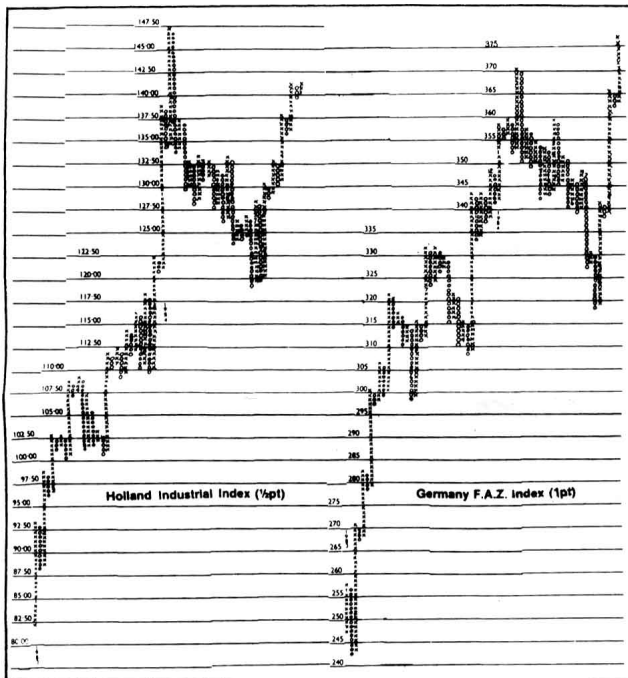
You don't have to be Pavlov's dog to know that some investors are going to remember what happened in May, and if the market hesitates, their conditioned response will be to turn from buyer to seller. If the market is also arthured (my contribution to the English language, meaning mugged) then everyone round the table sells some more.

I turned on the news on the 17th, after that record one day fall, and some economist from Cambridge, presumably with a chair in stock forecasting, was predicting financial winter. The following day I was told that my old friend Bobert Reckman, "who is always right", had said that this was the biggest bear market since World War III. Well you never know, but I am feeling relatively relaxed because on that same day the US bond market hit a new recovery high and the DJIA went up 29.5 points.

Obviously the present labour problems make the UK market a special situation, similar to Hong Kong a while ago, only the people selling London fear they don't have until 1997 before the reds take over. I expect the rollercoaster ride in the UK market to continue, but suspect that the bear market, such as it was, is behind us. I'll probably continue to feel that way as long as US



bonds are in an uptrend and the Chart Analysis World Indicator (not shown this month) has not reversed its previous buy signal.

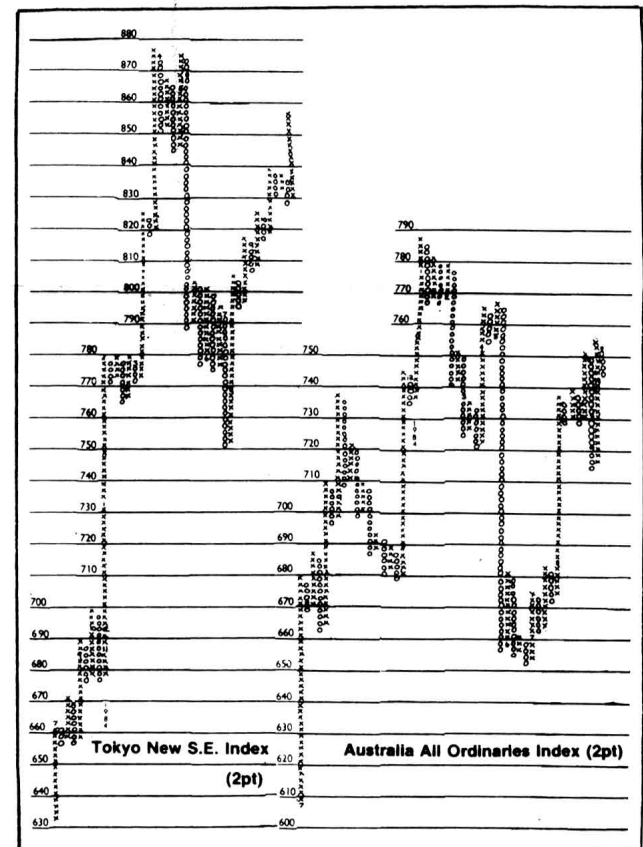
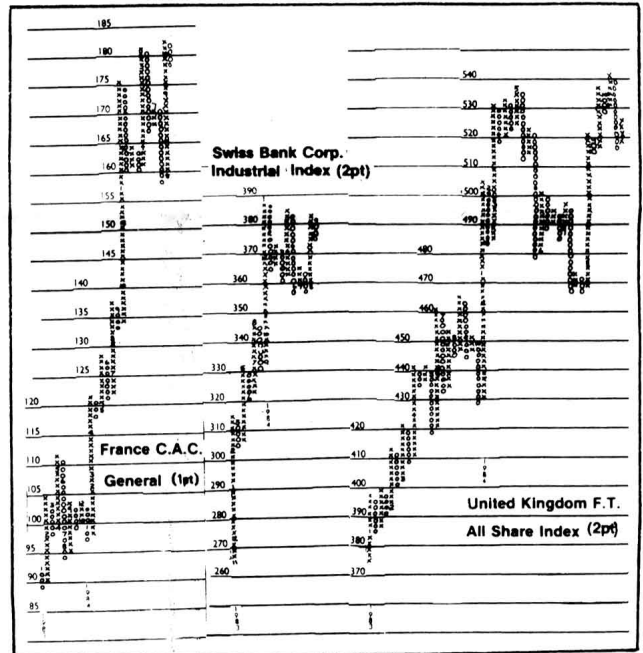


Several other markets approaching psychological resistance points

Some analysts are fond of saying "don't look at the market index, just look at individual stocks". I don't agree because everyone DOES look at the index and a

sudden, dramatic move affects their thinking. I'll concede the obvious – not every stock will move in line with the index, but many do and you should be aware of the psychological support or resistance points.

Because most stock markets remain very steady it is the previous resistance points that are being challenged, and some hesitation or reaction can be anticipated in the region of former peaks. There are no special circumstances to cause these markets to be arthured in UK fashion, but you may want to take a few trading profits on strength and buy on reactions only.

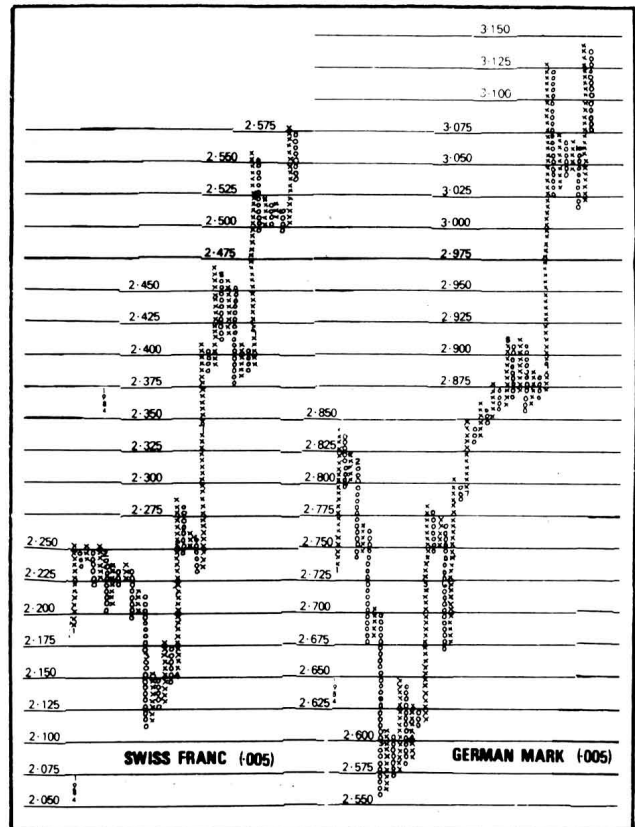
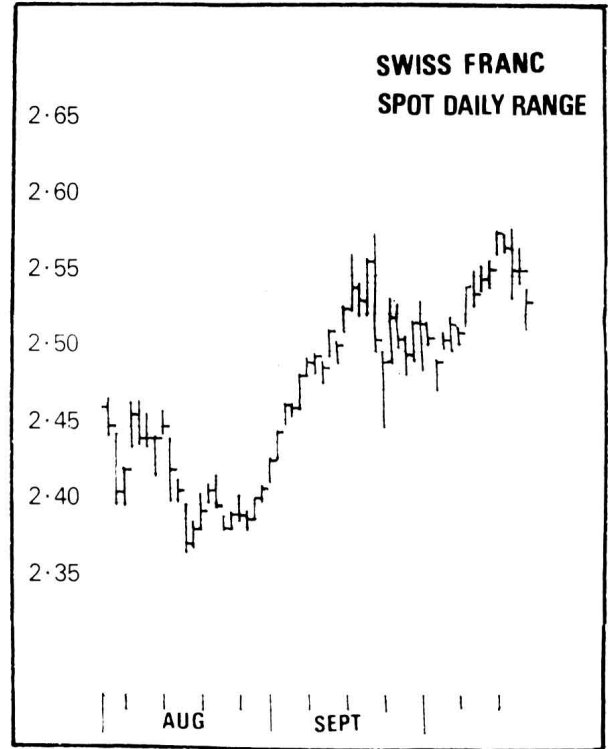
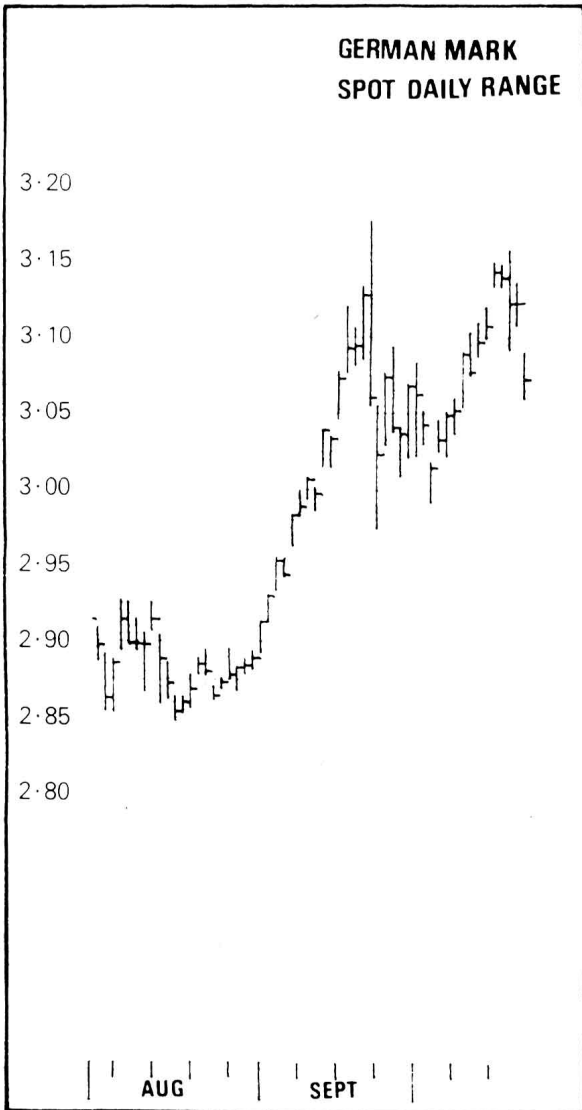


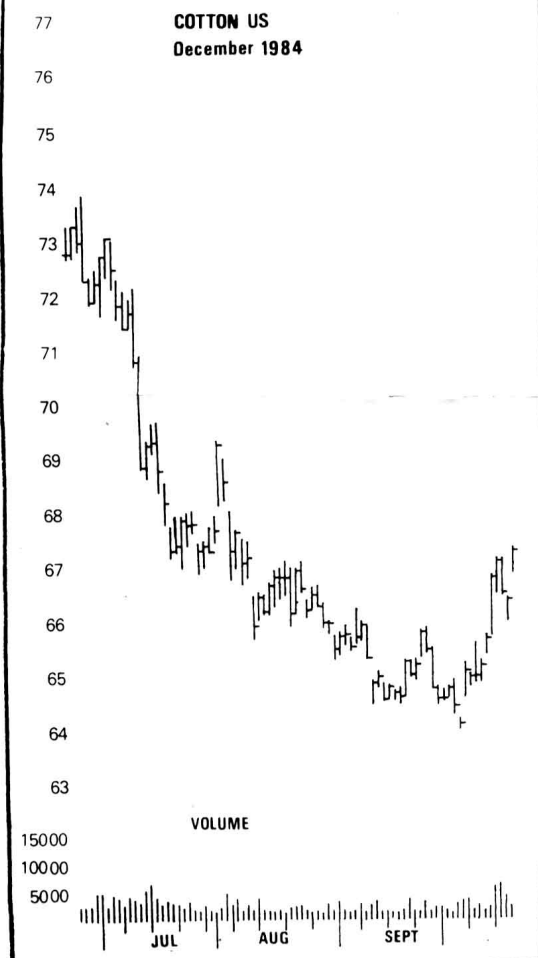
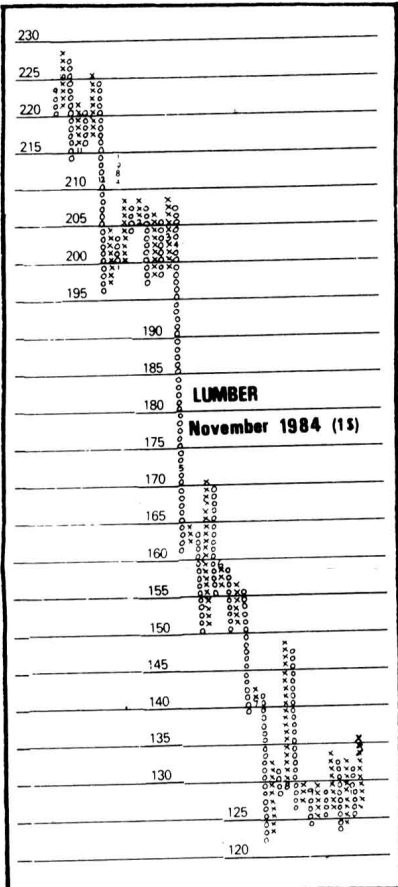
US dollar – the September peak holds against most European currencies

The dollar's key day reversals against European currencies that I showed you last month have not aborted, except against Sterling which has become a special situation. True, the dollar's sharp set-back only lasted two days before it rallied to challenge the September highs, but these patterns have not confirmed further upward potential. Additionally, less dramatic keys have just occurred, indicating that the dollar is still vulnerable to its biggest set-back since February. A move back below DM3.00, for example, would trigger stops, leading to a further self-feeding decline.

The \$/DM and \$/SF point and figure charts are based on London closings, so they do not show the key day peaks on the bar charts. However, the P & F charts show just as significant a development, which is the failed break into new high ground. Strong markets usually run after reaching new highs or at least hold the

gain during a brief pause before resuming the advance. The failed break is a sign of fatigue, indicating a further pause or even a trend reversal. The dollar remains vulnerable to an additional decline and this potential will not be negated unless there is a decisive break into new high ground on an intra-day and also closing basis, which is maintained for at least 24 hours.





No cries of timber in the lumber market

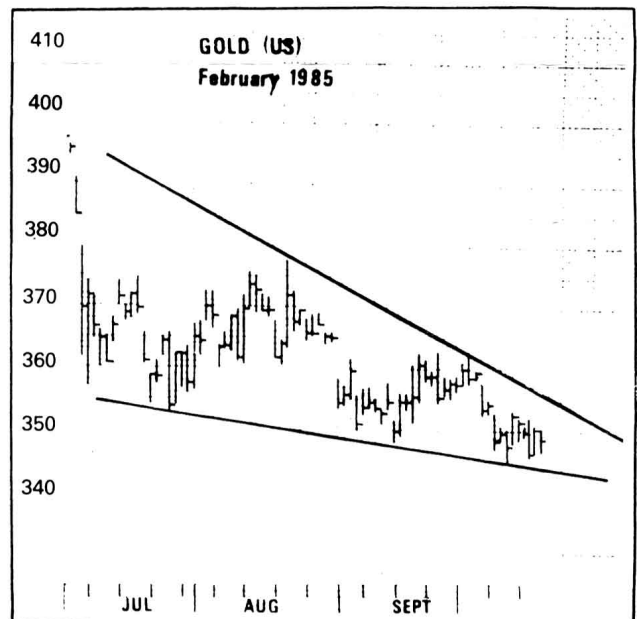
Subscribers who bought November lumber on my recommendation in FM7 probably paid an average price of \$126 per contract. The stop at \$120 was never threatened and lumber is at \$137.5 as I write. Why not raise your stop to ensure a reasonable dinner for two, or higher still if the price approaches my initial target of \$150. Whatever happens take your profit before the last trading day which is November 15th.

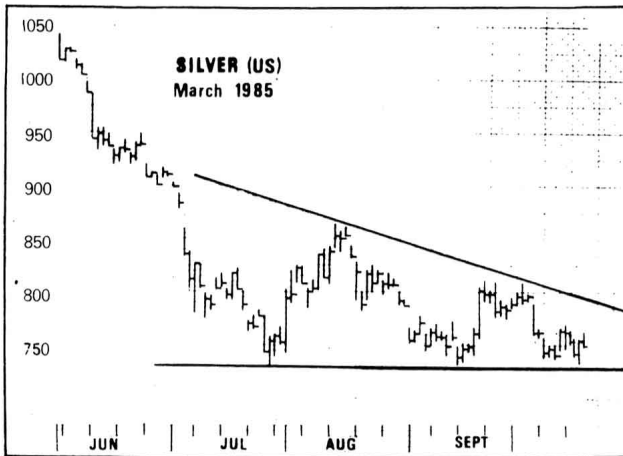
My second commodity recommendation in FM7 was to buy December cotton on stop at 66 cents. Place a stop just below 66 cents for low risk and switch to a 1.5 cents to 2.0 cents trailing stop as the recovery continues.

Chart brain teasers

The COMEX February gold futures chart shows falling wedge characteristics which are potentially very bullish if the price can rally above the last peak at \$363. The most important characteristic is the failure to follow through after breaks to new low ground. Therefore the minimum sell signal required to negate the wedge and re-confirm the downward trend is a new low that holds for at least 24 hours. If this does not happen and February gold rallies above \$363, stops will be hit and the previously bearish market sentiment reversed rapidly. If you are unfamiliar with wedges why not plan to attend one of my two day chart seminars? These will be held across the US in Oct/Nov, in five Australian and Far Eastern countries, Nov/Dec, and if I survive that you will get a few more issues of FM before my South African seminars in April/May, and in seven European cities during May/June.

The COMEX March silver futures chart has descending triangle characteristics which are potentially very bearish if the floor level is penetrated for at





least 24 hours. However, silver usually out performs gold in both directions and its present steadier performance represents a change and may be a clue to the next big advance. A rally above \$8.10 would negate the triangle, trigger stops and improve sentiment. If you want to learn more about triangles, confirmed or otherwise, try the chart seminar.

Stiffer sentences for capitalists in Labour's secret manifesto!

You thought that you had heard the worst, right? All that stuff at Blackpool from Labour MPs about "get your foot on their throats and keep it there", was hard enough to swallow, not to mention the exhortation to "eat socialism, drink socialism, above all, demand socialism". Well don't put away the Alkaseltzer because I have just purchased (at vast expense) Labour's secret manifesto from a militant mole on the dole.

Labour's new party leader who now prefers to go by a single name, Arthur, and his lookalike deputy, Mr Kinnockio, plan to launch their own "nuclear winter" without ever firing a single missile. The shockwaves and fallout will come from their secret manifesto which has something for everyone.

Domestic Policy

- 1 All capitalists will be given 48 hours notice to surrender their assets, after which they will be pursued and brought to "justice" for as long as there is a single profit to be made in Britain.
- 2 The Stock Exchange floor will house a spectacular new fruit and veg market.
- 3 Private housing described as "isolationist and a threat to communal living", will be nationalised.
- 4 New products will be made from coal. Party leader, Arthur, announced that the billions recovered from the city will be used to develop a variety of new coal based products ranging from building materials to health foods. "After all", he said, "coal is nature's version of freeze dried products. We will use pension fund money

to develop ways of reversing the process."

5 Harrod's staff is to be quadrupled. An employment spokesman representing Arthur said that "one of the most sinister contributions to unemployment was the system whereby shoppers used the same assistant for both selecting and paying for goods. The more socially caring system used by Moscow's leading store, Gum, would be introduced." Thereafter shoppers will queue to enquire as to goods available, queue to pay another assistant and collect a purchase voucher, then queue to collect the goods provided there are any left. If the required items have been sold out by this time, a fourth assistant will issue a refund provided, of course, that this stage can be completed within opening hours.

6 Faster lobotomies on the National Health. Arthur recognises that congenital capitalists or many others corrupted by the profit motive such as the previously self-employed, former managers, private investors, stockbrokers, etc., will have a re-adjustment problem. Socialism therapy groups will help the less severe cases, while the caring society will offer a 100% effective palliative for everyone else. Using the most modern production line facilities and a technique perfected in Gorky, five man semi-skilled operating teams will be able to perform 60 frontal lobotomies an hour. Families who turn in suspected free enterprise sympathizers will be rewarded with a year's supply of bibs and nappies for each person lobotomised.

Foreign Policy

- 1 MI5 will continue to develop its mutual cooperation, information and exchange programmes with the KGB.
- 2 Soviet military bases will be opened at key locations throughout the UK but Britain will insist on a dual key defence system.
- 3 To promote good relations with our allies, Arthur will have all motorway signs printed in English and Russian.
- 4 There will be no immigration limit on citizens from EEC countries or the USA seeking political asylum in Labour's Britain.
- 5 London will be twinned with Warsaw but Sheffield will become the new capital city.
- 6 Arthur will renege on the post-1997 Hong Kong Agreement and take a hard line against China's leaders because of their recent capitalist tendencies.

Meanwhile the former leader of the Labour Party, Neil Kinnockio, made the startling announcement that the 2,500 year old iron age man, found recently in a Cheshire peat bog, appeared to have been a victim of police violence. The evidence for this astonishing claim was a similarity between the ligature with which the ancient Briton had been garrotted and standard issue police shoelaces. An emotional Mr Kinnockio, clearly identifying with the well manicured and ginger bearded ancient, suggested that he may have been a socialist and Britain's first trade union official.

Revealingly yours,
David Fuller