

Late November 1984

THE INTERNATIONAL INVESTMENT LETTER

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



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## America on the move

My three and a half week speaking tour of the USA took me from New York to Chicago, Dallas, San Francisco, Chapel Hill NC, Greensboro NC, Washington DC and back to New York before returning to London. It was an exhausting but exhilarating trip with hardly a free evening as we visited with delegates, FMs, old friends and relatives. I have never seen America in a better humoured or more quietly confident mood. There was no complacency or over-confidence but a realization that things were improving; the government was off the people's backs; there were plenty of incentives and a conviction that hard work produces results.

President Reagan won his massive landslide (repeatedly forecast in these pages) because unlike Mondale he was in tune with the national mood, believed that individual initiative rather than government directives were the key to prosperity and promised merely to let everyone get on with the job. Anti-USA and especially anti-Reagan voices blame the President for every 'bag lady' in the land, say Americans have adopted a 'me first' materialistic attitude, and forecast that the budget deficit will soar, pushing interest rates upwards and choking off the recovery. They are wrong. The same people also promote the following myths: 1) That wealth re-distribution helps the poor more than wealth creation. 2) That government owned industries create more permanent jobs than private enterprise. 3) That advocates of sound money have less of a social conscience than the 'borrow and print' fraternity.

The fact is that Reagan's policies have created more jobs and more growth than almost everyone outside the Administration believed possible. This was due in part to increased defence spending but primarily because of significant personal and corporate tax cuts. The budget deficit problem was politicised because of the election and exaggerated by the Democrats. Those two big tax breaks from 1981, accelerated depreciation and the investment tax credit, reduced revenue to the Treasury. The Reagan supply siders anticipated this but overestimated the speed with which tax revenue would reduce the deficit because they underestimated the reduction in tax revenue, due to carry-forward tax losses from the previous recession years. Now that most of these tax losses have been utilized, increased revenue should bite into the deficit during the third and fourth years of the recovery. If defence spending is gradually brought in line with GNP growth and non-defence spending slowed to a rate of 1% or 2% below GNP, the deficit will be reduced further.

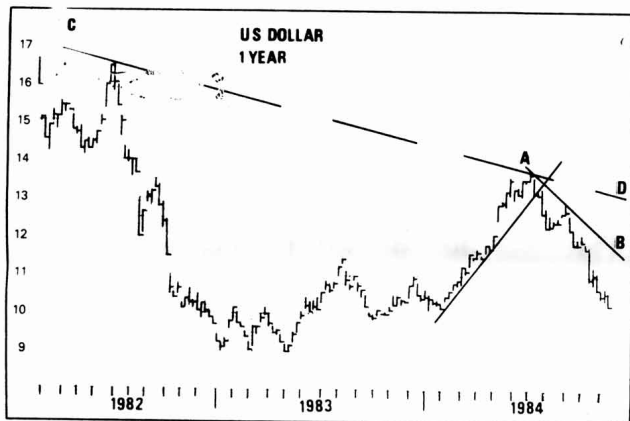
The trend for interest rates remains downwards and this will reduce the cost of financing the deficit. Lower interest rates will also help the economy to an expanded growth rate in 1985/6. The

outlook for further growth remains excellent because there are none of the supply 'bottlenecks', inflation pressures or other signs of over-heating associated with the much more modest recoveries of the late 1960s and '70s. The risk of higher interest rates later on due to heavy government, corporate and private borrowing is probably exaggerated. The quality of corporate earnings in the present disinflationary environment is the best for twenty years. This reduces the need to borrow in order to grow, and eliminates the attractions of debt that exist in an inflationary environment. If real interest rates persist, as seems likely, America will gradually become a nation of savers.

## Interest rate charts still bullish

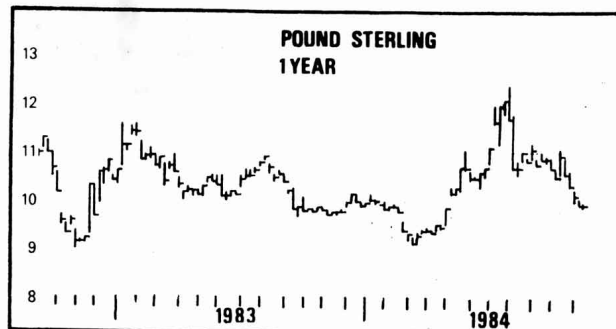
At the risk of sounding cynical, I am encouraged by the many forecasts for higher US interest rates in 1985. Some budget "doomsters" actually forecast a move back up to 1982 levels. Well, every prediction is in with a chance and a lot can happen between now and the end of 1985, but I won't worry until my navigator – the chart – changes course.

It is worth looking at nearly three years of data on the 1 year euro-currency interest rate chart for the US dollar. The short term trend (A-B) has been downwards since the summer peak and the long term trend (C-D) is also falling. Technicians will also focus on the previous support levels at 10% and 9%, which could slow the decline, but the important point is that there is no sign of an upward reversal.

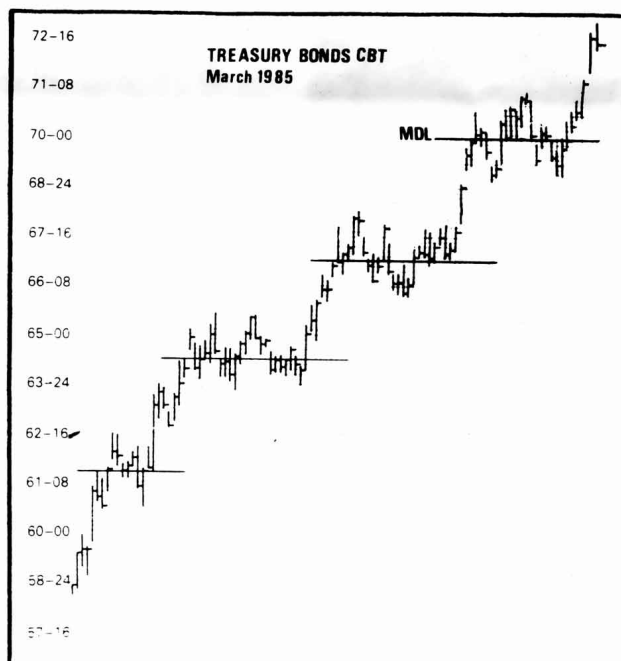


UK interest rates are also trading well below their 1982 highs (not shown) and are heading for a test of the previous floor at 9%. I doubt that more than temporary support will be encountered near 9%, particularly now that sterling has stabilized and the government is gaining the upper hand in its confrontation with striking miners.

Naturally US interest rate futures remain in their staircase upward trends as the cost of money declines. Delegates at my recent US coast to coast chart seminars understandably wanted to know how far these trends would carry. I said that I didn't know, doubted that even Paul Volker could answer the



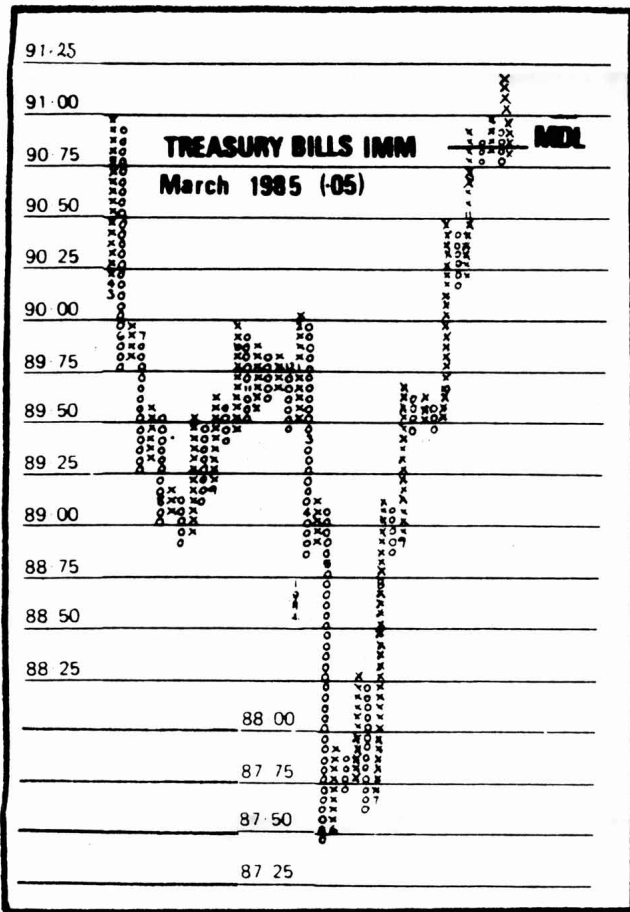
question, but that it didn't matter if they had a sensible, disciplined technical strategy.



The best moves are often the most consistent, and Treasury Bonds are no exception. The most important feature of this consistent trading is that once price breaks decisively up out of a sideways congestion area, it will run for a while before buyers become nervous and profit taking produces the next reaction and consolidation. These reactions usually do not fall back into the previous pattern unless the trend is tiring. Therefore once a decisive upward break occurs, you can raise your stop to the new mid-point danger line (MDL) which is the middle of the last step. This is not an obvious level to the crowd who will have their stops slightly above or below the congestion area floor. The MDL enables you to protect your profit at a critical but generally unrecognised level before the herd of traders/investors become disillusioned.

How might this MDL procedure have worked on Treasury Bonds during the last few months? The first decisive break up out of a congestion area shown on the March contract bar chart occurred on the move above 62-16. The following day long-term traders could have entered an MDL stop near 61-16. The break above 63-24 completed a congestion area of only one week's duration, so there would have been a risk of

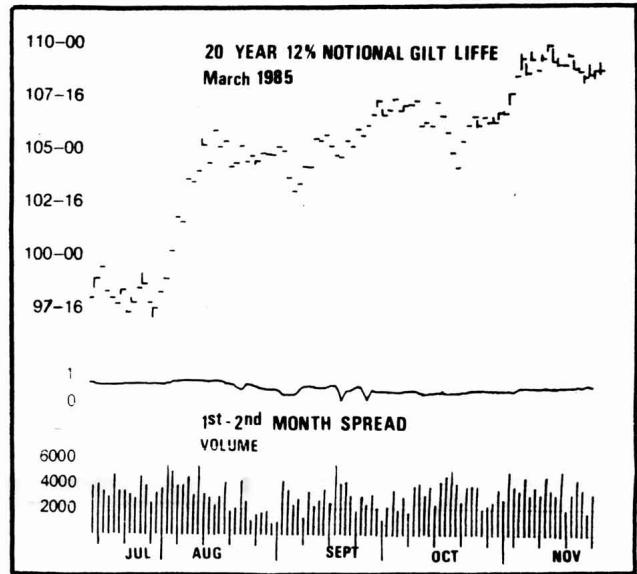
over-crowding in raising the stop too soon. The next crucial moment for raising the MDL stop came after the move above 66. The October advance to 68-24 justified a new MDL stop at 66-28. The break above 71-08 has now been confirmed by Friday's move to 72-16, so the stop can be raised to 70-00. One would continue to raise stops in this fashion until either stopped out, which would signal that Bonds had entered a more volatile and dangerous phase, or the price accelerated upwards. In that event there would be no more congestion areas and the recommended tactic would be a trailing stop, based on price rather than pattern. MDL violation after a long run is so crucial that positions can also be reversed, in other words from long to short.



Point and figure charts give the clearest picture of congestion areas during a staircase trend as you can see from the March Treasury Bill chart. The recent break above 91 justifies a new MDL stop near 90.85. This strictly limits the downside risk while leaving the door open to further profits. MDL strategy in a strong market is superior to either a 'seat of the pants' jobbing exercise or arbitrary targets for profit taking, since the best moves usually surprise everyone in their strength and duration.

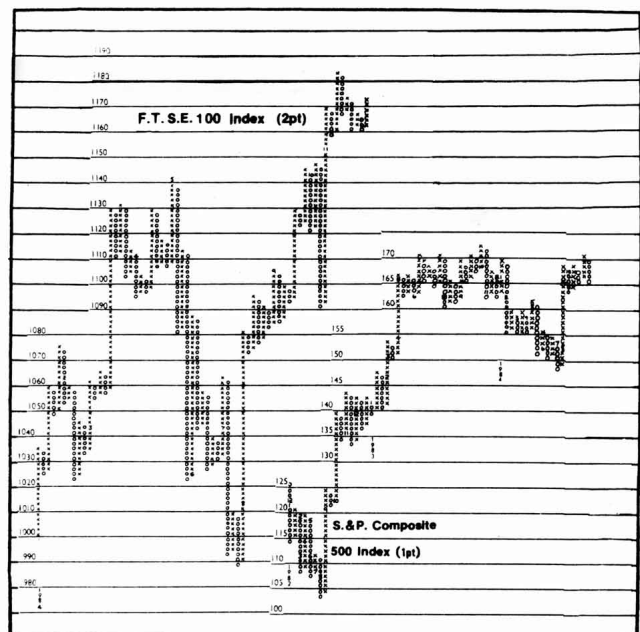
The MDL strategy will not work effectively in an erratic market such as Gilt futures which keep getting 'arthured' (mugged). Therefore unless the pattern becomes more orderly, Gilt trading carries a higher risk than is presently the case with Bonds or Bills.

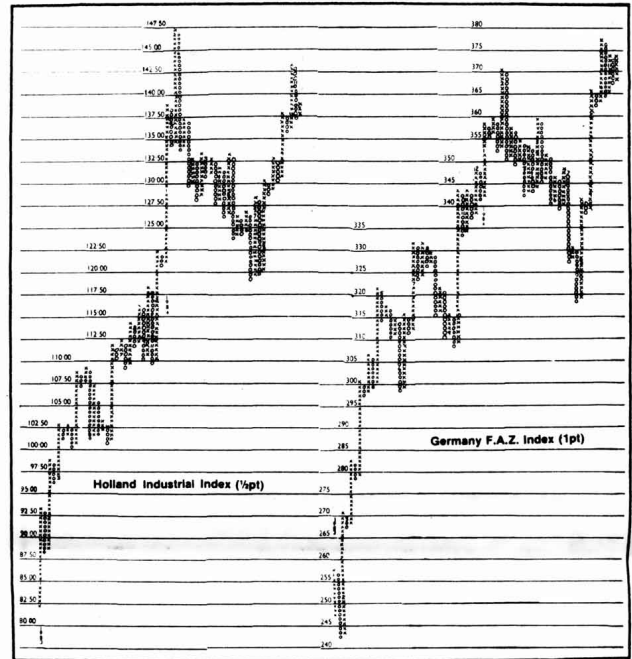
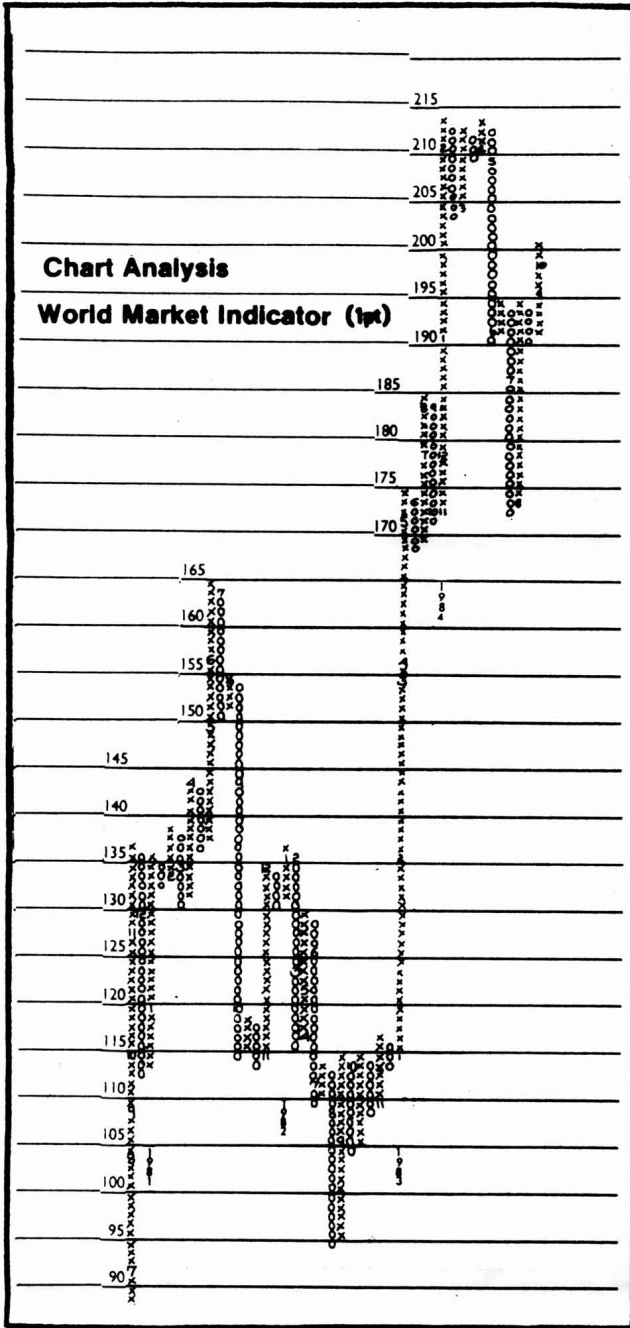
Nevertheless Gilt futures remain in an overall upward trend and the current setback should prove temporary.



## Stock markets – world indicator still bullish but psychological resistance levels have halted the advance

The Chart Analysis World Market Indicator would have to fall below 190 to indicate serious deterioration in the global equity trend. I don't expect this to happen, although the indicator has not advanced in over a month and is close to a caution signal, which would be flashed by a 3 box reversal from the last entry at 200. Readers can follow this chart each week in Chart's publication – INTERNATIONAL.





The short-term problem for equities remains those psychological resistance points on the major indices that I mentioned last month in FM8. The world's biggest capitalization markets rallied back to their highs where some hesitation was all but inevitable. Since most of those peaks were achieved earlier this year, followed by portfolio rattling declines of 15% or more, investors are experiencing a touch of vertigo at present. The accompanying cries of "double top" won't exactly alleviate the sensation, but I am optimistic that it will pass as the major markets establish new floors at current to slightly lower levels. The speed with which these six markets regained their peaks indicates that the next significant move will also be upwards, but the best evidence is provided by the strength of bonds. In the meantime active players should continue to take a few profits on strength and buy on reactions only. I will not issue any new share recommendations this month but have raised stops where justified in the tables that follow.

Late October (FM8) Share Buy Recommendations

Market	Share	Price Then	closing stop (c/s)	Price Now	Strategy
U.K.	British Telecom	50p on issue (Dec 3)	42p	NA	subscribe to issue
South Africa	Vaal Reefs	R173	none, strategy	R187	hold/unchanged
South Africa	Randfontein	R210	for these shares	R219	hold/unchanged
South Africa	Kloof	R71	is to hedge	R77.5	hold/unchanged
South Africa	President Brand	R60.5	fully in the	R64.5	hold/unchanged
South Africa	Harmony	R28	event bullion	R30.75	hold/unchanged
South Africa	Unisel	R17.20	closes below \$300 in London	R17	hold/unchanged

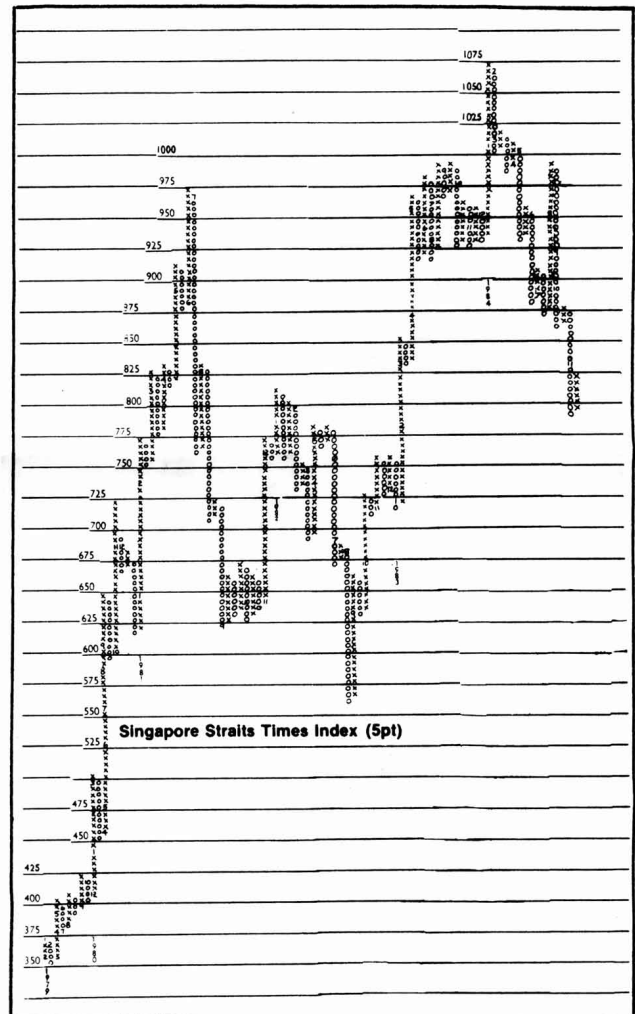
## Late September (FM7) Share Buy Recommendations

Market	Share	Price Then	closing stop (c/s)	Price Now	Strategy
U.K.	G.E.C.	228p	209p	220p	hold/unchanged
U.K.	Racal Electronics	258p	218p	274p	raise c/s to 236p
U.K.	Thorn-EMI	420p	390p	484p	raise c/s to 424p
Hong Kong	H.K. Electric	615¢	500¢	650¢	raise c/s to 570¢
Japan	Pioneer Electric	Y2800	stopped out at Y2580	—	—
Japan	Sankyo	Y860	Y775	Y950	raise c/s to Y870
Australia	Dunlop	A\$1.87	A\$1.65	A\$1.86	raise c/s to A\$1.78
Australia	Peko-Wallsend	A\$4.80	A\$4.20	A\$5.32	raise c/s to A\$4.95
France	Skis Rossignol	FF1620	FF1400	FF1720	raise c/s to FF1490
Germany	Deutsche Bank	DM356	DM328	DM381.4	raise c/s to DM338
Germany	Gutenhoffnungshutte	DM152	DM140	DM152	hold/unchanged
Holland	Nederlandsche Middenstandbank	FL149	FL134	FL144	hold/unchanged

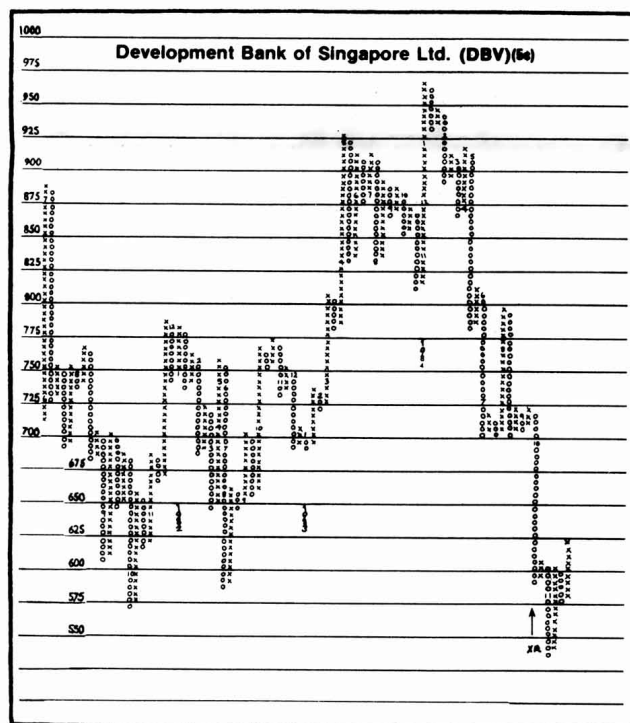
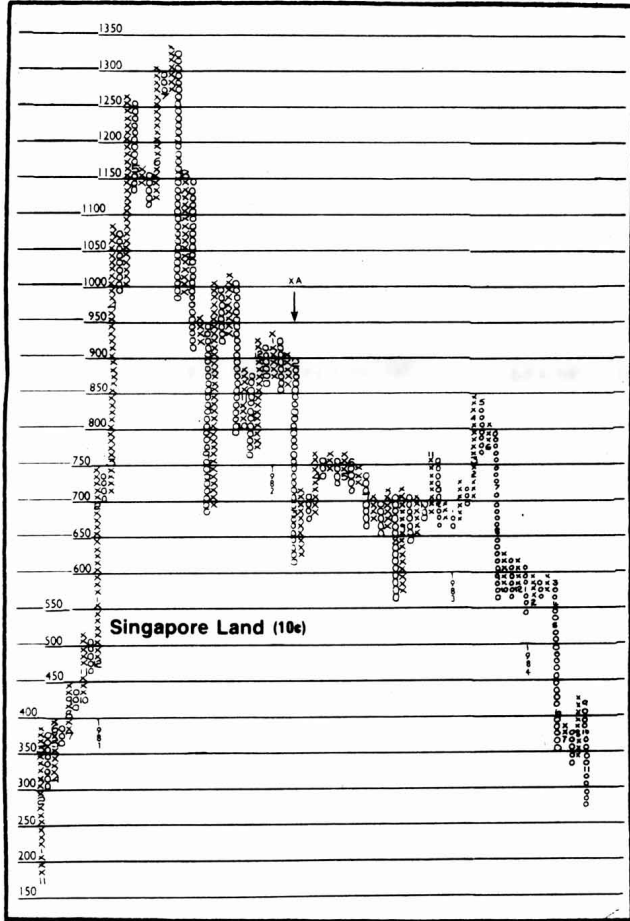
## Singapore – becoming interesting as holders panic

I am looking forward to my three day seminar sessions in Singapore and Kuala Lumpur so that I can assess the views of local specialists. All that I have heard so far is the usual business about a weak property market, fewer tourists and a flat retail sector. You could also say that about other markets that are nudging their highs but the Singapore Index has fallen 27%. I suspect currency is an important factor since many of their basic industries must have been hurt by the strength of the S\$ which is pegged to the US\$.

Whatever the reasons behind this decline many Singapore stocks have fallen far more than the index which makes them very interesting. When will they turn? Nobody knows. Why will they turn? Because Singapore has one of the world's most efficient high growth economies and the fall will over discount whatever bad news there is, or Wall Street will take off again causing Singapore shares to leap upwards. How will we know that shares have finally bottomed? When we get upside mid-point danger line violation. Which shares will go up the most? Possibly the ones that have fallen furthest, but probably the shares that turn upwards ahead of the index. Should we anticipate the bottom and start buying now? Probably not, and only if you are an institutional fund manager. The trouble with anticipation is it relies too much on an inspired guess. I would rather wait for upside MDL breaks and then pile in. I won't outline a strategy for this until

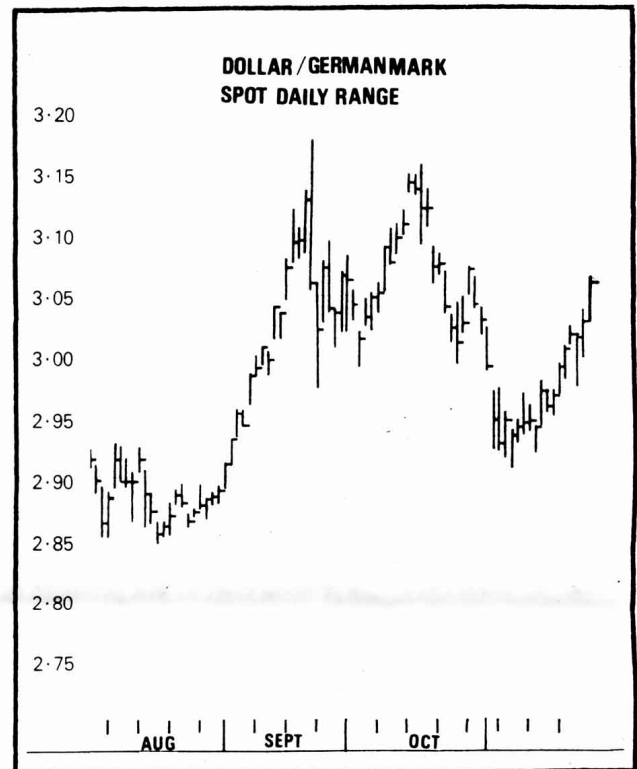


after my on location inspection, but I have included a few share charts from INTERNATIONAL which you may want to watch closely in case the market turns before FM10 arrives.



## The dollar – testing critical resistance after its biggest shake-out since February

FM7 began with the headline: "The dollar reaches an important peak". The crucial evidence was the accelerating upward trend climaxing in the dramatic key day reversals on September 21st. I forecast the biggest shake-out since last February, which has occurred. However, I also said that the critical downside level for the dollar was the August low at DM2.85 against the German mark. A move below that level would confirm that the dollar had completed THE peak, not just A peak. This has not happened to date and the dollar has bounced from DM2.90 back up underneath its top formation against the mark and other European currencies. I regard the dollar's



performance against the mark as crucial, and so far we have seen no more than a technical rally from the August trading range back underneath initial resistance from the September-October top formation.

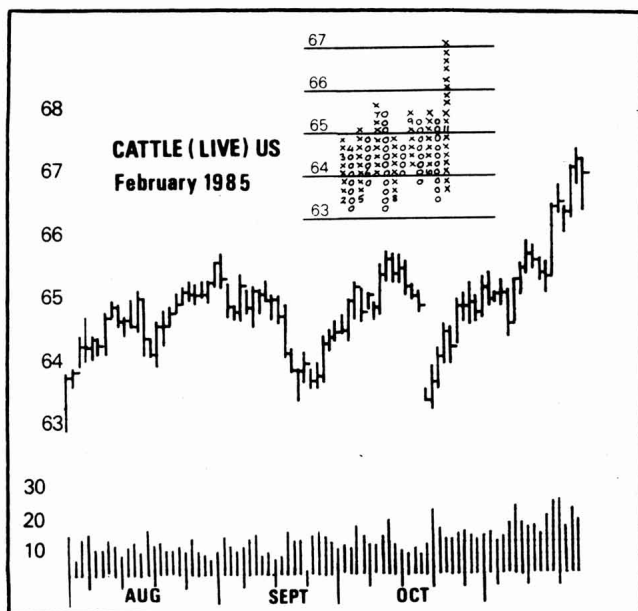
Convincing bearish action for the dollar would be a failure to rally much above DM3.02. Conversely a move above DM3.075 would re-confirm the DM2.90 to DM2.85 floor, and indicate a test of the highs, at least. I still believe that the odds favour a weak dollar, but all will be revealed on the charts shortly.

## Late September (FM7) Commodity Buy Recommendations

Commodity	Price then	Stop	Price Now
Nov lumber	\$126	\$120 but raised above purchase price in FM8.	contract expired at \$1455.40 on Nov 15th.
Dec cotton	purchased on stop at 66¢	1.5¢ trailing (FM8), stopped out at 68.2¢	NA

## Cattle are bullish

Live cattle have broken up out of this year's trading range on increased volume. This pattern could easily support a further rise as there is no overhead supply evident to impede a further advance, if not a stampede. *Buy February cattle at 67 cents or below and protect with a stop at 65 cents. Switch to a 2 cents trailing stop if prices advance.*



## Travel USA

As tangible evidence of America's more confident mood, nothing is more dramatic than the new urban architecture. When I lived in New York during the 1960s, I would become depressed by the seemingly endless concrete canyons and absence of anything green other than Central Park. Manhattan will always be an island of skyscrapers, but a few years ago CitiCorp perfected a new trend by building their vast Third Avenue centre above slender columns. The ground floor and lower levels are open, airy public sanctuaries through which people may wander, enjoying the trees and flowers, sit at the many tables, read a book, listen to free music recitals or watch the occasional theatrical productions staged in the centre. On Madison Avenue the new AT & T building provides another peaceful haven from the bustling crowded streets, as does the spectacular IBM building with its vast greenhouse containing an abundance of flora including several large trees.

I have always felt that New York was the world's most exciting city if you could put up with the battery hen living conditions. Housing remains a problem but any visitor should find much to enjoy in Manhattan. Most of the restaurants offer good value for overseas visitors despite the dollar's four year rise. We were introduced to a variety of new ethnic restaurants ranging from Chinese to Mexican. Our host on one occasion was old friend and FM, Bill McGarr, who manages The McGarr Fund. Bill has made over 30% this year in contrast to most US fund managers who have lost money. He has achieved this outstanding performance primarily by timely short selling in stocks like Caterpillar Tractor, which he says "won't make money this year or next year".

The main deterioration in New York that I have observed during the last few years is the taxi service. The Checker cabs that were on a par with a London taxi have all but vanished. Your taxi fare today buys a filthy, cramped back seat that two people can barely squeeze into. There is almost no communication with the previously talkative New York hack because he is shielded by a grimy perspex barrier (so that you won't mug him) which blocks all front vision for the passenger. We walked whenever possible.

I had not been to Chicago for many years and had insufficient free time to gain more than a fleeting impression. This was immediately favourable because our hotel was a short walk from The Art Institute of Chicago which is currently holding the best French Impressionist exhibition that I have seen outside Paris. I particularly enjoyed works by Monet, Renoir and Pissarro, and recommend this exhibition if you are near Chicago between now and January. It's called 'A Day In The Country', and the Institute is on Michigan Avenue at Adams Street.

The Midland Hotel on LaSalle Street is a modest pile but close to the markets and, more importantly, is affiliated with a reasonable health club that has a decent sized swimming pool. I wanted to do some research on the Mid-Western steak for FMs and was told that the best were at That Steak Joynt on 1610 North Wells. The restaurant looked like a 19th century western bordello and was filled with beefy businessmen. My medium-sized sirloin was huge, and tender enough to cut with a fork, but the flavour was slightly disappointing, probably due to a marinade.

The following evening we enjoyed an excellent dinner party held by top economist and FM David Hale. He expects a radical overhaul of the US income tax system during the second Reagan administration. This would be a supply side style, flat income tax rate of 25% or 30% as proposed by New York Republican

Congressman Jack Kemp and New Jersey Democrat, Senator Bill Bradley. Just think of the contribution to GNP when all of those clever lawyers and accountants presently working on tax avoidance schemes turn their energies to more productive pursuits. A fund manager at the dinner said that he was not allowed to buy South African gold shares for various public employee pension funds. Who will that help? Certainly not contributors to the fund or black miners, nor will it affect white South Africans.

The Dallas skyline is an impressive sight on a clear sunny day. Shimmering skyscrapers rising out of the flat landscape can be observed from many miles away. The newer buildings have glass exteriors that are lovely shades of pale green, blue, silver, sienna or gold, that mirror each other or a sunset with dramatic effect. They are not just rectangular monoliths, as some form acute angles or have a rakish slice taken off the top. My favourite was the Hyatt Regency Hotel on the edge of the city as you approach from the airport. It is not a skyscraper but an aqua blue cubist sculpture with an adjacent tower supporting a Saturn-like ringed sphere. This is a revolving restaurant which looks like a galaxy at night as the exterior is lit by hundreds of tiny white bulbs.

I'll try the Hyatt and its restaurant on another trip, but if you prefer a more central hotel The Adolphus at 1321 Commerce Street, next to Neiman-Marcus, was sumptuous. A must visit is the Western gear store two blocks further along Commerce where you will enjoy selecting your stetson and boots.

The Texans and South Westerners have a knack for remaining very professional without ever seeming to hurry. I enjoyed their company but was advised by an ethnic taxi driver that "those cowboys are mean". Walk half a mile in any direction and smart Dallas turns abruptly into a sleazy backdrop of used car lots, pool halls, saloons and bail bond dealers. I gather these operate strictly on a cash only basis and offer no futures contracts or options.

An outstanding fish restaurant in Dallas is Ratcliffe's at 1907 McKinney Street. Their sauces are so good that you might skip the safe items such as cold crab or lobster and try one of the sauteed scallop combinations. I wanted to try barbecued spare ribs, a Texas speciality, at Tony Roma's Place For Ribs at 5550 Yale Boulevard, across from Southern Methodist University. It was inexpensive and informal, and the barbecued pork ribs, potato skins and onion rings were tasty but too rich and greasy for me.

The approach route to San Francisco from the airport reminded me of Sydney with its smart houses tucked into bright sun-scorched hills that rise above the large harbour. The Nob Hill area where we stayed is exceptionally attractive and sophisticated, but mercifully free of the arriviste glitter and tackiness typical of so many prosperous cities. For example I have never seen more creative and imaginative shop window displays which are interspersed among a variety of restaurants and cafes. During four days in San Francisco I never saw a McDonalds, Kentucky Fried Chicken or other fast food chain. However if you want

a quick inexpensive snack there are numerous croissant bars, each baking their own pastries which are three times the standard French size. These are sliced in half and used to make delicious sandwiches or desserts.

San Francisco abounds with good restaurants and I did not have a better meal during the entire trip than at P. J.'s Oyster Bed at 737 Irving Street between 8th and 9th Avenue. Well off the tourist track, this is an informal place (waitress in jeans, glass top tables) that has grown from a retail fish market with dining bar into a small restaurant. They still sell fish to the local residents, which is why everything is so fresh, and all the dishes we tried were delicious. Zuni, at 1658 Market Street, where we had another good meal, was typical of many local restaurants that have a Bohemian air. The best San Francisco restaurants provide an excellent sour dough bread which cannot be produced without the local atmospheric conditions, or so I am told.

I have also heard that the best California wines do not leave the State. All that we drank lived up to their reputation, but are more expensive than I would have expected and they serve the reds too young. Anyone living in California and possessing an ample cellar could ensure their long term financial security by laying down a large quantity of the best vintages. We took a quick trip through the Napa Valley, which is not as attractive as the French wine regions that I last visited in August, but the modern wineries are impressive. I can recommend the restaurant at Domaine Chandon, on California Drive, Yountville, about sixty miles from San Francisco.

San Francisco's big city advantages don't infringe on residential life because building regulations protect a village atmosphere by restricting the number of high rise office or apartment blocks. Consequently most homes have an excellent view looking down from the city's incredibly steep hills. San Francisco's reputation for flamboyant eccentrics seemed over-rated until Halloween, when thousands of unabashed adults paraded about in the most elaborate costumes, from Batman to Darth Vader, Mata Hari to Supergirl, Frankenstein to Dracula, but no Arthur.

I was told that the best large hotel was the Stanford Court, but I can only comment on their Sunday breakfast which is excellent. The same contact recommended the Vintage Court Hotel on Bush Street because it was small, quiet, attractive and half the price. Our double room was an immaculately decorated bargain at \$80, and the location is convenient for shops, restaurants and the financial district. There is no room service at the Vintage Court, which I didn't miss, because the light buffet breakfast was good. You listen to Vivaldi in the elevator.

Happy travelling,  
David S Fuller