

End January 1985

THE INTERNATIONAL INVESTMENT NEWSLETTER

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



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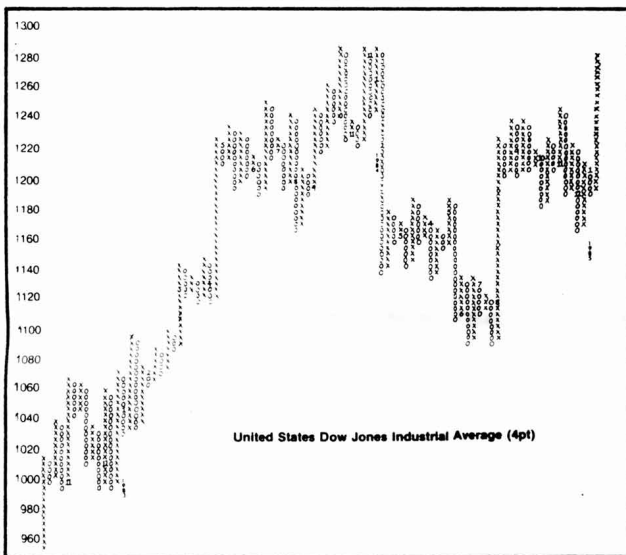
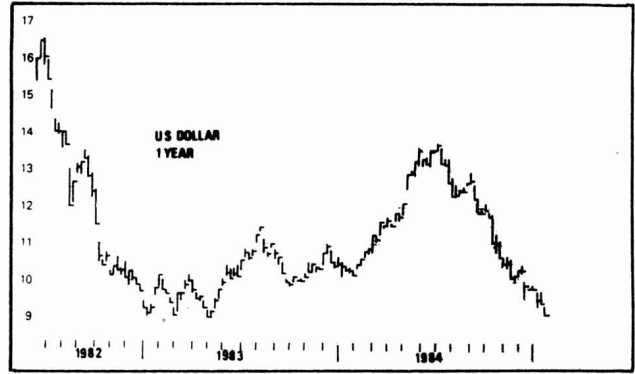
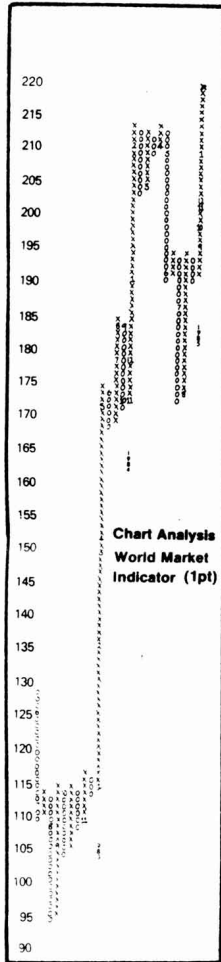
Wall Street blast off

There is a small technical hitch to be overcome – a short term overbought condition – that should be corrected in a few day's time. Wall Street will then rise majestically above its six month trading range, cruise easily beyond the all time high and carry on upwards into orbit. The DJIA could move quickly to 1400 or 1500.

Until recently the consensus view on the Street has been that the DJIA would move below last year's low at 1088 before advancing to new highs. There was undoubtedly an element of wishful thinking behind that view since last August's rally caught most people by surprise. The flaw in their argument was always the considerable evidence pointing to a further and substantial bull run. Wall Street's six month trading range always looked like a normal pause following a sharp rally back to a psychological resistance point created by the former peak. In stating the case for a further advance I will try to avoid subjective observations and stick to irrefutable facts.

A Wall Street bear market has never begun against a background of falling interest rates and rising Treasury Bills or Bonds. In fact the early stages of fixed interest bear markets usually provide the final source of fuel for advancing stock markets as investors switch from debt to equity issues. No record volume rally, such as occurred last August, has ever taken place within the confines of a bear market. My view that these factors are consistent with another bull run is supported by the next three largest markets, Japan, the UK and Germany, which have moved substantially above their peaks formed during the first half of 1984. True, these markets were also rising when Wall Street slumped last February in a short sharp bear market lasting until July, but there is an important difference. That move was preceded by a falling bond market which had peaked over a year earlier. The Chart Analysis World Indicator flashed a sell signal in early February '84; today it is in new high ground which reconfirms the global upward trend for shares. This indicator gave a buy signal in early August '84 and confirmed a global bull market reading in early September.

In addressing the question, "What next?", after last August's three day record breaking rally I said in FM6: "The safest forecast is that we will not get a replay of the August '82 aftermath (*a runaway uptrend*) which many Wall Street analysts are now forecasting. Markets seldom experience consecutive cycles that are similar because people adopt a strategy that would have been successful last time. That changes the next cycle. For example, in August '82 many people waited for the market to react, but the first significant pause did not occur until late October. The spectacular volume earlier this month tells us that investors



provided by what I call the "trampoline effect", whereby the market sags back on light volume, narrow range days and springs forward for significant gains on heavier volume. This is typical of consolidation prior to a further advance. The long consolidation that has occurred is consistent with my bullish hypothesis, rather than indicative of top formation development, because unlike the strongest stock markets in recent months Wall Street had overhead supply to absorb from the late 1983-early 1984 top area.

There was also formidable competition from the strong bond market which diverted funds away from equities. Lower interest rates and the potential for further economic growth (currently under-estimated by many economists) has made shares more attractive today than they were several months ago. Wall Street bears say institutional investors currently have little buying power. I disagree because substantial sums have been parked in Treasury Bills until the stock market resumes an upward trend.

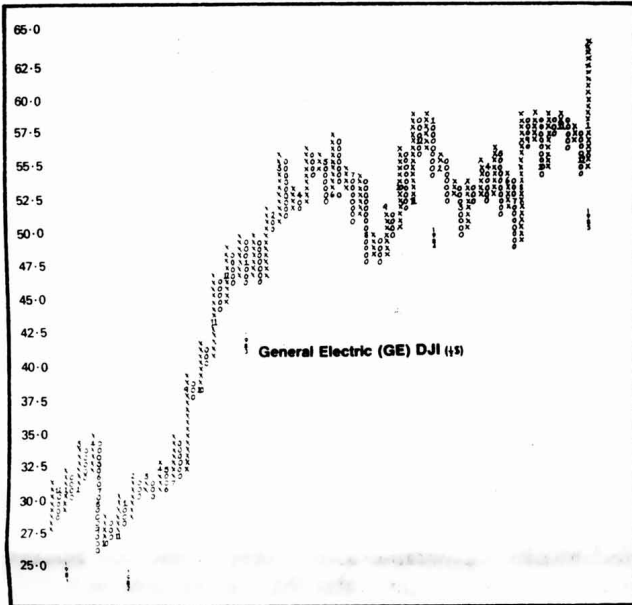
When Wall Street takes off, possibly within the next month, fund managers will not have to look far for fundamental justification. The risk of a recession in 1985 has been greatly exaggerated as I discussed in FM9's front page feature, "America on the move". Like a locomotive, the US economy is difficult to reverse. Once back sliding in a recession, considerable fuel is required in the form of monetary stimulus before the wheels stop spinning and the engine of recovery lurches forward. Remember 1981 and '82 when talk of a depression was fashionable? A few months ago the US economic train was hurtling rapidly along the growth track and the Fed felt obliged to apply the brakes. This worked so effectively that Volker's foot is now pressing gently on the accelerator. He can do this without fear of over-heating because the economic background, with its absence of supply "bottlenecks" or any other inflationary pressures, resembles the beginning rather than the end of a recovery. The realistic prospect of stable growth in 1985 will cause analysts to revise upwards many of their forecasts for earnings and dividends.

jumped in much faster and more aggressively."

I went on to forecast a temporarily schizoid market, adding: "Investors everywhere will alternate between sweet dreams of expanding PE ratios during a low inflation, stable growth, high technology boom and a nightmare of debt crises, deflation and currency turmoil. I expect lots of volatile churning action over the next few months as quick draw fund managers duel with each other." A clue indicating that Wall Street would break upwards out of its trading range was

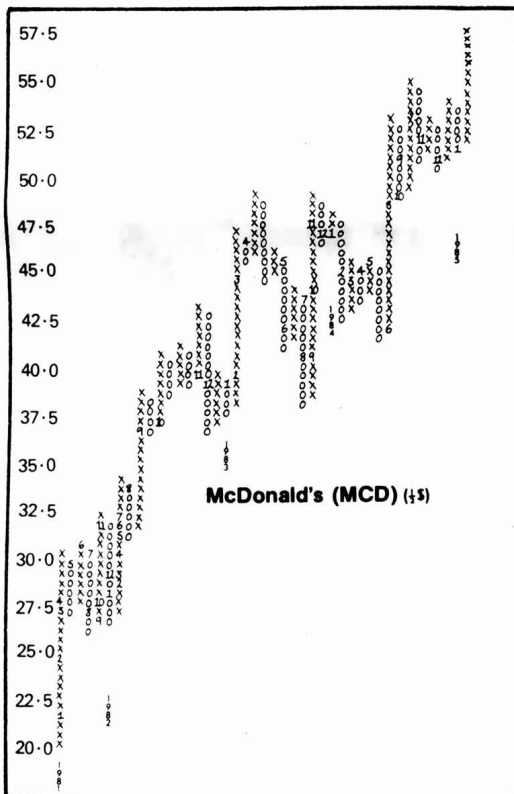
Joe Nouveau and the real threat to a booming US stock market

While dismissive of the conventional bear arguments, I am not blind to the real stumbling block before share prices. Contrary to popular belief the budget deficit at 4% of GNP is not the major threat to the US economy



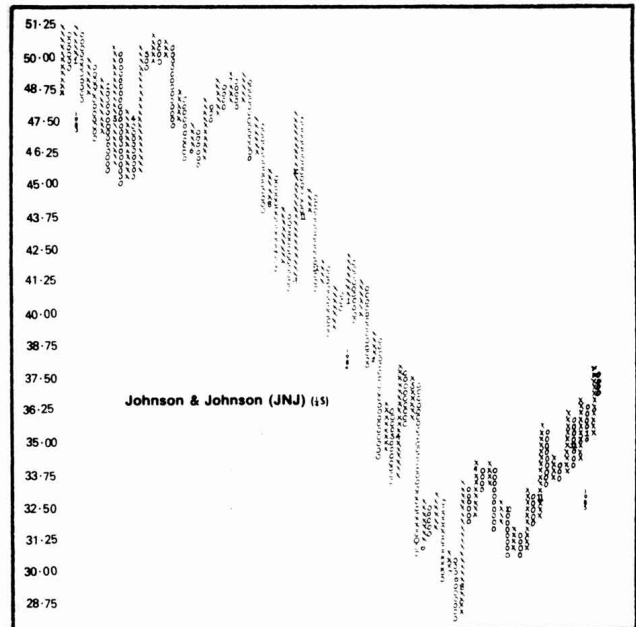
and therefore the stock market. The bearish fundamental is the almighty dollar, which can hurt virtually every sector of the economy. Everything in Europe is a bargain for Americans with the exception of British Rail and Arthur's coal. For example, when Joe Nouveau from Detroit can buy his Jag in Coventry, ship it back over the pond, and still spend \$9,000 less than the same car would have cost him at his local American dealer, you know that something has gone very wrong in the world of purchasing power parity.

The solution to the problem is lower US interest rates which, as I have often repeated, will remain the number one economic priority for both the Federal Reserve and the Treasury. When the real (inflation adjusted) return in dollars falls below the returns in



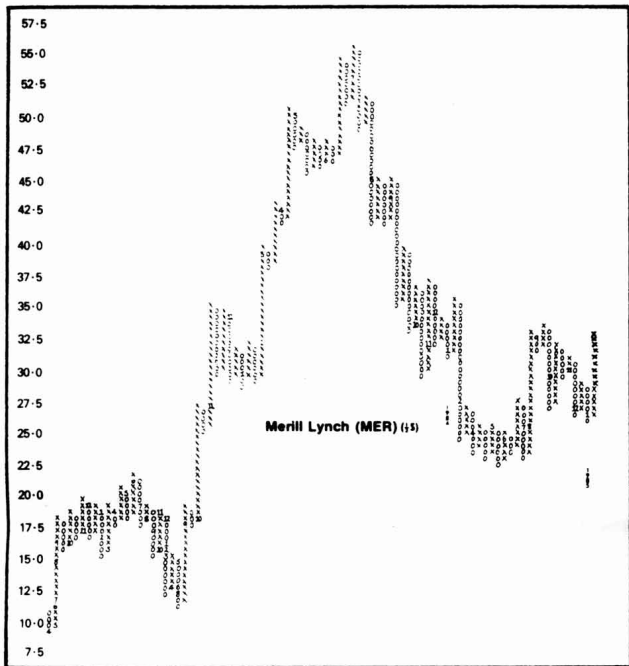
leading European currencies and the Yen, the dollar will lose its appeal. In the present low inflation environment most US corporations would rather lend than borrow, which is why all those 'Kaufmanesque' warnings of higher interest rates have been wrong. I would not be surprised to see the prime rate reach 6% in 1986, without a recession. Needless to say Wall Street would love it.

I did not recommended any US shares last year as other markets were stronger. However, Wall Street should come to life in '85, as investors look beyond the dollar's present strength, worry less about a recession and focus on the earnings and dividend potential. The difficult choice in a ranging market is whether to buy a strong share that has been rising on its own or to opt for recovery. The lagging shares are less reliable but usually experience a better percentage gain when they finally move.



Among the very steady patterns that I like are Gillette \$55 3/4, General Electric \$63 5/8, Coca-Cola \$62 1/2, Bristol Myers \$52 3/4, Dart & Kraft \$85 3/4, Exxon \$46 and McDonald's \$57 7/8. Five recovery candidates are Merrill Lynch \$32, Johnson & Johnson \$37 1/4, INCO \$13 5/8, Financial Corporation of America \$10 1/4 and Burlington \$27 7/8. While I would obviously not discourage FMs from buying any of these shares, a dozen US recommendations is too many, so I will narrow it down to four, consisting of two leaders and two recovery candidates.

Buy General Electric which has only just broken up out of a thirteen month trading range. Limit risk with a closing stop at \$53. McDonald's share performance could almost be described as bear market proof and it is now breaking up out of a six month trading range ahead of the market. The closing price stop is \$49. Johnson & Johnson nearly halved from its January 1983 peak before forming a small base formation capable of supporting a further recovery. Limit risk with a closing stop at \$32. Merrill Lynch is a classic bull market situation as earnings should



benefit immediately as trading volume expands. The outstanding performance of Japanese brokers in recent months indicates the potential. The risk limiting closing stop is \$26.

Recommendation policy

As FM10 will be read by many new subscribers, I will explain that all recommendations are accompanied by protective stops or an appropriate hedging policy as a quality control. Even the best research is no more than educated guess work. It is not uncommon for two different recommendations to appear equally promising on an objective fundamental and/or technical basis, but their subsequent market performance differs widely because only one of them attracts a wide-spread following. Market value is an abstract concept, and all investments are subject to the whims of fashion. Therefore it is essential that we chop our non-performing positions relatively quickly in addition to running profits.

I will not recommend shares unless the Chart Analysis World Indicator gives a bullish reading. The closing stop initially limits a potential loss on new recommendations. FMs should sell shares that close at or below their stops the following market day. As shares move in our favour the closing stop is raised to further limit risk or to protect profits as the rise continues. This disciplined policy should free capital from non-performing recommendations for deployment elsewhere and keep FMs in the best situations.

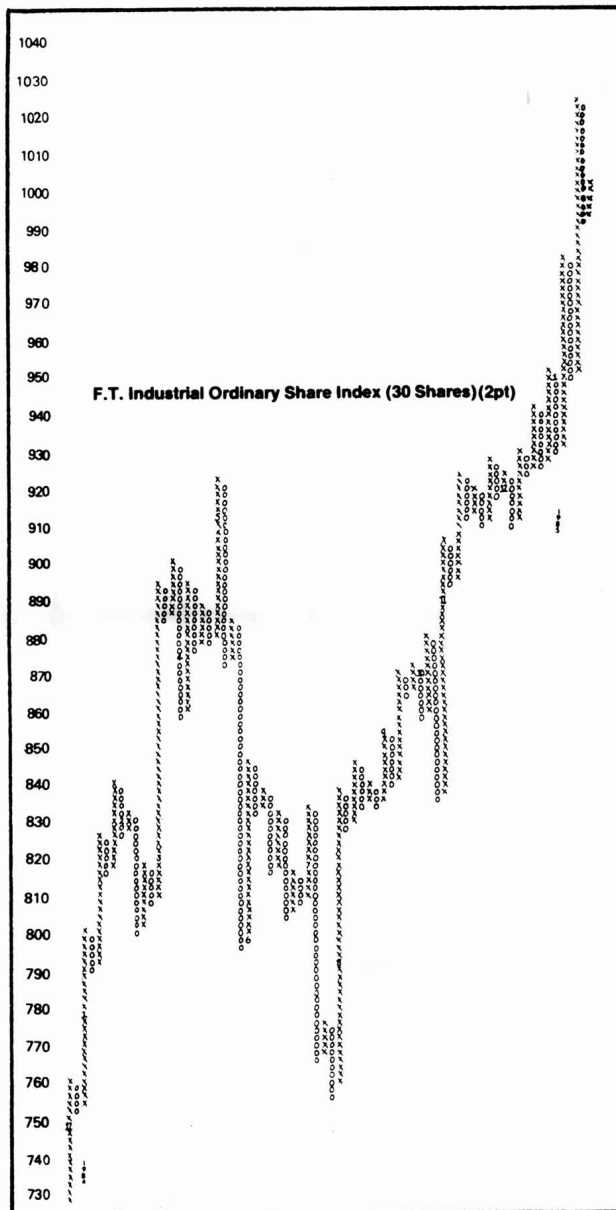
The FT 30 Share Index exceeds 1000 milestone – roundophobia next

The advent of the FTSE 100 Index has diminished the FT 30's importance, nevertheless it would be churlish

not to acknowledge this month's milestone advance to 1000. The inclusion of government handout, British Telecom, hastened the journey but one should not quibble, especially as the road was beset with arthurs (muggers) and an overblown Chancellor. FMs will know that I have remained optimistic about the trend for UK equities since the August rally, but I now suspect that this market is entering a more dangerous phase.

The extent of the advance should make one more cautious by definition, even though the periodic shake-outs and consolidations have left the market less vulnerable than it would have been after an uninterrupted rise. The move above 1000 could also contribute to a pause because round numbers are targets and reassessment points for many investors, although renewed strength on Wall Street may delay a correction in UK shares. The point is, UK equities are now technically vulnerable and investors are too relaxed about a currency storm that has yet to blow-out.

Sterling has recently been a significant bull point

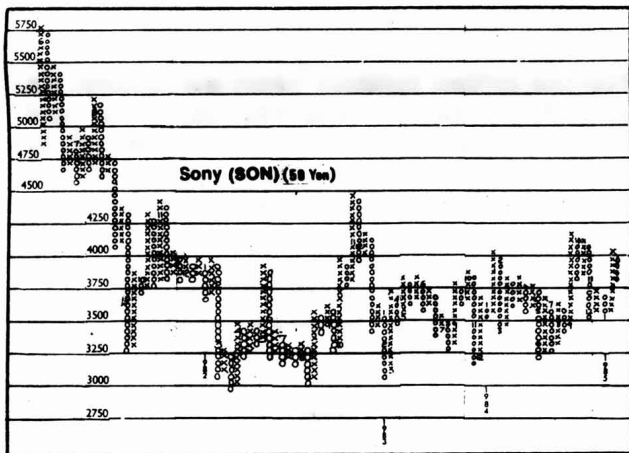


for the market because its orderly decline was good news for Britain's exporters and made London equities a bargain for American investors. However, the government's laissez-faire attitude towards sterling was abandoned as the decline accelerated and a considerable effort will now be made to stave off the humiliation of sterling/dollar parity, at least for the short term.

Sterling is now fundamentally undervalued but that has not bothered the people who are selling it and may be irrelevant in the short term. The pound has also stopped falling but it will take a significant rally to improve sentiment and that probably won't happen without a further rise in interest rates or massive intervention, causing the dollar to fall against other currencies. If the dollar bulls are able to digest central bank selling, which remains light, and create another run against the German mark (watch for DM3.20), sterling will crack. To head off dollar parity the UK government would probably raise interest rates sharply, causing gilts to plummet. The stock market would not shake off another interest rates shock. FMs don't need to bail out of UK positions in anticipation of a crisis that may be averted, but they should use mid-point danger line (MDL) or trailing stops to minimise profit erosion.

Three more investment grade shares for the FM portfolio

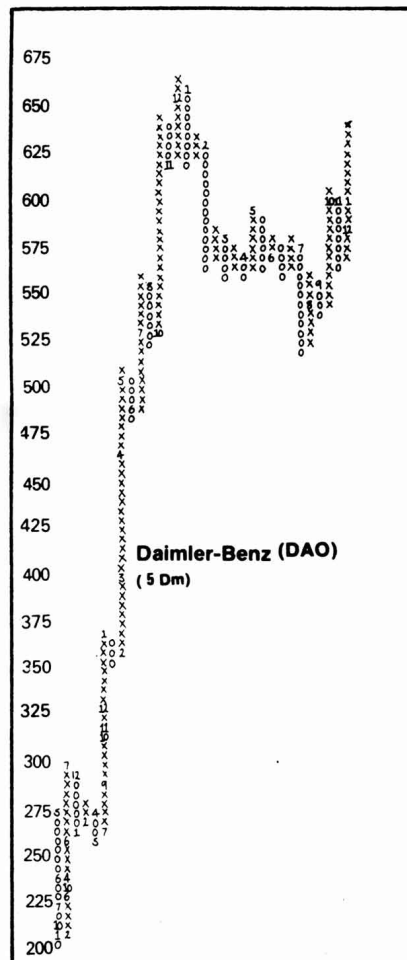
That new high on the Chart Analysis World Indicator suggests that the current upward leg for global stock markets could be dramatic. It provides ample justification for these additional share recommendations particularly as Japanese, German and Swiss indices have now broken decisively above their psychological resistance points near the early '84 peaks.



Sony's share performance has been dull by Japanese standards resulting in the development of a long "sleeper" base formation. Possibly the most familiar name in consumer electronics, Sony has been out of favour with fund managers who say that the

management is too conservative. The company has also underestimated consumers by frequently pricing goods above the competition's products in the mistaken belief that people would buy the Sony name. I believe these management problems are out-weighed by Sony's great strengths in research, product development and manufacturing capability. For example, Sony probably has a small but significant lead in the hugely important field of optical disc systems. These machines will use lasers to record large computer files on erasable plastic discs. The systems won't be available for at least a year but are certain to take over the multi-billion dollar information storage market because they hold hundreds of times more information than conventional floppy disc and hard disc drives.

Some FMs may own optical disc systems that play music or video programmes but these cannot be erased because the laser reads 'dots' that are permanently burned into a reflective surface. An erasable system that can also record new data is essential for the storage of computer information. For the technically minded, the Sony system, which was developed in conjunction with Japan's telephone monopoly, Kokusai Denshin Denwa (KDD), uses a disc holding millions of magnetic dots. A powerful laser beam reverses the charges of certain dots to record information digitally. A weaker laser reads the information by detecting the direction of each charge. Information is erased by returning all

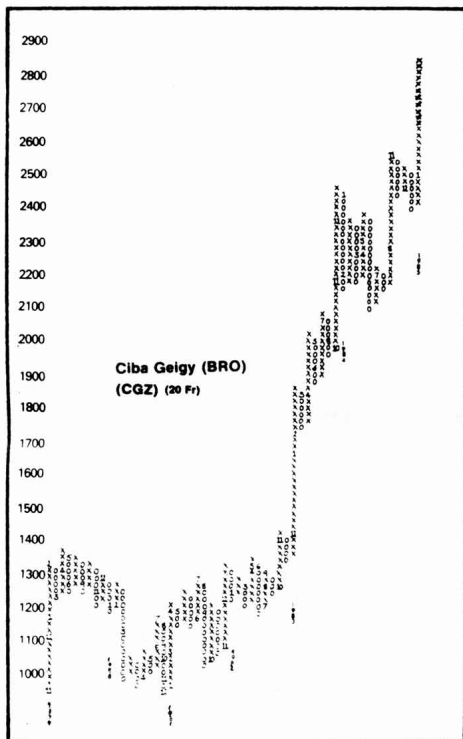


the magnetic charges to their original direction.

No one can be certain that Sony will win the Japanese dominated race to market optical discs or know what the profit on future sales will be. Nevertheless the company's link with KDD makes them a hot favourite, with Hitachi the main rival. The prospect of an exciting new product often does more for a company's share price than the eventual results from sales. The swarm of fund managers is attracted by the sweet scent of future profits. I think Sony is due for a re-rating and that large base formation can support a substantial move over the intermediate term from the current price of Y3800. *Buy Sony shares and protect this position with a closing price stop at Y2900.*

Turning to more conventional but no less profitable products, the automobiles produced by Daimler-Benz are a favourite status symbol for the wealthy and have a reputation for reliability second to none. In a cyclical industry Daimler-Benz has acquired a cash mountain by managing to make more money every year.

The chart looked scary after a spectacular rise in 1983, and spent last year consolidating those gains. The trading range evident below DM600 should strictly limit downside risk and can also support a substantial advance over the intermediate term. *Buy Daimler-Benz currently at DM626, and limit risk with a closing stop at DM525.*



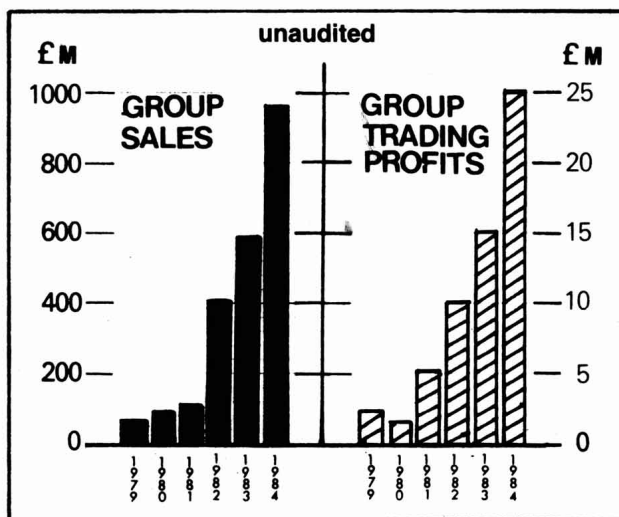
Ciba Geigy, the Swiss pharmaceuticals and chemicals company, is as well known as Sony and Daimler-Benz. Ciba broke up out of its large "sleeper" base formation in December 1982 and spent the last year consolidating the gains that followed. The platform evident between SF2500 and SF2100 should continue to limit risk and can easily support further gains. The company's earnings are benefitting from the

weak Swiss franc which has fallen against all major currencies except sterling. *Buy Ciba Geigy, currently at SF2860, and limit risk with a closing stop at SF2200.*

Apply for Hillsdown shares

There is little chance that I will recommend the UK government's next privatization extravaganza to FMs. British Telecom proved to be embarrassingly successful for Mrs T so her next flotation will be no political handout, and could actually sink – remember Britoil?

Hillsdown, however, is an excellent bet as a company with star status on its own merits, and a lucky draw in the new issue queue. As the eighth largest private company in the UK, it is the first reasonable sized issue to follow BT to the market. Fund managers with diversified portfolios will lead an optimistic herd of stags by welcoming another company in the food sector depleted by take-over issues, Brooke Bond and J Bibby & Sons.



The two technicalities should be worth a small premium on the issue price (to be announced) but Hillsdown would be well received at any time. For a company just ten years old, the growth in sales and profits is very impressive, especially as Hillsdown is not a one product company whose management got lucky. They have a reputation for buying under-utilised assets in loss-making companies and turning them around quickly. Hillsdown's joint chairmen, David Thompson and Harry Solomon are proven company doctors who slash overheads, invest in more efficient plant, streamline communications and motivate division managers. The cash raised as Hillsdown joins the stock market will be used to reduce debt and finance further acquisitions. All FMs should apply for Hillsdown shares, which will be floated in February, as the reception for this new issue is certain to be ecstatic, despite short term risks in the UK stock market.

Portfolio review

I believe active money management produces the best results and I will recommend a number of shares when circumstances are favourable, in addition to providing

Late September (FM7) Share Buy Recommendations

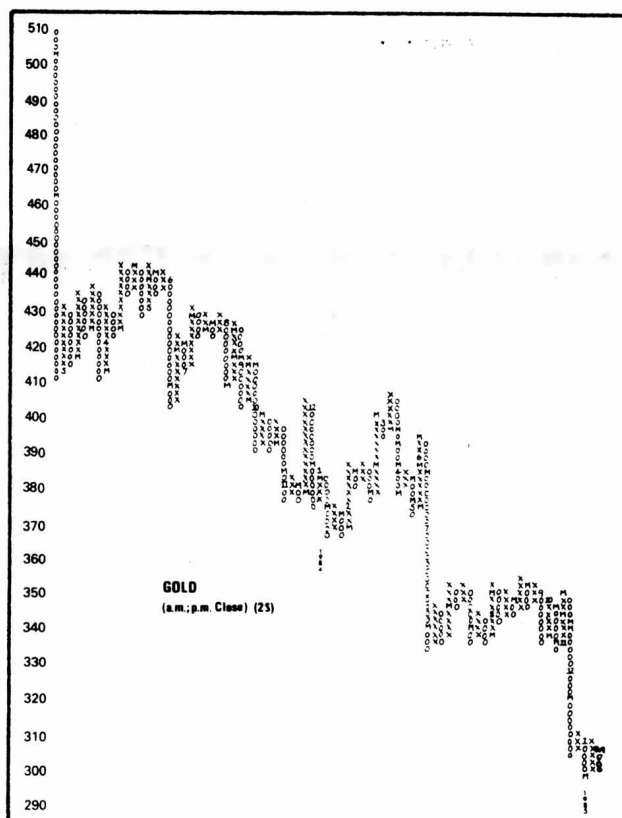
Market	Share	Price Then	Closing Stop (c/s)	Price Now	Strategy
U.K.	GEC	228p	stopped out at 209p	-	-
U.K.	Racal Electrics	258p	stopped out at 236p	-	-
U.K.	Thorn-EMI	420p	424p	453p	hold/unchanged
Hong Kong	H.K. Electric	615¢	570¢	800¢	raise c/s to 645¢
Japan	Sankyo	Y860	stopped out at Y870	-	-
Australia	Dunlop	A\$1.87	A\$1.78	A\$2.12	raise c/s to A\$1.89
Australia	Peko-Wallsend	A\$4.80	stopped out at A\$4.95	-	-
France	Skis Rossignol	FF1620	FF1490	FF1920	raise c/s to FF1640
Germany	Deutsche Bank	DM356	DM338	DM405	raise c/s to DM374
Germany	Gutenhoffnungshutte	DM152	DM140	DM165	raise c/s to DM147
Holland	Nederlandsche Middenstandbank	FL149	FL134	FL165	raise c/s to FL143

Late October (FM8) Share Buy Recommendations

Market	Share	Price Then	Closing Stop	Price Now	Strategy
U.K.	British Telecom	50p on issue	42p	127p	raise c/s to 117p
S. Africa	Vaal Reefs	R173	none, strategy	R187	hold shares
S. Africa	Randfontein	R210	for these shares	R208	and lift
S. Africa	Kloof	R71	was to hedge	R81	hedge if
S. Africa	President Brand	R60.5	fully in gold	R57	bullion
S. Africa	Harmony	R28	futures or through	R29	trades
S. Africa	Unisel	R17.20	City or Ladbroke	R16	above \$315
COMEX hedge	April gold short (Nov 28)	\$340.4	Index if gold bullion fell below \$330 in London.	\$305	London

a market overview in FM. The closing stops act as a quality control device for each share. The art of using stops is to sensibly limit risk and protect profits while not over-crowding a good recommendation. If a well placed stop is hit, the potential was not as great as hoped or else the share was too volatile to be traded conservatively. The best moves often conform to an orderly, consistent trend, which is ideally suited for the use of stops. In addition to taking you out of a duff or risky position, the stop reduces stress by placing each situation on automatic pilot. Your creative energy can then be directed towards finding the next winner. I try not to waste time by fantasising about how far a trend will carry, and I don't like arbitrary targets. The best positions usually run well beyond even the optimists' forecasts. Whenever I am stopped out I feel sorry for myself for about ten seconds. This is followed by a sense of relief because capital is available for a more promising investment. Naturally one is sometimes stopped out of a share that subsequently romps ahead. C'est la vie. You can't win them all, but you will probably do a lot better than trading or investing without stops. Without the discipline and quality control provided by stops, one's strategy amounts to a song and a prayer.

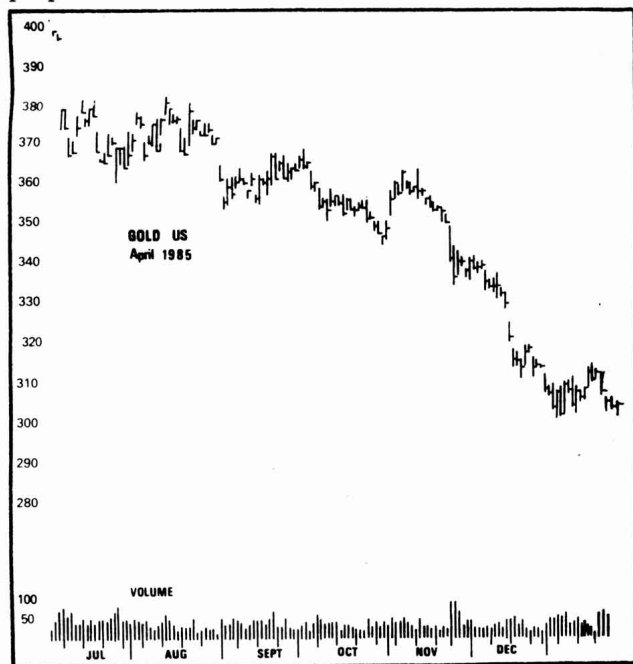
Of the FM7 recommendations GEC and Racal failed the market quality control test and were stopped



out at small losses of less than 10%, including dealing costs. Racal was the more disappointing because the share was doing well before the company failed to achieve a profits forecast. Both shares kept on falling so we are well off to be out. Sankyo and Peko-Wallsend were stopped out at a break-even price or minimal profit including dealing costs. Sankyo is a disappointment, proving to be too volatile for my tactics, as we were stopped out just before the share raced ahead. On the other hand we were well out of Peko-Wallsend which fell to A\$4.00. The remaining shares are all in profit and the higher stops allow us to run these positions at very low risk.

A friendly journalist cautioned that my front page headline in FM8, "Apply for British Telecom shares – they are a government handout", was an exaggeration. Given the issue price of 50p, opening at 93p and subsequent advance to 134p, I probably understated the case. I had reservations about including BT in the portfolio table since most of us received only a fraction of the shares that we applied for due to the heavy over-subscription. However it seems that nearly every FM subscribed to BT shares and many fund managers increased their stake during the first few day's trading, so close attention remains necessary. The rising floor under BT's share price is the institutional demand from fund managers who maintain index weighted portfolios. Wall flies tell me that the boys have more to buy so I'll stick to my trailing stop strategy (see table).

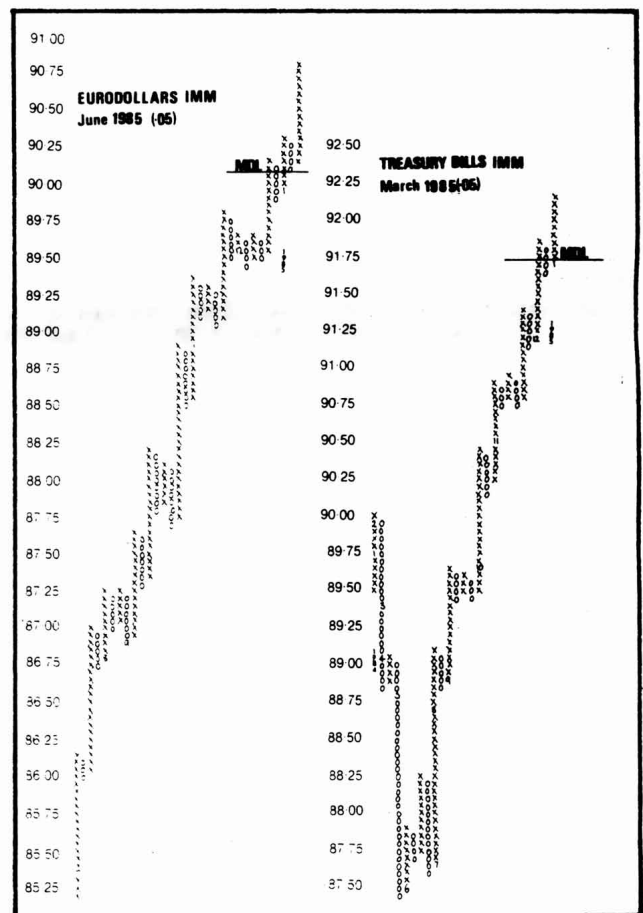
I never promised you a quiet life in recommending that you buy up to half of your maximum gold share portfolio in FM8, just eventual profits. I added that only a fool would write off the possibility of gold plummeting once again and said hedge these positions by shorting gold futures, or take out a down bet, if bullion falls below \$330, which happened on November 28th. If you hedged by shorting the COMEX third month position (April), your price will be near the day's close of \$340.4, which I will use for monitoring purposes.



I was in Singapore at the time and remember worrying about the initial lack of follow through as bullion hovered near \$330. A strong rally would have left us in limbo with a profit on the shares but a loss on the futures. Fortunately bullion fell creating a profit on the hedge short and the shares have recouped, admittedly only in rand. Nevertheless this is an interesting and promising position because dividends will off-set most of the currency risk and combined with the contango on futures, or the down bets, provides a better return on capital than Treasury Bonds.

FMs could now ditch the shares at break even prices and just run the futures short position, but I'm staying in for the long haul and recommend that you follow this strategy. The shares represent only half of your eventual position so lock them away. If hedged with City Index or Ladbroke down bets, don't roll these positions over at a reduced spread within the four week period. You will profit from the full contango by letting old bets expire at the closing spot price and opening a new bet on the same day at the higher forward price. If you are short April COMEX or another futures contract, roll this position forward as it approaches spot, but close all hedge shorts if bullion rallies above \$315 in London. Gold will probably go lower until the dollar finally cracks. At that point we can cover our hedge shorts and buy more gold shares with the accumulated profits.

That cattle buy recommendation (FM9) with a tight stop was a duff stroke. My/your consolation was

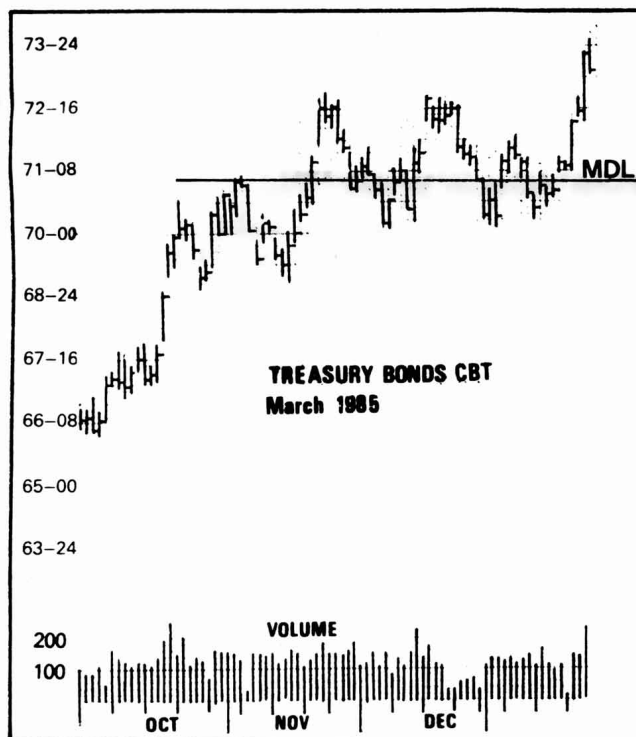


that during the short delay between copy release and arrival at your door, the price had already fallen to the stop point. I assume no FMs traded the position.

US interest rate futures roll safely on...

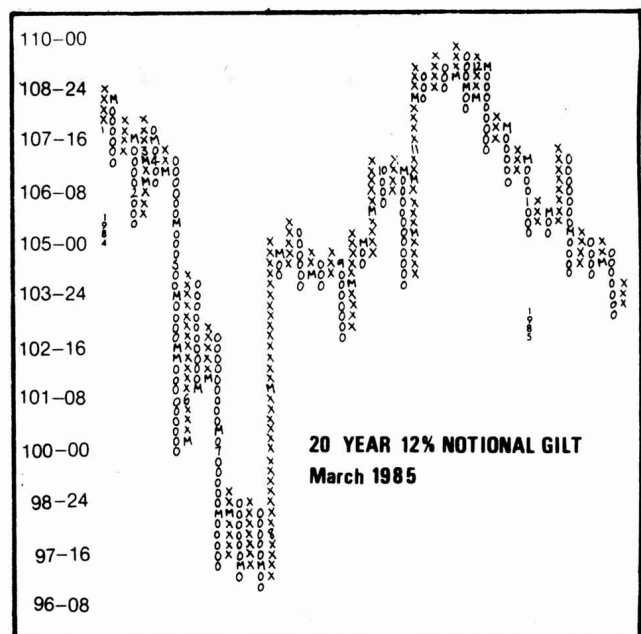
The best moves form consistent staircase trends and make the mid-point danger line (MDL) an ideal tool for minimising risk while running profits. When I commented on the March Treasury Bill point and figure chart in FM8 (shown this month beside June Eurodollars), the MDL stop had been raised to 90.85. FMs using my tactics would have raised the stop to 91.25 following December's decisive upward break. When is a break decisive? Look at the chart. A decisive break means up and running, not a tentative probe beyond the congestion area. If you are not sure, the break is not decisive. The new MDL closing stop should be at 91.75; for June Eurodollars use 90.10.

FM9 also showed a section of the March Bond chart taken from CURRENCY, and recommended a new MDL stop at 70.00. During two months of sideways ranging Bonds repeatedly approached but never touched this stop. Following last week's decisive upward break I recommend 71.04 as the new MDL stop. A word of explanation for new FMs: I devised the MDL as a disciplined tactic for orderly staircase trends that keeps you in the market while the pattern remains consistent, but takes you out on the first serious loss of momentum, well before the obvious crowd panic point is reached. MDL strategy is a feature of all our chart seminars.



...but Gilts remain dangerous

FM9 mentioned that "MDL strategy will not work effectively in an erratic market such as Gilt futures which keep getting arthured (mugged)". The Gilts pattern now appears more orderly, but in a downward trend that shows no sign of ending. Undated Gilts now yield 10.5% against a sterling one month Eurocurrency rate of 12.5%. This tells us that institutional investors in Gilts are expecting the recent rise in UK rates to be short lived, as was the case last spring. I am less sanguine, fearing that we have not seen the end of downward pressure on sterling. Another hike in UK

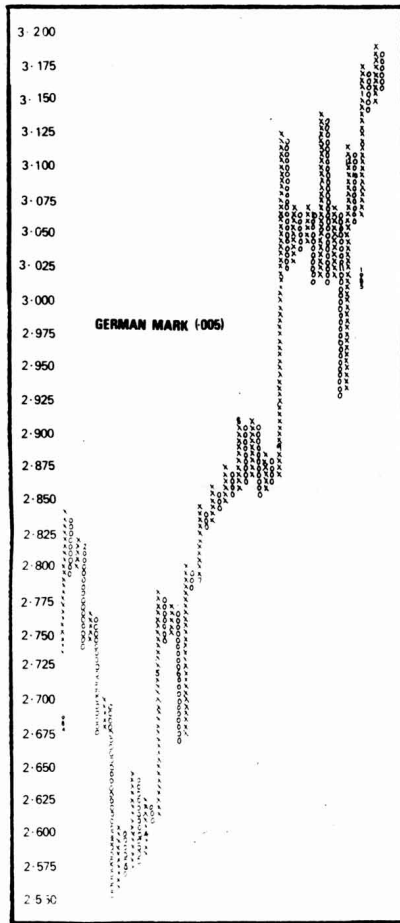


interest rates would come as a nasty shock for the Gilts market, and the fall out from another slump in debt issues would put the FT 30 Share Index closer to 900 than 1000.

The dollar – rock steady but real return advantage shrinking

It is difficult to fault the dollar technically right now. Following last Autumn's big shake-out, the dollar recovered steadily and reached a new high against most currencies by year end. Although a decisive break above DM3.20 against the German mark is required to confirm further upward potential for the dollar, the Autumn trading range now looks capable of supporting an additional advance. Only a move back below the December closing low at DM3.06 would neutralise this potential and shift the dollar's chart pattern from bullish to bearish.

While the charts indicate continued strength for the dollar, the fundamental prop is deteriorating. That



real return advantage in dollars is shrinking rapidly as interest rates fall in the US but remain steady elsewhere. The table shows the real return available to investors over twelve months. It still favours the dollar against all other reserve currencies except sterling, where the difference is marginal. Nevertheless, this is a considerable change from last Spring's peak real return advantage of 5.5% in dollars over yen, for example. The further decline in US interest rates, projected earlier in this issue, would rapidly neutralise the yield advantage in dollars for investors.

Reserve currency real returns (twelve months)

Currency	Euro-Currency 1 year rates	1985 Inflation (av. estimate)	% Real Return (pre-tax)
Dollars	9 ⁴ / ₁₆	3	6 ⁴ / ₁₆
Sterling	11 ¹² / ₁₆	5	6 ¹² / ₁₆
Yen	6 ⁴ / ₁₆	2	4 ⁴ / ₁₆
Marks	6 ² / ₁₆	2	4 ² / ₁₆
SwFrancs	5 ⁴ / ₁₆	2	3 ⁴ / ₁₆

Therefore the chart projection for a further dollar advance is supported by the real return advantage, which I view as the most important fundamental factor today. However, I do not share the view of many analysts that the dollar's trend will continue upwards

throughout 1985, albeit punctuated by temporary shake-outs. An interest rates "scissors effect" is now closing the dollar's real return advantage as interest rates fall in the US but rise in Europe.

Central banks have been selling dollars recently, which has checked the rise, but I am not impressed by their efforts. There is no doubt that if all the important central banks banded together to club the dollar, they would succeed in reversing the trend. However, I doubt governments could ever agree on such a policy since a strong dollar could hardly be described as the common enemy. Present central bank selling amounts to little more than waving a stick at a bull that is distinctly unimpressed.

The flesh was weak

After being described as a fitness fanatic by an American journalist last October, I felt a fraud when a series of ailments floored me on return from Kuala Lumpur before Christmas.

I had just completed a five week tour of non-stop seminars and speeches, including several unscheduled presentations. With so many friends and clients in Asean I never had a spare moment, which was great. I thrived during the whole trip without so much as a tummy bug, but fell apart on return to London. I suppose it demonstrates that you can programme the mind and the body to do almost anything for a brief period, but the system short circuits when you finally relax.

Anyway I missed the December issue as you know. Please accept my sincere apologies. I would have written a short letter of explanation but expected to bounce back much more quickly. I'm mostly OK now and hope never to miss another issue. Naturally all subscriptions in progress have been extended for one month.

Lowling and bellowing

There is nothing like a series of high pressure seminars to concentrate the mind and bring out the best in one's forecasts. I spent 3½ hours in a lively, humorous, free-wheeling question and answer session with the local pros, including many FMs. We discussed fundamentals, charts, forecasts and tactics for every-thing that moves.

In the following article ace Singapore journalist, Ramesh Chandiramani, a chartist and FM, focused on my two most controversial calls: First, a DJIA bottom in mid-December near 1160, followed by a rally that would completely dismantle the prevailing bearish market sentiment. Second, the down but not out Singapore market was in a bottom area and would respond to the lowling and bellowing from Wall Street's imminent bullish metamorphosis.

The DJIA call was right on the money, now we will see if Singapore produces the double.

BUSINESS TIMES, Monday, December 10, 1984

Market falls can be interesting, says behavioural chartist

By RAMESH CHANDIRAMANI

MOST INVESTORS become more bearish the lower a stock market falls but, according to behavioural chartist David Fuller, the further a market falls, the more interesting it becomes.

This is especially true when the market "continues coming down and begins probing, and probably even going a little bit below some of the previous floor levels.

"And if that happens in consecutive days, it is ideal because you then get a lot of panic selling. Disillusioned sellers are being cleared out very quickly, and that will set it up for a very, very strong rally."

Speaking to a group of fund managers on Saturday at the Dynasty Hotel, Mr Fuller pointed out that the Wall Street markets were moving down to a climatic low, "and I'm very confident that you will get that rally fairly soon, probably within a week".

This would benefit the Singapore stock market because of the "leash effect" that Wall Street exerts over other markets. When Wall Street moves suddenly and significantly, other markets soon conform.

Mr Fuller is in Singapore for the third time to present a two-day seminar, starting today, on how to read financial market charts to detect the behavioural patterns of crowds and to see what they are doing or are likely to be doing in the future.

What would it take for Wall Street to cast its magical spell over other stock markets, particularly Singapore's? One big reversal day.

"Think of what happened in that rally in late July/early August. Suddenly you got a big bang, an explosive one-day move on heavy volume.

"One big day like that, with a 20-point plus gain on the upside, and overnight that will turn sentiment right around. That alone will cause all those global fund managers to change

from the fear of being long and wrong to the fear of being short and under-invested. That will get everybody scrambling to cover shorts and to pile in."

He predicted the rally would come around the 1160-level on the Dow Jones Index as Wall Street was now quite oversold, and "there's a very big short interest position".

He also described what would be the likely crowd reaction to a Wall Street rally.

"We're now at 1165. If the Dow starts to push back above 1180, it's going to eat into the bearish market sentiment, and if it goes above into the middle of the bearish chart pattern to about 1210, at that stage it's going to be completely dismantling the current bearish market sentiment.

"At 1210, you can make a low-risk projection that it's going to rocket through that 1240 top." The crowd would only become bullish if it surged to the 1300 mark, "then everybody will say it is in an uptrend".

What would that big-volume rally on Wall Street do for the Singapore market? Once sentiment on Wall Street changes from the fear of being long and wrong to the fear of being under-invested, the local market "will shoot up".

Mr Fuller said, "We have already discussed that Singapore is out of line with the rest of the world (BT: Dec 7) and that it is well behind and way under performing. How many other markets that are important internationally are 25 per cent off their highs? Not many.

"From a fund manager's standpoint, do you buy a market that is high (like Japan) or a market that has come down 25 per cent from its high. It is an easy choice."

Singapore has been stretched down so far, Mr Fuller feels that when the rally on the local market gets underway, it may well be sharper than the July/August rally.

Stop press

The UK base rate has just been hiked from 12% to 14%, pole-axing Gilts as I feared. This is certain to put UK equities under further short term pressure. (FMs requiring closer coverage should also subscribe to CURRENCY which has listed Bills and Bonds as preferred buys but Gilts as preferred sells in recent weeks.)

Sterling is now moving to a significant real return advantage over other currencies (add 2% to the table shown earlier). This does not mean that the pound will start to move upwards in a knee-jerk response, but we are probably witnessing the last stage of sterling's long bear market before a significant low is reached.

My friends in Singapore tell me that the Straits Times Index' new low (764.4 on 16/1/85) has resulted in doom, gloom and confident forecasts of a further fall to 700. It seems that the inability to maintain the 25 year real growth rate of 10% plus has led to a lot of local hand-wringing as the prospect of real growth at only 6% in 1985 is too awful to contemplate. The rest of the world should have such problems!

At this time last year we were told that Hong Kong was finished (except in these pages, FM3, etc.) but a late run made HK the best performing major market last year. Singapore is this year's Hong Kong. I am looking for a bear trap which would be confirmed by a break back above 800 on the Straits Times Index. A DJIA new high would have a leash effect on depressed Singapore share prices, pulling them out of the present downtrends. I will discuss Singapore in more detail next month and hope to identify some attractive recovery candidates.

Stop stop press

Hillsdown offer has just been announced as a tender rather than fixed price sale, which I find disappointing. In other words, the issue will go to the highest bidders at an averaged price. The minimum bid accepted is 100p a share but that has no chance succeeding. A price of 120p would probably be very good value but market 'guesstimates' are that only bids of 130p or more are in with a chance. If you are interested in a short term play only, you could bid around 125p, and hope the market weakens between now and February 6, when the issue opens. That would rate Hillsdown in line with its sector, but the management's reputation is probably worth a small premium.

The Singapore Straits Times Index has rallied back above 830 in four sizzling days. The bear trap has snapped shut and all those analysts will have to stand on their heads and turn bullish before the year of the Ox begins. Ox implies damaged goods. My bet is that Singapore will get the whole animal - one of the best bull markets in '85.

Yours finally,
David Fuller