FM13

# FullerMoney

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THE INTERNATIONAL INVESTMENT LETTER

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

## Raging bulls

No doubt about it! There is more to all those snorting noises than just jet set junkies on cocaine. Bulls are out there getting high on stock markets. Even Wall and Threadneedle Streets, which have been pretty dull recently, are showing symptoms of the old Pamplona fever.

Hong Kong has been running the best race in a good field for some time, which proves that there is nothing more bullish for a stock market than a prior year's worth of hysterical press. For more evidence that bad news is good news while praise kills, just look at Europe which "can't compete", except in the great share race. There must be a message there for Singapore which has been treated like a leper at an orgy by fund managers. Since no one can say anything nice about "Mr Bad Guy" in the White House, Wall Street must be fundamentally sound.

Now life isn't just a bowl of honey-covered sugar lumps so I'll remind everyone that we have to drive home after this party, but don't put the bottles away just yet. The good news is that up until recently there were plenty of bears around who, on seeing a chart, insisted on holding it upside down. They weren't only Chicken Little and the lunatic fringe, but included some of the best known brains that publicity can scramble. When those bears become born again bulls the rest of us will know that it is time to panic. We should have a little more time to enjoy the rise since a healthy proportion of pundits still believe that stock markets will be taken to the spring cleaners just like last year. Followers of Elliot Pavlov's theory lightened their portfolios in February, anticipating the next shake-out that they have helped to postpone until later in the summer or early autumn.

## More share gains – then a shake-out

Our bullish view of world stock markets has been more than justified by this month's gains. During May the strong bourses have surged while the dormant have emerged. Most of the world's markets have reached new highs in the last two weeks – Wall Street and London among the heavyweights, many of Continental Europe's indices, Australia, Hong Kong and even South African industrials are challenging their peak. The only lifeless markets have been Spain, which did very well last year, and Sweden which was in the grip of a damaging strike.

The month of May will produce the best gains on the Chart Analysis World Indicator since the mini-bear markets ended last August. This accelerating momentum confirms that we are now enjoying an exceptionally favourable period for stock markets that should continue for a while longer. If Wall Street fulfils its potential sooner rather than later, the gains for many markets will

be substantial. However, an accelerating advance is unsustainable beyond the short term. To date the rise has been strong but not euphoric; therefore, the immediate danger is not great. If markets paused for a breather, the subsequent consolidation would then support a further rise in a low risk environment. However, a strong acceleration with Wall Street blasting well above DJIA 1300, would create euphoric conditions to be followed by a significant correction.

Today's best guess is that most markets will extend the upward acceleration well into June, at least. That would inevitably lead to a correction in proportion to the additional rise. It is impossible to say precisely when this would occur until we see how euphoric conditions become during the next few weeks. I will be monitoring developments very closely even though travelling extensively with The Chart Seminar – Europe 1985.

Having assembled a well diversified international share portfolio during the early, quieter months of this bull run, I am not going to chase breakouts today. There are no new share recommendations this month because we are already heavily long and chalking up strong gains. The strategy is to run profits while it is safe to do so and get out before the herd.

Your letters show that FM's main question is: when do we take profits? Too many people have briefly enjoyed large gains in past cycles only to see those heavily eroded during the slump in prices that followed. The FM closing stop strategy (see share portfolio review and table) will help you sleep at night and should reap bigger profits in a sustained advance than arbitrary targets. Most of you will also have portfolios in addition to the FM recommendations. For actively managed positions I can recommend no better strategy than the mid-point danger line (MDL) tactic outlined in previous issues of FM. If prices now soar upwards from the present staircase trends, as could easily happen, switch to trailing stops. These should be low enough to accommodate a normal correction consistent with this year's reactions, for example, but sufficiently close to protect the lion's share of any substantial profit.

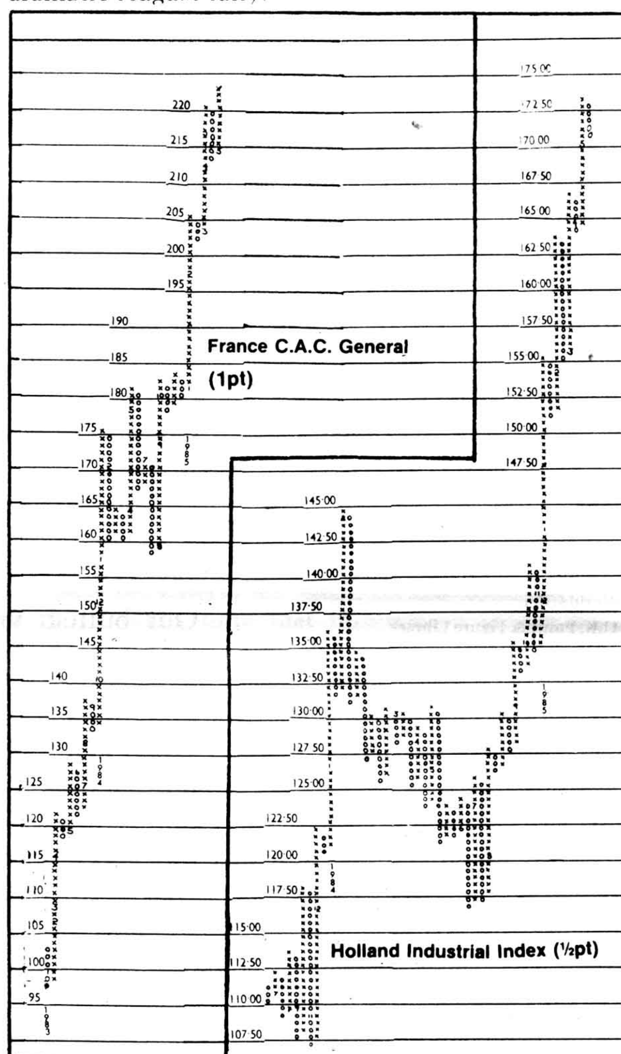
In conclusion, don't be surprised if stock markets soar into orbit over the next few weeks. If that happens exercise maximum discipline with trailing stops on all positions. Your portfolio is probably already geared up so don't increase leverage in a euphoric market. If or when the run loses momentum and begins to trigger stops, avoid the temptation to rush back into the market. The bigger the run, the more important it will be to raise cash before the next important shake-out has eroded profits. A raging bull market would guarantee a significant correction any time between mid-summer and early autumn.

# Charting your way to the bank

Charts aren't for everybody. Take the complicators for example. These people will go to any lengths to avoid the direct route from A to B. Life in a maze is their ideal. They relish confusion and to bewilder others is ecstasy. The market complicators dazzle us with psuedo science and find common sense arguments simplistic. They view technical analysis as rather banal.

Some people love charts but are not very observant. On looking at a price graph they often see what they think is there, or would like to see, rather than what is actually depicted. They will hold a chart upside down to make their point. The same people are usually poor listeners, have little insight as to what others think of them, and suppressed their intuition long ago. These people have a knack of forecasting the trend that began months ago.

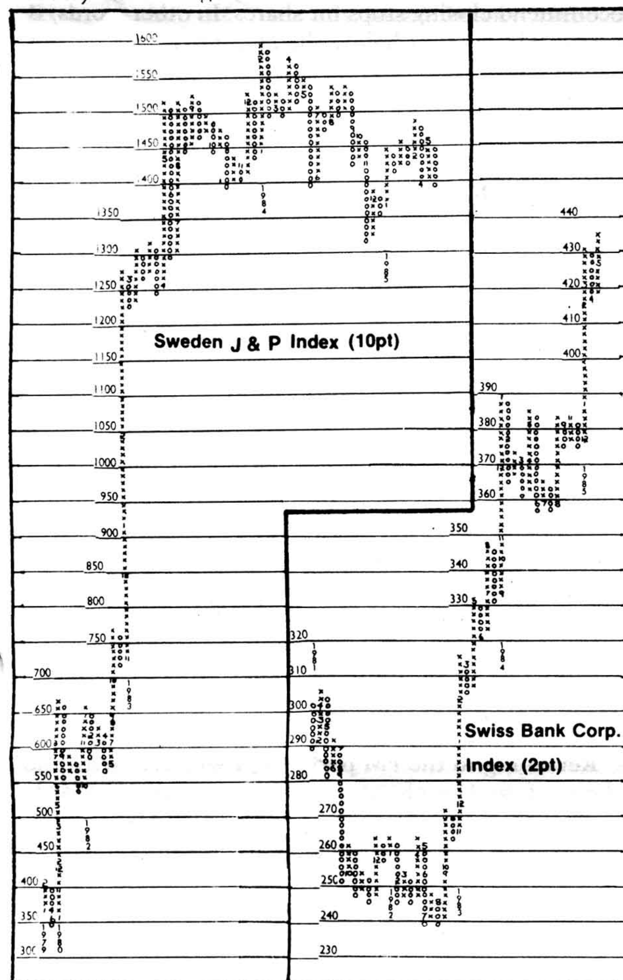
Most people, however, know a good thing when they see it, such as an orderly staircase upward trend that delineates the best market moves. Take, for example, some of the indices for countries that I will be visiting in June with The Chart Seminar. The French market has been so consistent and Holland is an even better example. Both advanced throughout 1983 in a strong, orderly fashion (Holland's move only partially shown), before accelerating in January 1984 – a climactic development particularly evident on the Dutch index. This was followed by the mini-bear trend that dominated the first half of last year. Holland's index shows a three step downward trend until the dramatic August rally.




This year has produced another strong, orderly advance punctuated by brief corrections. While the consistency remains there is little to worry about, but the nature of the trend must change eventually. It will

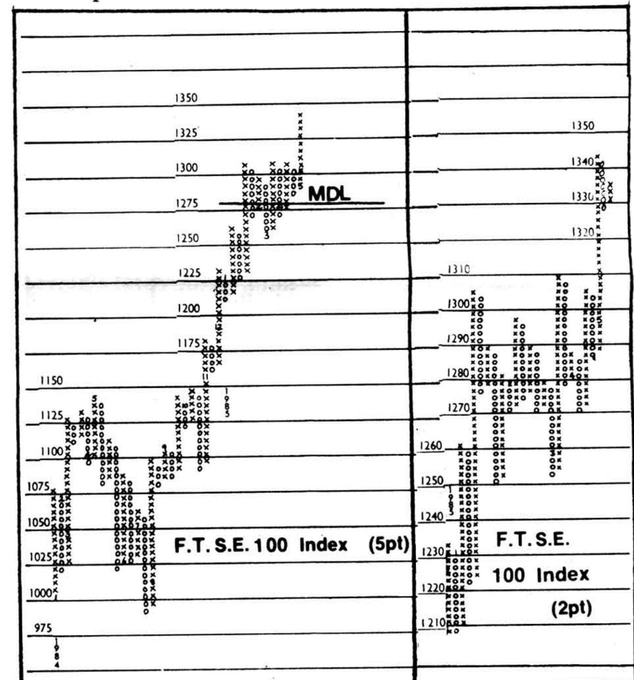
happen in one of three ways that you should be able to observe with ease. 1) An upward acceleration which would be very profitable in the short term but unsustainable, to be followed by an equally sharp decline. 2) Without the prior warning of acceleration these markets could drop sharply enough to alarm investors. That would put a barrier at the highs which could not be cleared for at least the short term as investors scrambled to take profits. 3) The indices could churn sideways which would alarm many investors and cease to be profitable. The risk of a downward move would grow in proportion to the size of the churning pattern.

Those in a nut shell are the three top characteristics. There is no other way that markets can peak on a graph. My hunch is that acceleration will occur but we will have to wait and see. The analysis of charts should be rapid to be most effective. Your first impression is usually the best guide to the future.




Obviously the French and Dutch indices do not show any of the three top formation characteristics at this time. Neither does the Swiss index which looks very like France, only the move has not been as strong. However, Sweden showed sideways churning top characteristics a year ago. That is why it has been a comparative wallflower during this year's strong performance by most other markets. Sweden has probably avoided a much greater decline due to the very favourable environment for equities created by other markets. It remains to be seen whether or not Sweden can stage a late run on Wall Street's coat tails. I will remain unimpressed while the index is below 1500.

The FTSE 100 Index shows that London is back in action following a well deserved rest. It was in late January (FM10) that I wrote the headline: "The FT 30 Share Index exceeds 1000 milestone – roundophobia next". The new FTSE 100 Index had reached its own roundophobia level at 1300.

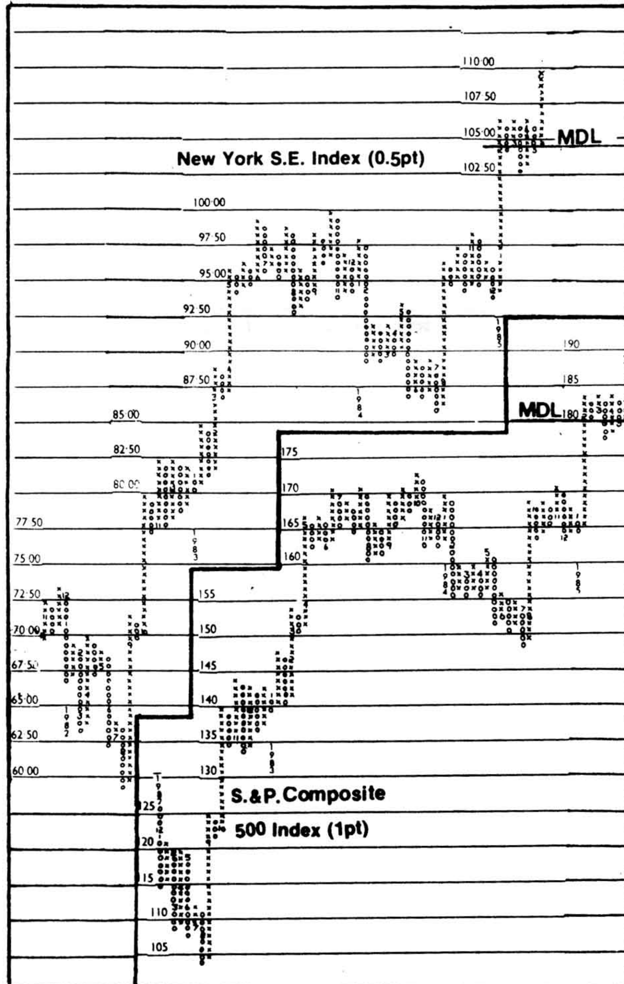



The sideways chart pattern that followed had some of the churning top characteristics described earlier, but with a crucial difference. Neither index ever fell below its first post peak low, and the FTSE showed a steady progression of rising lows followed by this month's decisive upward break.

In addition to these factors FM12 concluded: "I am more relaxed about the downward risk than most UK technicians, given the potential for gilts and bullish international environment for shares." Exceptionally broad trading ranges relative to the pauses in a well established bull trend are less reliable than the smaller clone like steps, but investors in the UK Market need not worry unless the market moves much higher or violates the important mid-point danger line at 1280 on the FTSE 100 Index.

Everyone has heard the saying; "Bull markets climb a wall of fear". Wall Street is a classic example. One looks at the charts of the important S & P Composite 500 Index and the NYSE Index and wonders what all the worry was about. Sure the markets dipped a little following the February peaks, but they always do during a bullish consolidation. One problem was that people became hooked on the DJIA 1300 barrier (not shown) even though the more representative indices were much steadier. Also, it is human nature to overanalyse every little blip on the screen, which substitutes myopia for perspective. It took longer to complete the consolidation of January's advance than

people expected, myself included, but the trend was never seriously in doubt. The last several issues of FM contained many technical reasons, too numerous to repeat, stating why Wall Street's action was a typical bull market consolidation to be followed by another strong run. It didn't take any special skill to see the evidence yet the scare stories of "1929 in 1985" were widespread.




A few days above the emotive DJIA 1300 level should be enough to convince yesterday's bears and I expect a very strong advance over the short term. Now for the discipline. Those upward breaks on the indices were decisive. The new mid-point danger lines are at 180 on the S & P and 104.5 for the NYSE. It's all go unless those two lines are crossed. That is a small risk relative to the advance that should follow.

# Share portfolio review

It has been a good month for the FM portfolio with a number of shares showing strong gains. This has enabled me to raise many of the closing stops which reduces the risk on recent recommendations and locks in more of the profit on the best performers. I'll give a brief explanation of this strategy for new subscribers.

It is generally accepted that one has to speculate to accumulate but some financial advisors believe that shares are too risky relative to bonds. High quality bonds are fine provided they yield a real return (after inflation) and capital preservation is your first consideration. Bonds and gilts will also provide capital appreciation when interest rates are declining, as is presently the case, but it must be remembered that a capital loss to maturity is guaranteed for every bond trading above par value. In contrast, a well chosen share can rise and rise. A low-rated bond will provide a high yield but the capital is at risk. I would wager that some of today's fashionable so called junk bonds will be rescheduled, or worse, prior to their redemption dates.

A newly purchased share is speculative to begin with because the best analysis will never be more than educated guess work. No one knows for certain whether it will go up, down or sideways; however, the speculative risk can be greatly reduced by an intelligently placed stop that strictly limits risk from the outset. If the recommendation was a dud or ill-timed, the stop will take you out with a small loss equivalent to a slap in the face rather than a haymaker. I recommend closing stops for shares. In other words, if the price closes at or below the stop price, sell on the following day.

Most of us buy shares primarily for capital appreciation so there is an opportunity cost if the price merely drifts sideways. Therefore each position should be subject to a time constraint. If it hasn't begun to perform within a few months, you may be better off to walk away. Only a pension fund can justify holding a non-performer for more than six months unless that position is required for portfolio diversification or weighting purposes.

Once the share begins to perform it is important to reduce risk further by raising the closing stop. When you are justified in raising the stop sufficiently to lock in a profit, the element of speculation has been all but eliminated.

These tactics will work very profitably provided the entry points are reasonably well selected for at least 50% of your purchases, and both initial and follow-up stops are sensibly placed. You couldn't do it without an understanding of charts and technical analysis because fundamentals are of limited help in timing investment decisions. I use the same tactics for both bull market purchases and bear market short sales.

Returning to the FM portfolio, I will deal with the bad news first. Hitachi Maxell, recommended in FM11, was stopped out for a loss of 14.2%. Sony (FM10) which had roared up to Y5000 following my recommendation is threatening the break-even stop.

While the Japanese indices are moving in an orderly and therefore predictable fashion, many individual shares are fluctuating in an erratic whipsaw fashion. This is symptomatic of a market influenced by moving average trading which distorts the short-term trends as people pile in and out on the same signals.

General Electric is the only US share recommended in FM10 that has underperformed the market. The company admitted fiddling a defence contract which could jeopardise future contracts and therefore earnings. With GE holding at the initial chart support point and Wall Street about to hurdle 1300 (DJIA), I

won't cull this one just yet, but I have raised the closing stop to $55, which reduces the total risk to under 15%.

Now for the good news. The new stop at HK$7.70 for Hong Kong Electric protects a 25% profit and the chart can support substantially higher prices. A similar profit is ensured for Deutsche Bank by the stop at DM440 and the share has just gone ex-dividend. The stop at 140p locks in a large profit for British Telecom. One reader, pleased with the current price of 163p, said that all his colleagues had sold at prices ranging from 89p to 144p. FM leaves the door open to higher prices provided top formation characteristics are not evident.

One is frequently warned not to hold South African gold shares. I have heard the same scare stories for twenty years which, if heeded, would have cost investors a lot of money during the shares' periodic upswings. Reading between the lines I suspect that a few managers of gold funds would like to talk them down so that they can buy more. In any event the shares have edged higher while bullion has eased during the last month. The fact is that many South African golds have bigger reserves than most Australian or Canadian mines. There is more chance of a labour disruption in those two countries than in tightly controlled South Africa. Any setback due to a dip in bullion or political fears should be used as a buying opportunity. The shares will rocket when gold resumes its recovery.

Among the four US shares recommended in FM10, McDonald's and Johnson & Johnson have shown outstanding relative strength. The new closing stops at $58 and $41.25 should ensure a risk free ride. Merrill Lynch would be a major beneficiary of the expanding volume that I anticipate on Wall Street.

The surge of nearly 25% in Swiss Reinsurance has made up for Hitachi Maxell, and I have moved the c/s into profitable territory. Genting's superb performance in moving to a new high is particularly satisfying as the Singapore market in general has been out of favour with investors. The early leaders of a bull market usually score spectacular gains. Singapore will be this cycle's late runner among world markets, with Genting out in front.

Among last month's recommendations (FM12) the market partially obliged, allowing us to buy Metals

## FM Share Portfolio

| | Market | Share | Price Then | Closing Stop (c/s) | Price Now | Strategy |
|---|---|---|---|---|---|---|
| SEPT FM7 | Hong Kong | H.K. Electric | HK$6.15 | HK$7.10 | HK$8.30 | raise c/s to HK$7.70 |
| | Australia | Dunlop | A$1.87 | A$2.05 | A$2.22 | hold/unchanged |
| | France | Skis Rossignol | FF1372xc | FF1390 | FF1560 | hold/unchanged |
| | Germany | Deutsche Bank | DM356 | DM400 | DM492 | raise c/s to DM440 |
| | Holland | Nederlandsche Middenstandbank | FL149 | FL164 | FL168 | hold/unchanged |
| OCT FM8 | U.K. | British Telecom | 50p on issue | 125p | 163p | raise c/s to 140p |
| | S. Africa | Vaal Reefs | R173 | none as | R194 | hold/unchanged |
| | S. Africa | Randfontein | R210 | cushioned | R212 | hold/unchanged |
| | S. Africa | Kloof | R71 | with hedge | R78.2 | hold/unchanged |
| | S. Africa | President Brand | R60.5 | profits from | R55.5 | hold/unchanged |
| | S. Africa | Harmony | R28 | April COMEX | R29.7 | hold/unchanged |
| | S. Africa | Unisel | R17.2 | short ($340.4 to $312.5) | R20.7 | hold/unchanged |
| JAN FM10 | U.S.A. | General Electric | $63⅝ | $53 | $61⅜ | raise c/s to $55 |
| | U.S.A. | McDonald's | $57⅞ | $52 | $64½ | raise c/s to $58 |
| | U.S.A. | Johnson & Johnson | $37¼ | $35 | $47⅜ | raise c/s to $41.25 |
| | U.S.A. | Merrill Lynch | $32 | $27 | $33⅜ | hold/unchanged |
| | Japan | Sony | Y3800 | Y3900 | Y4100 | hold/unchanged |
| | Germany | Daimler-Benz | DM626 | DM595 | DM728 | raise c/s to DM625 |
| | Switzerland | Ciba Geigy | SF2860 | SF2400 | SF3190 | raise c/s to SF2800 |
| MAR FM11 | Switzerland | Swiss Reinsurance | SF9500 | SF9250 | SF12200 | raise c/s to SF10800 |
| | Japan | Hitachi Maxell | Y3380 | Y2900 | stopped out | — |
| | U.S.A. | Safeway | limit $31¾ | $27 | $31⅝ | hold/unchanged |
| | U.S.A. | Gillette | $58 | $50 | $62¾ | raise c/s to $56 |
| | U.S.A. | Warner Lambert | $37⅜ | $32 | $40¼ | raise c/s to $35 |
| | Singapore | Genting | S$5.75* | S$4.80 | S$6.45 | raise c/s to S$5.40 |
| APR FM12 | U.S.A. | INCO | $14 | $11 | $14½ | hold/unchanged |
| | Australia | Metals Exploration | A60.5¢* | A47¢ | A66¢ | raise c/s to A50¢ |

* Average of buying range recommended and reached

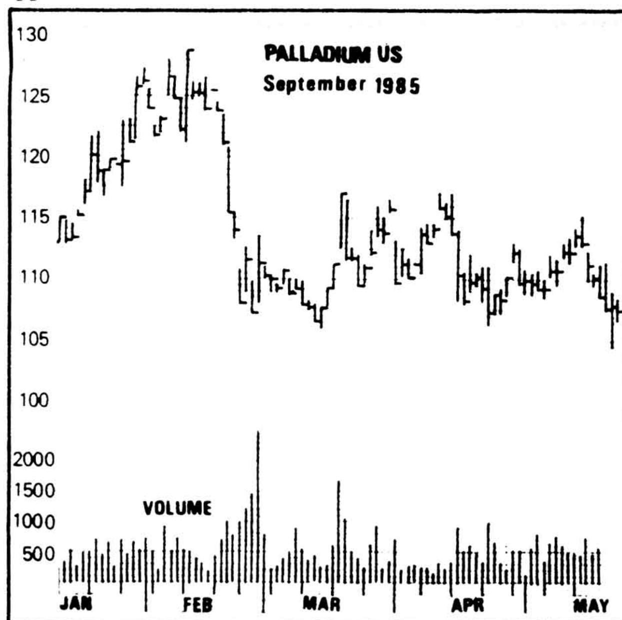
Exploration at an average price of A60.5¢ against A66¢ today. We were not so fortunate with Cheung Kong which did not dip into the buying range between HK$15.20 and HK$14.20. I would not chase this share as Hong Kong may be overheated in the short term. The recommendation stands although we would be lucky to get it.

# Commodities face an uphill struggle

A well dressed acquaintance who surveys his suits each morning, likes to think that they are all calling out to him: "Master, Master ... choose me!" When faced with a similar choice most of us will reach for a current favourite rather than the well- worn garment typical of an earlier fashion trend.

So it is with the investment game; we all want the best suit. With bonds strong and also providing a real return, and most stock markets soaring, precious metals and other commodities are unable to attract the investor/speculator's capital. Precious metals have a financial role as I discussed in FM12, but they may remain trendless until the dollar's next significant decline. If the dollar ranges sideways for several more months before the next downward step, gold, silver and platinum could test their February-March reversal lows. For gold bullion $310 remains the psychologically significant support level. A failure to bounce back from $310 would encourage the gold bears.

Among the minor precious metals palladium looks vulnerable to a further decline. Its rally following the dollar's peak was unimpressive and the contract lows are under pressure once again. Overhead supply, only partially shown on the accompanying bar chart, appears sufficient to force palladium lower. Speculators could short September palladium in the current range for a target of $91. This position should be protected by a stop at $118, which should be lowered to $113 on a close below $105, and $109 given a close under $100. Still lower stops should be employed as the target is approached.




The important U.S. grain and bean contracts retraced their entire currency rally following the dollar's peak and have been drifting into new low ground. There is no shortage to steady prices and chart downtrends are likely to be extended. However, I remember what happened two summers ago when sentiment was equally bearish. Very hot dry weather in June 1983 shrivelled the crops, producing dramatic recoveries. The grain and bean cycle enters God's domain during the summer so it is essential that MDL stops protect short positions. If the stops are triggered due to adverse weather conditions, you should simultaneously go long because the markets will move in advance of crop damage headlines.

# Euro-currency interest rates

My forecast that US one year euro-currency interest rates would break below their 1983 floor at 9% in 1985 was fulfilled this month, and next year's target of 6% obviously remains within reach. With the Federal Reserve anticipating a real growth rate between 3 and 4 percent for this year, there is no reason for Volker not to nudge rates lower. He will do so cautiously, however, trying to maintain stability, including a soft landing for the dollar rather than a collapse.

Treasury Bond futures hurdled their January peak as anticipated (FM12), but the UK's 20 year 12% Notional Gilts flopped back into their base formation. Bond futures may pause to consolidate gains following their run to 74-16 (Sept) but downward reactions remain buying opportunities.

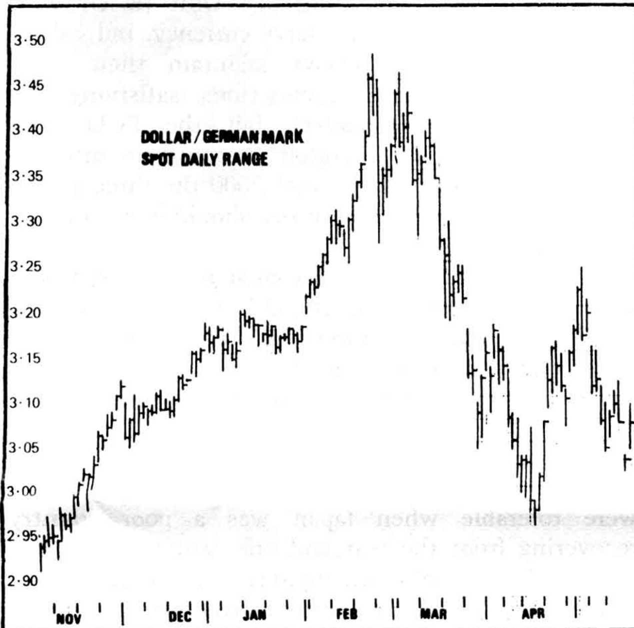
The decline in Gilt futures, now 109-08 (Sept), has delayed rather than derailed this year's gradual upward trend. I don't see why UK interest rates should go higher but there are plenty of reasons to push them lower later on this year, including a long-term downward trend, a real return that is still high, slow growth and a recovering currency.

# Extending the dollar's top

Under the headline: "It's a dollar bear market now", FM12 concluded with: "Obviously the dollar won't fall in a straight line and last autumn's trading range should provide a bounce or two, but I don't expect any rally to challenge the February/March peaks against reserve currencies. Most people will now underestimate the extent of dollar vulnerability since markets usually overshoot expectations. The dollar is a sell on any rally."

Following that comment the dollar encountered support at DM2.955 against the German mark, just above the important November low at DM2.910. A typical two stage technical rally, first short-covering followed by fresh buying, carried the dollar to an intra-day high at DM3.245 where a running key day reversal occurred. *If you don't know what that is, treat yourself to a chart seminar.* Coincidentally, on that day Chart's Research Director, Anne Whitby, telephoned me from Zurich, where she was lecturing on currency forecasting at a corporate finance seminar, to say that she was one of the few dollar bears present.

The market promptly fell 20 pfennigs and has subsequently ranged sideways above DM3.00.




The dollar formed a type one top in February, characterised by an accelerating upward trend, churned sideways for three weeks which is also a top characteristic, and then confirmed its peak by falling rapidly back towards the November low, in the biggest drop since its four year upward cycle began.

We all know that it is more dangerous to call a turn than a continuation of the previous trend, but what I have just described is a classic end game scenario. Even if I were to be proved wrong by subsequent events, it would take months sufficiently to re-establish confidence in the dollar so that the highs could be cleared.

I believe that the dollar is now in the top extension phase that frequently follows accelerating peaks. It will probably range sideways for weeks, possibly months, with most trading occurring in the DM3.25 to DM2.95 region, representing the May high and the April low. Other continental European currencies should move in a broadly similar pattern against the dollar but sterling could remain steadier. The yen should also hold above its lows against the dollar but its technical pattern is less impressive. This recovery against the dollar is led by European currencies.

Following a further phase of sideways ranging against the European currencies, the dollar should resume its decline. There is no indication at present as to when this next decline will occur, so I will not hazard a guess. Chart's weekly publication, CURRENCY, should anticipate the dollar's next significant move as it has with most other short to intermediate term trends.

One can continue to sell the dollar on rallies and take profits as it weakens. Buying the dollar for rallies within the range will be more risky because the primary trend is now downwards.

I am one of sterling's few backers, suspecting that it will also lead the next recovery against the dollar, at least until UK interest rates have moved significantly lower. You don't change from a 97 pound weakling to macho currency overnight, which is why sterling is now extending its base formation.

# Megatrends

FM usually focuses on short to intermediate term forecasts but it is useful to peer into the more distant future from time to time. What sort of a world will we inhabit in 1990, 2000 and beyond? If we can anticipate some of the crucial trends or changes, that information could be worth a fortune. Long-term forecasting is notoriously hazardous and there is no reason why one futurologist should be better than another. Nevertheless some of us spend a considerable amount of time thinking about global trends and a long term perspective on political, social and economic matters will add a useful dimension to our creative thinking. I'll give you my views, backed by a few reasons, and welcome FM's own comments on megatrends.

1) A global depression, 1930s style, will be avoided during the '80s and well beyond. This is my most risky forecast because there is no shortage of factors that could produce an economic collapse, ranging from trade wars to LDC debt or a surfeit of junk bonds, to mention a few. Nevertheless the Kondratieff cycle is not predestined and I believe that the rate of technological advancement in the industrial world is more likely to produce booms than busts. However, portions of the third world could remain in a more or less permanent depression.

2) The gulf between developed and undeveloped nations will not just be maintained, it will widen regardless of the level of foreign aid. This is due to the acceleration of technological breakthroughs that will benefit the Far East, Europe, and North America, but leave most of South America and Africa far behind. The odds against vast new natural resource discoveries capable of creating great wealth for an entire nation are high. The OPEC countries will be depressed areas in 50 to 75 years, possibly sooner. Agricultural exporters will see a diminished market for their produce due to higher yields everywhere, although adverse weather conditions will punctuate this megatrend from time to time.

3) Population growth in the developed world will peak and commence a secular downward trend before 2000. This has already happened in West Germany, for example. Conversely, populations in third world countries unaffected by wars will continue to grow at an out of control rate, compounding their economic problems. Ignorance of effective birth control methods and the perceived need for more helping hands will result in the population increases, but neither of these factors apply to the industrialised consumer societies except for white South Africa.

4) AIDS is a problem to panic over despite the reassuring words from various government health officials. Many blended blood supplies have been infected, and the New England Journal of Medicine, Vol 312, No 20, 1985, reports that ostensibly healthy donors can infect others. Mosquitoes, horse-flies and other insects that bite humans will spread the virus throughout all sections of the population. There is no plausible defence against contracting AIDS through

insect bites and fatalities could reach plague proportions before an antidote is found. Property values may be affected in high risk urban areas. (Should we buy shares in pesticide manufacturers?)

5) Television will be revolutionised by satellite transmissions received by dish antennae attached to private homes. By the year 2000 viewers everywhere could have a wider choice of programmes than is currently available on radio.

6) This de facto deregulation of government control over external television broadcasts will have profound political and social implications. The closed society will no longer exist except in the very poorest countries where few people have access to televisions. Viewers everywhere else will be able to select among a range of broadcasts from Colonel Gaddafi's fireside chats to the future equivalent of Dallas. Naturally entertainment programmes will attract the largest audiences, making an East European viewer, for example, an armchair traveller. These people will find much to emulate in the prosperous countries which have free enterprise economic systems without exception. Marxism will take a beating.

7) China's recent experiment with the incentive system will not be reversed for both economic and political reasons. This is an easy choice for present and future rulers of Asia's largest country who are experts on the inefficiency of a centrally controlled economy and aware of the commercial success of Chinese in capitalist countries near and far. The pragmatic Chinese realise that it is better to be richer than to remain a second string communist country compared to their powerful Soviet neighbour.

8) The Soviet Union will probably resist a similar drift towards a free enterprise system during our lifetime because of its status as chief propagandist and most powerful example of the Commmunist state. Boxed in for ideological reasons it will fall further behind the capitalist countries in overall economic growth and high tech areas in particular. This should reduce the Soviet's sphere of influence but is unlikely to produce the collapse hoped for in Western circles, at least not for several decades. Russia's vast military power and abundant natural resources ensure super-power status for the intermediate term future.

9) Gorbachev will prove to be the same old product in a new wrapper. He may look better than those unsmiling bureaucratic caricatures who preceded him, but who wouldn't? Gorbachev did not climb to the top of the politburo's ageing pile by being a reformer. He got there by being a good loyal commie who never questioned the political system. He flopped in agriculture before his recent promotion and will have little impact on the Soviet GNP because an efficient communist economy is a contradiction in terms. Gorbachev's main effort will be an attempt to divide NATO.

10) Europeanism, a continental form of nationalism, will emerge. Europeans, and the British in particular, like to wallow in pessimism but many of them want more than the quiet life in a quaint little place. Europeans will rally to the challenge of Far Eastern and American technology. They have the human and financial resources to compete more effectively now that left wing governments are on the wane.

11) The European Currency Unit (ECU) will become an international reserve currency. Individual EEC members will always maintain their own currencies for domestic transactions, satisfying the anti-community nationalists, but the ECU will gradually become an important currency for international settlements. By the year 2000 the three major reserve currencies in order of size should be the dollar, ECU and the yen.

12) Success will be Japan's greatest problem as she wins more orders than friends. The surprise and disbelief over Japan's commercial success is giving way to envy and fear. It will take diplomatic skills equal to her industrial acumen for Japan to head off a nasty backlash. A partial solution will be for Japanese companies to produce more goods overseas. Japan's inscrutable import restrictions are a disgrace. They were tolerable when Japan was a poor country recovering from the war and one cannot blame the Japanese for not volunteering to remove them over the last few years as the trade surplus ballooned. However, the continued fudging of this issue by Japan would reveal paranoia and also contempt for her trade "partners". Japanese consumers should protest over the import restrictions because they are denied the range of choice available in the West.

13) The capitalist Far Eastern countries will on average maintain a faster rate of GNP growth than the rest of the world. This is an easy forecast because the trend is well established and not difficult to understand. The people in those areas adapt rapidly to new technology, prefer corporate to individual glory, enjoy an incentive system and therefore have little time for the welfare state.

I have avoided the temptation to fill an issue with megatrend forecasts and multi-year predictions for the financial markets have been avoided intentionally. Short to intermediate term view, constant monitoring and good tactics produce more dealing profits than long term shots in the dark. Even if one could accurately guess where the DJIA or the dollar, for example, will be in 5 to 10 year's time that information would be worthless right now. The many peaks and troughs along the way will contribute to your fortune if intelligently read.

# Road show

People are flocking to The Chart Seminar in record numbers. We may have to close entries to London as too many delegates would inhibit the workshop environment. Last minute applicants are encouraged to opt for one of the continental venues. I'm delighted a number of FMs are attending and look forward to seeing you during the seven city tour.

Best regards
David Fuller

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