

David Fuller is Chairman of Chart Analysis Limited.

**FullerMoney** is published monthly by Chart Analysis Limited, 7 Swallow Street, LONDON W1R 7HD, United Kingdom. Telephone 01-439 4961.

Annual subscription rates: U.K. and Europe £96, U.S.A. and rest of world U.S. \$198 or the equivalent in your local currency.

Make cheques payable to Chart Analysis Limited.

©Chart Analysis Ltd 1985

**FullerMoney** is copyright and may not be reproduced, however, quoting is permitted if full credit is included.

Chart Analysis Limited also publishes four comprehensive chart services:

#### Commodities

*Subscription rates – 1 year (weekly)*  
U.K. £370, Europe £425, Middle East & North Africa £520, Rest of the World £570.

*Subscription rates – 1 year (monthly)*  
U.K. £160, Europe £175, Middle East & North Africa £195, Rest of the World £210.

#### Currency & Financial Futures

*Subscription rates – 1 year (weekly)*  
U.K. £630, Europe £685, Middle East & North Africa £780, Rest of the World £830.

*Subscription rates – 1 year (monthly)*  
U.K. £275, Europe £290, Middle East & North Africa £310, Rest of the World £325.

#### U.K. Point & Figure Library

*Subscription rates – 1 year (weekly)*  
U.K. £740, Europe £835, Middle East & North Africa £980, Rest of the World £1060.

*Subscription rates – 1 year (monthly)*  
U.K. £320, Europe £345, Middle East & North Africa £380, Rest of the World £395.

#### International Point & Figure Library

*Subscription rates – 1 year (weekly)*  
U.K. £950, Europe £1055, Middle East & North Africa £1225, Rest of the World £1320.

*Subscription rates – 1 year (monthly)*  
U.K. £420, Europe £445, Middle East & North Africa £485, Rest of the World £510.

#### Commodity Trading Recommendations (CTRs)

*Subscription rates – 1 year (selectively)*  
£250  
With Telex Alert £325

All subscription payments may be made in sterling or any convertible currency at the current rate of exchange.

Further details are available on request.

*Searching for future trends*

## Dollar rally – blink and it's gone

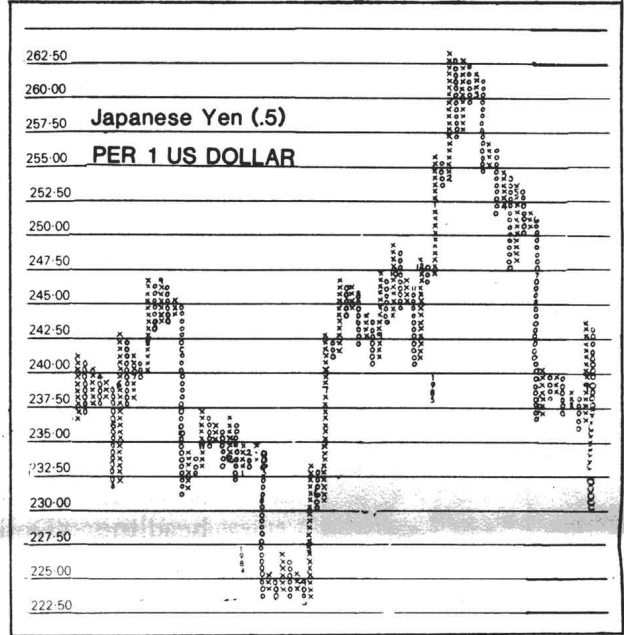
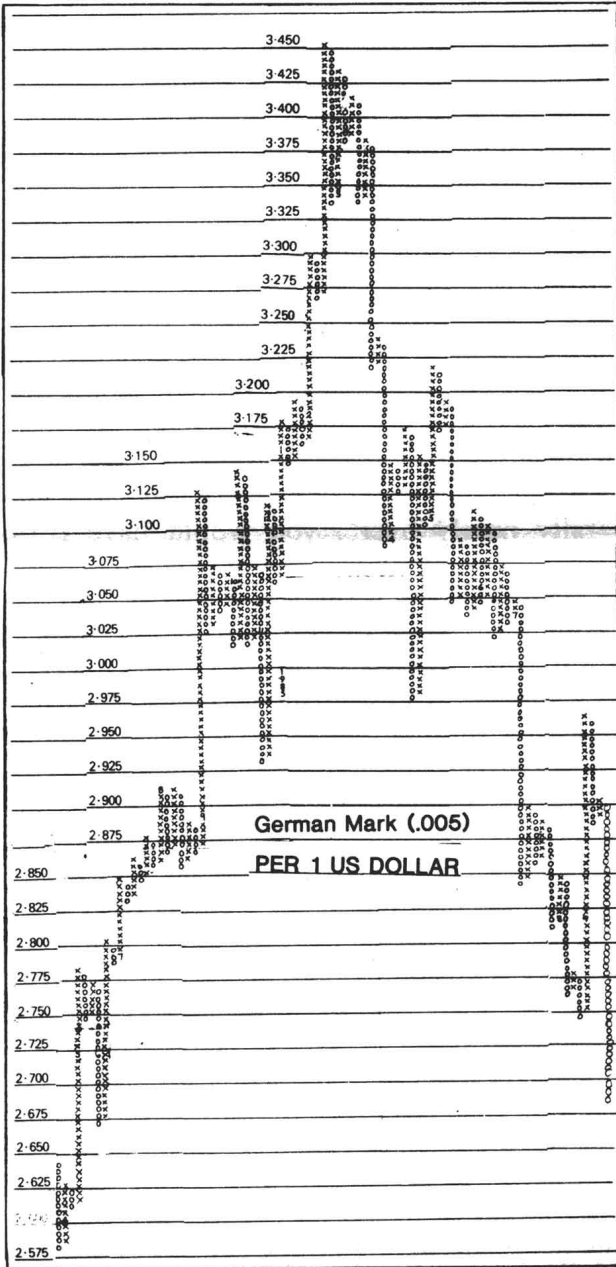
If I wanted you to sympathize with my problems in producing this publication, I would tell you about the front page articles that have to be revised or scrapped because market events render them dated. If I also told you that this issue was first drafted with the headline, "Dollar's rally nearly over", you would have little difficulty as a technician in working out my reasons, particularly if you recalled my last leader article on the dollar (FM15) with its assessment of rally potential against the mark: "...don't expect much of a recovery. Initial resistance can be anticipated near the April low at DM2.95 and heavy overhead supply is evident above DM3.00. That trading band centred on DM3.05 represents stale bulls who are long and wrong. Anyone holding dollars at a loss will be keen to lighten positions on a rally while many others would sell short."

Lest you suspect, however briefly, that currency analysis is always easy, I will point out that the dollar's end-August/early September bounce occurred before the major support evident at DM2.60 was reached (FM17), but that should not cloud the major issue. Following the dollar's climatic peak in February every scrap of technical evidence has looked, smelled and tasted like a bear market. Since the prior bull market lasted for five years, which was preceded by a ten year bear trend, no one should hold their breath in anticipation of the dollar's next upward trend which may be years away.

Once one recognises the primary trend it pays to be a contrarian on the short term swings. For example, a few weeks ago there were very few dollar bears other than the technical analysts, so the US currency collapsed in July. Last month you couldn't find a bull so the the dollar fittingly sprang its best rally since the April closing low. As that recovery approached heavy overhead supply from the top formation, the financial dailies were quoting born again bulls who expected the dollar to soar.

The best way for FMs to profit from these swings is to short the dollar whenever a technical rally appears to be losing upward momentum and to take profits during the sharpest declines. This strategy should serve us well as the dollar's bear market progresses.

The market's response to a hastily convened meeting of the free world's most influential finance ministers reconfirms the dollar's downward trend. Similar crisis gatherings a year ago were cynically regarded as buy signals by currency players. The dollar would sag a few points against other reserve currencies and then run ahead even faster. In today's environment the proposal of central bank selling produces a dollar rout.

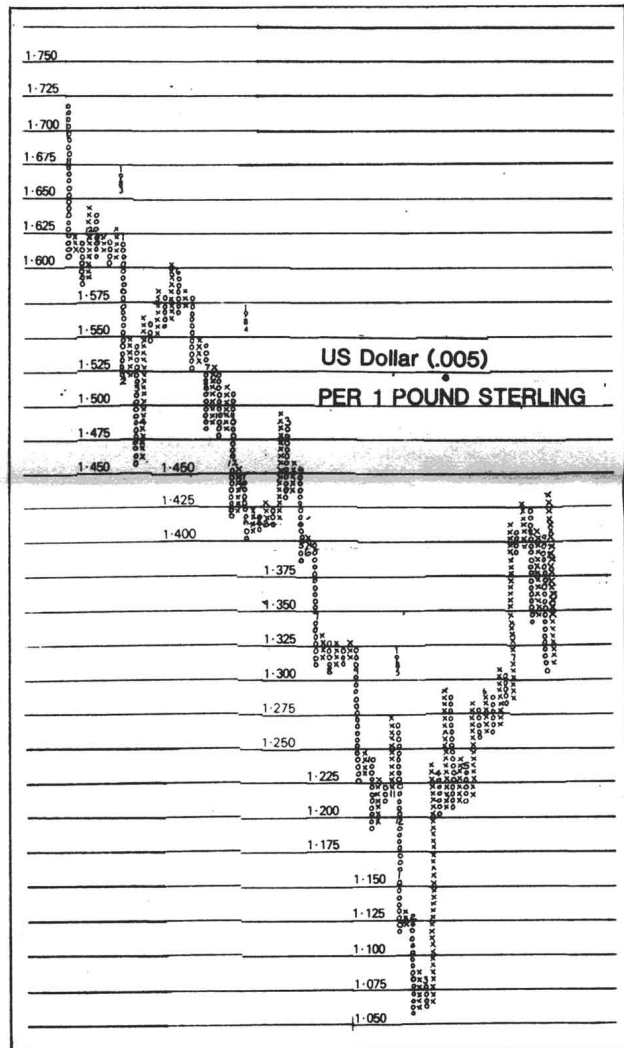


that a Labour victory would reduce the pound to cheap wallpaper, but market players soon weary of discounting possibilities two or more years down the road. The chart still suggests that they may be more impressed

I don't expect to see the dollar approach DM3.00, \$1.28 or Y245 against the mark, sterling or yen, respectively, for the duration of this bear market. However, the allies' latest high profile discussion on intervention not only caught the dollar when it was technically vulnerable after a rally, it also hastened its decline, rapidly correcting the previous overbought condition. The dollar will certainly fall further, but not in a straight line, so don't expect a repeat of Monday's (Sept. 23) free-fall.

### Too soon to write off sterling

Most fundamental currency analysts expect sterling to break back below \$1.20 during the next year. They cite an expanding money supply, higher inflation, sluggish economy, their expectations for lower oil prices and the prospect of either a hung parliament or outright victory by Britain's Labour Party in two year's time, as sufficient reasons to sink the pound. I have no doubt

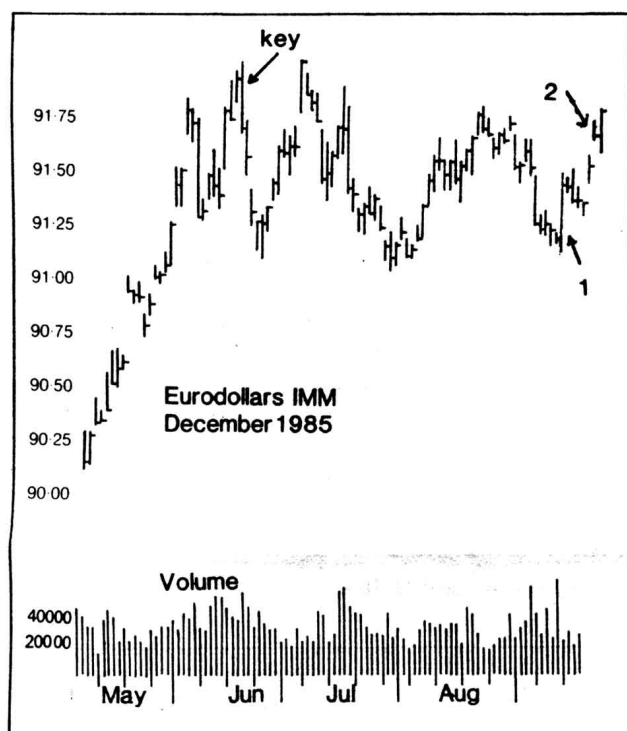


with Britain's high interest rates and, wait for it . . . a rally in the oil price.

Sterling's low in February was a classic type 1 accelerating bottom, inevitably producing a sharp rally. This led to a consolidation of gains between \$1.20 and \$1.30, from April to July, followed by a further rally to the heavier flak evident above \$1.40 on the left hand side of the chart. The recent sideways ranging activity centred on \$1.35 violated no critical support and was consistent with a staircase upward trend. Only a move deep into the April-June range would neutralise the scope for a further sterling advance in coming months, and I see no evidence that this area will be pressured.

## Eurodollars – upside break now possible

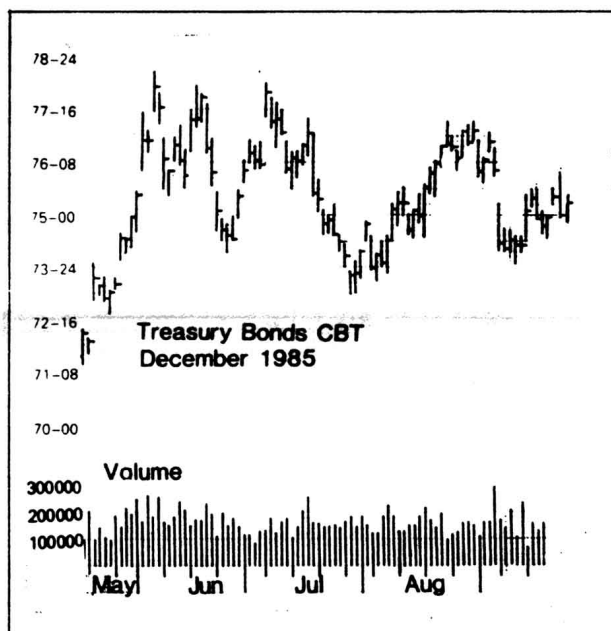
The running key day reversal in Eurodollars featured live at the big London venue for The Chart Seminar in June and in subsequent issues of FM. That crucial 24 hour signal, following a long rise, halted the bull market in its tracks and prices have roamed sideways ever since in a range centred on 91.50. The lower side of the



range near 91.00 was tested earlier this month followed by the first evidence of what I call trampolining. This bullish characteristic occurs when prices sag downwards and spring upwards, and was evident before the surprise meeting of finance ministers and central bankers in Washington (see arrow 1). Following that meeting further trampolining has occurred (arrow 2) enabling Eurodollars to challenge lateral resistance from the August high at 91.80. This is still a ranging pattern and conventional technicians will want confirmation in the form of a decisive upward break, but I have seen enough to suspect that Eurodollars will

encounter no more than temporary resistance near the contract high of 92.00.

**Bonds lag** – Treasury Bonds are lagging behind the rally in Eurodollars as investors/traders suspect that the downward potential for interest rates is greater in the short rather than longer term. Little can happen to alter this belief over the next few weeks so Eurodollars could outperform bonds for a while longer.



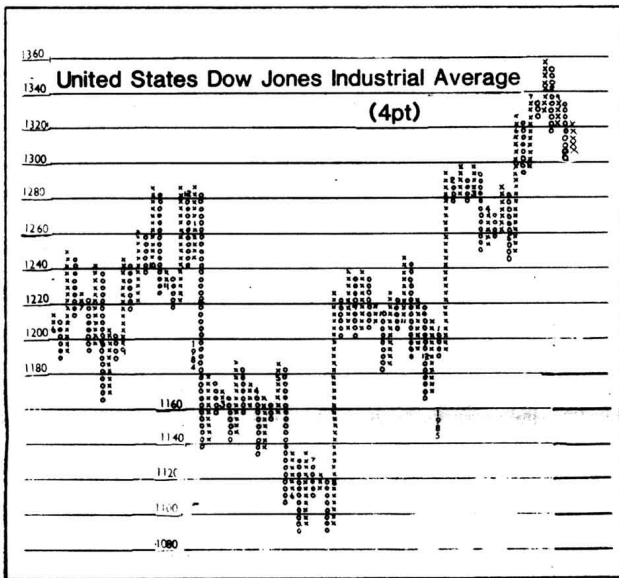
## Wall Street erodes support

FM16 pointed out that a number of stock markets including the USA had lost upward momentum and suffered minor mid-point danger line (MDL) violation. The August rally couldn't get above 1340 (DJIA) and a further erosion of support has occurred. This deterioration has side-tracked, rather than derailed, the bull market. It would be unusual, although not impossible for Wall Street to race back up through its highs, as the pattern damage is still minor. I'll put it this way: the bull won't be revived quickly unless we see an eyebrow raising rally day on heavy volume – the sort of move that creates a self-feeding buying panic. You will know it if it happens. Failing that, the market may wallow around for a few weeks, possibly slipping a little further.

Some Wall Street technicians are looking for a full scale bear market (see seminar appearances) due to cyclical reasons. For example, Ian McAvity points out that the bull trend from July '82 is of average time duration for post-war advances and that markets have a generally poor record during the first two years of a presidential term. He adds that the siren cry is always: "It's different this time." Fair enough and a little perspective is always useful, but there are factors that I rate as more important.

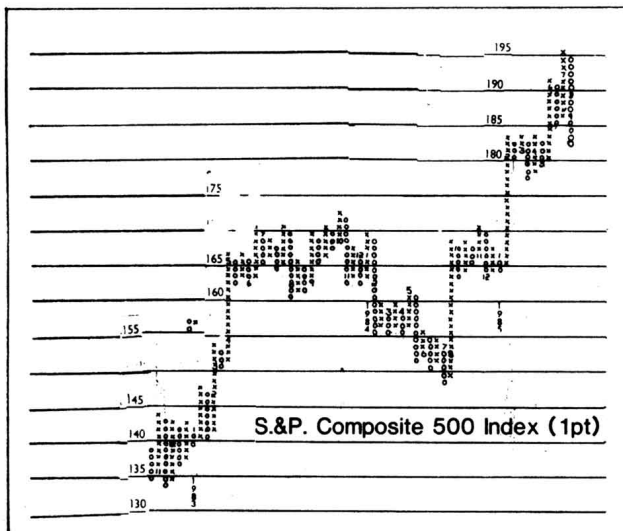
Most significant and of a cyclical nature, we have never had a bear market on Wall Street without a prior collapse of the bond market. I have often cited the switch in speculative funds from bonds to equities as

the final source of fuel in an equity bull market. Bonds have ranged sideways since June but there is still no confirming evidence that the fixed interest bull market is over.



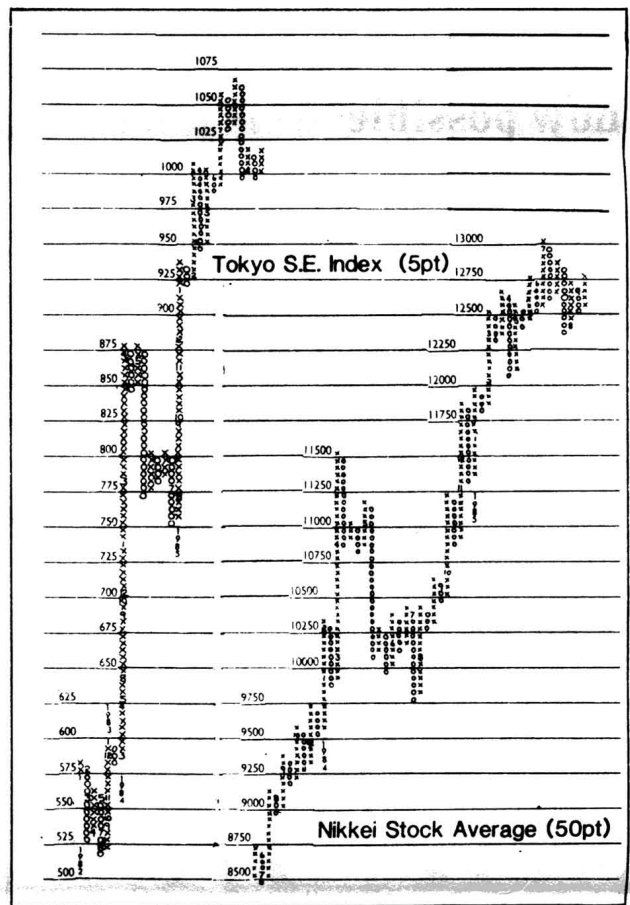
There is tangible evidence that this cycle really is different; for example, the persistent strength of European markets. Several issues ago I commented that as inflation was such a disaster for share prices, disinflation could remain bullish. Cash is needed to fuel uptrends and now that third world loans are shunned, banks are falling all over each other to finance leveraged buy-outs and takeovers. Unwary investors will pay a price for that some day, but not yet. Persistently strong currencies are bad for stockmarkets as Wall Street and Singapore demonstrated last year, and a dollar downtrend should help push US share prices higher.

As a technician all these arguments would go out of the window if I saw primary top formation evidence, but Wall Street has not fallen fast or far enough to qualify as a type 2 (severe reaction against the trend) reversal. Instead, the DJIA and S & P Composite 500, in particular, show minor deterioration above massive support areas. For example, all that trading below 170



on the S & P should be able to support at least one more advance unless bonds collapse. If bonds move through the May/June highs I will view an extension to the equity bull market as all but certain. In the meantime our world indicator (CAWI), not shown this month, remains positive.

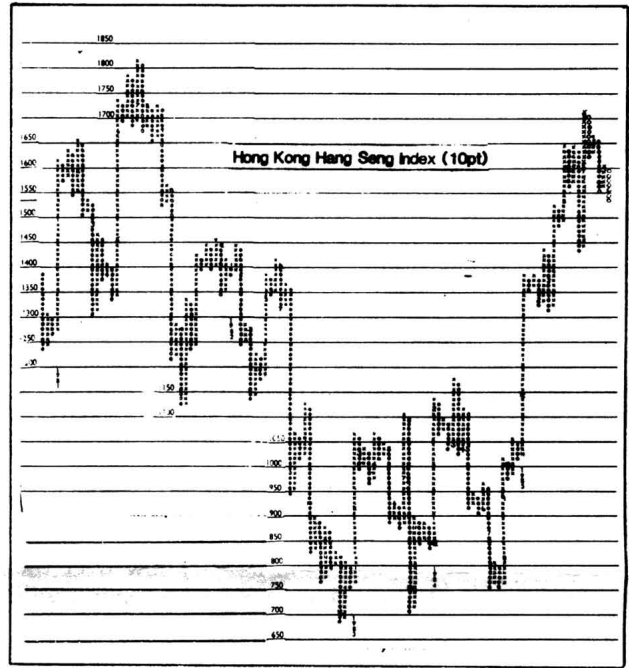
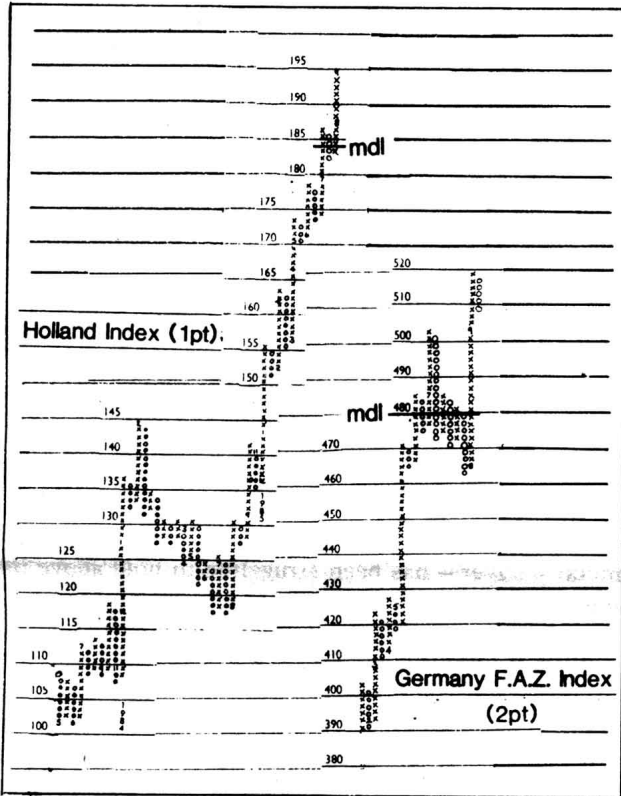
**Japan** – Where Wall Street suffered technical damage, other markets have improved slightly. Japan has logged seven months in a trading range that is emerging as an important pattern. To date more markets are resolving these ranging patterns with upward breaks, but wait for it if you want conclusive evidence.



**Germany and Holland** – The German F.A.Z. Index highlighted the continued upward potential for many Continental European exchanges by moving decisively to new high ground following its July pause. These latest gains may need to be consolidated, but good support should be encountered near the 500 round-phobia point, followed by a further advance. Just in case, use 480 as the critical MDL.

Holland's orderly trend remains a technician's dream, illustrating my point that the best moves are the most consistent. We won't need to worry about Holland until the advance accelerates or there is MDL violation. The new level to watch is 184.

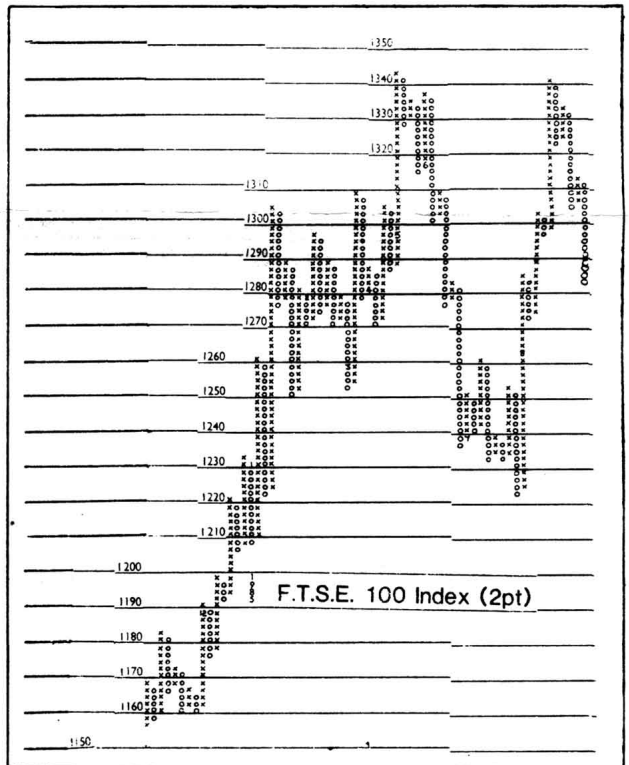
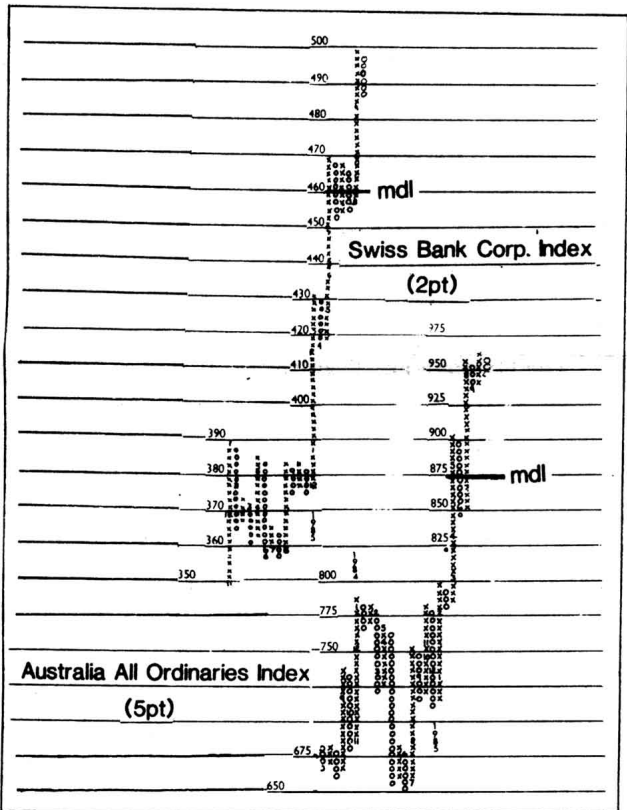
**Switzerland and Australia** – I doubt that the new MDL point at 460 on the Swiss Bank Corp Index will be threatened for the duration of this bull market, but temporary resistance is likely to be encountered near the 500 roundphobia reassessment point.



The Australia All Ordinaries Index MDL is at 875, but raise this to 945 on a move above 975. We may see another pause shortly after the 1000 milestone is achieved.

move and proximity of the important 1981 peak at 1810. I expect further ranging to occur and this market will have to become either more oversold or break back above 1650 to look interesting.

UK – The low risk/high potential environment on most continental European bourses has been an important factor in shaping my view that the UK remains a no go area. FM15 said it would be interesting to see if support was encountered near the roundophobia points at 900 (FT-30) and 1200 (FT-SE). The FT-SE didn't fall that far but the FT-30 declined to 906 before both indices rallied straight back to their peaks which have proved to be effective psychological resistance



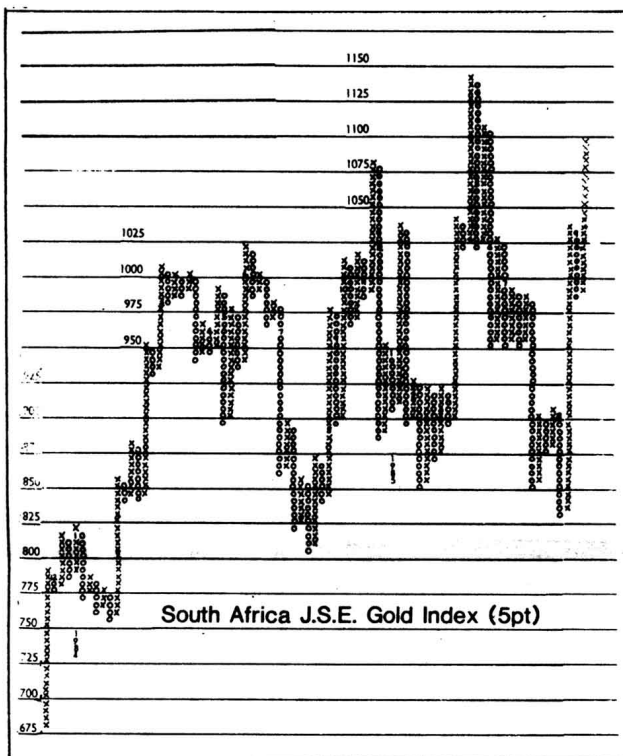
Hong Kong – The Hang Seng Index has been struggling since its failure to maintain the break above 1650. This is understandable given the prior upward

points. With the UK in steady retreat once again, we have a yoyo market but this decline should slow as the July lows are approached.

If you can bypass the whipsaw UK market, my advice is to do just that. If you must deal, sell the downtrend stocks on any rally and buy strong sectors like building materials and contracting/construction during the current market weakness.

**South Africa (Golds)** – Another yoyo chart is the J.S.E. Gold Index. This latest rally offsets currency erosion and I expect to see the April high tested shortly. Anyone who likes shares with well covered yields of 12 to 14 percent a year, and who thinks that gold bullion is a long term recovery candidate, should have a substantial stake in South African gold shares.

Obviously no one knows what will happen to South Africa but the political risk is already discounted by today's share prices, I rate the chances of a serious disruption to mine production as very low over the next few years, during which time your capital will have been returned via the yields. Even if there was a revolution, which I doubt, who is talking about expropriating foreign held gold shares? SA golds at today's prices could prove to be the buy of the decade.



## Gold – not good enough

Recent issues of FM have viewed the gold pattern as a developing base formation capable of supporting a short and long term recovery. Although the price is slightly higher than when I last wrote and the longer term outlook is unchanged, I think the latest developments have eroded short term potential.

First, gold couldn't break above the March high. Second, and far more important, it fell back below \$320 during the dollar's technical rally earlier this month. In



fact gold slipped perilously close to that highly emotive floor area near \$310 before those big, bad finance ministers mugged the poor old defenceless dollar. Third, gold managed a rally of only \$15 as the dollar fell to new lows for the year against all other reserve currencies. I'll add that gold's most important sister metal – silver – has been struggling to hold above its lows.

I'm not sure that gold's \$310 floor could survive another test and two consecutive London closes below that price would lead to a test of the February bottom at \$283, at least. Even if the support levels hold, gold's current sluggish performance suggests that the next recovery move has been delayed. The message is clear: if you are bullish, buy gold shares instead of bullion.

## Softs firm but metals stress fracture

I don't have much time for post mortems. The story of how they got there is a lot less profitable than the analysis of where they are going next. FM's theme is searching for future trends.

The first four pages of FM16 covered commodities under the headline: "Commodity tailspin probably climactic." That extensive coverage was justified by the doom and gloom environment that hung over the accelerating downward trends particularly evident among US foods.

The US grain and bean complex did not spring the explosive rallies that follow the best accelerating (type 1) bottoms but they did lose downward momentum. Subsequent upside MDL violation has occurred, opening the door for a further rally and longs can be protected closely and sensibly by downside MDLs. I don't have enough space to include soft commodity charts in this issue but traders will have no trouble identifying the critical points in our weekly chart service – COMMODITIES.

LME metal prices have collapsed once again and should see a small recovery rally before the downtrends continue. The declines were in excess of sterling's rally against the dollar confirming that metals will trail behind in the bottoming out process and eventual recovery for raw material prices. Dollar charts of aluminium and copper appear vulnerable to another downward move and I would guess that the tin buffer stock manager could use another loan.

## FM Share Portfolio

	Market	Share	Price Then	Closing Stop (c/s)	Price Now	Strategy
FM 7 SEPT	Australia	Dunlop	A\$1.87	A\$2.30	A\$2.46	hold/unchanged
	Holland	Nederlandsche Middenstandbank	FL149	FL190	FL206.2	hold/unchanged
FM 8 OCT	S. Africa	Vaal Reefs	R173*	none as	R190	hedge by shorting
	S. Africa	Randfontein	R202.5*	cushioned	R210	Dec COMEX futures
	S. Africa	Kloof	R17*	with hedge	R21	if London bullion
	S. Africa	President Brand	R51*	profits from	R51.8	closes below \$310
	S. Africa	Harmony	R26*	April COMEX	R28	for two consecutive
	S. Africa	Unisel	R17.2*	short (\$340.4 to \$312.5)	R17.2	days.
FM 10 JAN	U.S.A.	General Electric	\$63 <sup>5</sup> / <sub>8</sub>	\$58	\$59 <sup>1</sup> / <sub>8</sub>	hold/unchanged
	U.S.A.	McDonald's	\$57 <sup>7</sup> / <sub>8</sub>	\$61	\$63 <sup>3</sup> / <sub>4</sub>	hold/unchanged
	U.S.A.	Johnson & Johnson	\$37 <sup>1</sup> / <sub>4</sub>	\$44	stopped out	
	U.S.A.	Merrill Lynch	\$32	\$30	stopped out	
	Germany	Daimler-Benz	DM626	DM815	DM958	raise c/s to DM850
	Switzerland	Ciba Geigy (Bro)	SF2860	SF3100	SF3400	hold/unchanged
FM 11 MAR	Switzerland	Swiss Reinsurance	SF9500	SF11750	SF11900	hold/unchanged
	U.S.A.	Gillette	\$58	\$58	\$61	hold/unchanged
FM 12 APR	U.S.A.	INCO	\$14	\$12	\$13 <sup>5</sup> / <sub>8</sub>	hold/unchanged
	Hong Kong	Cheung Kong	HK\$15	HK\$16.6	HK\$17.6	hold/unchanged
FM 15 JUL	Singapore	Genting	\$5.63*	none yet	\$5.8	enter stop at \$5.30

\*Average price – SA golds includes FM16 purchases.

## Share portfolio review

The gold share prices now reflect the average of FM8 and 16 purchases, and the new hedge contract month is December. Wall Street's slide triggered two closing stops: Merrill Lynch for a loss of 6.25% and Johnson and Johnson at a profit of 18.12%, before commissions. I have raised the stop for Daimler-Benz and entered a stop for Genting, but have avoided the temptation to make new share recommendations in this issue because I'm not bullish enough.

## Pride and prejudice

**South Africa and the debt crisis** – I think the free world has shot itself in the foot with these South African sanctions. Remember the debt crisis? It hasn't gone away and is like a monster, sleeping restlessly, but capable of devouring us all if sufficiently disturbed. The badly mauled banking system needs years of recuperation in an environment of stable growth. That happy scenario will be difficult enough to achieve without our politicians provoking a retaliatory default.

That could be the consequence if South Africa's rulers are pushed too far. We all know that racist, discriminatory and repressive governments span the globe, out-numbering the free world by a wide margin, but it is white racism, associated with the rich and powerful, that is seen as the greatest evil. Stung by this hypocrisy, South Africa's rulers will not allow

themselves to be sacrificed on the combined altar of colonial guilt and liberal/left ideology.

The irony is that in a troubled and uncertain world, South African loans were a sound, low risk bet relative to most other government debt. They would have remained so provided the sanctions were largely cosmetic; however, there is a point beyond which politically inspired economic pressure will inevitably trigger a political response. This will not be a cave-in by the whites resulting in majority rule, because that would plunge the RSA into the same turmoil and chaos found elsewhere in Africa. The white government has a **powerful trump card in the form of approximately \$30 billion of short, intermediate and long term loans from the West.** Too much political pressure from her "allies" and the result is obvious – South Africa will respond in kind with a formal default on all debt. That would please the Soviets, but who else would benefit?

**Seminar appearances** – In addition to Chart's own roadshows I accept a limited number of speaking engagements. On Sept. 12th I spoke at an International Petroleum Institute seminar on futures trading for the second time this year. In my presentation on the use of charts I pointed out that you could know everything about oil supplies, production and consumption, but still get the price swings wrong because the market responded to other factors including fashion and sentiment. Also you can't look at oil or any other commodity in isolation because currency fluctuations are a constant influence on price trends. For example, the papers are often quoting various experts who have

assured us that the oil price will collapse, but it has been rising all year, at least in dollar terms. When will oil next be a good short? I don't know but I expect to see the potential on a chart.

On Sept. 19th I gave a talk entitled "World Overview" at the 16th annual conference on International Technical Analysis, at Christ's College Cambridge, sponsored by Investment Research. A number of you had seen their brochure which was inserted in many of our chart books. It was like a reunion of old friends as Anne Whitby and I estimated that at least half of the delegates had attended one of our seminar courses on chart forecasting. I was also delighted to meet a considerable number of FMs, many for the first time.

This was the fourth Cambridge seminar that I have attended and I hope to enjoy many more. Investment Research partners, David Charters and John Cunningham go all out to make this a genteel, sociable conference and they are ably assisted by an efficient and pleasant staff. Last but not least many of the presentations were excellent. I recommend that FMs mark the third week of Sept. in their diaries and attend next year if possible. Heavyweight North American speakers Ian McAvity and Fred Dickson were very bearish on Wall Street – too bearish in my view.

Having indicated that I would give The Chart Seminar a rest until next year I find myself flying to Jakarta on Sept. 29th at the invitation of Bank Negara, the Indonesian Central Bank. Jakarta FMs are invited to join me for a drink at the Mandarin Hotel on Friday Oct. 4th at 6.00pm. Please confirm if you plan to attend.

**Women** – Ex-neighbour and FM Harry Schultz became top of the pops at our office after his comments on UK women in HSL. Shultz wrote: "I've said for 2 decades that only UK women keep the place running. Most men at the top are too busy arriving late, have 3 hour lunches, & leaving early, to do much work. The men at the bottom are unwilling to work very hard for that kind of pompous leadership, & with such horror taxes. But the women, sensing the men were unwilling or incompetent, simply ran the show, quietly, without anyone really noticing. If there is hope for the UK (which he doubts), it is via its females."

I have no other comment except to say that sixteen women run Chart Analysis.

**Tape service** – FMs may recall that I participated in a monthly tape service called Insiders Forum, originated by Gerry Bass of Audio Bass Ltd., who has also taped two of our chart seminars. Jerry and I have decided to cover markets in more detail than is possible with several speakers who seldom have enough time to get down to specifics, including recommendations.

The new service will be called Global Investment. Every month I will discuss world bond, equity, commodity and currency markets with the emphasis on the most promising areas. I intend to sketch the big picture and then highlight critical levels, providing recommendations and tactics when appropriate. I'll encourage feedback from listeners and try to include their areas of specific financial interest if this is also

appropriate for the majority of listeners. We already have tape subscribers in many countries so I am sure that the global overview theme will appeal to listeners.

From time to time I will also discuss interesting markets with specialist friends, commencing with Robin Griffiths, a partner at stockbrokers, Grieveson Grant. Robin is a noted technician who has lived in Japan and specialises in the Far Eastern stock markets. A fellow speaker at the recent IR seminar in Cambridge, Robin gave a superb presentation on Hong Kong, Japan and Singapore. I'll be discussing those markets with him, including the shares to watch, not just in the short term, but also over the next few years.

The first tape under the new Global Investment format will have been recorded just before you receive this issue of FM. If you are interested, there is a no risk 30 day full refund offer. the price of one year's subscription (12 tapes) is £138, including VAT in the UK or postage elsewhere. If you do not find the first tape useful, just return it within 30 days and your £138 will be refunded. Cheques should be made payable to Chart Analysis Ltd. There are no other trial subscriptions or sample tapes.

**Photographs** – FMs often say that they like the photo change each month, which is in keeping with my belief that every issue should be unpredictable while remaining full of views and predictions. Last month's photo identification contest stumped FMs but only because the printer showed more of me than I intended.



Here is that shot again and there is a Chart brolly for the first person who correctly identifies the famous building behind me. Another brolly will be sent to the FM who first identifies, or gets closest to naming the wind swept beauty spot that I visited last month. Clue – it's at a higher latitude than Gorky.

## Stop Press – yen now no. 1

During the last 32 months the yen has often performed like a watered down version of the dollar against the European reserve currencies. This has changed in the last few days and I suspect the yen will be the new hard currency.

Best regards  
David Fuller