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*Searching for future trends*

## American, Japanese and British stockmarkets – a small setback to be followed by a large advance

The world's three largest stockmarkets, the USA, Japan and the UK, are poised to surge later this autumn, in moves that could match recent gains on many Continental European bourses and the Australian market. Reactions back below the DJIA September closing low at 1300, or the Tokyo S.E. Index July/August lows at 995, and the FT-SE 100 Index September low at 1272, are necessary to neutralise this upward potential.

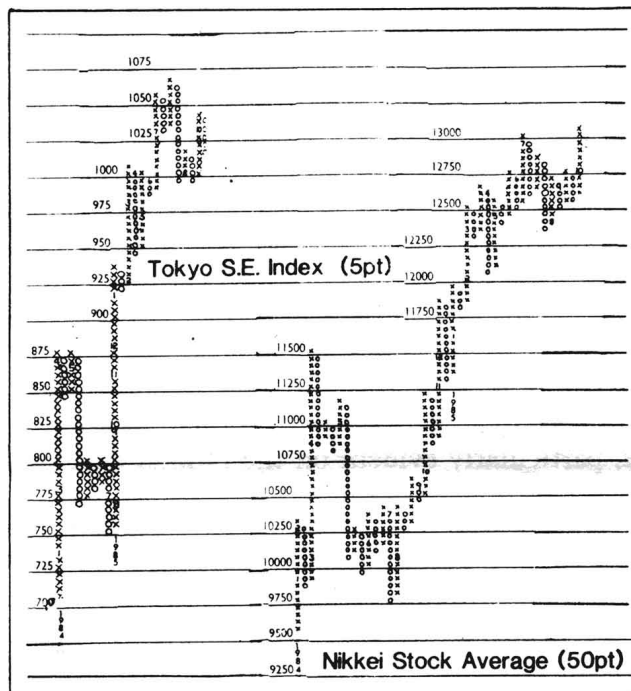
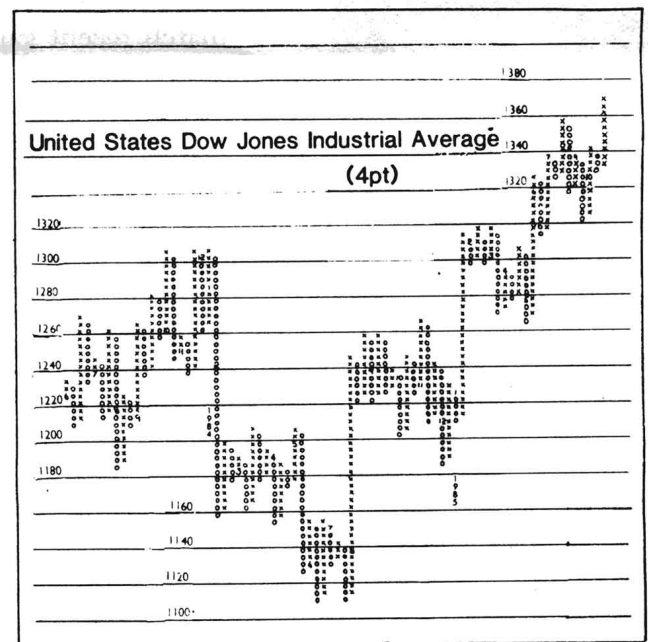
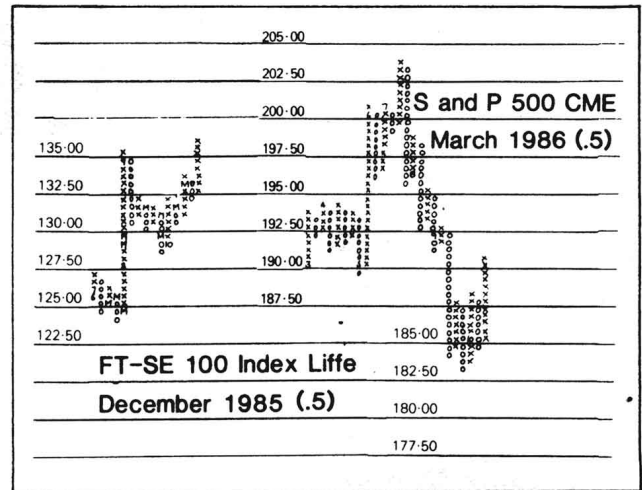
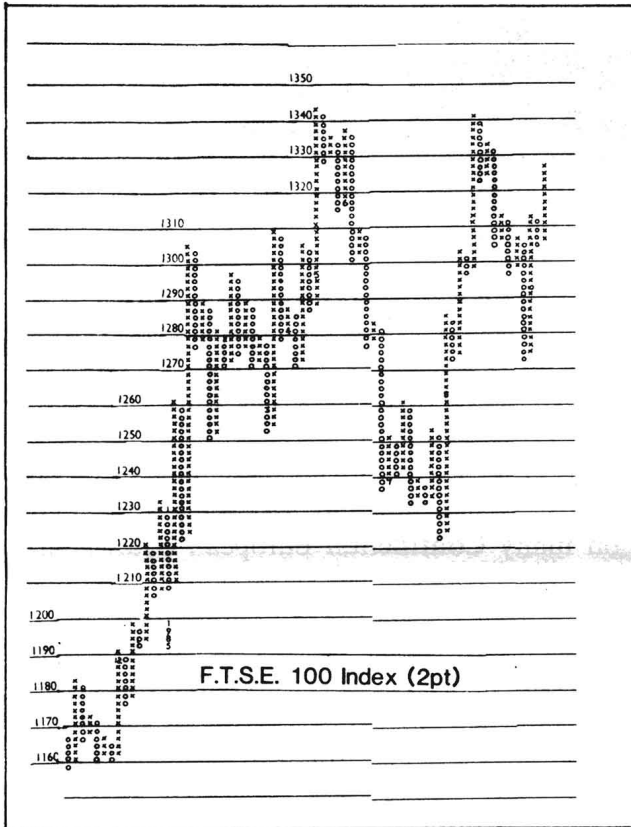
Towards the end of October these markets began to consolidate their previous rally gains. Short-term overbought conditions point to a further pause and shallow reaction but extensive underlying support, evident on the charts shown on page 2, should enable the advance to continue before November ends. I would not be surprised to see this advance carry into the new year.

**UK** – Of the three indices, the UK's FT-SE 100 was the first to reach a new high, doing so earlier this month. Ever since the year began with an accelerating advance to 1300, the index had churned sideways in a volatile pattern. If I am right in concluding that the overall bull market is under way once again, we could see a steady rise to 1500. It is time to move back into the UK market, favouring the leading building materials and contracting/construction sectors that I cited in FM17.

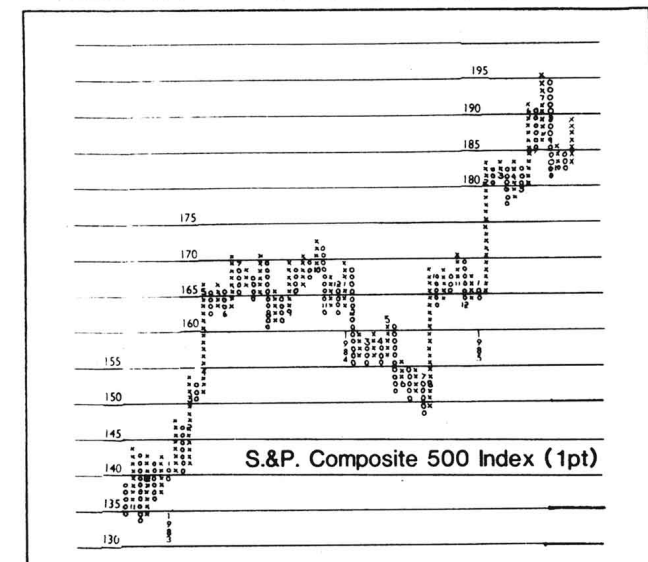
**Japan** – The Tokyo S.E. Index has yet to follow the Nikkei Stock Average to new high ground, but I suspect that the 1000 level roundophobia reassessment point is now a floor. The eight month trading range, particularly evident on the Nikkei chart, is capable of supporting a strong advance.

**USA** – Takeover activity has pushed the DJIA to new high ground well in advance of the S & P Composite 500 Index, but as I pointed out last month, the minor technical damage that had occurred following the July highs had side-tracked rather than derailed the bull market. These indices have not shown any of the primary top characteristics that would signify a bear market, but the massive underlying support should lead to at least one more strong advance. The continued steady performance of US interest rate futures, another decline in the dollar, the persistent bearishness of many US fund managers and further gains in the Chart Analysis World Indicator are all bullish for Wall Street. I would not be surprised to see the DJIA hit 1500 before year end.

S & P 500 and FT-SE 100 futures – Traders who share my bullish view may wish to participate via the stock market futures which can be protected with very little risk relative to the potential. *The December S & P contract, a buy at the current price*



change in direction is a buy or sell signal for global stock markets. The long, rising column of 'x's, third from the right, began in August 1984. That buy signal persisted until early June 1985, but the subsequent sell reading was reversed later that month. This month's



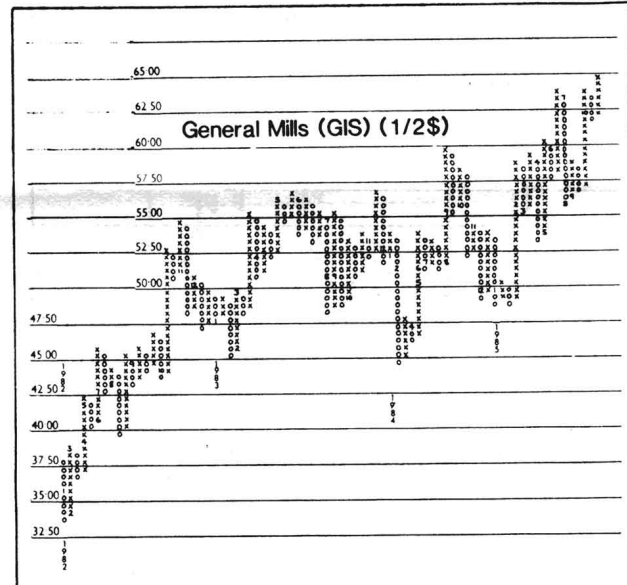
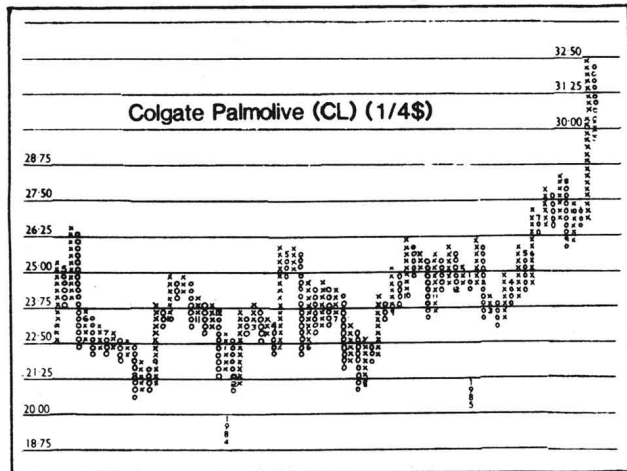
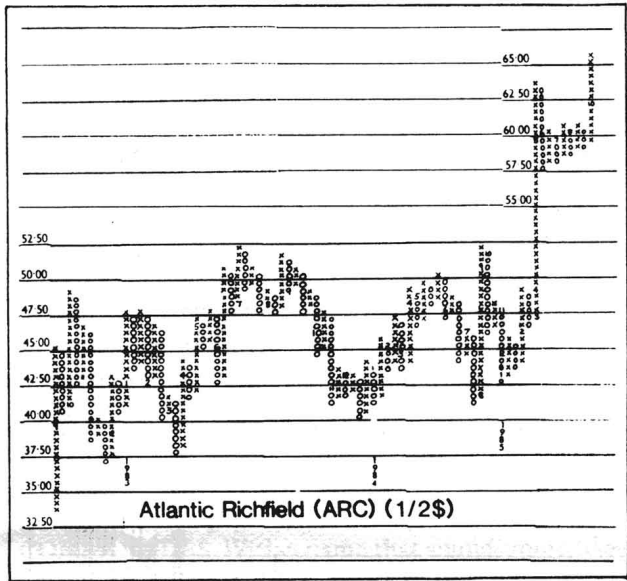
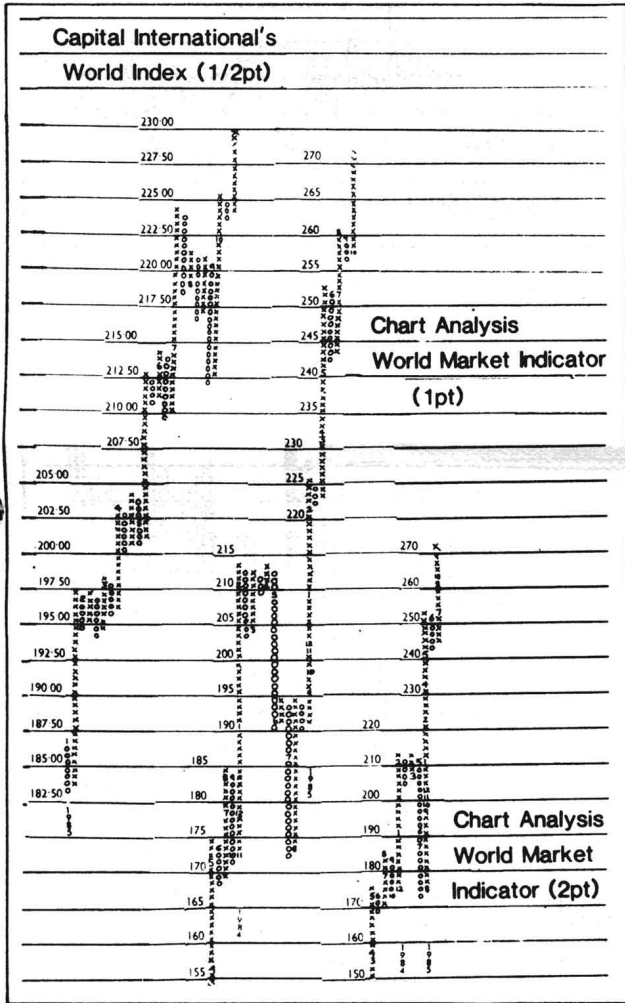
of 187.40, should be protected with a market stop at 184. Raise this to 187 on a move above 190, and switch to a four point trailing stop above 191.

The December FT-SE 100 contract, a buy on any reaction below the current price of 135.15, should be protected with a market stop at 131.50. Switch to a three point trailing stop after a break above 136.

Global indices still bullish – Wall Street's partial recovery has helped to push Capital International's World Index into new high ground. My own unweighted world market indicator (CAWI) remains unreservedly bullish. New FM's should note that a

increased rate of advance, from 262 to 270, reconfirms the underlying strength of most stock markets. A three box reversal, currently 2.2% would be required for a bearish reading.

Kyocera, Y3870, down to Y3500, c/s at Y3000.



## New Share Recommendations

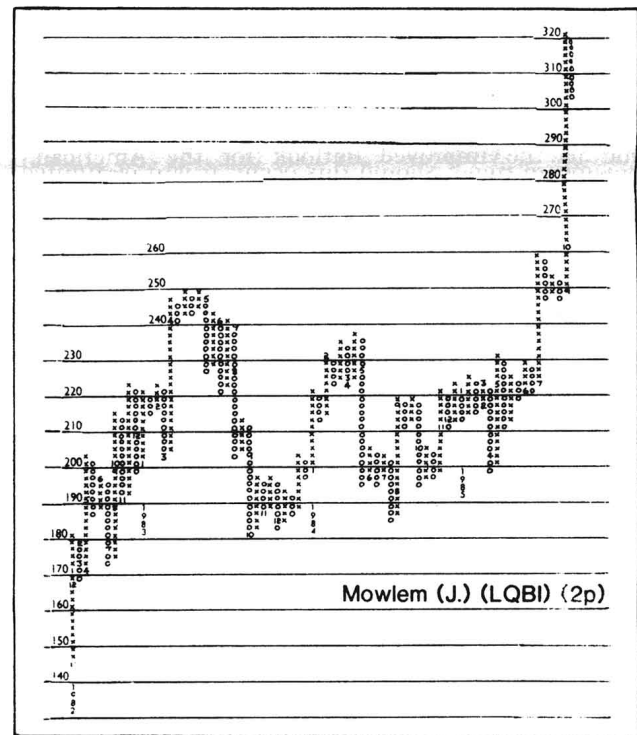
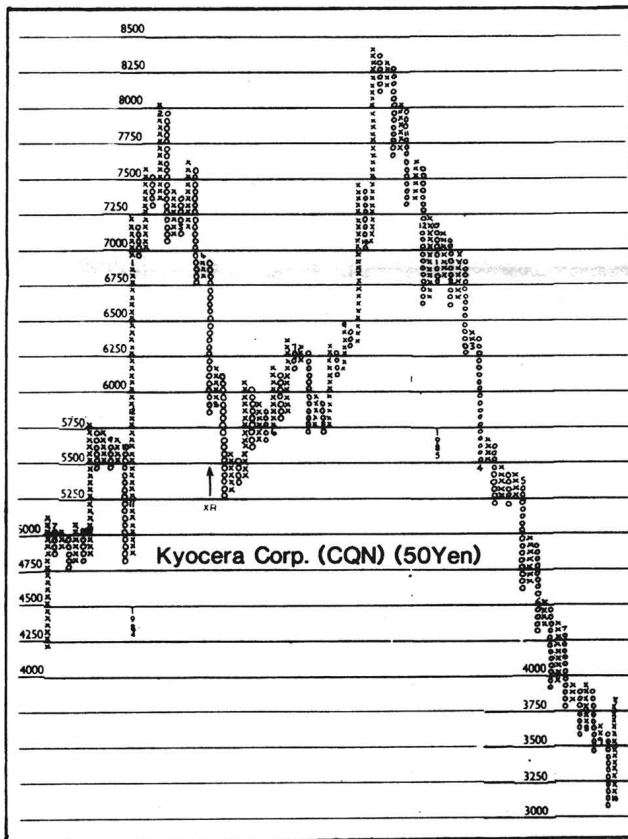
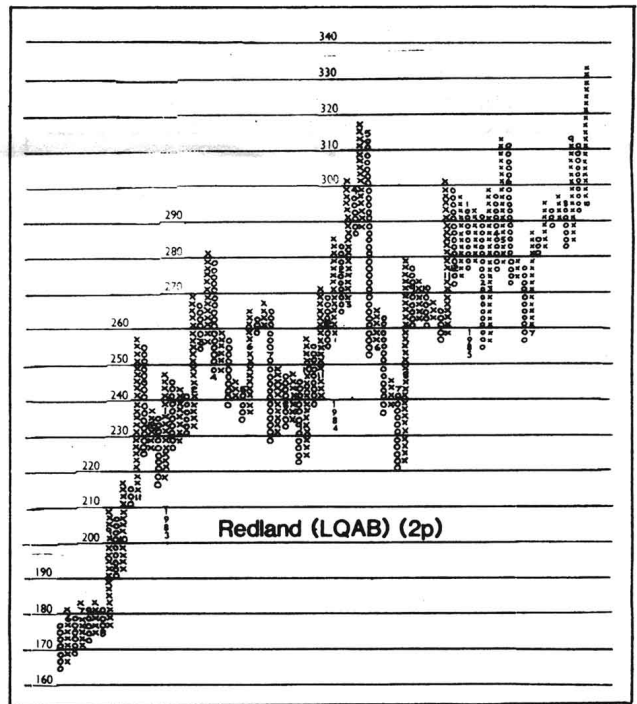
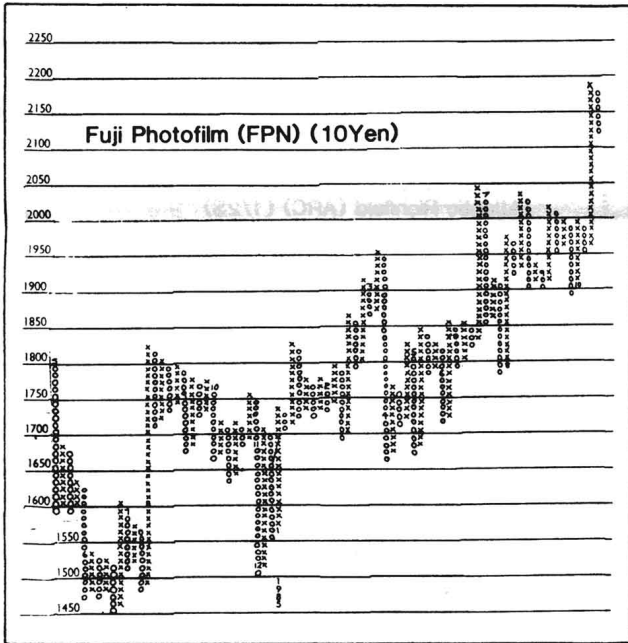
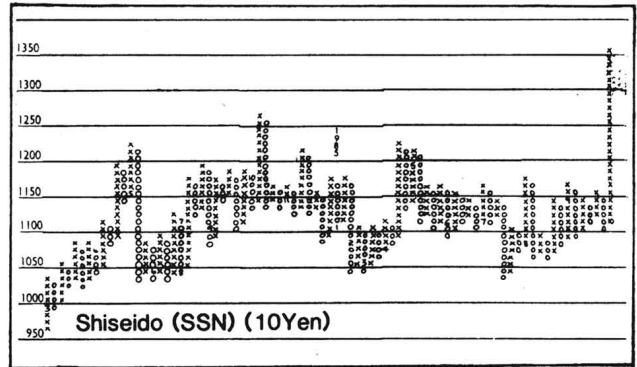
Due to the improved outlook for the American, Japanese and British stock markets, I am issuing nine new share recommendations. The American shares all have large, type 3, base formations and have led the indices to new high ground. Buy Atlantic Richfield, currently at \$65<sup>3</sup>/<sub>8</sub>, near this price and down to \$61, in the event of a reaction. Protect this position with a closing stop at \$59. Buy Colgate Palmolive, \$29<sup>3</sup>/<sub>4</sub>, down to \$28, and protect with a closing stop at \$26<sup>1</sup>/<sub>2</sub>. Buy General Mills, \$63<sup>3</sup>/<sub>8</sub>, down to \$60, c/s at \$57<sup>1</sup>/<sub>2</sub>.

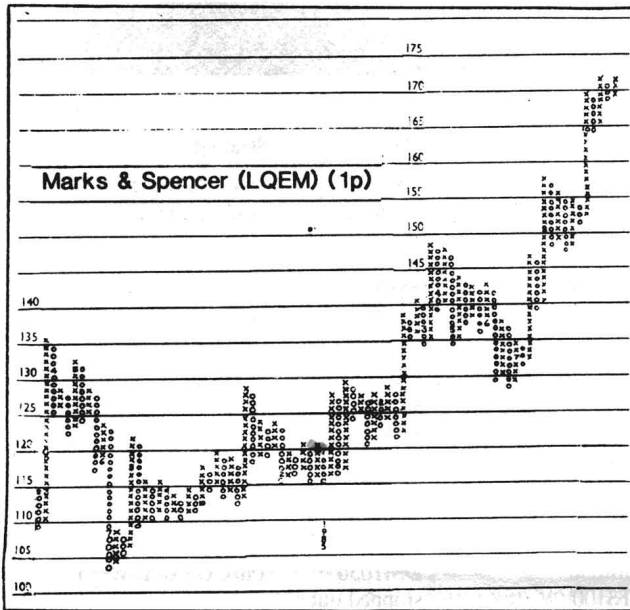
For my Japanese recommendations I have chosen two shares with large base formations, Fuji Photofilm and Shiseido, while Kyocera is a recovery candidate. As these latter two companies may not be familiar to all FMs, I'll add that Shiseido is the top manufacturer of cosmetics in Japan with 40% of the home market. Kyocera pioneered the ceramic integrated circuit market and accounted for 70% of the world market in '84. Buy Fuji Photofilm, Y2080, down to Y2000, c/s at Y1930; Shiseido, Y1260, down to Y1190, c/s at Y1100;

My UK share recommendations contain two companies from the strong contracting/construction and building materials sectors, Mowlem and Redland, and a leading store, Marks & Spencer. As the first two have broken decisively up out of their large bases, I'll

give wider buying ranges and lower stops than usual. Buy Mowlem, 312p, down to 270p, c/s at 250p; Redland, 349p, down to 320p, c/s at 290p, Marks & Spencer, 170p, down to 160p, c/s at 152p.

Fund managers purchasing these shares can adopt a flexible policy of bidding below the market, but private investors may prefer to establish at least half of their position at the prevailing prices. FM19's table will record the middle of the buying range recommended and reached.





## Interest rate futures remain steady

Both Treasury Bonds and Eurodollars remain very steady, so I see no reason to change my view that decisive upward breaks will occur before year-end, as US interest rates trend lower. Gilt futures (not shown) have failed to maintain their recent upward break, but this will merely delay the bull market as the overall upward trend remains unthreatened.

## Currencies

There is very little to add this month after my comprehensive coverage of the currency markets in recent issues. The reserve currencies are very quiet following last month's advance against the dollar. This represents a consolidation of gains prior to the next general advance against the US currency. In the short term, there is a 50-50 possibility that the dollar will stage a temporary technical rally before resuming its downward trend. Should this occur, it will be limited by supply evident above the August closing lows at DM2.745 and SF2.245, against the mark and Swiss franc, and the 1984 low at Y223.00 against the yen. I doubt that sterling will fall below \$1.35. On an intermediate to longer term outlook the line-up from strongest to weakest should be: 1) yen, 2) Swiss franc, 3) mark, 4) sterling, 5) dollar.

## Commodities

Most US foods continue to show basing characteristics as forecast in FM16 when they were still accelerating downwards – a type 1 reversal pattern. In contrast, base metals remain under considerable pressure and we have yet to see the final low for aluminium, copper, lead, nickel, tin or zinc.

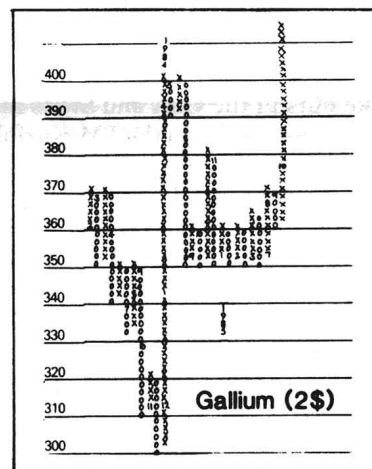
I don't believe that I had ever mentioned tin in FM prior to last month, so I can't resist mentioning about the timing of this comment in FM17: "I would guess

that the tin buffer stock manager could use another loan." That view was based 100% on the weak tin chart and bears out every technician's point that price forewarns good or bad news.

The tin fiasco points out the folly of all commodity cartels. You can prop prices up temporarily, but that encourages production to expand, when it should be contracting, leading to a bigger fall when the support programme is eventually overwhelmed. In the meantime, tin has lost some of its markets to cheaper metals. The International Tin Council (ITC) liked to claim that it was not a producer cartel because consumer nations were also members and contributed funds to the buffer stock manager, but the ITC was always dominated by the producers.

At a time when the props have been kicked out from under base metals and gold continues to languish, FM has uncovered a surprisingly bullish chart on the minor metals page of that peerless chart book **COMMODITIES**. With a name that sounds more like a Spanish ship than a metal, gallium formed a dramatic type 2 bottom (severe reaction against the trend) during late '83-early '84 when the price rallied from \$300 to \$400. That move was consolidated above \$350 and gallium has rallied this month to challenge the \$400 level once again. I don't expect any more than temporary resistance to be encountered near this level before the underlying chart support leads to a further advance.

The reason for gallium's strength against a background of downward trends among other metals is due to its special status as a high tech metal. Gallium is replacing silicon in the latest generation of high-speed computer chips. Integrated circuits based on gallium operate at higher speeds, require less power, provide greater resistance to radiation and operate more effectively at extreme temperatures than silicon chips. FMs favouring a diversified portfolio should buy gallium from an established minor metal dealer for its intermediate term upward potential.



"Everyone knows that the oil price is collapsing, or about to collapse", or so they say. The only trouble is that this view has not been confirmed by the charts all year. Oil futures have backwardations, are in upward trends, and show patterns capable of supporting further gains.

## 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\$2.62	raise c/s to A\$2.42
	Holland	Nederlandsche	FL149	FL190	FL196.5	hold/unchanged
		Middenstandbank				
FM 8 OCT	S. Africa	Vaal Reefs	R173*	none as	R193	hedge by shorting
	S. Africa	Randfontein	R202.5*	cushioned	R222	Dec COMEX futures
	S. Africa	Kloof	R17*	with hedge	R22.5	if London bullion
	S. Africa	President Brand	R51*	profits from	R56	closes below £310
	S. Africa	Harmony	R26*	April COMEX	R28.9	for two consecutive
	S. Africa	Unisel	R17.2*	short (\$340.4 to \$312.5)	R18.65	days.
FM 10 JAN	U.S.A.	General Electric	\$63 <sup>5</sup> / <sub>8</sub>	\$58	stopped out	
	U.S.A.	McDonald's	\$57 <sup>7</sup> / <sub>8</sub>	\$61	\$63 <sup>1</sup> / <sub>8</sub>	hold/unchanged
	Germany	Daimler-Benz	DM626	DM850	DM1056	raise c/s to DM975
	Switzerland	Ciba Geigy (Bro)	SF2860	SF3100	stopped out	
FM 11 MAR	Switzerland	Swiss Reinsurance	SF9500	SF11750	stopped out	
	U.S.A.	Gillette	\$58	\$58	\$67	raise c/s to \$61
FM 12 APR	U.S.A.	INCO	\$14	\$12	stopped out	
	Hong Kong	Cheung Kong	HK\$15	HK\$16.6	HK\$19	raise c/s to HK\$17.9
FM 15 JUL	Singapore	Genting	S\$5.63*	S\$5.3	S\$6	hold/unchanged

\* Average price – SA golds includes FM16 purchases.

When a delegate and FM at the Vienna venue for The Chart Seminar mentioned that his company's oil futures hedging programme was proving to be expensive, and asked how my trading tactics could help, I replied that he should replace his spot holdings with futures, bank the cash freed and take delivery as contracts expired.

## Share portfolio review

Previous shake-outs in the USA and Swiss markets hit closing stops on four shares in the FM portfolio. These were: General Electric and INCO for losses of 8.8% and 14.3%, before commissions, and Ciba Geigy (Bro) and Swiss Reinsurance for profits of 8.4% and 23.7%, respectively. Most other shares in the portfolio have rallied strongly enabling me to lock in a larger profit by raising stops.

## The new colonists from Japan Inc.

FM13's feature on megatrends said of Japan: "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." Today one can't pick up a serious

newspaper without noticing an article on everyone else's difficulty over Japan's success.

Japan's ability to manufacture and market many of the technologically advanced products that the world wants, is a problem for the West that won't be solved by this generation or the next. It could persist well into the next century. No acceptable suggestion to resolve the "Japanese problem" will do more than temporarily quell the worst fears and resentment of those who stand to lose the most. Economist and FM, David Hale, wryly suggested a marriage of convenience between Japan and the USA, but that would leave a lot of unhappy wedding guests from the rest of the world.

Japan can, and probably will remove all inscrutable barriers to imports, but what can Europe and the USA export in quantity to a small population of 120 million? Food? Yes, but probably in smaller quantities because barring a global catastrophe, food will remain relatively cheap for hard currency countries due to scientific breakthroughs resulting in substantially higher crop yields. There is very little that America manufactures which Japan can't produce as well or better, with the exception of military hardware which is temporarily a no-go area. That leaves fast foods and "culture", but how many hamburgers, baseball jackets and soap operas does the USA have to sell to off-set a \$35 billion dollar trade deficit?

I have little doubt that Europe and America will gradually introduce protectionist measures against

Japanese goods. They will proceed with caution, anxious to avoid a repetition of the 1930's Smoot-Hawley tariff, which led to a trade war and deepened the depression. Americans also love a winner and most have been philosophically opposed to protectionism, which is for losers, but that attitude is changing. They would prefer a clean knockout or even an honourable draw, but will accept victory by disqualification rather than lose. Europeans suffer fewer qualms and will probably introduce protectionist measures at a faster pace, but these are unlikely to make a significant dent in the trade imbalance. The Japanese will respond to import duties by lowering prices and accepting less profit to maintain market share. Punitive import quotas would encourage reprisals in kind.

A higher yen relative to other reserve currencies, which we are likely to see on an intermediate to longer term basis, would help a little, but as with import tariffs, the Japanese will lower their prices if necessary and still thrash the competition. A rising yen will also reduce Japan's raw material import costs and hasten their colonization programme.

On the drive from Jakarta's new airport to the city centre, one sees many new factories. A few of these are European but most are Japanese. The Indonesians prefer a European factory job which pays about US\$800 a month, compared to US\$600 at a Japanese company, but Japan is selling more goods and therefore building more factories. Ninety percent of the cars in Indonesia are Japanese. Indonesia, with its stable government and large, cheap labour force, is an ideal colony for Japan. Visit an impressive new factory anywhere from America to Wales, and the chances are that it is Japanese. From art to stocks and bonds, or property and real estate, the biggest new buyers are the Japanese. They are the new colonists.

The people who formulate opinions at America's think-tanks patriotically believe that the US is retrenching to beat Japan commercially with brains, technology, and capital. They repeat the myth that the Japanese are better at copying than innovation, citing the recent failure of Japan Inc. to produce the fifth generation thinking computer. That is an isolated example; their lead in robotics is unassailable and they may gain a stranglehold on micro-chip technology.

No one would underestimate American technology, least of all the Japanese, but it's a long road between invention and export earnings. I don't doubt that America will build the fastest plane, but her trade deficit will not be helped when Japan starts building ordinary military hardware that works better and sells competitively.

I suspect that Japan will become an even more formidable competitor in terms of innovation and product reliability. The Japanese are historically and temperamentally suited for the era of miniaturization. A passion for detail and precision has been apparent in their art for centuries. A preference for national or corporate glory (Japan Inc.) over individual achievement more than makes up in organization what it lacks in innovation. After gradually emerging from post-war

ruin, the Japanese now have the skill, knowledge, capital and nationalistic drive to beat the world.

America has been at the top since World War II, so a smaller percentage of her citizens now aspire to the same business goals as the Japanese. Many Americans still want to get rich, and do, but individual flair is preferred over corporate power as the means. The USA may fail to match Japan's commercial progress because, in America, empire building is out and introspection is in. Other Americans are more concerned with how they relate to one another, or the quality of their orgasm, than with who builds the best micro-chip. While Americans pursue individual achievement, self-knowledge and the quality of life, the Japanese believe that they are the master race. At this moment in our history, during this technological revolution, they may just be right.

## Pride and prejudice

**Indonesia** – Twenty years ago this month, an alliance of middle-ranking, communist army officers, called "the 30th of September Movement", pushed Indonesia's left leaning President Sukarno aside in an attempt to seize power. This was probably a pre-emptive coup as Sukarno was unharmed, while six leading generals were killed by the communists. They had obviously underestimated the next in command, 44 year old Major General Suharto, chief of the military reserve. He seized power that same day, wiped out the communists while establishing a right-wing dictatorship, and has ruled ever since.

Suharto threw out the Soviets and Maoists and encouraged aid from Japan, the USA and Europe. This enabled Indonesia to develop its wealth of natural resources and the annual growth rate soared to 11% during the oil price boom. In the World Bank's classification, Indonesia has moved from a "lower income" to a "lower middle income" country, despite being handicapped with the world's fifth largest population. Economic progress and political stability has lessened the religious, regional and political factionalism that previously threatened to make Indonesia's 13,000 island archipelago ungovernable.

Indonesia's economic achievement of the last twenty years is as impressive as its people are likeable. I have never been received more graciously as a total stranger than by my seminar hosts at Bank Negara earlier this month. However, it does not take long to form the impression that Indonesia will always remain a third world country, despite the government's perhaps ambitious target of 5% per annum growth.

The first clue is provided by one of Jakarta's frequent traffic jams. Drivers don't signal when they want to turn or change lanes – they honk. The police are everywhere, organising the chaos that is typical of Indonesian life.

Friends who live in Indonesia tell me that the real problems commence when they want to start a business or diversify. The entrepreneur cannot simply

find his commercial niche and working capital, as in the vigorous capitalist societies, before sallying forth in pursuit of fortune. First he must pay a substantial "commission" to the bureaucrat who has the power to approve or halt his business plans. This payment is seldom a one-off because an ongoing ante will be expected if he is to remain in favour or have unwanted competition deterred. Other "commissions" will be demanded by agents dealing for prospective clients.

This system of backhanders is found at virtually all levels of Indonesian commercial or political life. It is distasteful enough but, more significantly, it gums up the wheels of commerce. No one knows precisely where they stand; no business deal, however small, can be concluded until the "commission" is settled. This has to be one of the most inefficient ways to run an economy in competition with the rest of the world.

The Suharto government has done well to contain tribal and religious agitation (Indonesia has the world's largest Moslem population although it is not a religious state), but its record on racism is less satisfactory. Indonesian citizens who are Chinese, for example, have great difficulty in gaining entrance to universities or obtaining jobs in government controlled industries.

Jakarta solves crime problems – Two years ago I was advised to be careful in wandering around Jakarta which had a high crime rate. I inquired apprehensively about street safety on my journey in from the airport earlier this month, knowing that urban crime often increases with the population, and Jakarta is now a city of 7½ million.

"No problem", I was told: "there is very little crime in Jakarta now." Apparently drastic measures were taken nearly two years ago – they killed all the known criminals. There were no trials, warnings or second chances. The police and the army went to the home of known offenders, usually gang members, and shot them. Bodies were left where they lay while the names of the dead, numbering 20-30 a day, were published in the newspapers.

It worked a treat. Over a thousand people were dispatched in that manner and Jakarta now has a much lower murder rate per capita than most European or North American cities, despite its greater poverty. I brought the subject up repeatedly during my five day visit and no one disapproved of the killings, although one Indonesian economist was a trifle embarrassed and described them as an "interim measure".

On return I have found most Westerners to be horrified by this story. It's an emotive subject, but never let it be said that capital punishment on this scale is not a deterrent. I ask these people a hypothetical question. If they knew that a loved one would probably be murdered by a repeat killer, would they feel differently? When the threat of violence is closer to their own home would they perhaps favour the ultimate deterrent as practiced with great success in Indonesia and also China not too long ago? Most reply that they favour humane imprisonment, rehabilitation programmes and an all out attack on what they see as the real causes of crime – unemployment, drugs and adverse social conditions.

I cannot accept this view which ignores the existence of evil. There are bad people, and they will lead others astray. Of course it would help if economic and social problems were reduced, but even if everyone was a god-fearing millionaire, I suspect there would still be alot of murders. I don't believe that you can rehabilitate the wicked or pen evil in, but you can weed it out. No one doubts that the Jakarta police will have to top up the mortuary pool from time to time, but the policy is effective.

Does this brutalise people? Probably, but no more than sick films or the acceptance of a violent society in which many of the innocent are afraid to step outside their front door. The humane, caring society becomes a sham if the innocent are not protected, even if this is at the expense of the criminal.

**South African sanctions** – FM17 pointed out that the free world had shot itself in the foot over South African sanctions which will benefit no one except for the Soviet Union and its allies, especially if the RSA's white government is forced into playing its most powerful trump card by defaulting on its \$30 billion short, intermediate and long-term loans.

Evidence that South Africa has prepared its list of retaliatory sanctions was provided by President P W Botha who pointed out that a ban on exports of chrome could threaten a million American jobs and close down Europe's automobile industry.

The RSA has 85% of the world's known reserves of chromite. About 70% of her annual output is used by the West in the production of stainless steel. The only other significant producer of chromite is the Soviet Union which exports very little. Metal experts who view President Botha's comments on retaliatory sanctions as an empty threat because South Africa could not do without its chromite export earnings of \$750 million a year are mistaken. If the RSA stopped exporting chromite, platinum and palladium, for example, the subsequent destabilising effect on Western industry could easily trigger a run on gold and other metals that would increase South Africa's earnings.

**Photo competitions** – Winning answers for FM17's photo competitions (where was DSF standing?) were: Drumbeg in Northern Scotland, looking out on Eddrachillis Bay and the North Atlantic (page 1), and Notre Dame taken from a bridge across the Seine (page 8). Now for something completely different. This month's photo competition is to name those disgusting looking 'globs' that I am about to consume. You might also take a stab at the location in case a tie break is necessary. In a fit of generosity, I will give all FMs an equal chance, therefore, the famous Chart broly will be sent to FMs with the first correct answer from each continent or its related islands. To protect the innocent, I will not reveal the seven winners names.

**Stop press** – US interest rate futures are running as forecast in FM17 etc. This will extend DJIA bull market for another 3-6 months, at least.