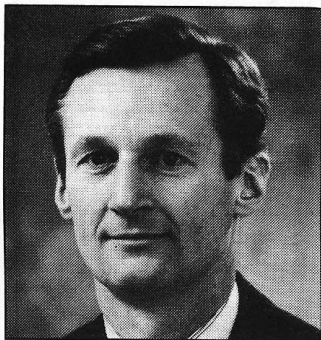


*Searching for future trends*



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## Japan's market reconfirms bull trend – poised to run with Wall Street and London

Japan was one of the few stock markets not to receive rapturous praise and lofty forecasts during journalists' year-end poll of international fund managers. That revealed a lighter portfolio weighting for Japanese shares because people are understandably less bullish of what they don't own. The cautious attitude towards Japan (not shared by FM) was due to the lack of upward progress for the major indices (shown overleaf) which had been mired in a trading range. This view was rationalised by concern over possible USA import sanctions and the potential effect of a strong yen on exports.

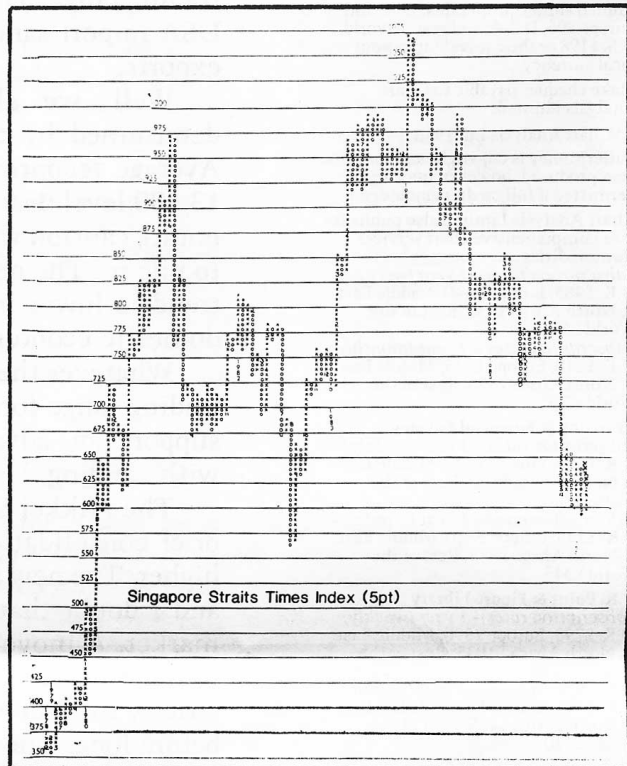
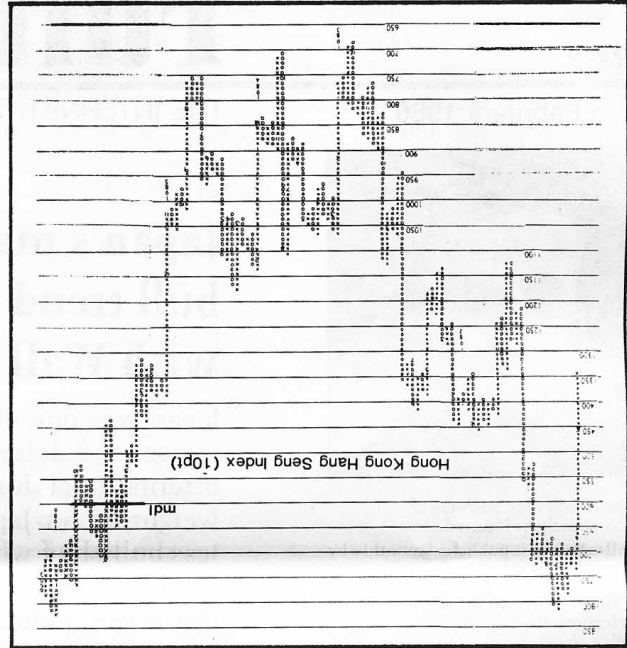
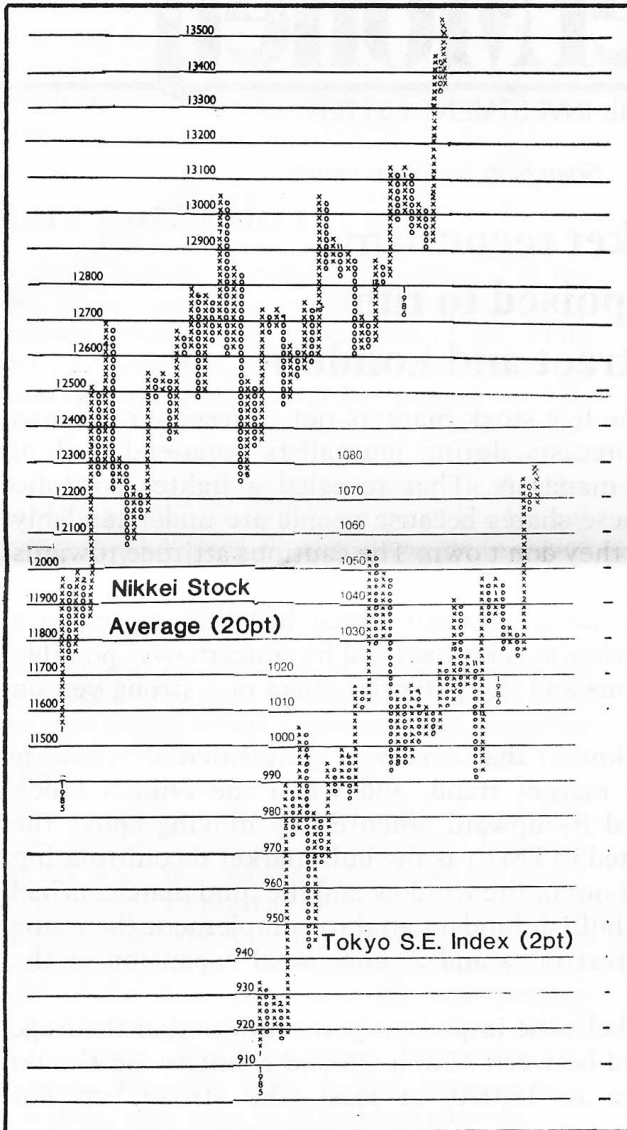
Well, we all know that many a fundamental view is determined by the market trend, and when the Nikkei Stock Average reconfirmed its upward potential by moving above the 13,500 level (last cited in FM20 as the bull market reconfirmation point), caution went out of the window and the fund managers had to pile in. The new bullish fundamental to complement the rising trend is lower interest rates and a more rapid expansion of the domestic economy.

Whatever the labels, the important point now is that the huge trading range formed between March '85 and February '86 should support an advance to 15,000, at least, the strong yen notwithstanding.

The Nikkei Stock Average is unlikely to see more than a very brief consolidation of this month's gains before moving sharply higher. The new initial support level is between 13,110 and 13,000, and I doubt that it will be tested over the duration of this bull market. A move below 12,600 would be required to end the bull trend. Similarly support near 1050 on the Tokyo SE Index should strictly limit downward risk and lead to significantly higher levels before long. The bull market abort point is now at 1010.

**Hong Kong** – HK will be the last stop (Apr 22 & 23) on my seven venue Pacific Basin tour with The Chart Seminar. I imagine local investors are finding the market a mite dull as it is less than 100 points above its May '85 high. Technicians may be worrying about the proximity of the July '81 peak at 1810 (not shown) from which the market fell by nearly two thirds, and rising consolidation patterns can indicate a tired market.

Nevertheless one should still give this bull market the benefit of the doubt, at least until some evidence of top formation development, such as a break in the progression of higher lows, or mid-point danger line (MDL) violation occurs. A close below 1700 would flash caution and raise a few eyebrows, but I won't abandon my bullish view without MDL violation at 1600.



I very much doubt this will occur since the large base formation (Aug '82-Dec '85) evident between 1170 and 680, can support substantially higher levels. Bull markets seldom end after just one run so the present rising consolidation pattern is more likely a sign of underlying support than fatigue. On fundamentals the pegging of the HK dollar to the US currency means that Hong Kong is one of the few major exporters to North America not to be hurt by the US dollar's decline. A break above 1850 would indicate a run towards my next target at 2000, and the stocks that break upwards ahead of the Hang Seng Index should do best.

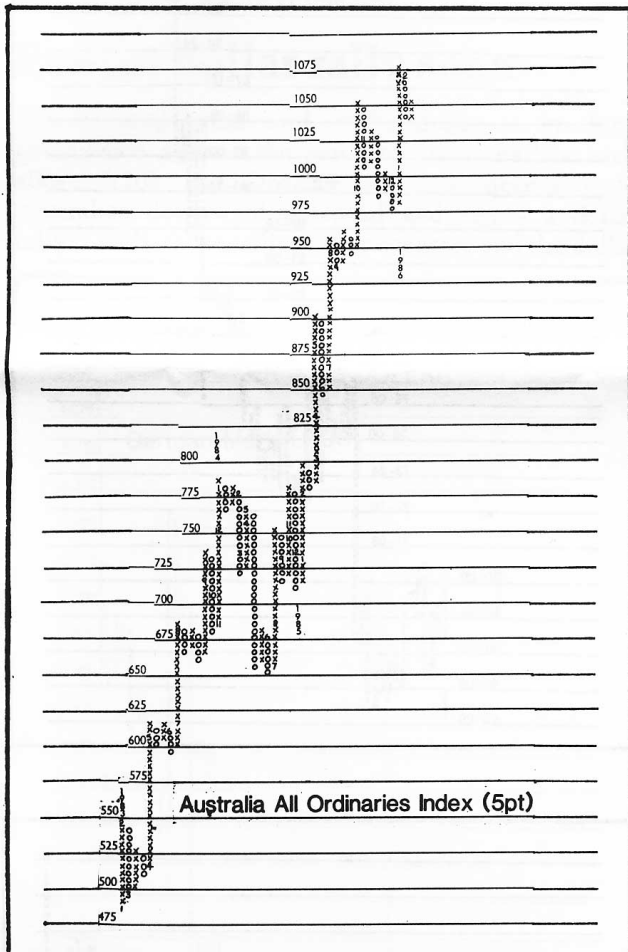
**Singapore** – The Straits Times Index has lost downward momentum above the '82 closing low at 560. A two year decline from the Jan '84 peak of 1070 ought to be enough to wrap-up this bear trend but rogue market Singapore has had some unfortunate problems. The main economic difficulties, which include an expensive labour force, fierce competition from other countries for basic industries and a property collapse, should have been discounted by present share price levels. However, the international fund manager has been scared away by a hornet's nest created by the

unregulated pyramid buying of shares for future payment.

My Singapore seminar is on Apr 14 & 15, and I will ask if there are any more share dealing skeletons yet to emerge from the closet. If not, Singapore should be on the verge of a belated entry to the global bull market party. The shares to consider should be asset and preferably cash rich, and show superior relative strength as the Straits Times Index climbs off the floor. Don't assume that there will be another leg to this bear market unless the Index closes at 580 or below.

**Australia** – Sydney will be the first stop for The Chart Seminar (Mar 17 & 18) on my Pacific tour followed by Melbourne (Mar 20 & 21). The principal

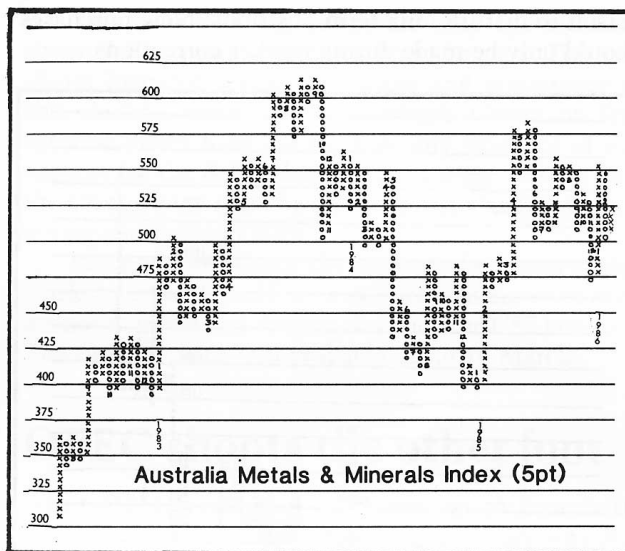
indices – All Ordinaries and Metals & Minerals – accurately reflect the kind of financial world we live in today. Many mining and oil shares are mired down in unrewarding sideways trading ranges, while most other sectors are enjoying the strongest bull market in living memory.



The All Ordinaries took a two month breather during Nov & Dec as earlier gains were consolidated. In keeping with the best bull markets this reaction never threatened the prior consolidation pattern evident between 960 and 935, and Jan's swift rally reconfirmed the strength of demand. If the Index can hold above 1040, expect a quick resumption of the upward trend. I don't expect to see the 1000 roundphobia point crossed during the remainder of this bull market, but the abort point is 970.

The Metals & Minerals Index is clearly in a long base-building phase that will eventually support a recovery; however, the recent decline back to 500 indicates the lack of immediate upward potential. Short-term investors interested in this market sector should wait until a clear upward trend is established on the Index before buying the strongest performing shares, while long-term players should buy on weakness only.

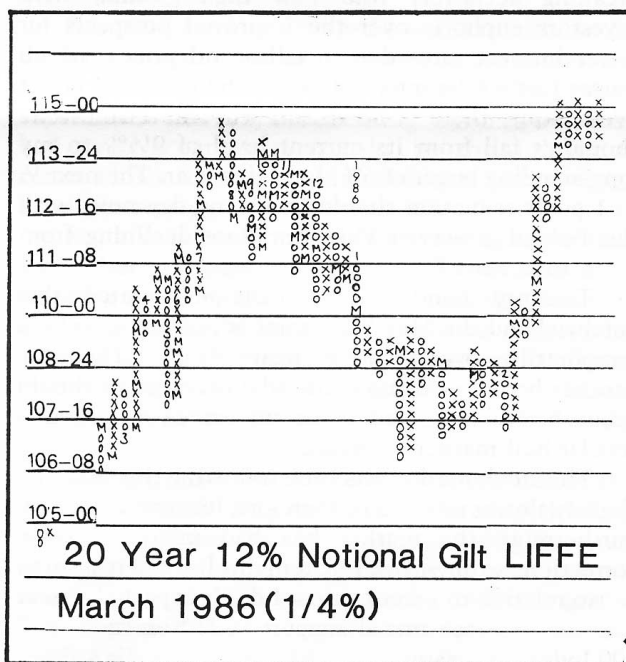
**UK gilt strength hugely significant for shares –** When I last forecast a further advance in UK equities due to the extensive FTSE support evident below 1340 (FM20 – late Dec '85) my one concern was the



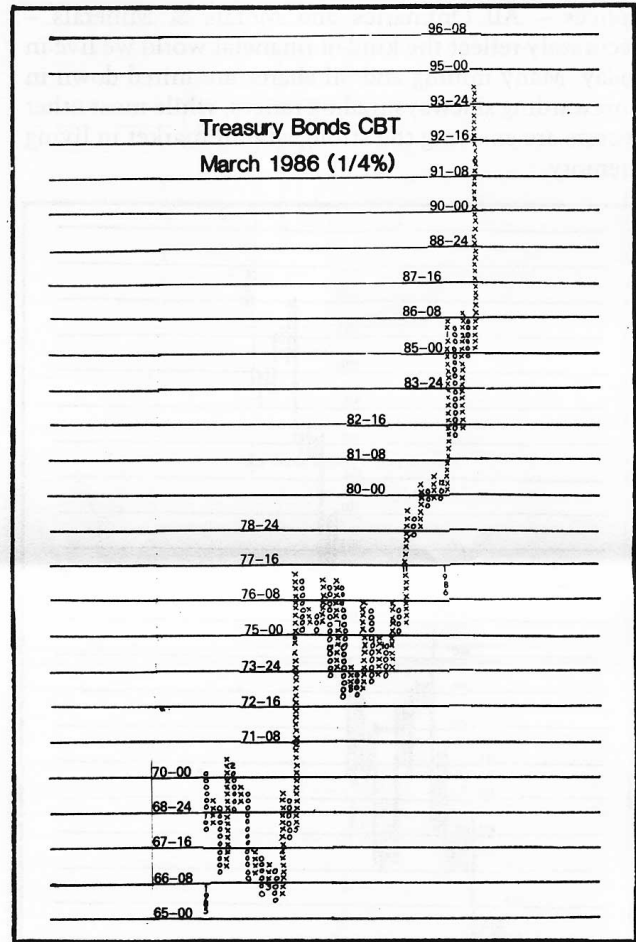
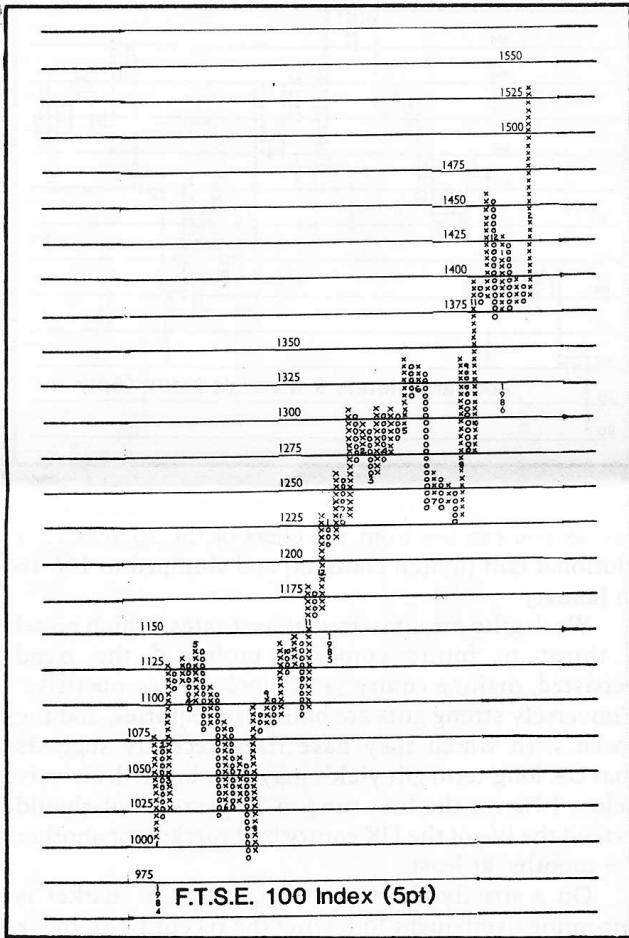
weakness of gilts. They broke downwards in December, as you can see from the chart of the 20 year 12% Notional Gilt (March contract) and slumped to 106-16 in January.

Weak gilts meant rising interest rates, which posed a threat to future corporate profits if the trend persisted, making equity yields look less competitive. Conversely strong gilts are bullish for equities, and the speed with which they have risen recently suggests that UK long-term gilt yields may now break decisively below 10% for the first time in 12 years. That should extend the life of the UK equity bull market for another 3-6 months, at least.

On a strictly short term basis the UK market is becoming overbought following the recent FTSE Index surge to 1550. Therefore a reaction and consolidation of these gains appears imminent but I don't expect to see initial support at 1455 (from the previous trading range) threatened. Traders may wish to take a few profits in anticipation of a UK market reaction, but I see no



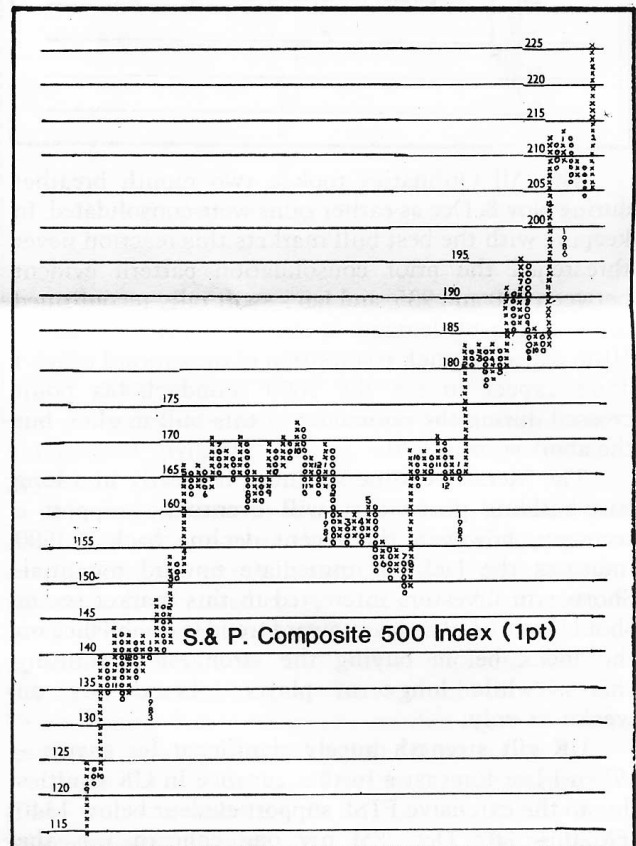
reason to disturb long term positions. New purchases should only be made during market corrections.



**US bonds roar, extending life of Wall Street equity bull trend** – In early January US bonds and equities experienced a shake-out in response to their previous strong gains. Five weeks later both markets were breaking decisively into new high ground, with investors euphoric over the improved prospects for lower interest rates due to falling oil prices, which meant further dis-inflation. Since the economy is not overheating, there is no reason why the Prime Rate shouldn't fall from its current level of 9½% to my long-standing target of 6%, later this year. The next ½ to 1 point reduction should occur any day now, with the Federal Reserve's Discount Rate declining from 7½% to at least 7%.

Treasury bond futures have discounted this potential and the March contract is beginning to look temporarily overextended near 94-00. Therefore another brief pause and consolidation of gains should occur before long, but I see no evidence that this secular bull market is ending.

The stock market has been following this lead at a slightly slower rate and is, therefore, less overextended. Furthermore the market has had many intra-day corrections so downside risk remains limited to a small pause relative to recent gains. I don't expect the next reaction to touch initial support at 213 on the S & P 500 Index, for example.



Many analysts seem bemused by Wall Street's strength which is a healthy sign. It suggests that money managers still have substantial sums of cash earmarked for shares. This bull market has a lot further to go over the intermediate term, and I'll be surprised if the DJIA doesn't chalk-up a record breaking one-day advance during the next few weeks.

## Expect dollar rally soon

FM21's stop press said: "The dollar is breaking downwards against the yen and mark. Rallies back above Y205 and DM2.49 are now necessary to neutralise downward potential and signal a dollar rally." Well, those rallies never occurred and the dollar

has taken another big downward step against Continental European currencies and the yen. The two charts included reveal the extent and persistence of this decline since last September's Group of Five meeting. They have yet to show any evidence of real support for the dollar, but common sense tells us that the US currency must be on the springboard ready for a strong contra-trend rally.

I'm not forecasting the end of the dollar's bear market, but we should see a rally equivalent to or even greater than the end-August and end-April '85 bounces. The turning point will probably occur in March.

## OPEC shoots the other foot

When OPEC ratcheted oil prices up to unrealistic levels in the late '70s, the fashionable theory was that prices would never come down with a bump because there was a finite supply of fossil fuels. Cassandras described a grim future in which we would huddle together, shivering in the dark.

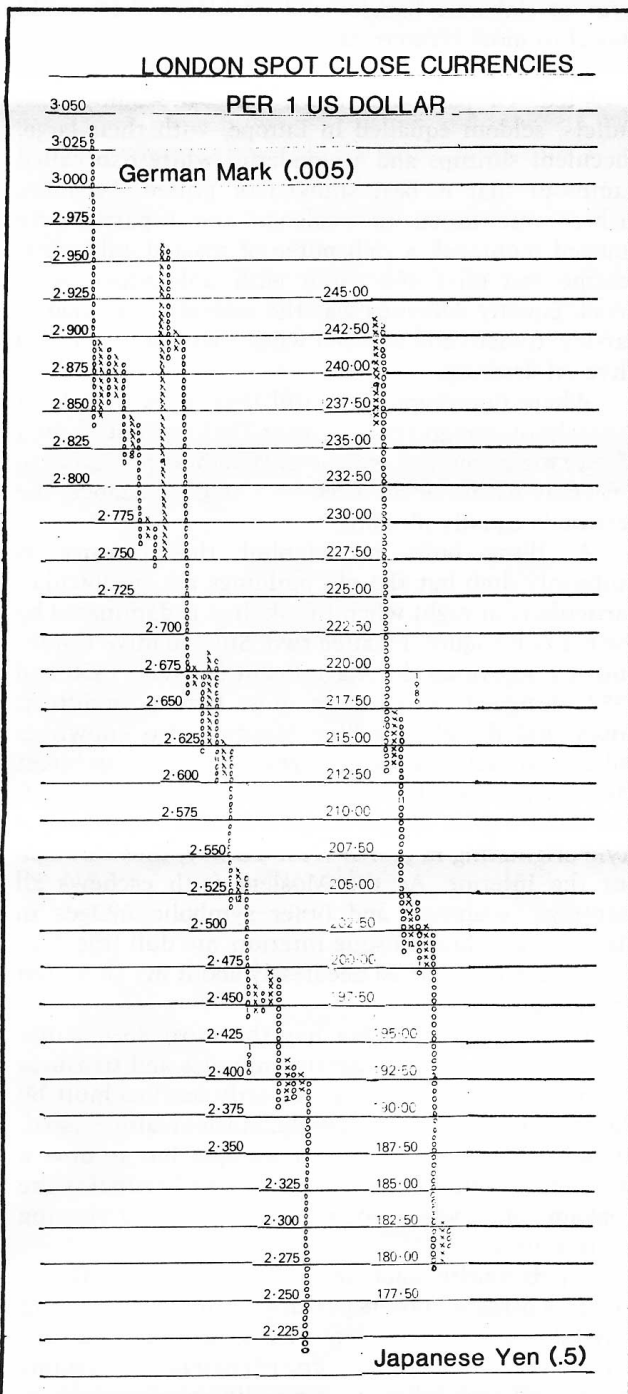
The flaw in that scenario was that it countered every shred of economic history. The world has never run out of any commodity, although raw materials have been priced out of a market or rendered obsolete.

OPEC's gain over the short and intermediate term, following the price increases of the '70s, was massive but they guaranteed an eventual market collapse. The timing of that slump was dependent on how long it took the oil importing nations to adjust. Since oil is a very special and important commodity it took several years for production to significantly exceed consumption. Unlike wheat, for example, where production can be increased rapidly in the next growing season, the flow of oil could not be altered immediately because of inadequate pumping facilities, untapped or undiscovered fields, and inadequate storage facilities. Additionally, the initial knee-jerk response to rising prices is a tendency to hoard supplies.

Eventually and inevitably the world adjusted to the oil price shock by pumping more human energy and cash into the search for increased production, substitution and ways of reducing consumption than had ever occurred previously in the history of commodities. The supply of available oil increased and is still increasing, while demand fell.

Sheik Yamani saw the problem coming earlier than any other producer spokesman and countered by reducing Saudi production, while exhorting other oil exporters to do the same. He could have saved his breath because other countries had not spent all that money developing their oil production capacity just to sit on their fields. They also want their slice of the cake.

Saudi Arabia's decision to increase production as a reprisal for non-OPEC producers' independent thinking is more emotional than logical. Commodity exporters who actually need the sales revenue increase production to offset the loss of income due to lower prices. This applies to all oil exporters except for Kuwait, Saudi Arabia and the UAE.



When the price of a commodity remains weak, especially if it falls below the cost of production, supply is eventually curtailed because there is no longer any incentive to produce. High cost, privately owned producers are the first to feel the pinch. Since most oil production is government controlled and, therefore, less sensitive to profit considerations than private enterprise, the flow will continue ensuring that oil prices do not return to last autumn's levels for a long time. They will probably go lower before the next sustainable uptrend occurs.

I can only think of one plausible scenario that could negate this forecast. There is a precedent: the 1974 price hike occurred on the back of a Middle East war. One hopes the Machiavellian response to low oil prices – an Arab/Israeli war – is avoided. That possibility increases with every new decline in the oil price. An Arab/Israeli war would not create a secular trend change in the oil price given today's global production capacity, but it would produce enough superpower tension to spark a sharp rally.

**Impressions of the Arabian Gulf and Istanbul** – I was looking forward to my first tour of the Gulf plus Istanbul and was not disappointed. The four venues attracted delegates from all of the Arab countries which gave me a unique opportunity to discuss issues of special interest to the Middle East during meals and coffee breaks. Wherever I have lectured, mutual interest in charts and the financial markets have enabled me to quickly establish a rapport and camaraderie with delegates that opens the door to more sensitive issues.

For example, the present level of tension between the USA and Libya, which has caused many Americans to call for a Teddy Roosevelt style raid to depose Gaddafi. However achievable or appealing this suggestion may sound to certain Western ears, it would have disastrous consequences, not in terms of an escalation into a super power confrontation, but because of damage to America's relations with all other Arab countries. Whatever they might think of Gaddafi in private, even the most westernized Arabs will unite in sympathy against any outside aggressor. The problem of Libyan backed terrorism against innocent people of any nationality will have to be dealt with through international cooperation by all responsible nations.

On Israel, it was encouraging to find that moderate Arabs, who are in the majority, believe that they can live in peace with the Israelis. After all, they have known them for centuries. What they resent is the flow of European Jews into Israel, resulting in a further cession of Arab territory.

What I found most depressing was the degree of anti-American and anti-Israeli sentiment whipped-up by the Arab press which is certainly doing its best to fan the flames of conflict. Reading the English language Gulf newspapers one gets the impression that another Arab/Israeli war is inevitable over the next few months. I found the degree of vitriol in editorials irrational and blatantly subjective, and certainly out of tune with the views of the Arab banking community.

In addition to the many Arabs who attended The Chart Seminar's Gulf venues there were an even greater number of Indians and Pakistanis. One has to admire these people, who when faced with few opportunities in their chronically overcrowded countries, emigrate with the determination to work hard and succeed. The achievements of these people who ask for nothing other than half a chance are evident the world over.

The people are the main perk on my whistle-stop lecture tours as I seldom have enough time to take in the tourist sights. However the Dubai Creek is attractive with its many merchant ships, usually Arab dhows, and the gold souk interesting and good value, although there is little among the seemingly endless array of elaborate bangles and necklaces that would appeal to most Western tastes.

Arabs eat well in the small, wealthy countries that I visited. Of particular merit were the sumptuous buffets, seldom equalled in Europe, with their large, succulent shrimps and a wonderful white fish called hammour that is best smoked or grilled. Lebanese dishes were much in evidence and I particularly enjoyed moutabal, a rich puree of roasted aubergine, sesame and olive oil, eaten with unleavened Arab bread. Equally delicious was the tabbouleh, a salad of parsley, tomato and crushed wheat, with a lemon and olive oil dressing.

Where Europeans often roll their eyes wearily at the sight of foreign visitors, most Turks go out of their way to make you feel welcome. Whether this is due to a friendly nature or the need for foreign exchange, the gesture is equally pleasing.

Anything built in Istanbul this century is uniformly drab but the old buildings are spectacular, particularly at night when the skyline is dominated by the many mosques. I visited two; Suleymaniye Camii, built by Suleyman the Magnificent between 1550 and 1557, designed by Turkey's most famous architect, Sinan, and the elegant Blue Mosque, also known as Sultan Ahmet Camii, designed by the architect Mehmet between 1609 and 1616, for Sultan Ahmet I. The latter has six minarets and beautiful blue *iznick* (a style originating in North West Turkey) tiles throughout the interior. As the Moslem faith eschews all paintings, sculpture and other symbolic images in places of worship, mosque interiors are dull (the Blue excepted) and I worried needlessly about my shoes left on the outside.

The famous Ayasofya has the most spectacular interior with its gold Byzantine mosaics and treasures taken from ancient Greece. An early basilica built by Constantine the Great before the Moslem faith existed, Ayasofya was converted to a mosque but is now a museum. Another must when you visit Istanbul is the Topkapi Palace where one could spend a week viewing the treasures.

My favourite spot in Istanbul was the Grand Bazaar, a bargain hunters paradise within a labyrinth of covered cobblestone streets. One's custom is pursued with good natured but tiresome persistence. Bargaining is essential and dollars will usually get you the best

terms, but tell them you only have roubles to discourage unwanted hawkers. The chief items are Turkish carpets (beautiful but less likely to appreciate in value than good Persians), leather goods, jewellery and antiques from a central section called the Old Bazaar. I recommend the antique Ottoman pots. Try the pretzel-like bread called simit, which is piled on trays and carried on the heads of wandering hawkers – delicious when washed down with a small glass of fruit scented tea.

Strategically, Turkey is an important country. It is a member of NATO and a link between Europe and the Middle East, bordering Bulgaria, Greece, Iran, Iraq, Syria and the Soviet Union, although most of the country faces water stretching from the Black Sea through the crucial Bosphorus, to the Sea of Marmara, the Dardanelles, Aegean and Mediterranean.

A certain amount of political and economic juggling is necessary to maintain stable relations with neighbours of such diverse cultures and interests, but Turkey is leaning towards the more prosperous West and would like to become a full member of the EEC, although this is not a near-term possibility for both political and economic reasons.

A colleague commenting on the zeal of Istanbul's multi-lingual street salesmen, many of them children or youths, said: "Imagine what Turkey could achieve if all this entrepreneurial and commercial flair were organised". Additionally, the population has not

ballooned out of control at 50 million; there is political stability behind a democratically elected government (1983) following the terrorism of the late '70s; the ambition and productivity sapping machinery of the European welfare state is mercifully absent; a privatization programme of state economic enterprises is underway and Turkey must be one of the very few European countries entirely self-sufficient in food. The biggest obstacle blocking Turkey's path to greater prosperity is a crunching rate of inflation probably in excess of 60% per annum. Given the problems this inevitably creates for both workers and the business community, there is no way that Turkey can emulate Western Europe's economic success.

Turkey also scored poorly in my Urban Traffic Test (UTT) of economic potential. Simple but more accurate than projections based on any econometric model, this measures a country's capacity for organization, without which a high level of productivity is impossible. UTT is not concerned with the speed at which traffic flows (that is primarily a matter of vehicle numbers plus the layout and width of city streets), it is the way people behave in traffic that counts. Istanbul's traffic comes to a halt at intersections with drivers attempting to weave in and out of lanes and out-bluff each other, all to the accompaniment of an endless cacophony of hooting horns, while pedestrians risk all by darting to and fro. It reminded me of Jakarta.

I look forward to visiting the rest of Turkey as a

### FM Share Portfolio

	Market	Share	Price Then	Closing Stop (c/s)	Price Now	Strategy
FM7 SEPT 84	Holland	Nederlandsche Middenstandbank	FL149	FL210	stopped out	
FM8 OCT 84	S. Africa	Vaal Reefs	R173*	none as	R230	stop Apr '86 hedge
	S. Africa	Randfontein	R202.5*	hedged with	R272.5	short at \$339 if
	S. Africa	Kloof	R17*	Apr '86	R22.9	contract trades
	S. Africa	President Brand	R51*	COMEX short	R54.5	below \$330
	S. Africa	Harmony	R26*	at \$339.95	R37.25	
	S. Africa	Unisel	R17.2*		R20.65	
FM10 JAN 85	U.S.A.	McDonald's	\$57 <sup>7</sup> / <sub>8</sub>	\$67	\$86 <sup>5</sup> / <sub>8</sub>	raise c/s to \$75
	Germany	Daimler-Benz	DM626	DM1200	stopped out	
FM11 MAR 85	U.S.A.	Gillette	\$58	\$65	\$79 <sup>1</sup> / <sub>4</sub>	raise c/s to \$70
FM12 APR 85	Hong Kong	Cheung Kong	HK\$15	HK\$18	HK\$20.8	raise c/s to HK\$18.5
FM18 OCT 85	U.S.A.	Atlantic Richfield	\$64 <sup>1</sup> / <sub>4</sub> *	\$59	stopped out	
	U.S.A.	Colgate Palmolive	\$29 <sup>1</sup> / <sub>2</sub> *	\$27	\$34 <sup>3</sup> / <sub>4</sub>	raise c/s to \$30
	U.S.A.	General Mills	\$53 <sup>1</sup> / <sub>8</sub> *†	\$53	\$62 <sup>3</sup> / <sub>8</sub>	raise c/s to \$55
	Japan	Fuji Photofilm	Y2015*	Y1930	stopped out	
	Japan	Kyocera	Y3835*	Y3500	Y4580	raise c/s to Y4000
	Japan	Shiseido	Y1220*	Y1200	Y1410	raise c/s to Y1300
	U.K.	Marks & Spencer	167.5p*	165p	188p	raise c/s to 169p
	U.K.	Mowlem	312p	270p	366p	raise c/s to 310p
	U.K.	Redland	345.5p*	310p	405p	raise c/s to 340p

\* Average price – SA golds includes FM16 purchases. (Note: position cushioned with hedge profit from Apr '85 COMEX short from \$340.4 to \$312.5). † adjusted for distribution.

tourist and suspect multi-national companies would do well to open factories there. However, I think Turkey will remain a third world country, at least until the inflation rate is lowered and maintained at single digit figures.

## Share portfolio review

One should manage a portfolio on a survival of the fittest basis, ruthlessly weeding out the non-performing, whether they are in profit or not, while running the winners with most of the profit protected by trailing stops. That strategy has stopped out four positions this month: Nederlandsche Middenstand-bank for a profit of 41% before commissions, Daimler-Benz for a profit of 92%, Atlantic Richfield for a loss of 8% and Fuji Photofilm for a loss of 4%. Most of the other shares romped ahead enabling me to reduce risk to a minimum or lock in greater profits by raising the closing level stops. The SA gold share position is now fully hedged with an Apr '86 COMEX short position at \$339.95, which is the middle price of the range traded on Feb 12th, when London bullion closed below \$338 for the second consecutive day, triggering the hedge. If you shorted on the opening in New York you did slightly better.

The strategy for the hedge is easy if gold falls because the short should offset any parallel decline in the shares, while the contango will enhance the overall yield. If the Apr '86 contract falls below \$330, place a covering stop at \$339. A rising gold price over the next couple of months would neutralise most but probably not all of the share gains since the high yielding equities should appreciate faster than bullion. Either way, SA golds offer tremendous intermediate to longer-term potential while bullion remains in a base-building stage prior to an eventual recovery.

**The Chart Seminar '86** – To my considerable surprise, the sumptuous buffet lunches during The Chart Seminar's recent Middle East tour received a rating of only 380 out of a possible 500 from those discerning Arabs. They rated my presentation at 473, fractionally below my best but more than enough to inspire me prior to my seven venue Australasian and Far Eastern tour.

First, I'll dart to frozen Sweden where I am doing a private seminar arranged by the prestigious Svenska Handelsbanken for 45 of their currency specialists and major clients. This has been organised by one of their senior officers who attended my Stockholm seminar last June. With The Chart Seminar in its 18th year most delegates attend because of a personal recommendation. Incidentally, I have had to turn down several other requests for private seminars due to a full schedule. I hate to disappoint, but a 6 to 12 month lead time is required. All enquiries to my PA, Karen Warrington, please.

The cities, hotels and dates for my Pacific Basin tour are: Sydney 17 & 18 Mar, Sheraton-Wentworth Hotel; Melbourne 20 & 21 Mar, President Motel Inn; Auckland 24 & 25 Mar, Hyatt Kingsgate Hotel; Jakarta

1 & 2 Apr, Borobudur Intercontinental; Singapore 14 & 15 Apr, Parkview Holiday Inn; Kuala Lumpur 17 & 18 Apr, Hilton International; Hong Kong 22 & 23 Apr, Shangri-la Hotel. All admin is being handled by IIR whose agents are: Australia; K Cleland, IIR Pty Ltd, Tel: (02) 929 5366. New Zealand; N Knight, IIR Ltd, Tel: (09) 795 892. Indonesia; L Wijaya, P T Wahana Temu Wirasta, Tel: 326 339/321 808 ex 257. Singapore; M Chung, IIR Pte Ltd, Tel: 338 3521. Malaysia; J Yee, IIR Sdn Bhd, Tel: 410 325/410 385. Hong Kong, B Hill, IIR Ltd, Tel: 5-291229. After the Jakarta venue I'll take a short break in Bali to write FM before flying to Singapore. FM subscribers who would like to attend the cocktail party, "A toast to success" held from 5.00pm to 6.00pm on the second day of each seminar, should leave a message for me at the hotels. I hope to see as many of you as possible. I have just received word that the Sydney venue alone has twice as many delegates as attended my last Australian tour with three weeks still to go.

The dates and venues for The Chart Seminar – Europe '86 are: London 12 & 13 May, The New Piccadilly Hotel; Copenhagen 2 & 3 June, The Sheraton; Frankfurt 5 & 6 June, Steigenberger Hotel; Zurich 9 & 10 June, Hotel Baur au Lac; Milan 19 & 20 June, Hotel Principe di Savoia; Paris 23 & 24 June, Hotel Ritz; Brussels 26 & 27 June, Hyatt Regency and Amsterdam 30 June & 1 July, Amstel Hotel. As we have already had a number of firm bookings prior to releasing the brochure this is obviously going to be a popular tour. I'll close venues at 100 delegates so FMs should apply early to avoid disappointment. My advice is that you bypass London & Zurich, which I expect to fill rapidly, and treat yourselves to a few days in one of the other splendid cities.

## Stop press

**Treasury bond futures overextended** – The upward acceleration in T bonds (96-02 on the March '86 contract) is becoming very overstretched. Therefore any further short term gains will soon give way to an inevitable reaction and consolidation. Take short term profits and buy back lower for a continuation of the bull market.

**Protect dollar shorts with trailing stops** – As the dollar's decline is now accelerating against the mark, short positions should be protected with trailing stops. I suggest a 7 pfennig trailing stop on \$/DM shorts. In other words keep the stop within 7 pfennigs of the low. Use a 10 yen trailing stop on \$/Y shorts.

This strategy leaves the door open for further profits but strictly limits profit erosion. Speculators could justify going long of dollars when stopped out, protecting this new position with stops under the lows. This strategy is more risky since the dollar's contra-trend rally will obviously not be so large as its fall of the last few months.

Best regards  
David Fuller