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Winds of change

Crucial market trends are changing - be alert and prepared - Market cycles are constantly evolving so nothing stays the same for very long. Nevertheless it is part of human nature for people to expect durable market trends to persist indefinitely, partly because that is what they know and want, or perhaps others have wrongly forecast change too often. An important and frequently profitable technical approach is to ride the trend until it changes. FMs know that I am an advocate and practitioner of trend running, but I would also like to anticipate important changes if possible. Should this enable us to reduce exposure as markets become more dangerous or less profitable, and focus our attention on new opportunities, we will be amply rewarded. I have listed the crucial developments below and many are discussed more fully in other sections of this issue.

1) Interest rates are rising everywhere - Never mind the degree, it's the change of trend that counts. If this trend persists (there is no evidence that it is ending) global liquidity will contract, with particularly severe consequences for today's high flying stockmarkets.

2) People are selling bonds to buy equities - This occurs at the beginning of a tighter money cycle causing fixed interest investments to slump while growth shares soar. However, the flow of money is eventually reversed as higher interest rates reduce corporate profits and the yield disparity becomes too great to sustain equity prices.

3) Upward trends for this year's leading stockmarkets can no longer be extrapolated beyond the short term - None have cracked as yet, but the increased volatility in some of the bigger capitalization markets reveals that investors are becoming more nervous. This has made disciplined trend running more difficult. The question is: will the lead markets spike upwards before collapsing or just roll over and flop?

We will probably see both ending characteristics. Of the nineteen stockmarkets I follow, Australia and Hong Kong in particular are now most likely to end in accelerating peaks. Hong Kong was an early market leader and has been persistently strong. The Colony's economy is currently experiencing the classic signs of overheating - soaring corporate profits and a labour shortage. The Japanese and US stockmarkets may be too big to spike upwards, at least to the same degree as a

relatively thin market like Hong Kong. Instead, they would be the leading candidates to fall away suddenly from a larger top formation. However, for Japan this would be a totally new development as the indices have never experienced a decline of sufficient proportions to justify the bear market label.

4) Continental European stockmarkets now have the lowest risk - A further dollar decline would pose a real threat to upward progress for these bourses, but central banks have bought a trading range for the time being. Additionally, selling pressure was not heavy when the dollar fell in August, suggesting that all but a further dollar collapse has already been discounted. If I'm too bearish about the dollar and it breaks above its summer highs against European currencies and the yen, Continental European shares would soar.

5) Inflation can only increase over the next few months - Most commodity prices are rising. Those that are not have already fallen too far to decline much further. Obviously commodity prices are not the sole determinant of a country's rate of inflation, and may be less important than wage costs in most industrialized nations, but it is hard to see what could decline to offset the higher raw material prices which I regard as inevitable. Many Western governments are anxious to prevent higher inflation and hope that rising interest rates will check prices. They may curb the public's inflationary expectations, but there are too many fundamental and technical reasons why higher interest rates won't affect commodity prices for some time.

Global interest rate alert

US dollar Euro-currency interest rates bottomed in Apr '86 at 5 9/16% and have subsequently risen to 8 1/2%. The low point and current levels for other reserve currency rates are: Swiss franc 3 9/16% in Jan '87, now 4 1/2%; sterling 8 9/16% in May '87, now 10 5/8%; yen 3 11/16% in May '87, now 5 3/16%; and mark 3 11/16% in Jun '87, now 4 6/8% (see charts in our publication - CURRENCY). FM39 cited a slightly easier tone for the three hard currency rates following the summer rally, but further rises have subsequently occurred.

This means that global interest rates have established intermediate-term upward trends. The late September G7 meeting in Washington expressed concern about rising interest rates, particularly for hard currencies such as yen, the mark and Swiss franc, but so far there is no evidence that these upward trends are ending. The well established rising trend for dollar rates, in particular, shows higher potential. An advance to 10% or even 11%, possibly before year-end, appears likely.

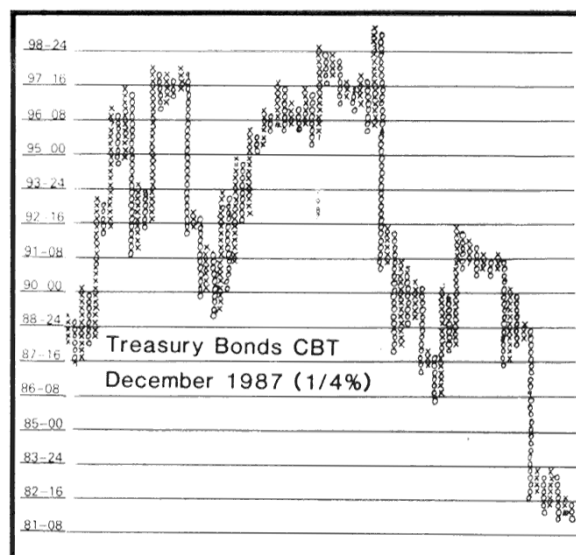
Higher interest rates would obviously mean a further decline in the capital value of bond accounts. If the global upward trend in borrowing costs persists (we should assume that it will until there is evidence to the contrary), the vast liquidity pool that has

fuelled the super bull trends for many stock markets will contract. This would occur once the scope for switching from bonds to equities had been completed. Contracting liquidity, higher borrowing costs for industry and less attractive share yields relative to bonds, would put today's high flying stockmarkets into downward trends.

Bonds still bearish - The Dec US Treasury bond chart shows most but not all of the huge top formation that developed following the peak above 100-00 in Apr '86. The top formation shows that anyone holding bonds purchased during the last 19 months, is losing money. That represents massive overhead supply held by "stale bulls", whose selling pressure should continue to inhibit rally attempts. Additionally, US bonds are wilting under the burden of rising interest rates, a record trade deficit which is still growing, rising inflation and a suspect currency.

Do today's depressed bond prices adequately discount all these adverse factors? I doubt it, but others are more bullish. For example, flamboyant broadcaster, Bob Beckman, who also runs a bond fund, says in the 26th Sep '87 issue of his Investors Bulletin: "... the September lows in the US bond market represent the best possible buying opportunity for the remainder of the bull market in bonds". He describes this year's fall in bonds as a IV Wave correction which has reached its optional amplitude by returning to the top of the I Wave of the bull market. He regards current levels not as the end of a bear market, but the terminal juncture of an intermediate decline in a bull market.

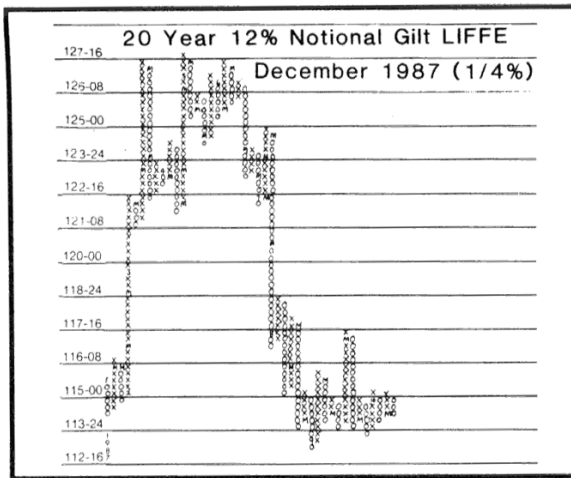
My own analysis requires some tangible evidence that bonds have bottomed and it isn't there. FM39 advised bond traders to take partial profits at 81-16 on the short positions recommended above 91-00 in early July (FM37). The 81-16 level represented the first area of chart support, established from Jan to Feb '86, and was not far from the top of the '82-'85 peaks (not shown). During the last few weeks there have been several intra-day moves below 81-16,



enabling FMs to take the profit, but the market has closed above that level on each occasion.

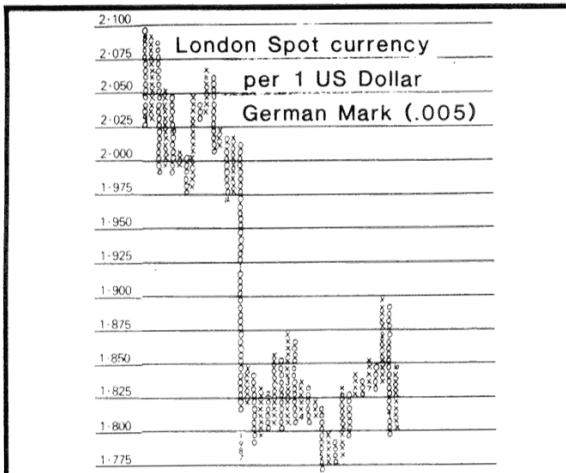
Your remaining short positions have a substantial locked-in profit protected by the 3 point trailing stop recommended in FM39. I suggest that you either take the remaining profit in the event of a decline to 76-16, or just maintain the trailing stop until it is hit.

UK gilts could still drift lower - Gilts have encountered support above the '86 year-end base formation (illustrated in FM39), but the ease with which recent rally attempts have been reversed, suggests that near-term upside potential is limited. Additionally, gilts could still drift slightly lower against the global background of higher interest rates, unless or until sterling is allowed to move decisively above DM3.00 against the mark.



Dollar rally unconvincing

I'm constantly meeting people who say: "The dollar is bottoming out, isn't it?" Many of these are investment managers holding comparatively low P/E continental European shares, who don't want to see the profit outlook dented by another dollar slide. The technicians among them, who have attended The Chart Seminar, ask: "Could this be a large

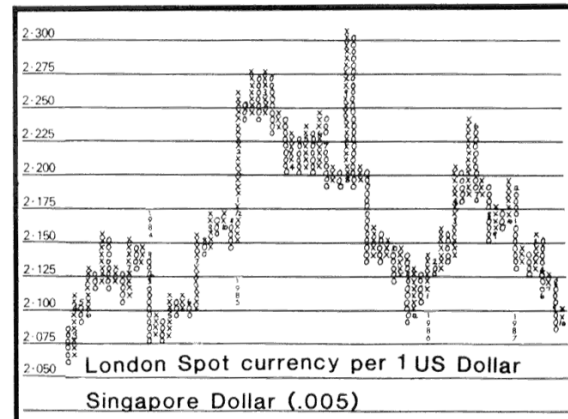


developing base (type 3 reversal pattern) as formed between 1978 and 1981?" Well, it could be bottoming out because against the mark, for example, the dollar has been ranging sideways since late January. The necessary confirmation of this hypothesis is a break back above the July/August highs at DM1.90 which is maintained.

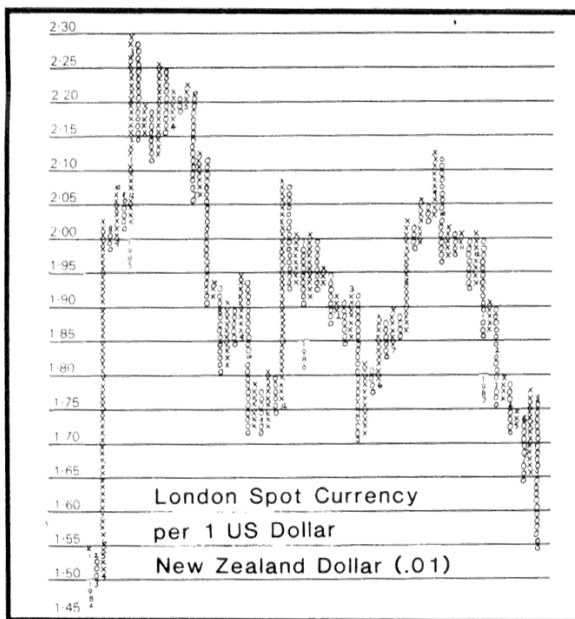
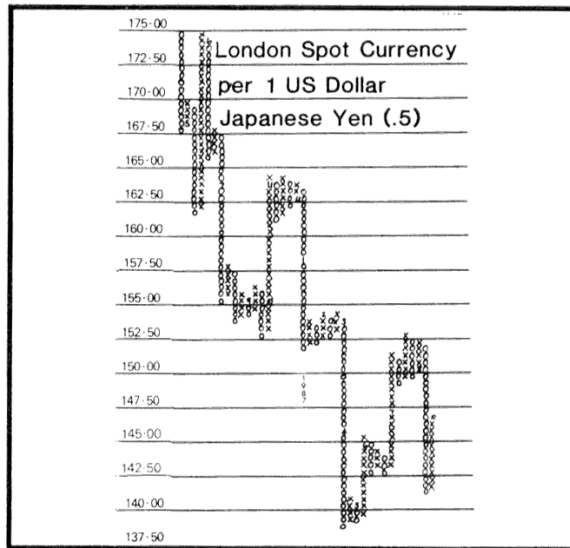
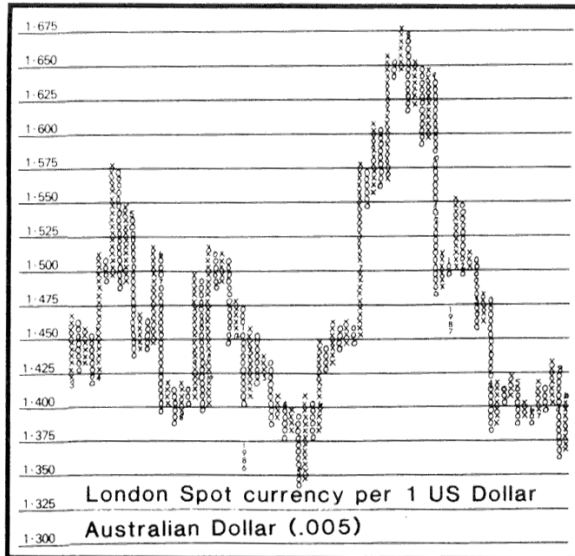
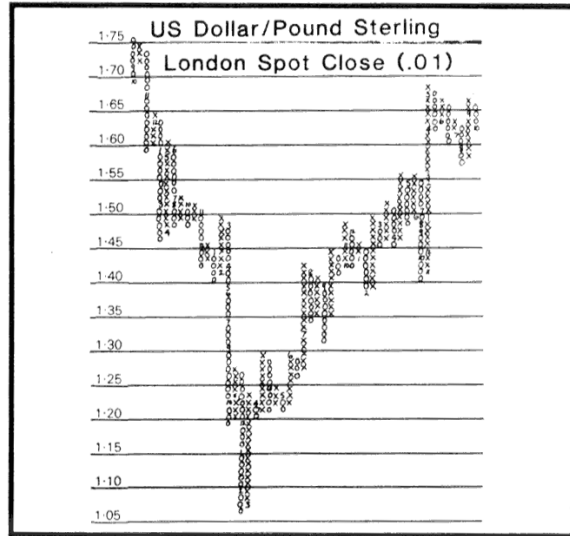
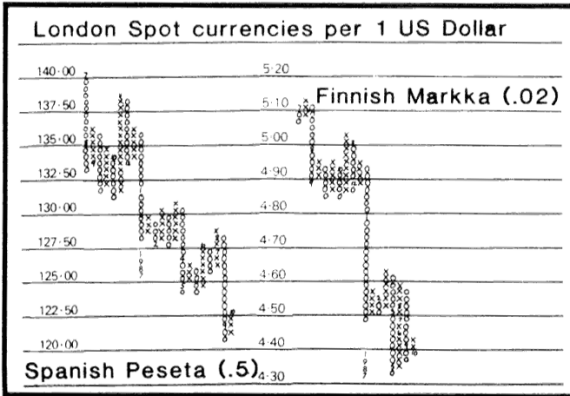
I don't think this will happen for a variety of technical and fundamental reasons. Starting with the latter, there is nothing in the US trade figures to suggest that the dollar is now a recovery candidate; however, this is the least reliable argument because the market should anticipate and lead the eventual fundamental improvement. US interest rates are rising, but any real return advantage for the dollar is at least partially eroded by rising money rates in all other reserve currency countries, which also have lower inflation. Yen euro-currency rates, for example, have risen from 3.3/4% in May to 5 3/16%, while Japanese inflation remains at less than 1% per annum although this should increase slightly. Central banks continue to support the dollar but don't forget that prenomination forecast of a lower dollar by Fed chief Alan Greenspan, which I have discussed in recent issues.

FM39 forecast that the dollar would encounter support near Y140 as traders took profits above the old lows in anticipation of further central bank support. However, the dollar's latest recovery from its lows against reserve currencies is even less dynamic than the last rally. The really decisive action has always been on the downside. This suggests that the dollar's technical rally will falter below the July/August peaks, followed by a break back below the September lows against other reserve currencies that will probably be led by the yen. FM currency traders can gradually establish dollar short positions during the present rally or wait for bearish trampolining (a dramatic down day) before selling. Watch the charts in our publication CURRENCY for the precise timing.

Worrying questions for dollar bulls - If the dollar was bottoming out against hard reserve currencies such as the yen, mark and Swiss franc, wouldn't it show similar patterns or have already



bottomed against lesser currencies of countries with higher inflation rates? Put another way, if the dollar bear market was ending, let alone over, would it have



recently hit new lows against the Spanish peseta, Australian, New Zealand and Singapore dollars?

I doubt it. Amongst European currencies, the peseta is not an isolated example. The dollar fell to a new low against the Norwegian krone (not shown) in September and is testing its low against the Finnish markka. These are not renowned hard currencies.

The US currency is also weakest among the dollar group, Hong Kong excepted, as that rate is pegged. FM38 wrongly forecast that the dollar had bottomed against the Australian and New Zealand currencies. Apologies to any FMs who backed that view. It would now take mid-point danger line (MDL) rallies back above A\$1.41 and NZ\$1.71 to confirm that the green-back had reached a floor. This level has been tested against the Australian dollar but not cleared to date.

The Singapore government keeps its currency in a narrow band against the US dollar, but here too a

downward staircase trend can be seen and the November '86 low has been penetrated. We can expect a challenge of the '84 low at S\$2.075, at least.

Look at the long-term sterling/dollar chart. Most people expect the pound to flop against the dollar, but the chart remains consistent with a further upward break, possibly before year-end.

Conclusion - Most European and Japanese central bankers would like to prevent a further dollar slide. They have put a temporary floor under the market, while the US government/Federal Reserve is a reluctant participant in the support programme as I have mentioned before. In any event, all this central bank activity resembles an attempt to construct a dam in hopes of halting the dollar's downward flow. While the bankers beaver away with the main stream currencies, the flood waters are rising. Consequently new leaks appear as the dollar breaks through support barriers against one minor currency after another. It is just a matter of time before the defences are swept away.

The Group of Seven meeting held over the week-end of September 26 & 27 understandably reaffirmed their February agreement to coordinate economic policy in an effort to maintain the dollar's current trading band against other reserve currencies. Anything less would have been an announcement of a further dollar devaluation. Therefore the dollar could move slightly higher, towards the upper middle of its April-August range, but should encounter increasing resistance above Y148, DM1.85 and SF1.53.

With a global economy, it is obviously important for economic ministers to meet their counterparts on a regular basis to coordinate policy wherever possible. The diplomacy increases awareness of other's views and problems and joint policy measures can reduce the number of "shock" developments in the market. However, I believe that these currency stabilization efforts can do no more than delay a further decline in the dollar that is inevitable. This may help business men to plan ahead, but the main advantage accrues to the companies in hard currency countries. For example, Japanese firms have more time to shift production to lower cost countries, while US companies must wait for the full competitive benefit of the eventual devaluation. This delays an improvement in the trade imbalance problems.

Commodities

Precious metals advance delayed but not derailed - In the short term, there is still too much competition from global stockmarkets for precious metals to score the gains that I eventually expect. These markets often spring to life when people least expect it, so you should watch the critical chart levels.

Gold - Of course if I'm talking rubbish, gold will break downwards from its present narrow range. It has traded above \$450 since mid-July so I suspect this is now a psychological support level. I think

there is enough underlying support to cushion downward risk if gold moved below \$450, but the point is, there are no upside projections while gold is below \$450.

The initial resistance is at \$465. If gold were to suddenly punch up through that level and maintain the break for a couple of days, I would expect a swift test of the April, May and August peaks near \$480. Once they are decisively cleared, gold could go up another \$100. Therefore I'm not expecting anything much worse than a further drift sideways to slightly lower. The eventual upside potential is considerably greater and would be interpreted by the market as consistent with inflationary pressures which are growing. Don't expect the narrow \$465 to \$450 band to contain prices for much longer.

Platinum - This metal tested its June low near \$560 (January contract) and held. A break below this level is necessary to confirm renewed vulnerability. Conversely, a break in the progression of lower rally peaks (the latest is at \$610) is necessary to confirm higher potential.

Silver - The gray metal's trading range continues to narrow, and this should spring a decisive move before long. The first evidence would be a close below \$7.40 or above \$8.25. The odds favour an upward break but wait for it.

Aluminium, copper and nickel - FM39 said that the young bull markets in these metals were by no means over. Aluminium remains the best, but copper also has significant upward scope. Nickel is completing a consolidation and should resume its upward trend before long.

Lead and zinc are way behind and do not show trend potential at this time. I no longer keep a tin chart following the demise of the LME contract, but if you plot tin and would like my forecast, fax (01 439 4966) or post it to me to arrive in late October for mention in FM41.

Oil - FM39 said that crude oil had bottomed on August's intra-day low at \$18. The price (\$19.60 Dec) is gradually moving upwards once again and should eventually challenge the early August peak near \$22.

Foods - FM39 tipped **orange juice** (also a CTR recommendation) for a pre-frost season rally. The price has surged (127 to 142 cents) in the last few days and the chart shows more than enough underlying support to extend the advance. Use the January contract for any further purchases.

The entire **US grain and bean complex** has bottomed out and formed sufficient base formations to support a further recovery. **Coffee** is in the latter stages of base formation development. Of the many foods that we chart in COMMODITIES, only **cocoa** and **sugar** have yet to confirm final lows but both are very depressed. Therefore even if they have not bottomed, downward scope is very limited relative to the eventual recovery potential.

The message from this commodity review is obvious - **higher inflation is inevitable**.

Stockmarket chart summary

The pit bull market bites more bears - FM39's light-hearted tale based on the fearsome pit bull terriers remains an accurate market parable. Every time a high-flying market suffers a set-back, pundits rush forward and scream "BEAR", only to have their reputation, if not assets, savaged as the pit bull market races ahead. All will change some day, but we can still say that none of '87's high performance stockmarkets have ended their bull cycles. Instead, the leaders remain consistent, albeit nervously so in one or two instances, while others are joining the party. I don't have room to illustrate this piece with charts (but you will find graphs of the indices in previous issues and up-to-date versions in our three stockmarket libraries).

United Kingdom - I cited the UK as the test case of the moment last month, following its average 10.2% correction. The FTSE 100 Index (2360) regained three quarters of its decline in a persistent orderly fashion, consistent with an ongoing bull market. We can expect some temporary resistance to be encountered in the region of the previous peak, following a short-term overbought condition, but there is no danger of this being a top formation provided the Index does not slide back below 2275.

Japan - Now the world's largest stockmarket on a capitalization basis, Tokyo's trend will be an increasing influence on other markets. We hear fewer forecasts of a "1929 style crash" for Japan these days, but the index charts have not yet reconfirmed the bull market. Performance is steady with the Nikkei Stock Average (26,089) testing the 26,000 region for the third time in the last four months. It needs to break decisively upwards and turn this ceiling into a floor to confirm higher potential. That would probably be followed by a substantial advance, provided it was confirmed by the Tokyo SE Index, given the size of the pattern that has formed. Conversely, a move back below 24,750 would begin to look increasingly like a type 3 (churning, time and size) top formation.

The somewhat weaker performance of the Tokyo SE Index (2131) is a bearish development because it is more representative of the entire Japanese market. A break above the August high at 2160 would improve the picture, but a sustained move above the June peak at 2255 would still be necessary to confirm any upward break on the Nikkei Stock Average. Conversely, a move below 2030 would look increasingly like a large top. I won't recommend any more Japanese shares unless we get upside confirmation of a continuing bull market.

USA - Wall Street isn't the dominant influence it used to be, but sudden sharp moves can still affect sentiment on other bourses. The DJIA's (2545) eyebrow raising decline of 91.55 on 6th Oct may signal a two stage correction from the August peak, but there is a considerable amount of underlying support to cushion downward risk. It would take a week of 91 point DJIA declines to break the back of this bull

market in a type 2 (extreme reaction against the trend) top formation. Unlike Tokyo, Wall Street's more broadly based indices, such as the S & P 500 (319) are out-performing the DJIA, revealing a strong undertone to the market.

Hong Kong - The Hang Seng Index (3906) has seen a good move recently and is susceptible to another pause and consolidation, perhaps near the 4000 roundophobia level. The Index has advanced on average approximately 300 points a month since the beginning of May. If this rate were to accelerate, or persist without the small corrective reactions that have occurred in recent months, it would resemble type 1 (accelerating) top development. These usually end in a "now you see it, now you don't" spike peak.

Singapore - As a late runner which did not commence its bull market until May '86, Singapore is unlikely to top out ahead of other high performing stockmarkets. The Straits Times Index (1450) experienced its most significant correction to date in falling 150 points from the August high at 1505. The decline was checked by the small trading range centred on 1370 that I mentioned in FM39, and the late September low at 1360 should hold. Downward risk should be limited to further sideways ranging and I do not expect more than temporary resistance to be encountered in the region of the August high.

Australia - The All Ordinaries Index (2247) is consolidating its strong July to September advance, 1750-2300, and this pause should continue for the next few weeks, possibly months, before the upward trend is resumed. The Metals & Minerals Index (1377) continues to lag, but extensive underlying support ought to cushion downward risk and the present sideways ranging pattern should eventually sustain a further advance.

South Africa - The JSE Industrial Index (2230) chart shows an extremely consistent and persistent upward trend with no sign of a significant peak at hand. Since this bull market began in '85 at 770, downward reactions have been limited to 110 points. It would take a larger decline to break the upward momentum. The more volatile JSE Gold Index (2242) has fallen over 250 points from its August high at 2499. This is the fourth significant reaction in the last twelve months, but all have occurred within an upward trend and averaged just over 300 points. Subsequent moves back to new high ground have been more rapid than the declines. Given this consistency, the Gold Index should be at least three quarters of the way through the present reaction.

Austria - The Creditbank Index (227) completed a bear market decline of 30% in Jun '87. The initial sharp gain has been consolidated so there is now sufficient underlying support to sustain a further recovery.

France - This remains one of the less interesting markets, with the CAC General Index (410) locked in a narrow trading range between support and resistance levels. Perhaps there are too many privatiza-

tion issues in the pipeline.

Germany - The FAZ Index (650) bottomed in March, just ahead of the dollar's low to date, and pushed steadily back up into its '86 top formation. This recovery was checked when the dollar fell back towards its lows in August but most of the gains have been held. The German market has been more currency sensitive than most and may range sideways for a while. However the next significant move should be upwards provided the FAZ does not decline below 620, and a break above 670 would indicate that Germany's low P/E ratio stocks were set to fulfil more of their eventual market potential.

Holland - This remains an uninteresting market with the ANP Industrial Index (261) locked in a narrow trading range.

Italy - The BCI Index (653) slumped in August, but has subsequently rallied back to the initial resistance band between 650 and 675, which should slow upward progress. The strength of last month's low at 590 is unconfirmed so it is too soon for an international investor to consider buying Italian shares.

Norway - This has been one of Europe's best performing markets of the year, and the '85/'86 base formation would enable the OSE Index (582) to record further gains in coming months.

Spain - Another of Europe's better performing markets, the substantial May '86 to Jul '87 trading ranges should enable the Madrid Index (325) to extend its advance.

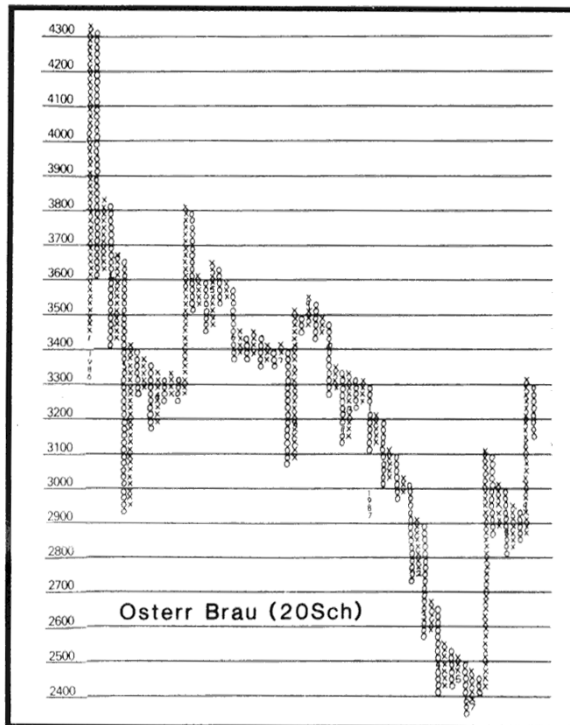
Sweden - Here also a powerful advance is underway and well supported by the May '86 to May '87 trading range. The J & P Index (3253) should move higher over the short to intermediate term.

Switzerland - Among the larger Continental European markets, Switzerland has an outstanding pattern. The Swiss Bank Corp Index (727) broke decisively up out of an eighteen month trading range in July and this platform can easily support further gains.

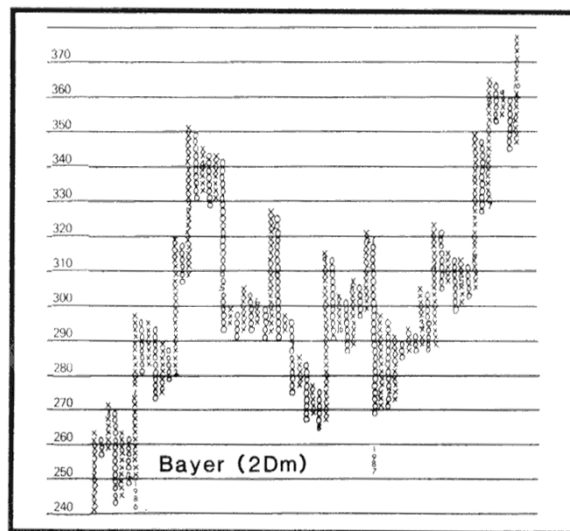
New share recommendations

Spot light on Europe - My criteria for recommending more Continental European shares was trend consistency and evidence of support in the face of a weakening dollar. We now have both as Continental European bourses have either steadied or broken upwards and the dollar's recent test of its lows produced little selling pressure. The strength of aluminium and nickel provide sufficient justification for including two more metal producers, while Singapore is currently oversold.

Osterr Brau is an Austrian brewery company which fell from a January '86 peak of Sch4320. The share bottomed with the market in July '87, forming a classic type 2 pattern (extreme reaction against the previous trend) and those gains have now been consolidated. Therefore sufficient support has been established to sustain a further rally. *Buy Osterr*



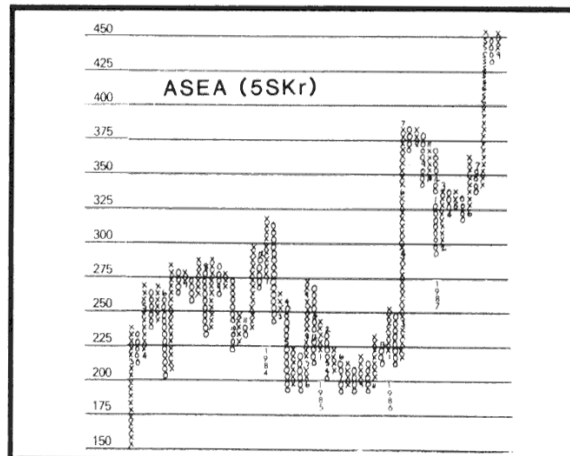
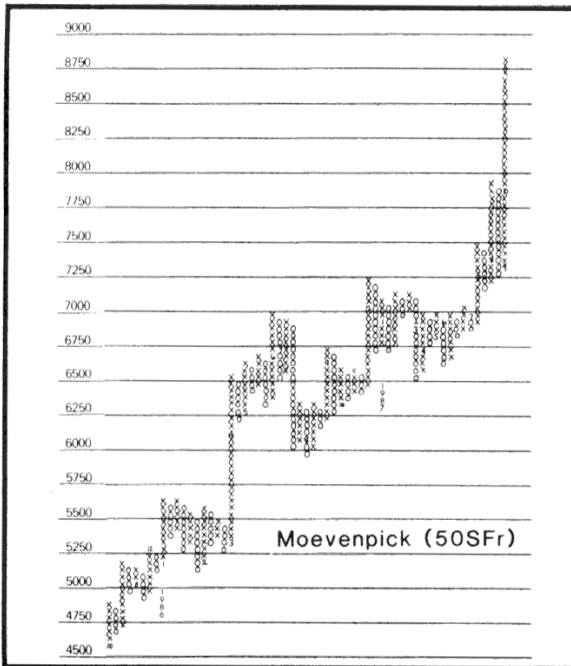
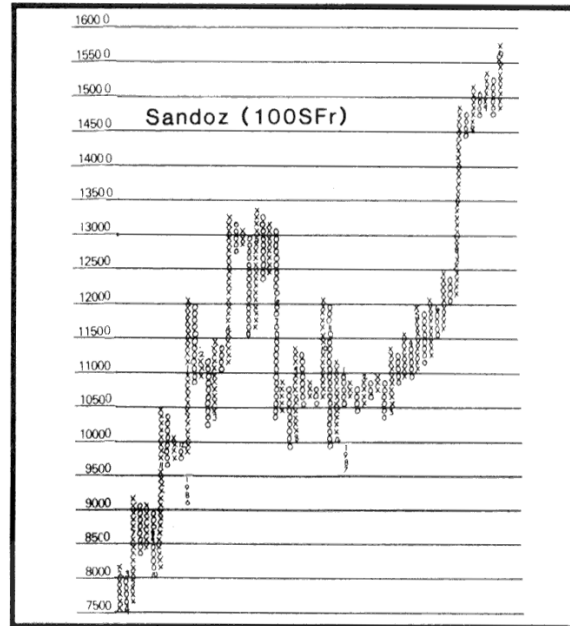
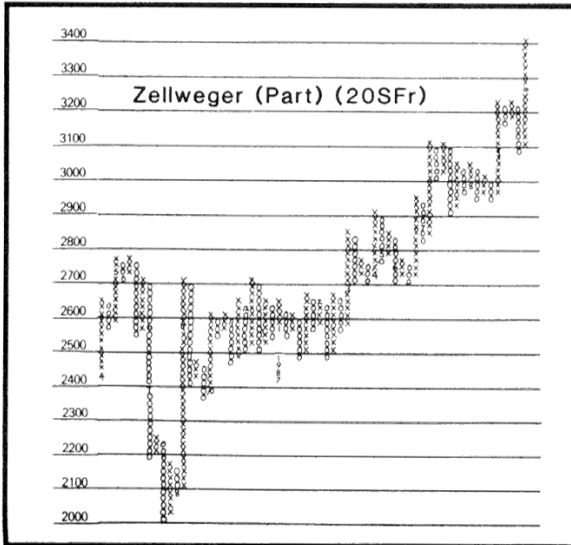
Brau near the current (Sch3160) to Sch3000 range, protected by a closing basis stop at Sch2800. In other words, if this or any other share position closes at or below the stop price, sell it the following market day.



Bayer is a leading German chemical and pharmaceutical company, showing excellent strength relative to the FAZ Index. *Buy Bayer near the current (DM372.50) to DM355 range, closing stop DM328.*

Zellweger is a Swiss telephone equipment company that has established an orderly upward trend. *Buy Zellweger near the current (SFr3350) to SFr3200 range, closing stop SFr3000.*

Moevenpick is a Swiss restaurant chain. The chart shows tremendous underlying support but, unfortunately, is slightly overextended in the short

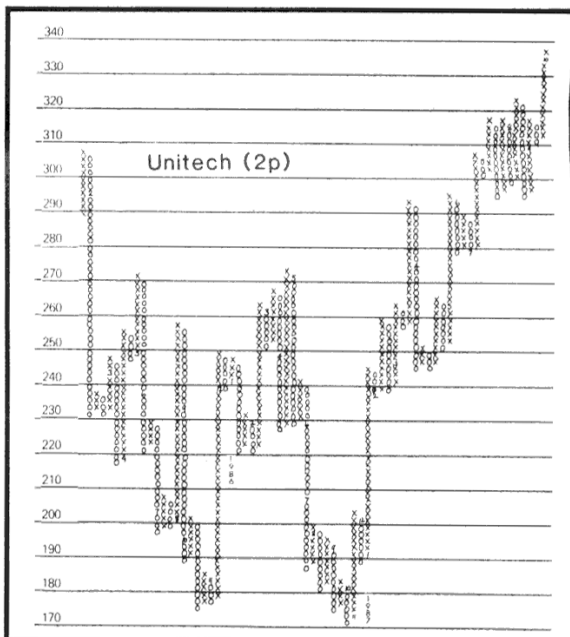


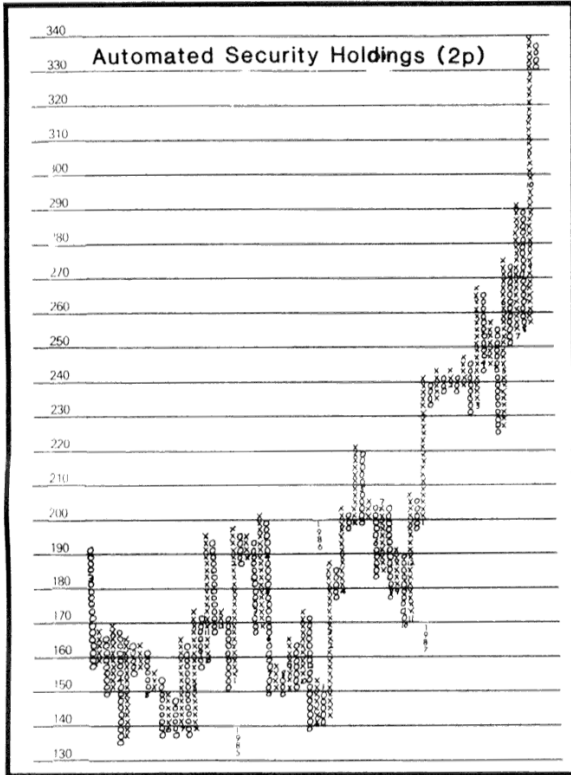
term. Therefore I am suggesting a buying range below the current market. If you can't buy on a pullback, I won't list it in the portfolio table. *Buy Moevenpick (SFr8700) in the event of a decline to the SFr8500 to SFr8250 range, closing stop SFr7250.*

Sandoz is a Swiss drug company completing the first consolidation above a large base formation. *Buy Sandoz near the current (SFr15,650) to SFr14,500 range, closing stop SFr13,000.*

A.S.E.A. is in the Swedish electrical and electronics sector. The multi-year trading range evident on the chart can easily support further gains. *Buy A.S.E.A. near the current (SKr438) to SKr410 range, closing stop SKr375.*

Unitech is a UK electronics company which has just completed the first step above a large base. The pattern shows considerable trend potential. *Buy Unitech near the current (336p) to 320p range, closing*

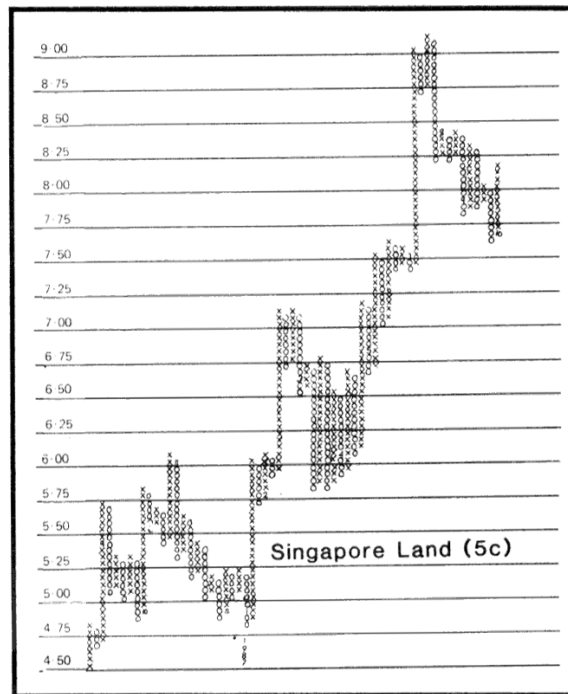
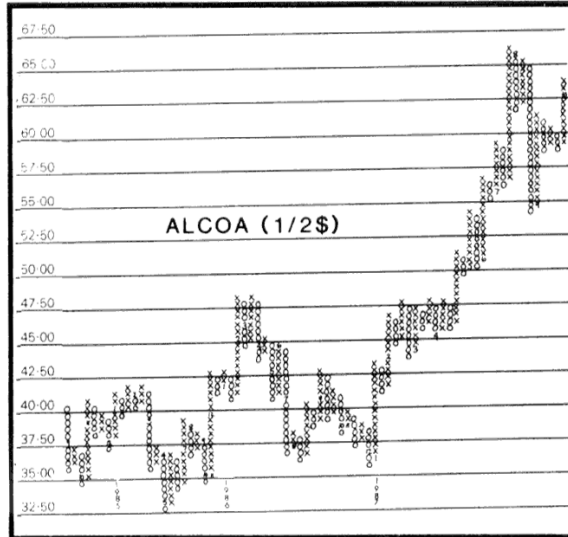
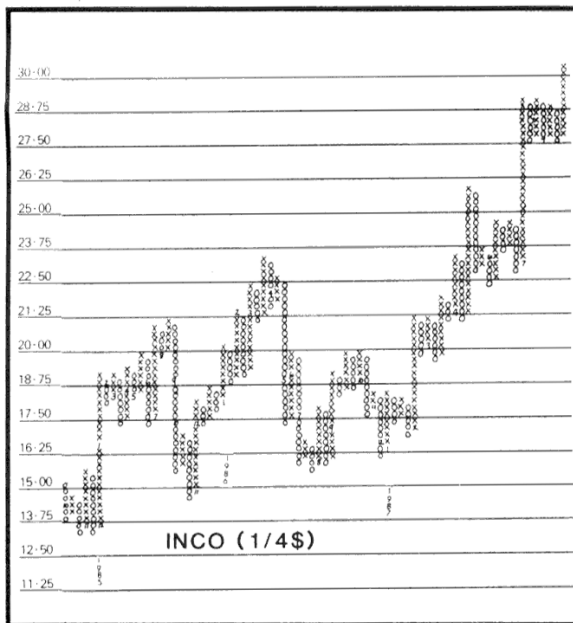




stop 280p.

Automated Security Holdings is a UK security equipment company. The share is slightly overextended for the short term so *buy Automated Security (330p) only on a pullback into the 325p to 290p range, closing stop 260p.*

Inco is a Canadian nickel mining company. The multi-year base formation can easily support a further upward trend. *Buy Inco near the current (C\$30 1/8) to C\$28 3/4 range, closing stop C\$26.*



Alcoa is a leading US producer of aluminium, the most important industrial metal, which is currently in short supply. *Buy Alcoa near the current (\$61) to \$58 range, closing stop \$54.*

Singapore Land is a property company on the recovery track following Singapore's '85/'86 property slump. The share can be purchased following its recent reaction as it is certain to benefit from the country's expanding economy. *Buy Singapore Land near the current (S\$8.15) to S\$7.75 range, closing stop \$7.*

Share portfolio review

Follow-up - An eyebrow raising record total of fifteen shares were stopped out last month. Listed in

FM Share Portfolio

	Market	Share	Price Then	Closing Stop (c/s)	Price Now	Strategy	
FM16 AUG 85	S Africa	Kloof	R17*	R44	R49	hold/unchanged	
	S Africa	Fregold**	R29.20*	R53	stopped out +82%		
	S Africa	Harmony	R26*	R48	R52.75	hold/unchanged	
FM31 DEC 86	UK	Carlton Communications	493p+	795p	923p	raise c/s to 810p	
	UK	Juliana's Holdings	46.3p*+	79p	84p	hold/unchanged	
FM32 JAN 87	UK	Carless Capel	81.5p*	116p	154p	raise c/s to 124p	
	USA	Minnesota M & M	\$60+	\$70	\$82 ³ / ₈	raise c/s to \$74	
	USA	Mobil Oil	\$427 ⁸ / ₈ *	\$48	stopped out +12%		
	USA	Smith International	\$45 ⁸ / ₈	\$77 ⁸ / ₈	\$87 ⁸ / ₈	hold/unchanged	
	Singapore	O C B C	S\$9.70	S\$9.50	S\$10.20	hold/unchanged	
FM33 FEB 87	USA	Raytheon	\$761 ⁴ / ₄	\$74	\$827 ⁸ / ₈	raise c/s to \$76	
FM34 MAR 87	Japan	Yamanouchi Pharm	Y3945*	Y4200	stopped out +6%		
	Belgium	Sofina	BF13,750	BF14,500	stopped out +.05%		
FM35 APR 87	S Africa	Rustenburg Platinum	R52.5	R53	R59.87	hold/unchanged	
	Japan	Sekisui Prefab	Y1910	Y2200	stopped out +15%		
	Norway	Norske Hydro	NKr185	NKr234	NKr257	hold/unchanged	
FM36 MAY 87	Hong Kong	Winsor Industries	HK\$8.64+	HK\$13.60	HK\$15.70	hold/unchanged	
	Japan	Dowa Mining	Y550*	Y530	Y577	raise c/s to Y540	
	Japan	Marui Co	Y3100	Y3200	stopped out +.03%		
	Japan	Daiwa House	Y2300*	Y2120	stopped out -.08%		
	Singapore	Cold Storage	S\$4.22	S\$4.60	S\$5.15	raise c/s to S\$4.70	
	Singapore	Keppel	S\$3.52	S\$3.76	stopped out +7%		
	S Africa	Kinross Gold Mines	R66.25*	R69.50	R82	hold/unchanged	
	UK	Tricentrol	90.5p	103p	144p	raise c/s to 114p	
	UK	Sovereign Oil	65p*	98p	143p	raise c/s to 110p	
	Australia	Comalco	A\$3.34*	A\$4.20	A\$5.16	raise c/s to A\$4.45	
	FM37 JUN 87	USA	Pittston	\$153 ⁴ / ₄ *	\$151 ² / ₂	stopped out -.02%	
USA		Dresser Industries	\$331 ⁴ / ₄ *	\$301 ² / ₂	stopped out -8%		
Hong Kong		New World Properties	HK\$13.10*	HK\$13.50	HK\$15.70	raise c/s to \$14	
Japan		Teikoku Oil	Y950	Y975	stopped out -.03%		
Japan		Shiseido	Y2075	Y2090	Y2270	hold/unchanged	
Japan		Osaka Titanium	Y1420*	Y1400	Y1710	raise c/s to Y1420	
Singapore		Singapore Press	S\$9.50*	S\$9.50	S\$11	raise c/s to S\$10	
UK		United Biscuits	333p*	308p	326p	hold/unchanged	
FM38 JUL 87		USA	Deere & Co	\$34	\$29	\$397 ⁸ / ₈	raise c/s to \$33
		Japan	Nippon Oil	Y1390*	Y1300	stopped out -.06%	
	Japan	Eisai	Y2235*	Y2190	stopped out -.02%		
	Japan	Green Cross	Y2950	Y2800	stopped out -.05%		
	Canada	Ranger Oil	C\$83 ⁸ / ₈	C\$7	stopped out -16%		
	UK	Bulmer	215p	195p	225p	raise c/s to 200p	
	Australia	Aust. National Indust.	A\$2.12*	A\$2.12	A\$2.50	raise c/s to A\$2.20	
	Australia	Jennings Industries	A\$2.49*	A\$2.50	A\$3.38	raise c/s to A\$2.80	
	Singapore	Genting	S\$7.05	S\$6.40	S\$7.45	raise c/s to S\$6.50	
	Hong Kong	World International	HK\$4.32	HK\$4.32	HK\$5.30	raise c/s to HK\$4.50	
FM39 AUG 87	South Africa	Driefontein	R91.90*	R79	R89.70	raise c/s to R80	
	USA	Hershey Foods	\$305 ⁸ / ₈	\$261 ⁴ / ₄	\$351 ² / ₂	raise c/s to \$29	
	USA	Pepsi Co	\$385 ⁸ / ₈	\$31	\$395 ⁸ / ₈	raise c/s to \$321 ² / ₂	
	USA	Skyline	\$17	\$151 ² / ₂	\$175 ⁸ / ₈	raise c/s to \$153 ⁴ / ₄	
	Australia	Bond Corp	A\$2.70	A\$2.29	A\$2.80	raise c/s to A\$2.40	
	Australia	Jones (David)	A\$12	A\$10.25	A\$13.70	raise c/s to A\$12.40	
	Japan	Tokyo Gas	Y1060*	Y950	Y1020	hold/unchanged	
	Japan	Tokyo Elec Power	Y6370*	Y5750	Y6270	raise c/s to Y5950	
	Hong Kong	Jardine Matheson	HK\$21.50	HK\$18.00	HK\$22.30	raise c/s to HK\$20.50	
	UK	Salvesen (Christian)	189p*	174p	185p	hold/unchanged	
	UK	Great Portland	312p*	276p	309p	hold/unchanged	

* Average price within specified buying range - SA golds include FM8 purchases.

** Formerly President Brand, incorporated into Fregold.

+ Adjusted for distribution or split.

the sequence recommended they were: Fregold +82%, Mobil Oil +12%, Yamanouchi Pharmaceutical +6%, Sofina +.05%, Sekisui Prefab +15%, Marui Co +.03%, Daiwa House -.08%, Keppel +7%, Pittston -.02%, Dresser Industries -8%, Teikoku Oil -.03%, Nippon Oil -.06%, Eisai -.02%, Green Cross -.05% and Ranger Oil -16%. The percentages do not include dealing costs or dividends paid.

Nine of these were Japanese shares which have suffered from choppy market conditions. This is very disappointing, but must be viewed against the background of very substantial profits on Japanese share recommendations booked earlier in the year.

Five of the shares stopped out were from the energy sector which suffered from the recent and substantial correction in petroleum prices. These have now steadied and the portfolio has benefited from significant gains in the three UK oil exploration companies. Shares in the high flying Australian and Hong Kong markets have also done well.

Strategy - The high proportion of shares stopped out will inevitably cause many readers to question the wisdom of the closing stop strategy used for all share recommendations. They may have also observed during the last year that very few of the shares stopped out have suffered significant additional declines. Most have ranged sideways while some have rebounded very quickly and gone on to new high ground. Should one, therefore, abandon the stop loss policy and just hope for the best?

A buy, hold and hope policy would have done very well over the last year or more, but that won't always be the case. What would happen when we finally get the bear markets that many a respected and well known financial spokesman has forecast during the last few years?

Some would say, just ride the market until it is clear that we are in a bear trend, then get out of all shares. The trouble is there would be no consensus until prices had collapsed. Also many investors would say that the market had already fallen too far. They would wait for the big rally to get out but this seldom occurs in a bear market.

I am reluctant to recommend any share without the closing stop strategy. Admittedly, it will shake you out of some good positions in a bull market and seem overly cautious from time to time. Think of this as an insurance premium to cover you in the event of a crisis. In previous issues I have also described the closing stop strategy as a safety net that will keep losses small, while leaving the door open for some very substantial gains in the most consistent performers.

The closing stop strategy is also a quality control regulator, weeding out the indifferent performers. I would like all recommendations to perform equally well - who wouldn't - but that isn't life. It is quite possible for two shares to look equally promising on the basis of whatever analytical criteria one uses. However one may form a sustainable upward trend

while the other does little.

We could wait, hope and wait again for the laggard to perform, but I believe it is better to chop the non-trending share and invest the proceeds in another promising situation. This strategy will increase dealing costs and necessitate the taking of some small losses or negligible profits, as happened last month. Nevertheless, it should improve performance over the intermediate to longer term as the trending shares score substantial gains.

Views

Belgian Society of Technical Analysts - On September 24th I had the pleasure of addressing the new BSTA, in Brussels, which was founded only last April by two enterprising and capable young technicians, Francis Schutte and Peter Vandekerckhove, who are Chairman and Vice Chairman, respectively. Seventy-seven people attended, which would have been unheard of a few years ago, in a European city not noted as a financial centre. The attendance demonstrated the rapid growth of interest in technical analysis throughout the world. Anyone who would like to join the BSTA and attend their month meetings, should contact Peter Vanderkerckhove at P O Box 48, 9830 St Martens Latem, Belgium; Tel: 32 91 822130.

As my questions revealed that at least half of those attending were actively using charts, with many subscribers to FM and several of Chart's libraries, I closed with ten practical rules of analysis for technicians. Some of them run against conventional thinking.

1) Use both point & figure and bar charts - This may not be practical for equities if one is monitoring thousands of companies, in which case I prefer p & f charts which show congestion areas more clearly. For currencies and commodities one should have both. Some important developments show up more clearly on p & f, others on line & bar. These are the working tools of chart readers, so anyone limited to one system will be at a disadvantage.

2) Scan hundreds of charts - thousands if possible - This is the way to gain experience, develop perspective and have a good overall understanding of what markets are doing. People who are "too busy" to scan charts covering their markets of interest at least once a week, should concentrate on sales or administration rather than investment and trading.

3) Be an internationalist - Global markets necessitate an international view. Markets are inter-related so they won't all perform at the same time, but fashion trends will spread from one to another. If profit is the main consideration, concentrate on the markets in form at the moment.

4) Back consistency - The most consistent patterns produce the more reliable moves and the biggest trends are the most consistent. Market expectations produce the consistency which is easily moni-

tored on the chart. Inconsistent patterns usually reveal off-setting supply and demand factors which produce ranging rather than trending markets. There are no big profits at an acceptable risk without the big trend.

5) Avoid prejudice - Don't let bias (what you want or think you are going to see) interfere with your interpretation of the chart. Prejudice can be produced by one's own blinkered thinking or the views of others. Remember that the market IS, meaning that it can do anything. Success is often determined by the speed with which one can recognise, accept and adapt to critical change.

6) Look at the names on the chart - Assuming one has avoided prejudice (Rule 5) there is often much to be gained by studying related markets on finding a performing chart. I call it the "Commonality Factor". Similar markets frequently benefit from a similar outlook or an overlapping fashion trend. Spot the leader and you can more reliably anticipate the laggard as investors seek to exploit potential or avoid risk in similar markets.

7) Control ego - We are often our own worst enemies. Analytical hubris is hazardous to your wealth. Remember, the market is bigger than anyone and will humble everyone, regularly. If the price is eroding your chart forecast change the prediction.

8) Don't make long-term forecasts - The temptation is enormous because everyone would love to know where markets will be in a year's time, or whenever. The reality is that the further one attempts to peer into the future, the more the forecast becomes pure guesswork. Even an inspired or lucky long-term guess may not be helpful with a leveraged position, for example, subject to what the market does before it gets there. There are no certainties with any forecast, but the technician who deals in that which looks best now, and rides a consistent trend, will be very successful.

9) Simplify - One has to wait for them, but the best opportunities are often obvious to the objective technician who surveys a range of markets. One's vision can too easily be impaired by analytical busy work. Too many indicators, systems or analytical filters will provide conflicting evidence. Complication equals confusion. Disciplined trend running may not appear sophisticated, but it is shrewd and very profitable.

10) Stay healthy and happy - This should be obvious to all but it needs to be stated. If you are not healthy, mental as well as physical ability and stamina are likely to be impaired. People who are unhappy lose perspective and may develop a subconscious desire to self-destruct, which can turn them into gamblers. The most successful investors keep their perspective by regarding money-making as no more than a stimulating challenge.

Traders - win \$50,000 with CAL Futures - Here is a contest that I would love to enter if it were

not for my numerous travel obligations over the next six months, including over four weeks in the Far East. I never deal when travelling. CAL Futures, no relation to Chart but well known to me and one of the brokers that will provide you with our research services on a soft commission basis, will give away \$50,000 to the winner of their six month options and futures trading competition, commencing on 1st November 1987.

FMs who wish to participate will need to open an account with CAL Futures Ltd in London and deposit \$50,000 before October 30th. Commissions will be charged at \$50 per round turn and CAL's standard deposit and margin rates will apply. The competition will proceed if there are at least 25 competitors and the winner will have \$50,000 credited to their account immediately following audit confirmation of the results from Price Waterhouse. Interested FMs should contact Patrick Folkes, CAL Futures Ltd, Windsor House, 50 Victoria Street, London SW1H 0NW, UK. Tel: 01-799 2233, Telex 883356 CALCOM G, Fax: 01-799 1321.

Anne Whitby to address STATS - During my annual trip to the Far East I always enjoy speaking before the Society of Technical Analysts and Traders (STATS) in Singapore. There isn't a more welcoming audience anywhere. I'll hope to address STATS again in March but, more importantly, Chart's Managing Director, Anne Whitby, will be speaking on the global investment outlook in November, probably on the 19th. Singaporean and Malaysian FMs, not yet members of STATS can get further details from the Society's Chairman, Julian Reid of Wardley Ltd, 21 Collyer Quay, 20th Floor, Singapore 0104. You won't want to miss Anne's views, forecasts and recommendations.

The Chart Seminar sellout - Once again the London venue (Nov 16 & 17) is fully booked, this time two months in advance. I hate to turn so many people away (we could have filled another hall with those who applied too late), but to preserve the workshop environment, I won't let numbers go much above 100.

I'm off to Geneva for my third Swiss seminar of the year, another big venue on October 12 & 13. But first I'll warm up with a cycle around the lake led by friend and FM Michel Thetaz of Pictet Geneva.

* * * *

"Not bound to swear allegiance to any master, wherever the wind takes me I travel as a visitor". Horace 65-8BC

Best regards
David Fuller