FM12

FullerMoney

Late April 1985

THE INTERNATIONAL INVESTMENT LETTER

David Fuller is Chairman of Chart Analysis Limited and Editor of FullerMoney.

FullerMoney is published monthly by Chart Analysis Limited, 37/39 St Andrews Hill, LONDON EC4V 5DD, United Kingdom. Telephone 01-236 5211. Telex 883356.

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

Make cheques payable to Chart Analysis Limited.

Golden trend changes

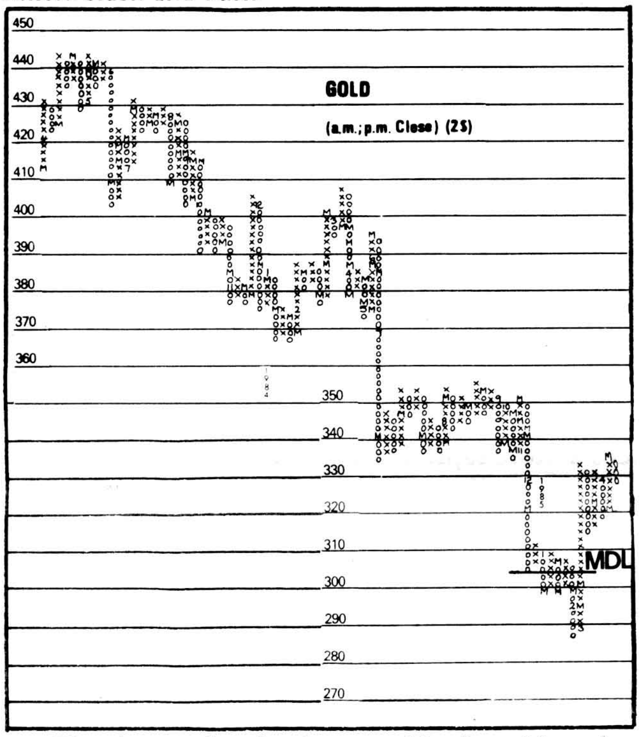
The American humorist Mark Twain was fond of saying that he purchased his treasured cigars for 10¢ a barrel. Theories, while often interesting, are worth little more on the open market. Most investors enjoy a lively debate, but when the market throws one of its sudden trend changes, the shrewdest players back the new move.

No event produces a more rapid reassessment of portfolios than the dramatic price change. When such events clash with the consensus view, reassessment leads to reversal. In other words everybody scrambles to reduce or reverse positions in an effort to limit profit erosion or losses. The old views, however firmly held, are quickly abandoned on the basis that they were wrong, or had already been discounted or that events changed. Every chartist knows that a sudden and significant price move changes more than the graph; it also rewrites fundamental history.

At the beginning of March every warm body in the commodity markets (yes, there were a few left) was short gold. So were FMs who had hedged their gold share portfolios when bullion fell below $330 on November 28th. Most gold mining companies had hedged short, while those that did not rued their folly. Gold had been one of the more reliable bear positions for the mechanical systems traders since its epic swan-dive of two years ago. Analysts who weren't forecasting $200 for this year were called chicken. *(Cheep.)* To tell a friend that they were "worth their weight in gold" had become an insult. Gold bugs wanted the metal placed on a dollar standard.

This review of the gold market's previous bear sentiment is testimony to the importance of trading with stops. Most people will use stops in what they perceive to be a speculative position, but when a persistent trend is believed to be "money for old rope" they become careless. Gambler's positions are increased and stops abandoned in case they crowd a winning position. The perception of safety is usually a delusion.

A badly placed stop is often little better than none at all. Placed where it will be triggered by an insignificant reaction against the trend, the stop becomes a tax on profits. A mental stop is no stop at all because it will fall victim to inertia when the market reaches the danger level. A broker who calls to see if you want to reconsider when your stop is threatened is a liability. Stops placed at an obvious break point are likely to be trampled. Too many other players select the same level which creates a rush of orders in a vacuum of resistance. The best rule of thumb is to select other people's crisis point by looking at a chart and make sure that you panic out a little sooner if the position deteriorates. Mid-point danger lines, a feature of The Chart Seminar, are ideal stop points because they take you out before the crisis while everyone else is praying for divine intervention. They are seldom rewarded, but the MDL trader has baled out before others crash and burn.



That is exactly what happened in the gold market on Tuesday March 19th. London bullion had closed at $298.5 on Monday, its highest level since the late February downward step – nothing momentous on its own, but at a time when dollar vertigo was apparent. The following morning gold gapped upwards on the chart as the dollar slumped. With the morning fix at $307.25, anyone interested in gold recognised the change. When our research department at Chart Analysis was inundated with calls from traders hoping that we would say it was just a temporary rally, the developing panic was obvious. On Tuesday's a colleague and myself prepare the interpretations for our chart book, COMMODITIES, and obviously the precious metal comments focused on the ease with which overhead supply had been penetrated, confirming scope for a further recovery.

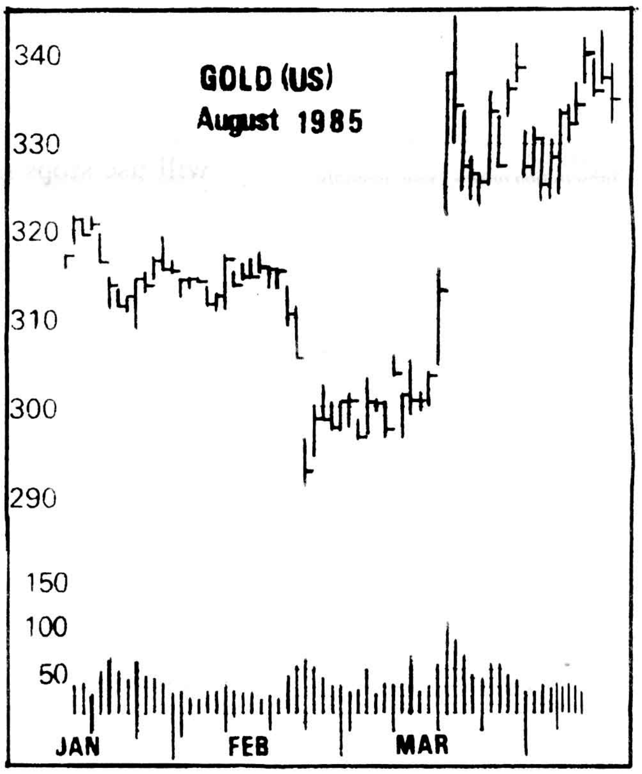
The April COMEX contract, FM's principal hedge against the South African mining shares, opened at $312.50, instantly activating the stop at $306 (FM11). Subscribers yet to receive that issue who were keying on FM10's stop at $315, basis London bullion, would have covered at the same time, booking a good profit. I was relieved that the New York market had not opened higher as I left that afternoon to address The Association of Chartists and Technical Analysts on the subject of global trends. I began by telling the audience that it was a very significant day, confirming the end of gold's bear market and also the dollar's long bull run. Afterwards a return to my office confirmed that the MDL stop had taken FMs out at the best price of the day. Once the January-February trading range was exceeded the gold market was hit with an avalanche of short covering. That run lasted only into the next morning's dealing but it was enough to bankrupt a number of traders and wound many others as gold rallied to $347 before falling back. Such events produce secular changes in markets and we can expect a very different gold market from here on.

Precious metals now reserve currencies

Precious metals used to be a hedge against disaster. The barbarian hordes could plunder your cave or burn down your thatched hut, eat your animals and steal your women, but at least your gold was safe provided it was buried deep enough. Today's plundering hordes have official sanction and represent organisations such as the Inland Revenue, the IRS and other tax agencies. They can find your gold faster than almost anything else.

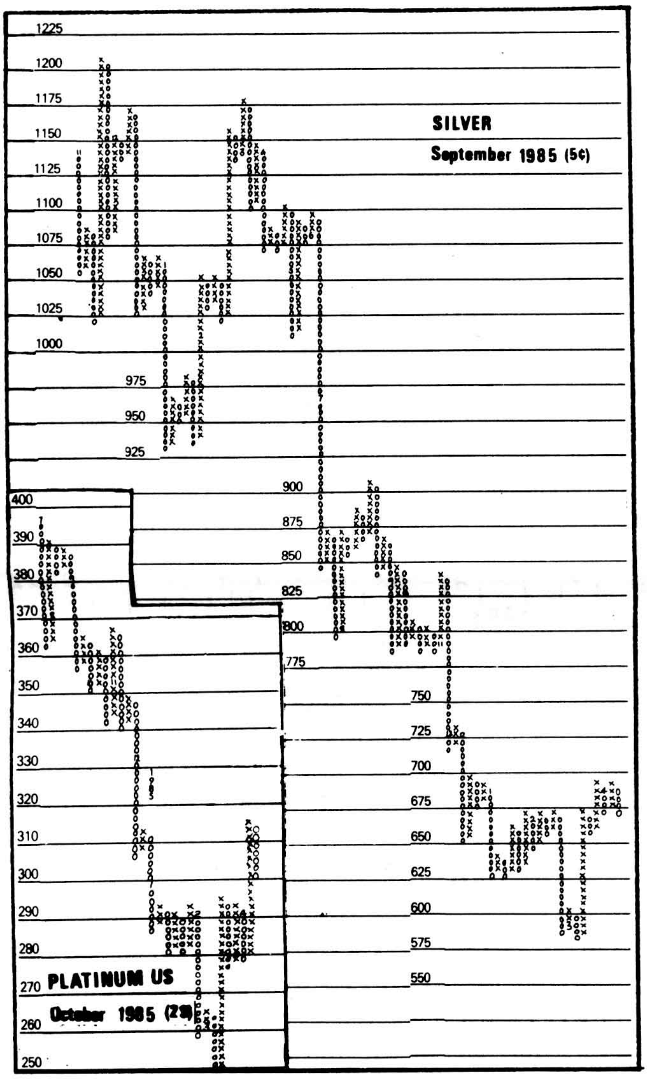
Gold does have two financial roles, as a hedge against inflation and also a dollar decline. Investors from the main industrialised countries have had little need for gold as inflation protection in recent years because all reserve currencies provided a real return while the dollar soared. This return looks secure for the next year or two, at least, but we now have chart confirmation that the dollar's bull market is over. Because of the dollar's dominance as a reserve currency, no other single market is big enough to absorb the flow when a major diversification out of greenbacks occurs. Therefore currency swings are characterised by the dollar versus the rest. Gold and other precious metals are mere commodities when the dollar is strong, but become reserve currencies when it falls.

Gold, silver and platinum charts show evidence that their bear markets are now over. The decisive development for all three was the surge up through initial resistance from the late December to early February trading range. A type 2 bottom characteristic, this interrupted the long, consistent sequence of staircase downward steps. If my analysis is correct, a



test of the end February lows should be avoided. Were that to happen, I would suspect that the March rally represented no more than a deceptive bull trap. Today's cautious optimism would eventually be swamped by a new wave of pessimism from the previously entrenched bearish consensus.

As I don't expect this to happen, the key question is how rapidly will precious metals recover? The late December to early February trading ranges should provide the answers. If they continue to hold so that gold bullion does not dip below $312 to $310, for example, then we can expect a successful assault on the larger band of resistance evident between $334 and $354, probably coinciding with the dollar's next downward step against European currencies. A sustained break above $350 would wipe out remaining bearish sentiment and point to a move back towards $500 some time next year. Looking at the August gold bar chart, the bullish hypothesis cannot be faulted while support is encountered in the low $320s. The current trading range looks like a normal consolidation of last month's sudden upward burst on expanding volume. Renewed dollar weakness should lead to an attack of the $360 to $380 range.



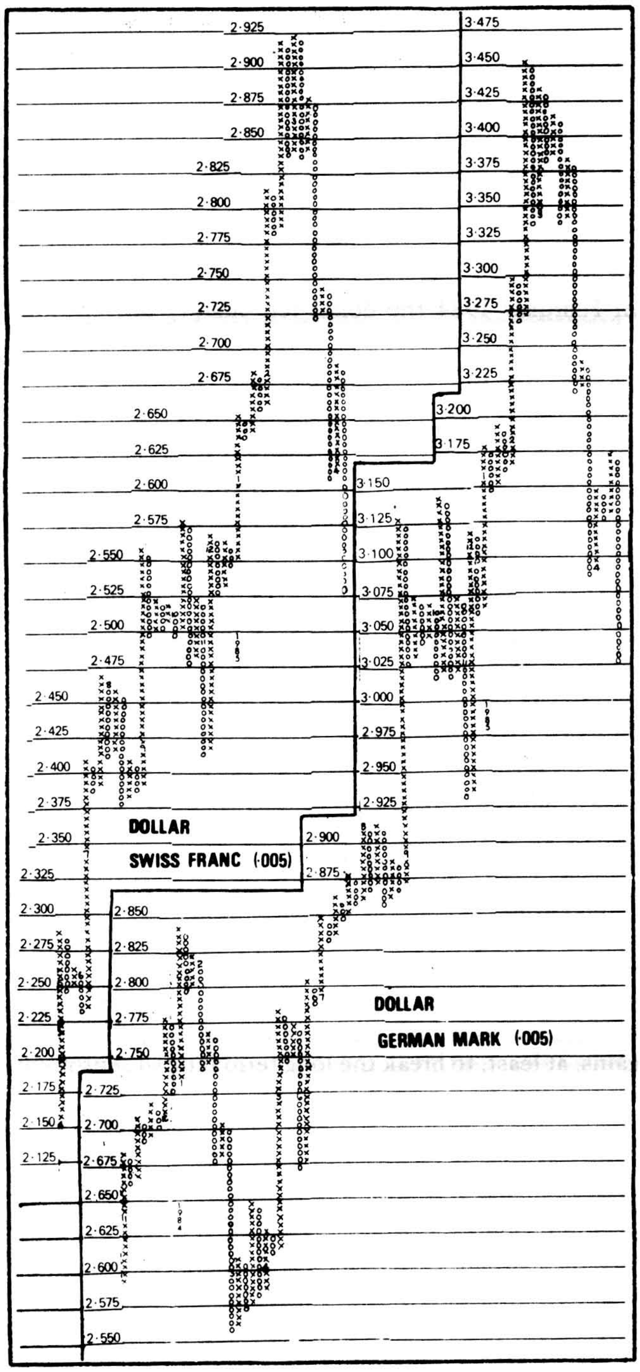
I now regard $6.50 as a benchmark support level for September silver. A move below that level would suggest a long sideways ranging pattern at best, but FMs should back the most recent turn with its clear type 2 bottom characteristics. This pattern can support a run up over $7.50 as there is little overhead supply near current levels. Similarly, October platinum should now hold above $284 if a rapid recovery is to occur. Swift advances in precious metals are not expected by the crowd, but could occur due to the persistance and severity of the previous declines. FMs who are punters could buy the precious metal contracts discussed above on small reactions. If purchased, protect these positions with stops near the crucial support levels cited. More conservative FMs should stick to the mining shares which I suspect will do very well.

It's a dollar bear market now

In February 1984 the dollar fell sharply but encountered support near the previous autumn's lows, followed by a further advance. Last September the dollar accelerated to what I described in FM7 as "a peak of at least near-term significance", and I forecast the biggest shake-out since the previous February. Following that sell-off FM9 stated that "a move above DM3.075 would re-confirm the DM2.90 to DM2.85 floor and indicate a test of the highs, at least". After that test of the high FM10 said, "It is difficult to fault the dollar technically right now. Although a decisive break above DM3.20 against the German mark is required to confirm further upward potential for the dollar, the autumn trading range now looks capable of supporting an additional advance". Following the dollar's acceleration to a closing high of DM3.45 FM11 said, "We have seen a peak of at least near term significance. To date there has been no more than a 20 pfennig decline in the dollar against the mark. I doubt that central banks will retire from the fray so further intervention can be expected. This combination of events should cause the dollar to range sideways to lower against most currencies over the short term, avoiding dollar sterling parity, for example. However, it will take a much greater decline, retracing this year's gains, at least, to break the long term bullish sentiment for the dollar".

We now know that the Bundesbank sold over $4,000,000,000 from their reserves while a number of other central banks also participated. The dollar wobbled near its high for a fortnight as holders focused on the high real return available due to the previous rise in US interest rates and the low inflation statistics. FM11 also mentioned that when the dollar's long term investment passengers abandoned ship they would do so because of the fear of profit erosion rather than a fundamental change. Most currency market participants with the exception of central banks are trend followers. That farcical closure of Ohio's 71 thrift institutions was a convenient scapegoat, and when the dollar dropped below its end February/early March lows people started to bale out. The subsequent fall through January's narrow trading ranges against key currencies was a fatal blow to market sentiment, destroying the myth of dollar infallibility.

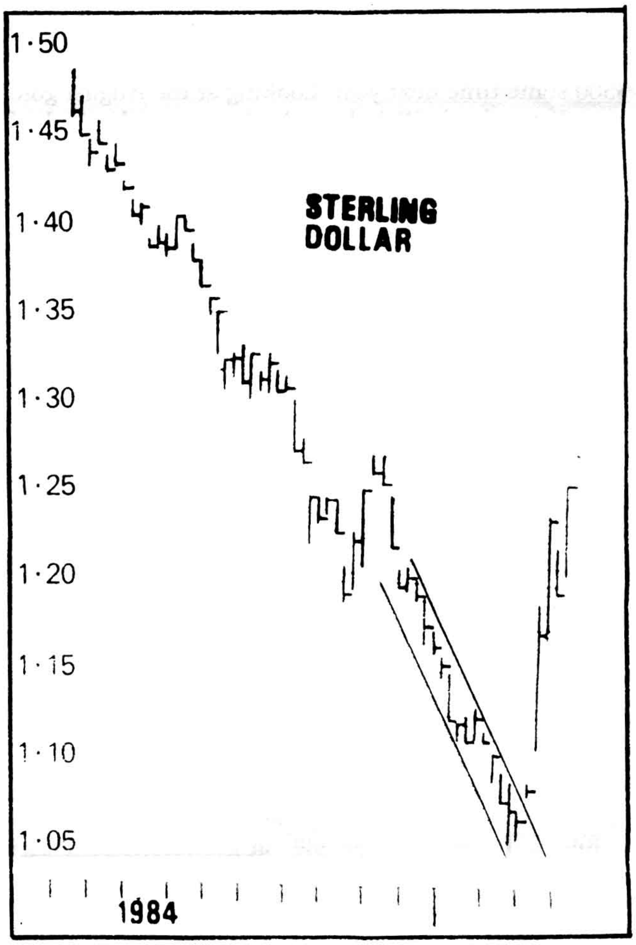
Obviously the dollar won't fall in a straight line and last autumn's trading range should provide a bounce or two, but I don't expect any rally to challenge the February/March peaks against reserve currencies. Most people will now underestimate the extent of dollar vulnerability since markets usually over-shoot expectations. The dollar is a sell on any technical rally.



Sterling gallops to the front

When a wag was quoted in otherwise responsible newpapers for saying that "Sterling would fall to 85¢ in '85, 50¢ by '90 and below 20¢ before 2000", one sensed that a change was in the air. I doubt even Roy Hattersley's gobbledegook economic proposals could achieve four pounds to the dollar. Maybe the prospect of those twelve thousand lawyers descending on prestigous Harabs in July to snap up English "swedders" put the backbone into sterling. Or, perhaps it was that rumour about Arthur Scargill applying for a Soviet residency visa. I don't think it was prestidigitator Lawson's Budget, but you never know.

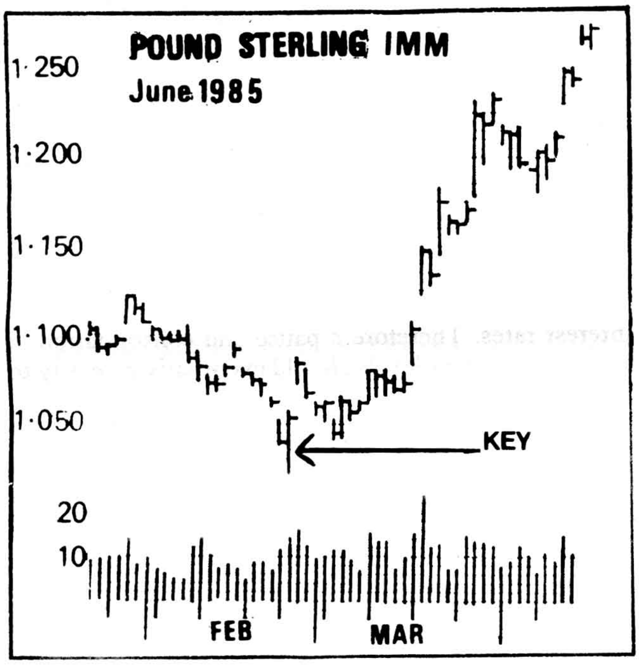
Anyway, following FM11's comment at $1.06 to the pound that parity would be avoided, I can now add that sterling has completed a type 1 bottom against all currencies. For readers who have not yet attended The Chart Seminar, this reversal formation is preceded by a downward acceleration representing a selling panic, followed by a rally strong enough to stun the bears. People who couldn't sell fast enough on the way down are suddenly scrambling to buy during the recovery.



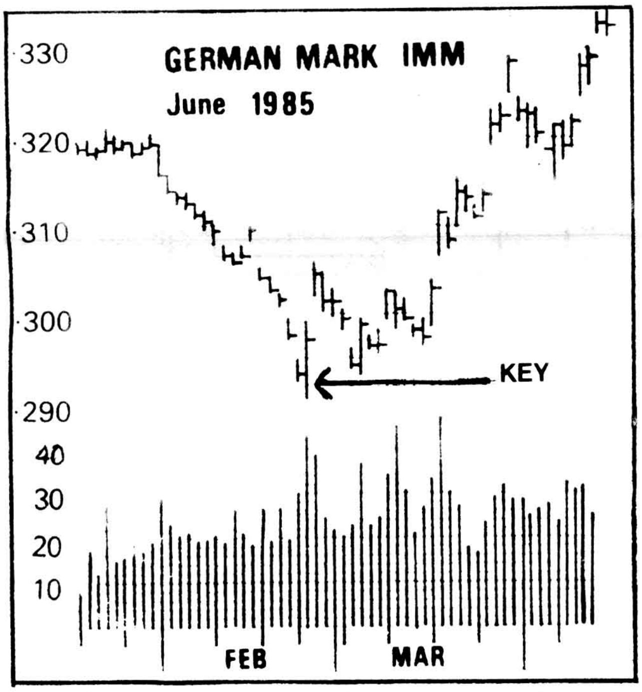
Investment buyers of sterling who are asked to justify their actions on fundamentals, will start by citing the high real return (see tables in FM10 & 11) and the recent strength of petroleum futures. Sterling should reach $2.00 before $1.00, and is a buy on any decent setback.

Chart signals

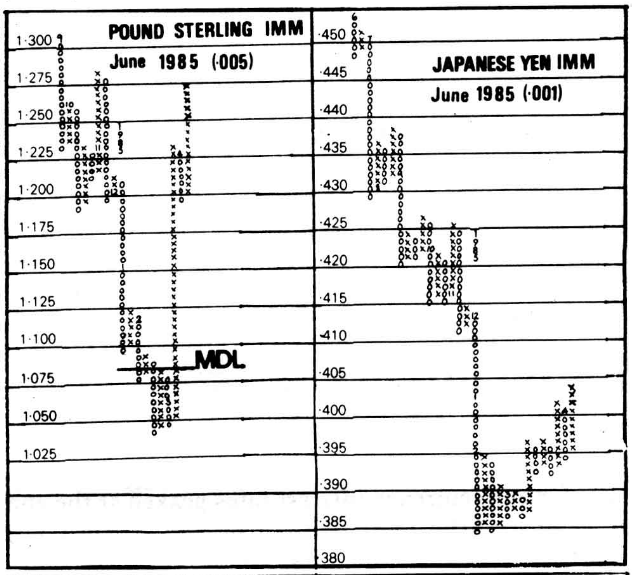
Those who set aside a few minutes each day to browse through their chart services, recording changes in markets of interest between issues, are soon rewarded. In FM11 I showed you the $/DM, $/SF and £/$ closing basis point and figure charts for perspective. They revealed the dollar's near vertical acceleration in February very clearly, enabling one to spot an important peak. The bar charts from our weekly service, CURRENCY, provided vital clues as well. Take the sterling/dollar weekly range chart, for example, where two breakaway gaps up out of the downward trend channel ended the chance of parity and signalled a rally that has been the strongest since the 1981 peak at $2.46. For the record, sterling had upside breakaway gaps against all other important currencies last month.

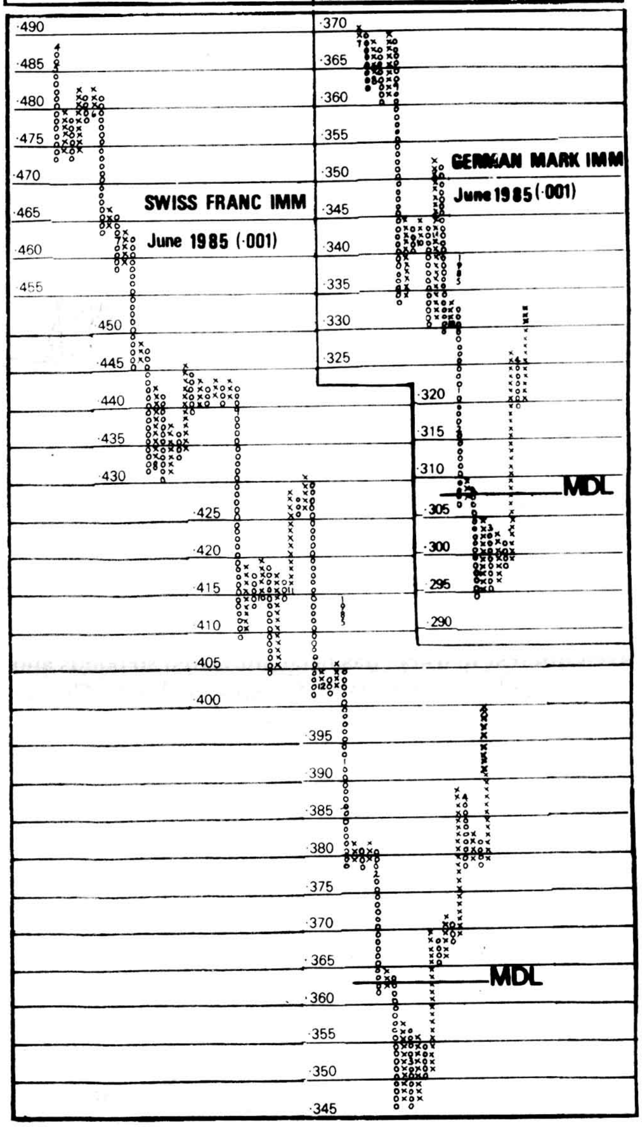


The sterling futures bar chart formed a key day reversal low while mark futures produced a more dramatic example of the same. Keys following a long run are one of the most reliable 24 hour signals. The characteristics at a market bottom are an inter-day new



low followed by a rally and close above the previous day's high, preferably on heavy volume. See if you can spot the flag formations. The currency futures point and figure charts showed a loss of downward momentum, quickly followed by mid-point danger line (MDL) violation for the pound, mark and Swiss franc.





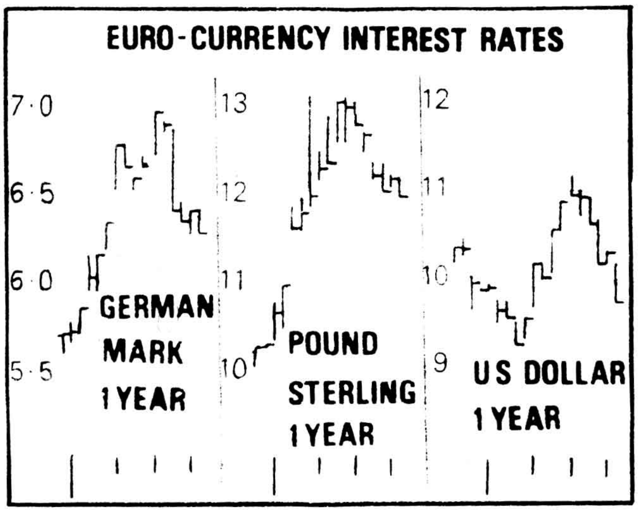
Gaps, keys and MDLs are some of the early warning systems that every trader/investor should learn to recognise. This awareness can only lead to better timing and increased profits. One FM and former chart seminar delegate told me that he now trades only running keys and lives comfortably on the profits. These and many other vital aspects of technical analysis will be featured in The Chart Seminar. If technical analysis isn't second nature to you, I recommend that you attend one of these seven European venues: Edinburgh May 30 & 31, Stockholm June 3 & 4, Amsterdam June 6 & 7, Vienna June 10 & 11, Geneva June 13 & 14, Paris June 17 & 18, or London June 20 & 21. Remember, FMs receive a 10% discount. If you know of anyone else who might be interested in The Chart Seminar, let my secretary, Karen Warrington, know and she will send them a brochure.

Euro-currency interest rates resume downward trends

We now have conclusive evidence that the technical rally for euro-currency interest rates peaked at the end of February. The most recent data on weekly range charts taken from our publication, CURRENCY, shows that US, UK and German one year rates have resumed their short term downward trends. Data from this service not shown below also confirms that the long term trend for money rates is downwards as well. For example, US rates had a 1984 peak at 13¾%, while the 1982 high was 16½%. I expect to see the 1983/5 floor level challenged and penetrated this year, and maintain my long term forecast for a further decline to 6% in 1986, without a recession (FM10).

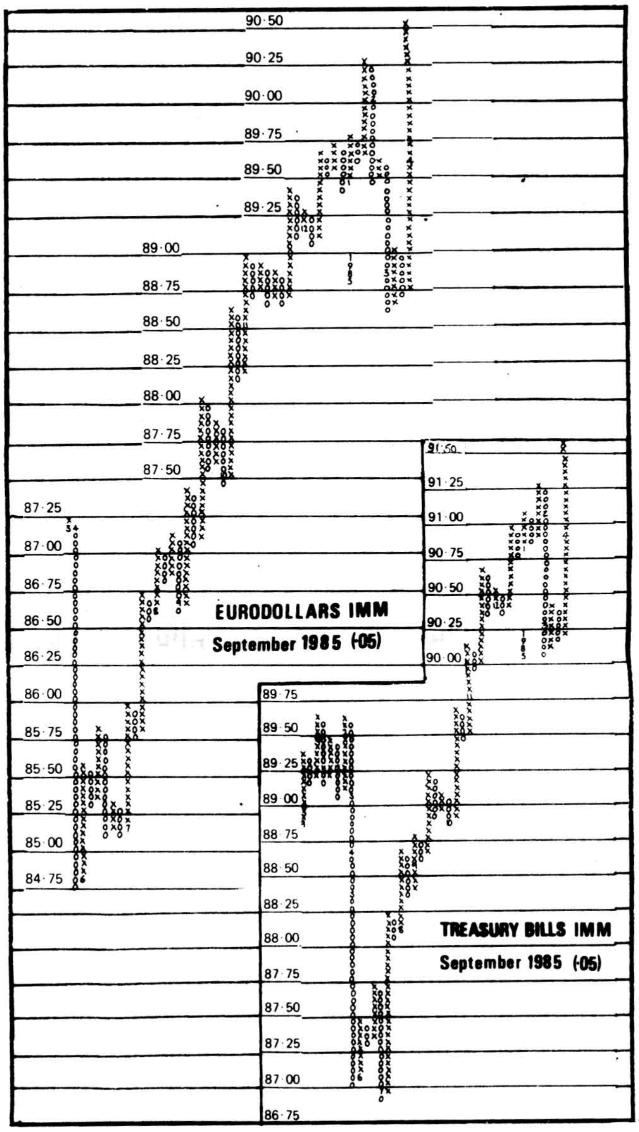
Sterling rates also have a floor at 9% which stretches over the last four years. I expect UK rates to follow the US lead downwards and the secular change in sterling's trend should result in an eventual challenge of the 9% floor as well. German euro-currency one year rates have ranged between approximately 7% and 5¼% following their rapid decline in 1982. The next significant development should be a move to the lower side of this band.

Lower interest rates against the background of a steady non-inflationary economic recovery has some very bullish implications. For example, the pressure on fixed interest markets has been alleviated so bonds and gilts should test their 1984/5 peaks, at least. This in turn postpones the eventual end of the global equity bull market which should extend into 1986, albeit experiencing a few temporary shake-outs along the way. Finally, lower interest rates and an overall downward trend for the dollar will produce the long awaited revival in many depressed commodity markets.

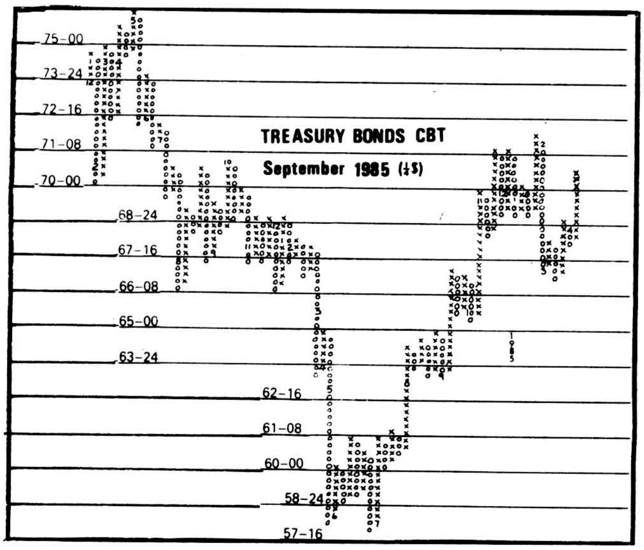


Interest rate futures lead the way

The ability of short-term interest rate futures such as Treasury Bills and Eurodollars to run back to their January highs indicates that last month's floor will not be challenged for at least the short term. The next development is likely to be a pause at current to slightly higher levels as traders step aside and ponder the potential for a double top. I rate this as a low risk given the speed of the recovery and overall outlook for interest rates. Therefore a pause and consolidation of gains near current levels should eventually give way to a further rise.



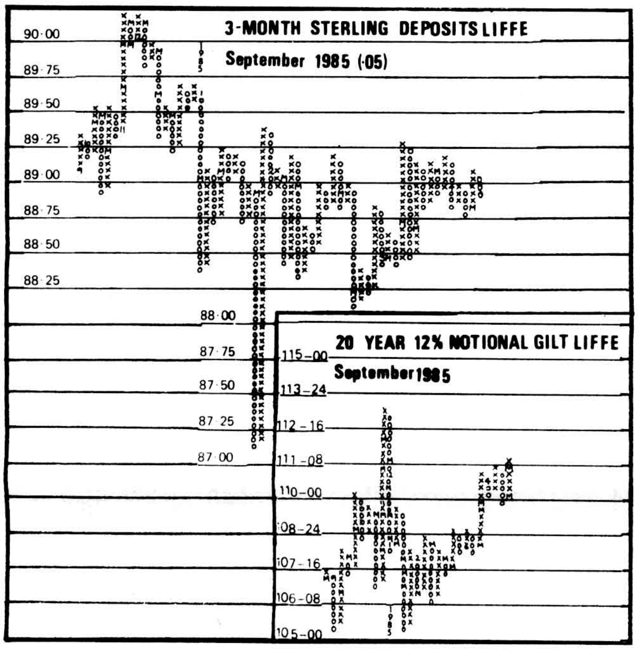
Treasury Bond futures continue to lag behind short term instruments but the rally back into the November/February top area adds credibility to the



recent floor. A weaker market would have been turned back by resistance near 68-28. The odds now favour an eventual move above the late January peak and possible test of the contract closing high at 76-04.

September sterling deposits are characterised by a base formation in the latter stages of development. Look for a break up through lateral resistance in coming weeks followed by a test of the contract highs.

20 year 12% Notional Gilts have already broken

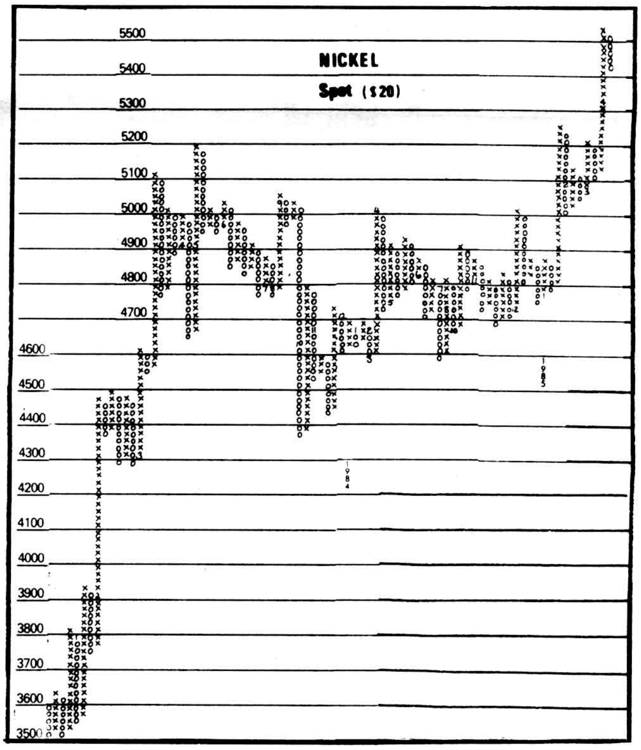


above lateral resistance and the chart reveals substantial underlying support. This pattern should eventually lead to an advance up through the contract highs. FMs could do worse than to buy gilts or the futures on small reactions. For the first time in a long while I prefer them to bonds.

Key base metals in $s – the bear market is over

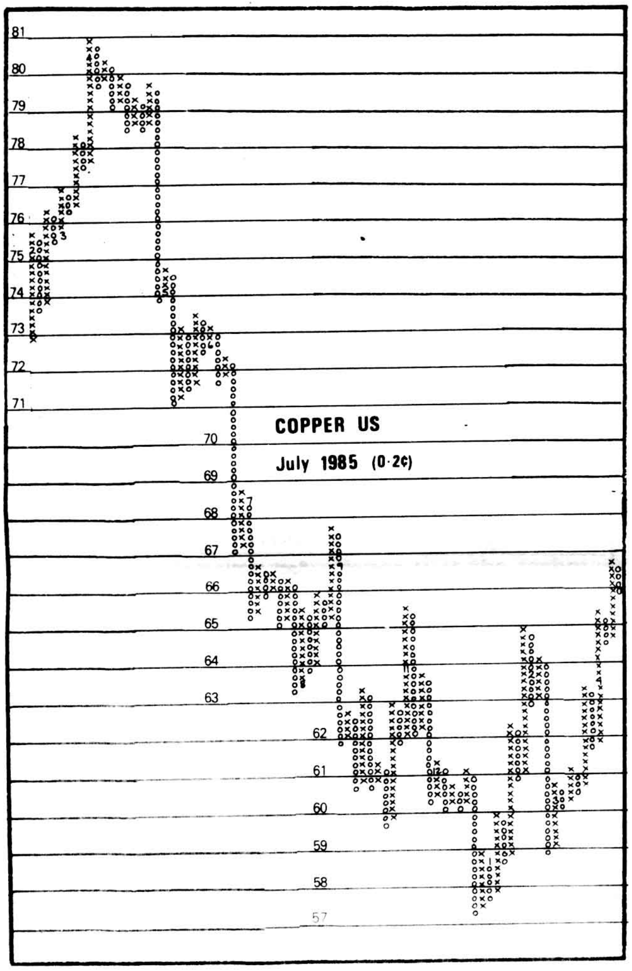
Aluminium, copper and nickel are the most important base metals in terms of annual world consumption. All three show base formation characteristics, but I will discuss them in reverse order which coincides with the strength of the individual chart patterns.

Nickel has the outstanding pattern as it actually formed an accelerating (type 1) bottom in late 1982. These formations usually produce a 'V' spike followed by a long right hand extension prior to a resumption of the recovery. The most impressive aspect of the $ spot nickel chart is that it actually rose last year in marked contrast to most other dollar commodities. Chart seminar delegates will also notice that nickel has completed the first step above the main base area. That is the small congestion area between $5000 and $5240 on the right hand side of the chart. The stage is now set for an orderly staircase advance of considerable magnitude.



LME warehouse stocks of nickel have dwindled to a mere 4,350 tons, which has helped to produce a small backwardation (premium of spot over the 3 months position). Producer stocks remain ample but they are unlikely to be dumped on a market that is recovering. Speculators could buy nickel in dollars for forward delivery on the LME. These positions should be protected with a MDL closing stop at $5100, basis the spot price. Investors should consider the nickel stocks listed later on in this issue.

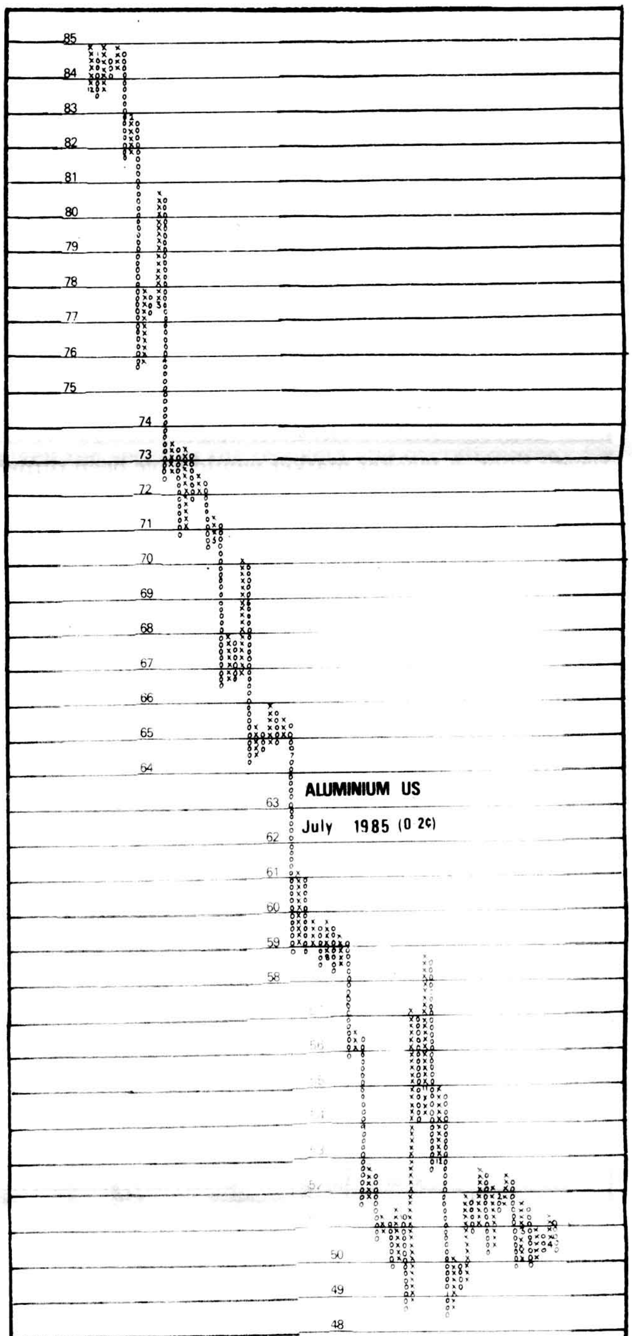
The dollar copper price fell persistently before reaching a year end low just below the June 1982 floor. Subsequent price action resembles a type 3 base characterised by churning, time and size of pattern. Downward risk now appears limited to a sideways extension of this pattern. A developing uptrend would be confirmed by the formation of a trading range above 65¢ (basis July contract) which is resolved by an upward break. Copper mining shares are strengthening in anticipation of a firmer metal price but I think nickel mines are a surer play.



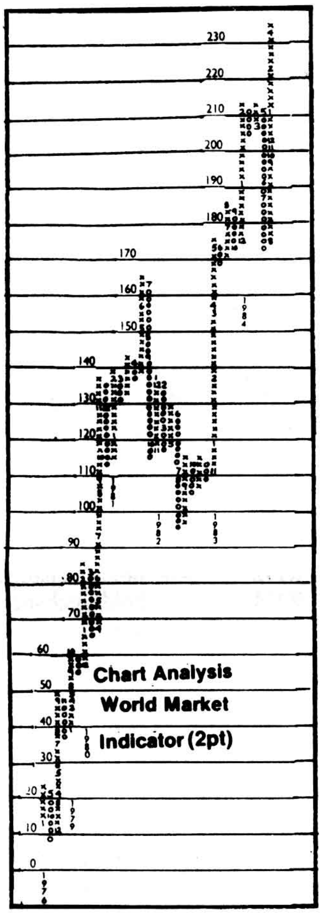
The dollar aluminium contract fell by nearly 50% last year before upside MDL violation at 50.6¢ (basis July contract) produced the biggest rally since the decline began. Although the gains were retraced aluminium encountered support near the lows and has subsequently traded in a narrow sideways range. This pattern is developing type 3 base characteristics but is the least convincing chart of the three industrial metals shown, by far. Recovery potential will not be confirmed until a decisive break above 52.6¢ occurs.

World Indicator points to further share gains

The Chart Analysis World Market Indicator, published each week on the first page of INTERNATIONAL, is the most reliable guide to short and intermediate term trends for global equities that I know of. Based on the unweighted performance of fifteen stock markets, this indicator has remained bullish since the last buy signal in early August 1984. That is the longest bull run since compilation so the next sell signal is likely to be important. I became concerned between issues because the indicator stopped advancing as most markets experienced brief shakeouts. However a serious risk for world equities was never signalled and the advance has resumed during the last fortnight. That should ensure a bullish environment for equities over the next few weeks, at least. At today's level of 234, a six point reversal (currently 2.56%) would be required to flash a warning signal for global equities.



Because it has been a quiet month there is not much to add to my previous comments on the world's various stock market indices. Wall Street has been understandably dull during the consolidation of January's explosive advance. I see nothing in the charts to alter my view that downward risk remains low and that the next significant move will be upwards. The next upward surge could begin any day because bullish euphoria has been replaced by caution and a surprising number of US based market letter writers are predicting a replay of 1929 in 1985. Those of us who also write for a living know that fear sells. Like old time religion, just forecast a little hellfire and



damnation to worry the gentle folk, while reminding them that salvation is available at no more than the cost of a subscription, but make it a lifetime sub to be sure.

For the more technically inclined I will add that broadly based indices such as the Standard and Poors Composite and the New York Stock Exchange Index are steadier than the 30 share Dow Jones Industrial Average. The bond market recovery is most significant since every severe slump on Wall Street has been preceded by a weak fixed interest sector. The Toronto Industrial Index, which has led Wall Street on the last three most important rallies; summers of '82 and '84 plus January '85, is within one day's reasonable rally of a new high.

The fundamental rationalisations for Wall Street's next advance will include an improvement in institutional liquidity, lower interest rates and an upward revision of those yoyo earnings estimates. The dollar's February surge prompted many an analyst to extrapolate the trend to DM4.00, for example, and calculate the resulting damage to earnings. With the dollar presently knocking on DM3.00, those same analysts will begin to revise profit estimates upwards and presto – Wall Street emerges with some of the lowest P/E ratios anywhere.

In contrast, the UK stock market is suffering from the unaccustomed environment of a rising pound. The indices have lost upward momentum but have not fallen enough to make many shares a bargain on an international basis. I am more relaxed about the downward risk than most UK technicians, given the potential for gilts and bullish international environment for shares, but will not add UK companies to the FM portfolio this month.

Share portfolio review

The principal drama affecting the FM portfolio during the month was gold's rally. This triggered our stop on the COMEX April gold short position, which had fully hedged the gold share portfolio, at $312.50 on March 19th. The stop was actually at $306, but the April contract gapped above that level to open at $312.50 where it hovered before eventually closing limit up. This booked a good profit on the hedge short position and, more importantly, the South African mine prices have risen ever since. For example, Unisel is now at R20 compared to R13 in the FM11 table. The strategy of hedging rather than selling yoyo gold shares when they appear vulnerable has proved effective.

Returning to tactics, I will not recommend stops until a staircase upward trend has formed. Additionally, a new hedge policy is not appropriate now that bullion has turned upwards. It would take a decline back below $300 to erode confidence in bullion, which I do not expect, and even if that happened the price would almost certainly encounter support as last month's lows were approached. Therefore no protective strategy is recommended for the gold shares this month which are cushioned by profits from the previous hedge short. On the basis that the dollar has peaked and gold bottomed, South African gold shares should be among the best performers in 1985. Current unrest in the RSA is unlikely to influence share performance provided mine production remains unaffected. The rand can be expected to appreciate against most currencies in line with a gold price rise.

Stops have been raised among the other FM7 and 8 recommendations to lock in more of the profit. I have been cautious in the case of Deutsche Bank, much eulogized by the press recently, because a temporary shake-out may follow the latest advance; however, I feel justified in raising the Dunlop (Australia) stop even though the share is A5¢ down on last month, as it should have seen the low point of its recent consolidation.

Among FM10's recommendations, Sony at Y4350 is probably the best value today. This share raced ahead at an unsustainable rate but today's price should be close to the reaction low point. The huge base formation can support substantially higher prices, while the potential for erasable discs provides fundamental glamour. New FMs should consider Sony along with this month's recommendations.

In contrast, last month's Japanese recovery candidate, Hitachi Maxell, may prove a dud as it is perilously close to the closing stop at Y2900. This disappointment is partially alleviated by Swiss Reinsurance which has forged ahead enabling me to raise the stop significantly.

My recommendation to buy the yen against the mark was a mistake. I should have realised that when reserve currency trends change the first are last and the last first.

Late September (FM7) Share Buy Recommendations

Market	Share	Price Then	Closing Stop (c/s)	Price Now	Strategy
Hong Kong	H.K. Electric	HK$6.15	HK$6.45	HK$7.75	raise c/s to HK$7.10
Australia	Dunlop	A$1.87	A$1.95	A$2.27	raise c/s to A$2.05
France	Skis Rossignol	FF1620	FF1640	FF1931	hold/unchanged
Germany	Deutsche Bank	DM356	DM396	DM463	raise c/s to DM400
Holland	Nederlandsche Middenstandbank	FL149	FL164	FL170	hold/unchanged

Late October (FM8) Share Buy Recommendations

Market	Share	Price Then	Closing Stop (c/s)	Price Now	Strategy
U.K.	British Telecom	50p on issue	117p	137p	raise c/s to 125p
S. Africa	Vaal Reefs	R173	none –	R192	hold/unchanged
S. Africa	Randfontein	R210	cushioned	R214	hold/unchanged
S. Africa	Kloof	R71	with	R77	hold/unchanged
S. Africa	President Brand	R60.5	previous	R55	hold/unchanged
S. Africa	Harmony	R28	hedge	R30.1	hold/unchanged
S. Africa	Unisel	R17.2	profits	R20	hold/unchanged
COMEX hedge	April gold short (Nov 28)	$340.4	stopped out at $312.5	—	—

End January (FM10) Share Buy Recommendations

Market	Share	Price Then	Closing Stop (c/s)	Price Now	Strategy
U.S.A.	General Electric	$63⅝	$53	$59⅝	hold/unchanged
U.S.A.	McDonald's	$57⅞	$52	$59⅞	hold/unchanged
U.S.A.	Johnson & Johnson	$37¼	$35	$41	hold/unchanged
U.S.A.	Merrill Lynch	$32	$27	$30⅛	hold/unchanged
Japan	Sony	Y3800	Y3900	Y4350	hold/unchanged
Germany	Daimler-Benz	DM626	DM595	DM663	hold/unchanged
Switzerland	Ciba Geigy	SF2860	SF2400	SF2845	hold/unchanged

Mid-March (FM11) Share Buy Recommendations

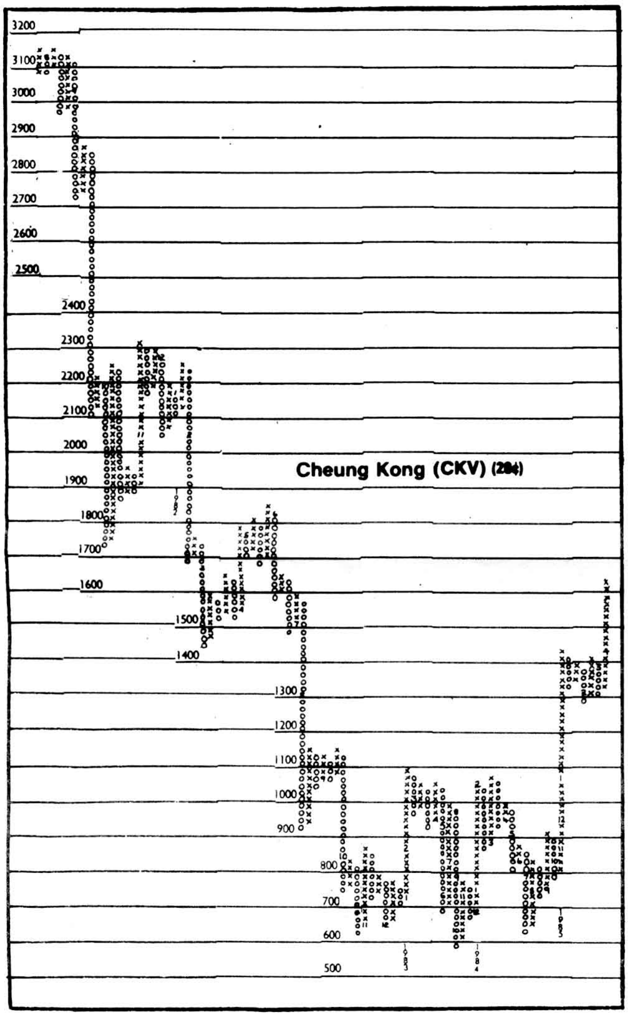
Market	Share	Price Then	Closing Stop (c/s)	Price Now	Strategy
Switzerland	Swiss Reinsurance	SF9500	SF7900	SF10350	raise c/s to SF9250
Japan	Hitachi Maxell	Y3380	Y2900	Y2960	hold/unchanged
U.S.A.	Safeway	limit $31¾	$27	$31	hold/unchanged
U.S.A.	Gillette	$58	$50	$60	hold/unchanged
U.S.A.	Warner Lambert	$37⅜	$32	$38¾	hold/unchanged
Singapore	Genting	S$5.75*	S$4.80	S$5.75	hold/unchanged

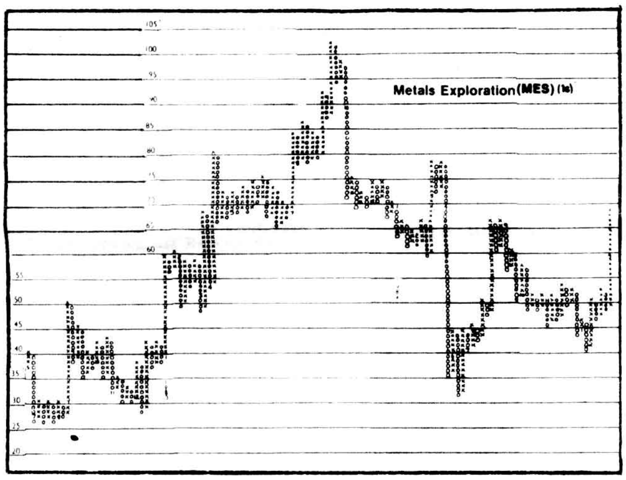
* Average of buying range recommended and reached

New share recommendations

Hong Kong property company, Cheung Kong, reached HK$34 in 1981 before those exaggerated rumours of the colony's demise drove it below HK$6 in 1983. The share completed a large type 3 base formation in January on the break above HK$11. These gains were consolidated in a range between HK$14.20 and HK$12.80, and the share has been at the forefront of Hong Kong's latest advance. A brief reaction may follow the latest rise so *I recommend that FMs try to buy Cheung Kong between HK$15.20 and HK$14.20.* FM13's table will use the middle of the range recommended and reached as the price of record. If purchased, protect this position with a closing stop at HK$13.40.

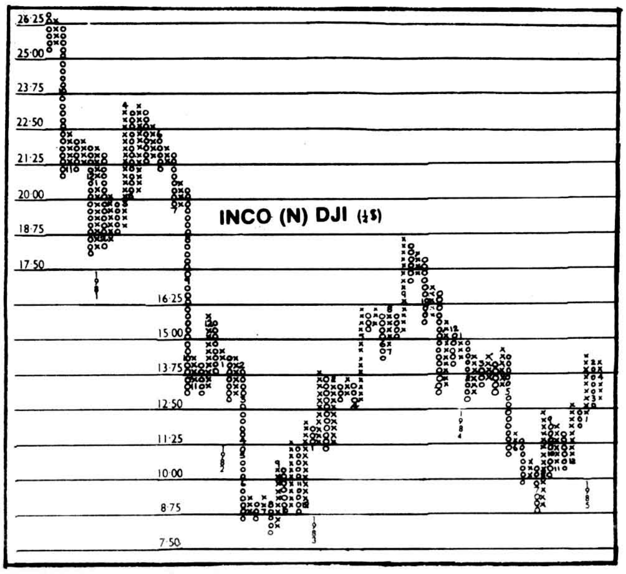
INCO is a recovery candidate that should benefit from a further rise in the dollar price of nickel. The





share held above its 1982 low during last summer's decline, creating an overall base formation of sufficient size to test the 1983 peak of $18.50, at least. FMs could buy INCO at the current price of $14, and protect this position with a closing stop at $11.

My other nickel share recommendation is the Australian mine, Metals Exploration. This has a roughly similar chart pattern to INCO, but has rallied sharply, aided by the recent weakness of the Australian



dollar. Therefore *I recommend that FMs bid below the market, between A62¢ and A55¢*. If purchased, protect this position with a closing stop at A47¢.

Stop press

The dollar has fallen to a new reaction low at DM2.95 while sterling touched $1.30 today. This is classic bear market action characterised by feeble rallies which soon give way to another slide down through support levels. The dollar may not get a significant bounce until the next technical rally in US interest rates, but that won't happen for a while. The yen is behaving like a pale version of the dollar against European currencies which demonstrates that when the big trend changes occur the strongest become the weakest and vice versa. Sterling leads the recovery followed by the Swiss franc. The French franc is no longer behaving like a socialist currency while the South African rand is another recovery candidate. Matey Bob Hawke appears to be in trouble judging from the Australian dollar which has plummeted to new lows against most currencies.

Precious metals have eased with gold dipping below $327. This will create buying opportunities for precious metals and mining shares in particular.

Don't give up on Wall Street which will spring a 30 to 40 point advance on 200 million plus volume one of these days when everyone least expects it. Japan has boiled over for the short term following a good run, but I don't expect anything worse than a more lengthy consolidation.

All seven venues for The Chart Seminar are up and running so I will have a busy May/June making new friends and meeting a number of FMs along route. With any luck I'll have a few new restaurant recommendations for the July issue (FM15).

I'm now at a loss for words FMs but won't apologise as this eight page letter has stretched to eleven once again. I hope you enjoyed the extra market coverage.

Good trading,
David Fuller

Photoset by PW Graphics Ltd, London EC1