

AUSTRALIAN
TECHNICAL
ANALYSTS
ASSOCIATION

***THE
AUSTRALIAN
TECHNICAL
ANALYSTS
ASSOCIATION
NEWSLETTER***

MARCH 1993

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MONTHLY MEETINGS**Sydney**

Time: 5.30 for 6.00 pm

Day: 3rd Monday of each month Feb. to Nov.

Location: Jean Garling Room

Level 1, State Library of NSW
Macquarie St, Sydney

Melbourne

Time: 6.00 for 6.30 pm

Day: 3rd Wednesday of each month (Usually)

Location: Level 27

367 Collins Street,
Melbourne, Victoria

Info: Paul Simmons (03) 593 1434

PRESIDENT'S ADDRESS

Fellow Analysts,

As an aside to the general financial markets it is pleasing to see that some of the more adventurous economists are finally admitting that negative gearing on real estate investment is dead. It was a voice in the wilderness that in late 1987 was warning investors, property speculators and economists of the impending dark clouds on the horizon.

In this current long term deflationary cycle the only reason why someone would invest in real estate would be for a positive yield. This scenario is what will eventually lift the recessed property market out of its pit some time after 1996. Albeit the recovery will not be anything like the last 60 years inflationary boom.

The Australian Stock Exchange is "burning rubber" but still not advancing as much as hoped for by the perennial stock bulls who will no doubt need to change "tyres" again before the next sustained advance. Australia's low money supply will be a hindrance to any major advance, and sole reliance from offshore investors is not entirely healthy.

For those interested in the international scene, the WORLD STOCK INDEX is continuing its contracting triangle formation and is approaching a very critical stage where a breakout of either side will support a directional move equal to a minimum of 130 points.

High rollers in the futures markets take note. The Moscow Commodity Exchange is waiting for you. Individual contracts are worth US\$10. The exchange hopes to raise the contract size to \$100 when the average number of contracts sold by each trader rises above 10. Contracts worth \$1000 were expected this year when volume improves. The rouble contract only trades during two daily sessions per week, and total exchange turnover has been reported at around \$5,000 per session. The vice-president of the Exchange has been reported saying that without any laws or regulations in the MCE (Mice), trading has been "un-predictable" and "even exciting!". Some things never change.

Till next time,

Charles Balas President.

CHARTING AROUND

New Members

Welcome to the following New Members:

Lorne Houston of Sale, Victoria
 Hayden Murrells of St Kilda, Victoria
 Richard Majewski of St Kilda, Victoria
 James Slack-Smith of Fairlight, NSW
 Damien Hatfield of Bain & Co, Sydney, NSW
 Tony Forcella of Northcote, Victoria
 Colin Farrell of Clareville, NSW
 George Cochrane of Tamarama, NSW
 Chris Christidis of Thonemann Robertson Melbourne, Victoria
 Ben Chan of Dandenong, Victoria
 Peter Bell of Glen Iris Victoria
 Jeff Ashelford of Panton Hill, Victoria
 Dr Graeme Walker of Ivanhoe, Victoria
 J L Rolfe of East Malvern, Victoria
 Alex Baker of Brighton, Victoria
 David Bowden of Buderim Qld
 Gary Jones of North Baldwin, Victoria
 Philip Smedley of Carrum Downs, Victoria

MARCH 1993 MEETING ANNOUNCEMENT - SYDNEY

TOPIC: SETTING UP A TRADE
 SPEAKER: David Bowden of Safety in the Market fame
 Presentation and questions for one hour.
 DATE: MONDAY 15TH MARCH 1993
 TIME: 5.30 FOR 6 P.M.
 LOCATION: Jean Garling Room Old Section L 1
 State Library of N.S.W.
 Macquarie Street, Sydney
 Info: Dawn Bolton-Smith (02 969 7615)
 Charles Balas (02 522 5220)

MARCH 1993 MEETING ANNOUNCEMENT - MELBOURNE

TOPIC: EQUITY PATTERNS
 SPEAKER: Joe Rudzyn TA for J.B. Were
 DATE: WEDNESDAY 24TH MARCH 1993
 TIME: 6.00 FOR 6.30 P.M.
 LOCATION: Level 27
 367 Collins Street
 Melbourne, Victoria
 Info: Paul Simmons (03 593 1434)

FULLER IN SYDNEY

ADDRESS BY DAVID FULLER TO A SPECIAL MEETING OF THE AUSTRALIAN TECHNICAL ANALYSTS ASSOCIATION IN SYDNEY ON FEBRUARY 3 1993. REPORTED BY COLIN NICHOLSON.

Technical Analysis

One of the burdens that we technical analysts carry is that people expect us to be right. One of the reasons is because we claim that technical analysis is the key to market timing. I feel that it is certainly one of the great keys, if not the greatest key, to market timing and a great many people in this room would agree with me.

However, it does put us under a great deal of pressure, because there have always been a lot of sceptics, though less since the currency markets became such a big business and so freely traded. I think that currency analysis is almost 99% technical amongst those that actually buy and sell currencies today. But it does put us under a lot of pressure and the rest of the world at large, that perhaps is not using technical analysis, is not so forgiving.

I always say about my own career that I hope I keep having enough good calls to maintain my enthusiasm and certainly never so many as to develop any kind of hubris. But in making our calls and in trying to improve our batting average, how can we fulfil our potential with technical analysis?

It is after all an awfully big subject. When I started in the business, and that goes back just over thirty years; there were only three books on the subject of technical analysis. Today there are libraries of them. There is something they say about the Labour Party in the United Kingdom where I live now. They describe it as a broad church. Well, technical analysis has become a broad church. There are lots of different schools, approaches or methods in technical analysis and I think they all have merits. They all have their strengths and weaknesses. It is as important to know the weaknesses of your subject as to know its strengths. If we are not aware of its weaknesses, we are not going to have much objectivity.

So, how do we maximise our potential? The first thing that I would say is that you don't want to start your analysis with technical theory.

Now, what might technical theory be? All methods of research have a great deal of theory. The whole

science, if that is the right word, of economics is theoretical.

I would say that all of fundamental analysis is based on theory. The theory that shares are going to respond to a certain price earnings ratio, if it is high enough or low enough. The theory of being able to forecast future earnings, recessions and recoveries. It is all very theoretical.

Likewise, in technical analysis we could start with cycles theories. They are very interesting, but theoretical. When ever we enter the realm of a theory, there is too much licence for interpretation. I am not saying that we should not do that interpretation, we should do it, but do not start with the theory.

Technical systems are mostly highly theoretical. Likewise targets that indicate where the market is likely to go. The most frequently asked question among all people in the investment community is where is the market going to go. And never has more human energy and talent been wasted in trying to work out where the market is going to be next year. Too theoretical.

We should start with the technical facts. The great strength of our field is that we are working with facts. The price. I started my career in fundamental analysis. I still use it and am a great respecter of the field. I am not one of those closet technicians who says: "Take the names off the charts and do not confuse me with the news." I want to know what is going on and I will say more of that a little later on. It always made me feel insecure when I was working in the institutional research department of a broking firm on Wall Street in the 1960's, that everybody was asking me where the price was going to go and I was looking at everything but the price. It seemed to me that there was a rather riveting, simple, logic that says that if you want to know what the price is going to do, it is not a bad idea to keep an eye on the price.

We keep an eye on the price with our charts. So, let us start with technical facts. Technical facts are things that we could all agree on, that is, where there is no room for any sort of subjective analysis.

Filter questions are crucial. Take all those people who ask where the market is going to go. I say you can not answer this question without asking some intelligent filter questions. They become automatic after a while.

Looking at the chart, I first ask whether the market is trending or ranging. We can be very objective about that, if we add a time frame. Day traders and short term dealers will be looking at extremely short time frames, everything from two seconds up to five minutes or so. Those of us who are hoping to trade long term trends, will be looking at longer time frames. However,

whatever time frame it covers, we can look at the chart and determine whether the market is trending or ranging. It is not subjective. The chart will have a bias one way or the other. If we are not sure, we ask whether most of the recent activity is above today's level. If it is, then, if it has any bias, it is trending down. If it is locked in a range, then that is going to be easy to see.

Next, we ask whether, if it is trending, that trend is consistent. That sounds like a very subjective question. Any trend in the market is a living entity. It has its own rhythm, its own genetic print. The best way to spot consistency characteristics is not by reaching for the ruler and starting to draw lines. If there is a trend there, you will see it. Even if you are a novice. So often, one's first glance at a chart is one's best glance. If there is a message there, it will stand out quite clearly.

What might be some of those consistency characteristics? First, you ask whether it has a step sequence. That is, if the market ranged and then trended upwards, does it get ranging periods then break up out of those ranges and so on?

You then ask whether it maintains its breakouts from those congestion area steps. This is not a subjective question. This is one of the most valuable and useful consistency characteristics of a lot of good upward trends. Of course, the best trends are created by a supply and demand imbalance. These are the ones that make or break the fortunes and therefore, the ones we are the most interested in.

Next, we would ask whether the upward trend has an unbroken progression of higher lows. This means that every time it comes off a reaction, it bottoms out higher than the previous reaction. That does not tell you where the market is going to go, but it tells you that there is no clear evidence that the trend is over. If there is no clear evidence that the trend is over, then the trend is still in motion. The odds, by definition, have to favour continuation of the trend, rather than reversal. There is nothing subjective about saying whether it has an unbroken progression of higher lows. For a downward trend, we would look to see if there was an unbroken progression of lower highs.

Sentiment

Sentiment may sound theoretical, but I think we can be quite objective about it in the market place. What is the crowd's view on the market today? If we took the US dollar, for instance, against anything, what would you say? Let's have a show of hands on this. I am asking if you, the audience, think that the crowd is bullish or bearish. Humour me and vote, even if you don't know. Look at how your neighbour is voting,

that is how the market works. (laughter) Ah! I struck a familiar chord with that one.

If you think the market is bearish, put your hand up. Ah! A few hands have gone up, those are the contrarians. Does the crowd think that the US dollar is bullish? Put your hand up if you think so. Ah! a forest of hands are going up. What does that tell us? Well, it tells us that you have got an up trend and that the US dollar is strong against a number of currencies. Also, that a number of people in the room are long US dollars, or are at least forecasting that the US dollar is going to go higher, because people talk their book. Otherwise they would be schizophrenic.

We have just taken an objective assessment within this room that the crowd is bullish of US dollars. That doesn't mean that the crowd can't be right for a while, the crowd may well be right for some time, but it does tell us that we are well on in terms of that actual trend. Just think about it for a moment. When have you found the most bulls in the market? (answer from the audience: August 1987) That was a good one, certainly in Australia. I bet there was never a month in the whole of the history of Australia when there were more bulls in the market than in August of 1987. Much later we were all in depression, weren't we. What changed? The price. People were all long, wildly bullish, extrapolating and that sort of thing. We can be very objective about sentiment and we can use that information.

Psychological Perception Stages

Now I will get onto some more theoretical material. I have run through the technical facts that I, or anyone else, could all agree on. I have established what those technical facts are, ranging from a price activity, which is the easiest to be specific about, to something like sentiment, where again we can be objective. Now we can start to move from the facts into the technical theory.

I say in my seminars and often write in my letter that there are roughly three psychological states to a bull market or a bear market.

The first psychological perception stage of a bull market is that prices are rising, but the crowd is still bearish (post 1987 crash, looking for a second down leg). What does that tell us about their positions? If the crowd is still bearish, they are not long. Some may be short. Yet, prices are rising. We can be objective about whether or not prices are rising, however gradually, if you are getting rising lows as is happening all around the world in so many markets at present. If the crowd is bearish, we agree they are not long. Which means that there has to be a large reservoir of capital there to fuel the recovery.

The second, or middle psychological perception stage

of a bull market cycle is when the bears have lost credibility, because the market has moved well off the lows and is probably into one of those staircase trending phases, which mark the middle stages of so many bull markets. It is probably relatively consistent in that stage. Demand has clearly got the upper hand, but a lot of people don't believe it or a still very cautious, expecting a top or a setback quite soon. What does that tell you about their positions? They are not that long. They are in the market perhaps, but there is still a lot of capital around.

The third psychological perception stage is where rational people, and there are rational people in the world when markets are moving to extremes, question whether things are getting a little expensive. But the bulls will be saying that, on the basis of their 1995 earnings estimates, this market is a bargain. They are making the big quantum leap. Remember Poseidon, that was a classic. They made 10 year forecasts on the price of nickel. Exponential extrapolation of the trend on into the never-never land to justify the folly that had been created. Of course, everybody is euphoric. Everybody is looking ahead. That is when prices will be accelerating upwards and the more dangerous the market is, the more people will look into the future in terms of their forecast to rationalise the folly that they are indulging in on a short term basis.

And, of course, on the way down, prices are begin to see lower highs and some lower lows. However, people do not want to believe it. They call it a correction. Which tells you they are still long.

The middle perception stage of a bear market cycle sees prices continuing on downwards. The people are still looking for a rally. This tells you they are still holding positions.

And then, of course, they reach the final stage. They are say then, that it is never going to come back, and that they will never trust it again. It is finished, it is absolutely finished.

It is interesting to think around and apply those ideas. Always ask yourself where we are. In all the markets you people are looking at, where are we in that psychological perception stage of the cycle? That is very valuable information. That gives you perspective and then you use the discipline of your price charts to see exactly where you are. You start looking for those ending signals.

Contrarians

I think that virtually all of us want to be contrarians. That is a good thing. However, it is very difficult to be a contrarian. It takes confidence, but not arrogance. Arrogance takes us all apart in the markets. People begin to think as in the old story: The markets are

moving upwards and they start to mistake a bull market for brains. So, we certainly don't want the arrogance, but we need to be a bit of a contrarian. There is nothing better than monitoring that crowd sentiment. If all these people agree with us, human nature is that we feel secure. But we know that if everybody agrees with us, that is an absolute disaster. We listen to what everybody else is saying. I am not talking about silly people, I am talking about the wise and intelligent people involved there in the market. If there is a consensus, that is, if it is so obvious, then they are all obviously in the market. That is when we do want to disagree.

I say, with no false sense of humility, that some of the very best calls that I have ever made in the markets were from just taking polls of audiences and going against that consensus, particularly if we start to see some technical evidence that conflicts with that extreme consensus view. This is because it is, after all, the unexpected that moves markets. How often are we spending time looking at our charts to spot evidence of the unexpected that will change crowd sentiment? I will talk about that a little more in a moment.

Discipline

We need a tremendous amount of discipline. Technicians look at what I describe as the internal dynamics of the market. It is one of the few fields where we must have the humility, to literally stand on our heads, to take a hundred and eighty degree turn.

You know the old cynic's comment that if you must forecast, forecast frequently. Well, I think that what we know is that the market IS. The market can do anything. The unexpected is really the opposite of people's positions. In other words, the unexpected is the move that does not agree with the positions people have established in their portfolio.

Sometimes forecasting frequently is very difficult. In the earlier stages of my career I think I knew less about the subject, but at least I had learned to respond. Suppose that you had been bearish perhaps for weeks and months and then next week you go in and say to someone that you are a bull. They will not like it, particularly pension fund managers.

When I first moved to the United Kingdom I tended to do this with some of the markets, though it may not have been weekly changes of opinion. On one such occasion, a fund manager said to me: "Well, we take the twenty year view here." They were not too happy. However, they have now scaled that perspective down quite considerably. Although you know it is difficult to do it, I think we need to be able to go back and say that things have changed and here is the critical evidence that shows that it has changed.

We need to be looking for things like false breaks on charts. They are the breakouts that are not sustained and can have a very dynamic shock effect on crowd psychology. It can reverse sentiment very quickly.

We need to be looking for the key reversal day, one of those convulsive intra day or intra week moves (it would be even more important than the daily charts), where it has been looking terrific and suddenly it all starts to go wrong very quickly and changes crowd sentiment. [See separate article in this issue on the key reversal day].

The thing about crowd sentiment, of course, is that if you change crowd sentiment, the crowd stops doing what it was doing. If you have had a market that has been running upwards, crowd sentiment progressively becomes more bullish. If suddenly there is some kind of shock, which will here be a negative move in the price, then the crowd will reassess and start asking questions about whether they are right. The very process of reassessing cuts the demand in that upward trend. It halts the trend. If they reassess, it is very easy to move to the next step, particularly those that are worried about profit exposure or a loss exposure, of reversing their position. So, one of my favourite equations is that reassessment equals reversal in markets. We need to be very aware of the internal dynamics of patterns and some of the very dramatic moves that will signal the important trend changes.

I mentioned the key reversal day. It is absolutely astonishing that, if you plot the US dollar, the major turning points up and down, the big, crucial, the make or break tops and bottoms have, more often than not, been marked by these key reversals, either daily or weekly. Three out of four times. It is absolutely astonishing.

The Trend

We want to be careful of reverence for the trend. This may sound like a kind of anti-technical comment, but you have all heard the old cliché that the trend is your friend. But, we do not want to imbue the market with any kind of superior knowledge.

There is an old belief, which I do not think is true, that the market is smart. The market used to be smart, many years ago, long before there were any currencies traded. Say a hundred years ago with stock markets. In those days, who owned the shares? They were the proprietors. They were the big players in the market and any other wealthy people were the friends of the proprietors. It was a house game.

That was when technical analysis came into being, when Charles Dow said that by the time the news

comes out, the market has already moved. Then the market was smart, because the people who bought and sold, who were responsible for most of the activity in the market place, actually owned the companies. They really did know what was going on in those companies.

Talk about good insider fundamental information. I remember when I was working on Wall Street years ago, I went and made a presentation to an institutional type. I did not dare mention charts, he probably would have thrown me out of the room. So, I sort of cobbled together some fundamental story for something we were trying to recommend and he sort of looked down his nose at me over his reading glasses and said: "Now my boy, I would never buy a share on fundamental information." I said: "Well, I have got a chart." To which he said: "Are you kidding, I would never look at a chart." So, I said well what do you use?" To which he said: "The only thing I would ever use is insider information." Nice if you have got it, but do not let them catch you. They put people in jail for that now.

So, inside information is really not available. It is a sort of fantasy that we have lots of inside information, but it really does not exist. I say the market is no longer smart: Look who is buying. (Audience interjection: "Fund managers", followed by laughter. Fuller: "No, I have too many fund manager subscribers to be rude about them.")

No, if you walk into a dealing room of one of the biggest banks, say one of those football pitch sized dealing rooms and take the currency market where there are telephone number turnovers every single day, who is making the market? Audience: "Babies." Fuller: "Absolutely, they are all babies."

Now, those babies, the ones that survive, are shrewd, they are clever, they are punchy and they are disciplined or they don't survive very long. But are they smart, in terms of do they know what is going on in terms of the dollar or the mark? Hell no, they just look at the screen and tell stories and create rumours and respond to rumours. No, the market is not smart. All those investment managers on Wall Street that we were talking about, most of them do not even know what a bear market is. The market is not smart, it is manic depressive.

The market lurches back and forth from one extreme to another and it will justify what has happened, using the same reasons for explaining why the market is going to go higher as to explaining why the market is going to go down. Therefore, that creates a problem for us because we are going to see some moves on the chart and those moves are going to look pretty good perhaps, on the basis of some of our objective criteria. Now, we do not have a fool-proof system. We would all be insufferable if we did. So how do we deal with when the market is on one of these manic depressive ex-

tremes and is totally wrong?

We know that the market is totally wrong at those extremes. Here, I think we need to use fundamental filters. As I said, I am a great respecter of fundamental analysis. It is hopelessly complicated, but it is useful. I say to my analysts when they say that the chart looks this or that: "Fine (and particularly if I am worried about that view), but give me a good, logical, rational case". They say: "But that is fundamental analysis." I say: "No, not quite."

This is a true example: In her introduction, Dawn Bolton-Smith said that our organisation has made some great currency calls, but I want to take one on the other side. You learn more from your mistakes. One big day about three or four weeks ago, suddenly sterling surged up. It had been ranging for months, but suddenly it surged upwards and our forex department was putting out these buy recommendations on sterling. I asked for a good, logical, rational reason why anybody should be buying sterling other than as a short cover. They could not do it.

Take another example: The Japanese yen. I have bumped into a lot of people over the last few months who have been bearish on the yen. I ask for a good, logical, fundamental reason why the yen should go down, beyond a temporary blip. They can't do it. They come up with some waffle about the political situation or what they think the economy might be doing by the end of the year, but it certainly won't be in the nuts and bolts of the trade figures.

Incidentally, when I say to look at the technical facts, I would also do that with fundamental analysis. When we are looking at fundamental analysis, let's look at the hard facts, what I call the hard fundamentals first. Assets, cash, cash to debt. Future earnings is just a pure speculation. So, use that fundamental filter if you possibly can.

That is not trying to rationalise. You can be very objective about that hopefully. If you can't make the case, maybe that pattern is not so reliable as it may appear to be. You are going to see a lot of promising tops and promising bases. Some of them will work out, some will not. If you can ask that important, fundamental filter question yourself, (do not ask the people who are long, they will bore you all day) that will really be quite useful.

Chart Fundamental Data

We tend to chart only prices. Chart fundamental data as well. It charts beautifully. The hardest thing in our business is to deal with prices, what the actual market is going to do. The economy is a doddle. Don't tell economists this, but all they have to do is to chart the

GDP figures. You get long, long trends. It is amazing how wrong so many economists (and some of them are right, let's be fair) have been wrong for so long on forecasting where the economy is going to be in a few months time. Certainly in the UK, or on Wall Street where I come from originally, they kept calling for a recession all through the 1980's. Then they lost so much credibility calling for a recession, that they changed and called for a prolonged boom. Well, you know what happened.

Markets

Now, let's look at a few markets, because I risk getting carried away talking about analysis. Let's talk about a few markets and I will put up some charts in just a moment.

I just came from Melbourne. Yesterday I gave a speech to another packed audience at The Securities Institute of Australia in Melbourne. I have spoken there every time I have been in Australia. I was last in Australia in 1990 and I had a pretty heavy message. I thought I was justified to do that because I had not been delivering many heavy messages.

Using technical techniques, if we see a big bull market, those of us who work with charts, expect a reaction to scale. In talking about this in fundamental terms at The Securities Institute, we had seen the best boom period for global economies that anyone could actually remember in the lifetime of most of the people who were present. If you had a long sustained boom, then you are going to get a recession or a reaction to scale and that applies to those multi-year cycles over very long terms, even up to Kondratieff type cycle moves. So, I had a very heavy message about a long, difficult recession with lots of bearish activity for markets. I said, and those of you that subscribe to my letter remember, that I was not going to come back to Australia until I had some good news. I think I now have some good news.

I've been writing for a very long time that we would not see any recovery worthy of the name until we had a harmonisation of economic policies. That is, where you had the big three major economies that would count in this respect: USA, Japan and Germany, pushing for reflation and growth. Of course, we had just the opposite for such a long period. We had the US reflating like mad for over two years. We have now got Japan reflating very aggressively and they are in a position to reflate more aggressively than the USA, and Germany is starting to unwind its squeeze, albeit slowly. This is moving towards the harmonisation of economic policies that will produce the next global recovery, however feeble or sustained that turns out to be. I have got some views on that as well.

So, I think that is a favourable factor for a good many markets, but which markets is it going to be most favourable for? Now I will put up a few charts.

US Bond Market and the Deficit

I said that I charted some fundamental data. Here's the big scare: The US government deficit picture, only it is a lie, because the actual data would be much worse, because the US government is stealing from the social security fund, the government pension system that everyone pays into in the US. What the US government has been doing for years and years and years is that they pay out whatever the demands are on that money. The baby boomers, who are growing up now, 45 and up, are kicking all this money into the social security fund. The government grabs the largest chunk of that, which they do not need to pay out, and spend it on the various entitlement programs that they have, leaving an IOU in the social security system. (Audience: "How much is that?" Answer: "At least \$US60 billion a year, if you add the money they are stealing from the post Office pensions as well.")

So that budget deficit is very much larger and the real problem of that is that it is creating higher long term interest rates, as you would not be surprised to hear. US short term interest rates are just a little above 3%. When they were last at 3.5%, you have to go back to 1961. Then long bonds were yielding 4%. Today, long bonds are yielding about 7.5%.

Now, back to the charts and note that I am only going to put up long term charts today.....

A very long term chart of US treasury bonds. What I want you to look at here is the last three years. Look at that upward trend. This chart has actually moved higher now, to a little above the previous high. What you can see here is that the primary bull trend is still intact. That is a very crucial factor.

Similarly, the Japanese long term bond market. You see a pretty good bull market. Maybe we have seen the best of it, but it is not over. You have actually got the Japanese government still buying bonds.

Some of the fundamental background to these bond market trends: We are in an environment where we are moving towards harmonisation of economic activity, which will probably produce much better GNP growth figures around the world, on average, in the latter part of 1994. Maybe even in the earlier part of 1994, and certainly in 1995. But the game now, and what really is going on, is that we are moving away from fighting

inflation and from controlling budget deficits. There is a lot of talk about controlling the budget deficit in the USA, but we will see what happens. Do not forget that President Reagan and President Bush were big anti-budget deficit people and actually campaigned on their ability and determination to fight the budget deficit. However, you just saw the chart!

So, we are in an environment where we will see more and more reflationary effort. You in Australia have an election coming up. This government will move heaven and earth to create the feel good factor, won't it? One of the things it will do is to get interest rates down.

We are also into the competitive devaluation game. This was something the United States dusted down and produced a few years ago. Competitive devaluations are where governments are very happy to see their currencies fall. They are chasing, in that contracting global economy we have been experiencing, any shrinking pie in terms of their overall exports. That obviously creates some very serious problems, so they want to devalue.

It is interesting that they have not wanted to devalue initially because so strong was the inflation fighting attitudes, it became a political issue. People voted for governments that would get in and fight inflation. What has happened now, and Europe provides the best example, is that once those countries were thrown out of the ridiculous fixed exchange system that existed in Europe, the EMS, they embraced the competitive devaluation psychology wholeheartedly. Not in all their public utterances, but they are slashing interest rates and letting their currencies fall and Britain is at the head of the queue in doing this right now. They are able to get away with it over the short to medium term, because the deflationary forces have been so powerful in this balance sheet plus inventory recession.

As we know, one of the problems with the competitive devaluations is the leap-frog game. One country devalues and the government there says great, things are going to get better. Economists say it will help exports and we will grow faster or we will see less recession than our neighbouring countries. But then another country devalues and then another.

One of the biggest surprises of this year is going to be...remember all those dollar bulls when we took that poll?...the Clinton administration is in the process of becoming horrified at the revaluation of the US dollar. They don't want that. The competitive devaluations have kicked the dollar upstairs. They are going to want to see a lower dollar. Particularly when all the automobile producers are queuing up to see Clinton and saying: "Do something! Help us out. Give us a break." What that means, and a lot of this is reflected in these bond market charts, is that this is in line with a

very slack economic period, a very weak recovery, such as you see in Australia right now. The US economic recovery is not going to be anywhere near as strong towards the end of the year as it looks right now. You have the special factors: The stimulation of the US economy by Bush prior to the election. The feel good factor with Clinton, everybody assuming that there is going to be a big expenditure program on the part of Clinton. That has created a little blip here.

But to improve it, they have got to export to Japan and Europe and the market just is not there to take it.

That is the message, the driving fundamental force behind these bond prices. Remember, the only big bull market today is in bonds. That is important to remember. Of all the investment vehicles that you could consider, the only global bull market today is still in bonds. Hardly surprisingly, and I am sure I share this with a number of you, I have been a bond bull for the last three years and I am still a bond bull.

German Bonds

This is probably the best chart of all: German government bonds. I say ask the fundamental question to support this chart....is this a manic depressive move or is it rock solid with some underlying rationale? Here it is an easy and obvious one. Those interest rates are just going to have to come down, fuelling this bull market in German bonds higher still. This is my number one, A1, investment position, as my subscribers will know.

Australian Bonds

Let's bring it home: Australian government bonds. Here is the chart of Australian government bonds. You have had a very good move on the up side. You also know that you had a peak up here in August and it has been ranging now for several months and we are still counting, just ranging in this pattern. I gather that there is some bearish sentiment and there is some bullish sentiment regarding this market. That is what you get when you have several months in a trading range: offsetting bulls and bears....half the room will say interest rates are going to go up and the other half will say interest rates are going down. That is when you use what I call global commonality.

Global commonality: What is happening in the rest of the world? Are Australia's interest rates going to move in the opposite direction of the rest of the world's interest rates? It is not impossible, because anything can happen in the markets, but it is not a

good bet. If you want to play house odds and the house odds are strong, the odds are very, very good that Australia will conform to this global bull market in bonds.

What I am saying is that your government is going to cut interest rates, not raise interest rates. What I am saying is that the US will cut interest rates, before they next raise interest rates, although the crowd will tell you that interest rates are going to go up in the US.

So, I look at the Australian bonds (10% 2002) chart. If I am wrong, we will see it break down below 106 and hold it, but it is not doing it. If I look at this last downward move in perspective, it is not out of character with the previous downward move. Its consistency is still there. Therefore, in my view, the odds favour a challenge of the high (ie. above 112). It is harder to make the case, technically, looking at Australian bonds, but it is much easier to make the case, technically, looking at global bonds and I think that is the important way to actually look at it.

Japanese Stock Market

Now let us take this market: Up here it was the world's largest stock market in capitalisation terms. We are looking at the Nikkei stock average. Not a bad old bear market down here, was it? This is really quite interesting. What is the psychological state of play in Japan right now, regarding the market? Are they bulls or are they bears? They are unbelievably bearish. Private investors will not even answer the telephone if they know their broker is on the line. All the broker jokes are being revived. People don't want to know. It is absolutely fascinating, this is evidence of the power of psychology in markets.

There are so many parallels between what is happening in Japan and the US right now in terms of money. The US has been reflating like mad for quite some time. Japan has been indulging in monetary reflation quite actively for well over a year, not as long as the US, but well over a year. Japanese interest rates have come down a very long way. You saw the bond price on the chart. Japan is now involved in a massive fiscal reflation and they are in a position to reflate fiscally much more than any other government around the world, because of that staggering trade surplus which was up, I think, 38% above its 1991 record in US dollar terms: about \$US102 billion. So they have this capacity to reflate, yet people don't want to know about this market.

US Stock Market

But here is the US stock market chart and it is really interesting what is going on in this market. Those of

you who go to the States and turn on the television, will probably see FNN, the financial new network there.

Now, I will tell you exactly what happens: Ma and Pa Middle America wake up in the morning and they turn on the television to FNN and, talk about a slick promotion job. What happens is that they roll out the house economist who says that these figures have just been revised upwards and they start extrapolating the GNP increase, it all looks pretty good in terms of the recovery and Clinton is going to stimulate further. Then they bring on a technician who says the market is still going up, he likes this primary trend. Then somebody comes out on commonality and says London was up half a point yesterday, so that ought to help our market get off to a good start.

And just about the time Ma and Pa Middle America is salivating, they start with the mutual fund commercials. Buy, get in and buy. All you have to do is punch a code on your telephone. You don't even have to speak to anybody, which can be intimidating, just key in the right code on the telephone buttons and suddenly you are long. There are now more mutual funds in the US than there are stocks on the New York stock exchange. And the public has never been piling in more. You talk about stocks to the Wall Street economists and nothing matters. Deficits don't matter. Losses don't matter. The Fed is going to bail us out. It is all going to be good..."We are a great country" they say. All we have to do is to hang in there and hold on to our confidence.

So, in fundamental terms it has created the greatest bubble of all times. It does not look like that great a bubble on this long term chart, but it certainly is one of the great bubbles and there is a chart on page 2 of Fuller Money No 104: Japan versus the US market performance. We see the spread since 1986. What you are seeing now is Japan selling at its biggest discount to Wall Street in decades. The fascinating thing is that so many of the money policies are virtually identical. The difference is sentiment. They do not want to know in Japan and they cannot get enough of equities and mutual funds in the US.

So, I think that one of the really big, crucial trend changes is going to be a closing of that spread. It will probably be a scissors effect, with Wall Street coming down before too very long and Japan moving up. But Wall Street is not coming down at the moment and US bonds are still moving up at the moment, though it is not as strong a bull market in bonds despite all of that money pouring in to the funds. It is not all that strong an advance, because you see the Dow lagging behind the S&P. So all

this huge money is just creating a sort of rotation in the market place. It is starting to encounter a supply wall. Yet all those US analysts are saying no sweat, as long as interest rates stay low. And there is no chance of short term interest rates moving up strongly in the US in the near term.

I don't have time to go into this, but I mention it in Fuller Money in very considerable detail. The US is running into trouble on its bond market, because that big up trend that we saw on the US bond market chart is not fuelled by investment, it is fuelled by speculation.

The Federal Reserve, in really a very clever way, is trying to beat the Kondratieff cycle, to beat the 1930's or whatever recession. The difference this time around between what we have seen recently and the 1930's is that we are into the bail out game. We bail out just about everything, the S&Ls, the banks. We bail out anything that moves. However, there is a price at the end of the day for all of these bail outs. They bailed out the whole US banking system. The way they do that is they let the banks borrow money from the US government, the Federal Reserve. They borrowed the money from one branch of the government at 3% and loaned it back at 7.5 to 8%. Money for old rope. The only problem is what happens when interest rates start to move up. Well, that can only happen if you get a much stronger economic recovery. We may head in that direction with this harmonisation of economic activity. Or, it can only happen if inflation fears revive. Both of those things will happen, but not yet. Not yet is the message.

World Stock Markets

I will just put up some charts of various stock market indicators very quickly. I will skip Hong Kong because I am not that happy about that one.

As I look around the world, we have a dilemma which is unfolding, in that a market like Singapore has a multi-year launch pad trading range, which has been forming. You know, this is one of the countries where companies still make profits and the GNP still grows in real terms.

For the last three or four years the little tiger markets have been in trading ranges. In the meantime, companies kept making money and the economy has kept growing. So, the price earnings ratios are down near the lows, but they have all been looking at Japan and worrying about what is happening in Japan.

I think we have reached a stage, which you will see from all these charts, where we are going to get a multi-year bull market.

Here is one: Malaysia. Now, that chart has moved back

up. There is this three year trading range, this big launching pad here, with rising lows in the pattern. I think that both technically and fundamentally, this can support a multi-year bull market. However, the one big problem that stands in the way is Wall Street.

There is South Korea: A big bear market down and here it is breaking up through all that.

You see all these little tigers:

I give Hong Kong a miss, because I think we are going to have a further ruckus there with Governor Patten and China.

Thailand, look at that. This is a multi-year base formation that it is starting to push up out of.

These little tigers look terrific. They fit the global background I was talking about with the harmonisation of economic activity. Getting interest rates down and letting some of these currencies go, reviving growth.

So, to sum up on that global stock market picture: A number of those markets are in a position to see some multi-year bull trends and I think they will, but they are going to get interrupted by the mother of all bear markets which will be coming from Wall Street, which is not going to be able to escape from this record over-evaluation level.

Now, everybody is saying that maybe the US market will just hang up there, hold up there, long enough to allow the fundamentals to come upwards. If it was not grossly over-valued, I would say that was true.

All stock market history, in any country, shows you that when you reach record over-valuations, however you want to measure them on any objective criteria measuring a degree of historical valuation versus the past, Wall Street is more expensive than it has ever been. What happens to markets, when they reach that stage? They do not have to go down tomorrow and Wall Street probably won't....but it will go down and it will go down to scale with that over-bought condition. So we are going to get a huge Wall Street bear market.

All of Wall Street is watching the bonds and watching the short term interest rate and saying there is no problem as long as they don't go up. They have a lot of historical evidence on their side, because we have not had a big downward move on Wall Street in the past, without bonds heading down first. But this market is so over-valued and everybody is so concentrated on that one indicator that something else could easily spook it. It may be a Saddam Hussein coming from somewhere. Or will it be the trade war that the Clinton protectionist administration might lead us into. Something will come along and spook it.

So, I think what you have to do is to keep a very careful eye on Wall Street and (this is theory, not fact), if you see two consecutive days of 50 points or more on the Dow on the down side (which has not happened for years).....I am looking for some sort of critical change to damage that sentiment, to indicate that Wall Street is beginning to erode.....that would be a run for cover sign for me.

Australian Stock Market

In the meantime, as you know, your Australian market is locked in this big overall trading range. It will certainly go down when that Wall Street bear market hits. But in the meantime, Wall Street today is a neutral to benevolent indicator. So, I think we may see further ranging. It may even push a little bit higher, but it is not as good as your bonds.

Questions From The Audience

Q: Do you see the US dollar pushing above the 165 level against the European currencies?

A: It could very easily push above the 165 level, but the type of action we are starting to get here is very choppy. The extreme of sentiment and the choppy trading activity, to me, is indicative of top formation development. But I don't know where we are in that top formation development activity.

I would say that it has already peaked against the yen, or close enough that it is not worth worrying about. So, I think it will thrash around for quite some time, but watch that Clinton administration, because they do not like the dollar up here. They are already starting to make noises about that and may engineer the dollar lower.

Q: What do you think will be the effect of the western world having to lend the money to bail out Russia?

A: You are assuming that they are going to lend the money to Russia. I think there is going to be a lot of talk and very little action. The only money that does get lent will be on the basis that they spend it immediately. That is, it will really be subsidy money to support the economy back home, depending on what they want to sell to Russia. It will be lent on condition it is immediately used to buy US goods.

Q: In Fuller Money No 104, you say it is like selling gold into a bag. What do you mean by that?

A: I am saying that it is like selling gold into a bag

because the gold chart is still weak. As you know, gold does not have a friend in the world, except for one or two here in Australia. That is not a rude comment. I like gold, not to wear it, but I like having it. I confess to being a not-so-closet gold bug. But it is out of favour.

Look at the sentiment, it does not have a friend in the world. The central banks are selling gold. People are now writing articles that gold is finished, gold has been demonetised. It really shows a great understanding of world history to say that gold is no longer money, doesn't it? I think it is absolute nonsense and what is true, though, is that inflation is not a problem. But governments are doing everything to try to avoid the 1930's problem with all the bail outs. What is that going to do to inflation towards the end of this decade? I don't know what year, but it is a guaranteed inflation problem.

Dutch central bank sells gold. Belgian central bank sells gold. More central banks will sell gold, because they have terrible deficits. So, they will sell gold and that keeps a cap on the market a while longer. But that will sow the seeds for the big bull market, because all of those countries that are selling gold. The 1980's boom was because the US was selling so much gold. What is going to happen is that when that next inflation problem comes around, and it will, because it is cyclical like everything else, people in those countries are going to say that not only have we got an inflation problem, but our central bank has sold all the gold, so our currency is not backed by anything. It will guarantee a huge gold boom. It may not be before the end of the decade. I could not make a more precise guess, but I will give you an indicator to watch for gold. Watch broad money. That will be the key to inflation. Watch global M3.

I will take a guess, which is that Australian M3 is on the floor. Japan's M3 is dead. Everyone is talking about how strong the US recovery is, but their M3 is very weak. The only country that has good M3 is Germany and they are trying to squeeze it out. Ironically, the whole world wants Germany's M3, except Germany. So, watch global M3. When you start to read how strong US, European, Japanese, and Australian M3 is, that is, in double figures, mark on your calendar: Two years from that point there will be a real inflation problem. The gold market will anticipate that, probably by at least a year.

So, everything, all the technical and fundamental indicators and trends are saying that here we have a 12 year bear market, gold being totally out of

favour, totally discredited, nobody has a good word for it. Price is still flat, but it is not going down very much. Watch that trend consistency. Look at the chart of the February contracts for gold. I said before that every trend has a predominant consistency characteristic and this trend on February gold is a progression of lower rally highs. When you finally get a higher high (it would take 340 on the February contract to do it), that will be saying warning, warning, maybe gold is turning. No money back guarantees, they don't exist in markets, but that will be a major warning that the gold trend is starting to change. The shares would also pick up on that.

At the moment, though, I think there is a real risk of gold going a bit lower on all the central bank selling. We are bound to get more European central bank selling. But if it did go above 340 tomorrow, I don't think that will be the start of the big bull market. It would be a technical rally point with short covering in there (a lot of people are short gold). But everything is moving in the direction of a major bull market in gold before the end of this decade and M3 will be the real driving, fundamental factor warning of the inflation problem.

Q: What significance do you place on The Economist article about the end of gold?

A: I think it is a classic contrary indicator when you get that type of story. The Economist has a good track record for that. I just ask who is buying the gold? I think that the real investment demand is in Asia, the wealth shift that is taking place. It has been going into Taiwan for years, it has been going into Japan for quite some time.

Incidentally, if you wanted a precious metal hedge, don't take gold. Shares are better, but if you wanted a metal, and you wanted to lock them away, take platinum or palladium. Is there going to be any central bank selling of platinum or palladium? Central banks don't have any. Where is the stuff produced? Virtually all the palladium comes out of South Africa. In terms of the platinum, it is mostly South Africa and the rest of it is from the old Soviet Union. A pretty stable place, the old Soviet Union, pretty good production facilities there. And poor old South Africa. So talk about a possible shortage, if gold went up \$US100, platinum will go up \$US300.

Q: The grains have been bottoming along reasonably well. How do you see their prospects?

A: I think we are seeing the beginning of the bottoming out process for a number of commodities. Wheat is certainly leading on that overall grains cycle. I think it will probably take a crop disaster in the US to really cause any sort of big run. That would certainly live off

some inflation fears, but I think it is a weather situation. When I look at commodities in general, there are a lot of parallels with what we have just been saying about gold. Nobody expects a recovery. Everybody is very depressed. It is obviously hurting Australia.

So many of the agricultural commodities tend to bottom out slowly. I think that is what you are really likely to see, a long protracted bottoming out process. That will not help you here and will put pressure on your dollar in the short term.

Q: Do you have a comment on the Australian dollar versus the harder European currencies?

A: Every paper I pick up is talking about the Australian dollar against the US dollar. And I think that is not going to be the most exciting play. Incidentally, that trend has been interrupted and I think you are in a rally stage for the Australian dollar.

Here is a very long term chart, 1988 on, against the German mark. You see the Australian dollar moving down here against the German mark. There is a massive overhead top area. I think the world is wrong on the German mark. They see Sterling devalued against the EMS and then plunging against the US dollar. They see Norway doing it, Ireland doing it, Spain and Italy also doing it and they think Germany will follow. It won't happen.

I think we have seen the best of the recent rally in the Australian dollar and you can see the overhead supply on the chart. I think your dollar will be heading lower against the German mark. But here is the big one. Here is the Australian dollar long term chart against the Japanese yen. The Japanese yen has been, in terms of long term mega-trends, the power house currency and that is going to continue. I think the biggest move that you will see for your dollar will be weakness against the yen. I am also saying that the US dollar is going to fall to new lows.

Here is the chart you all look at: it is down here below 67. Now it has reversed up. I talk about consistency characteristics. I want you to look at it here: from 73.20 down (US cents to the A), you have had four successive lower highs and then it broke it on the last move up to 68, making the end of that downward move.

Now let us look at it the other way around from the way everyone looks at it: This is absolutely fascinating. Here is Australian dollars per one US dollar. So, it shows the US dollar moving up against the Australian dollar. Fascinating, because it gets right back to this roundaphobia level of 150, which was back in October 1987. You can see here the reverse of its consistency characteristics: A progression of six higher lows and every time it hit a new high, it followed through. That

was the consistency characteristic, higher lows and maintains breakouts. Then you get a new high, which is absolutely consistent, except that it fails to maintain the high, breaks the low, breaks the trend and you are into a ranging phase and a reaction phase and you will get more short cover. (ie People that are short the Australian dollar).

Also, the dead give away, I write about this all the time in Fuller Money, you get both central banks in the countries involved supporting that currency, or trying to check a trend. And they will succeed. So, you have the Federal Reserve of the US buying Australian dollars against the US dollar and you have the Reserve Bank of Australia also buying Australian dollars. So they have broken the downward trend, this is your government, getting the US to help them, stepping in, supporting the currency so they can cut the interest rates which will kick the bond market up and prevent your stock market from market from slumping.

Q: On the US stock market, keeping in mind that it is the savings of the average american that has gone into the mutual funds, if there is a slump in the market, what would that do to liquidity and the economy?

A: Well, it would not be good at this stage, obviously. There would be nothing good about it, but what is a good-news story for the US economy, which Japan has not been able to replay, is that the booming US stock market has enabled a lot of corporations to recapitalize, to get rid of a great deal of debt. But there is a big queue to do that and a slump would close that door most dramatically. Also, it would be a big body blow to sentiment and savings when that happens. And it will happen, but not yet.

Q: How have they been able to hold inflation in check in the US with such a large deficit and such a low dollar?

A: You might as well say Australia as the US, which is the same situation. I will give you the short answer.....because this recession that we have been experiencing and won't pull out of entirely for a long time, is the closest we have been to a replay of the 1930's situation. You have had so much deflationary pressure, you have had so much asset deflation, so much rising unemployment, that it has created all these deflationary pockets, which has kept the inflation rate way down. It will stay down.

There is no way that I can see inflation rebounding back tomorrow. It is really going to take quite a respectable global economic recovery, which we will get if all countries move towards a reflationary policy. That is what, two years after broad money expands, will bring on inflation again, and it will bring it on with an absolute vengeance, I would suspect. But in

the meantime, can you see what is going to happen? What is actually happening. Governments are saying that you can't lower interest rates, you can't let the currency slide, because we will immediately have an inflation problem and we will never be able to sell our bonds.

Well, they are wrong on that, as they are wrong on most things. They are able to sell the bonds. Any government can sell as many bonds as it wants to. Just use the under funding rule. Get you short term interest rates down, which they control. When they are low enough, those yields of nearly 9% on Australian bonds will look mighty attractive against your inflation rate. So, you will get savers coming out and you get people with pensions and retired people who are depressed about their deposit account, which is going down, going into long term bonds. If they don't do it, you will have the Japanese going into them. If they get the yield curve steep enough, they get the banks going into them, borrowing short and lending long. That will fuel that rise in the bonds. It is not creating an inflation problem until you get the big growth phase coming later on.

KEY REVERSAL DAY

In his address, reproduced in this issue, David Fuller uses the term "key reversal" day. However, you will often hear reference to a "key day", which is a quite different thing. As there is some confusion about when a reversal day is a "key" day, it might be useful to clarify the terms.

The first requirement of David Fuller's "key reversal" day is that this phenomenon must follow a clear and substantial trend, either up or down. Similar patterns, that occur in a trading range, do not carry the same implications.

Taking an upward trend, the "key reversal" day requires:

The price to first move above the previous day's peak, to new high ground for the trend.

These gains to not be held and the price move below the previous day's low.

It CLOSES BELOW the previous day's LOW.

David Fuller suggests that we can not know whether the following reaction will be temporary or major. Other technical data will provide those clues.

David does suggest, though, that, along with the Island Reversal, this is one of the most reliable reversal patterns and that there is little time to ponder the eventual outcome. You should not be seriously wrong for more than twenty four hours, when this signal appears. The disciplined step is to immediately close or reverse your position.

The source for this description is David Fuller's "Technical Analysis and Charting" Workbook 1984 (only obtainable by attending his Chart Seminars).

T.H. Stewart also describes the "key reversal" day in his book "How Charts Can Make You Money" 1986 Woodhead Faulkner, Cambridge and Nichols Publishing Company, New York, page 32.

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I Murphy also describes the "key reversal" day in his book "Technical Analysis of the Futures Markets" 1986 New York Institute of Finance, page 94. He stresses the need for a close below the previous day's low. He points out on page 95, that the term "key reversal day" is widely misunderstood, although I feel he has not added to understanding, since he calls it a "top (or bottom) reversal" day on page 94, but seems to call it a "key reversal" day on page 95

Ivan Krastins also describes the "key reversal" day in his book "Listen to the Market" 1991 McGraw-Hill, page 41. He goes on to describe what he simply calls a "reversal" day on the same page. This is where the price exceeds the previous day's high and closes below the previous day's close, but not below the previous day's LOW.

This is the point at which the confusion comes in. A common "reversal" day may see a low below the previous day's low, but does not have a CLOSE below the previous day's low. It is often mistakenly called a "key" reversal day or just a "key" day, when it is really only a common "reversal" day.

Martin Pring seems to make this mistake in his book "Technical Analysis Explained" 1985 McGraw-Hill, page 73. Also the book "Technical Analysis: A Personal Seminar" 1989 New York Institute of Finance, page 119ff.

So, when you hear someone refer to a "key" day reversal, make sure that you know to what they refer. A true "key reversal" day, as used by David Fuller, is a highly reliable signal, but a common "reversal" day has much less certain implications.

If you examine the chart below, you will see one of the most famous "key reversal" days in recent history.....January 17 1991 on the All Ordinaries Index (see figure 1). Another example was in the All Ordinaries Index on March 3 1993 (fig 2). "Key reversal" days may not come along very often, but when they do, pull the trigger quickly.

Colin Nicholson.

Figure 1

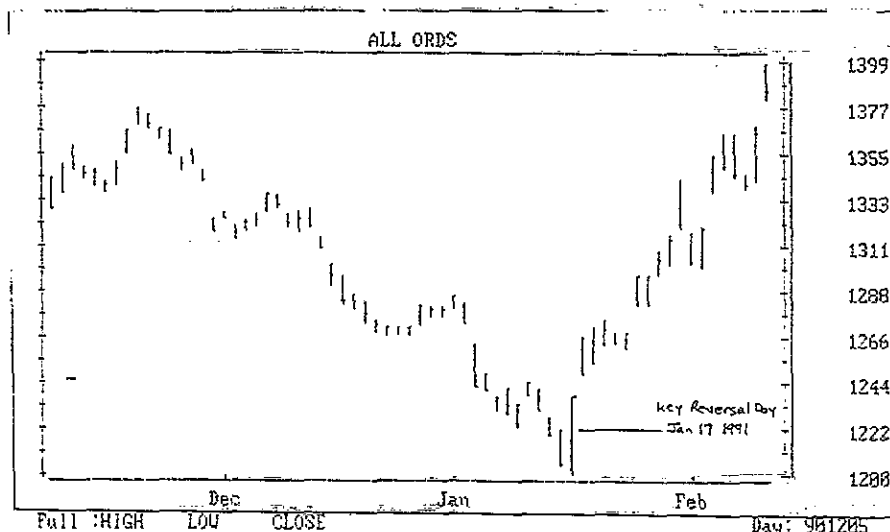
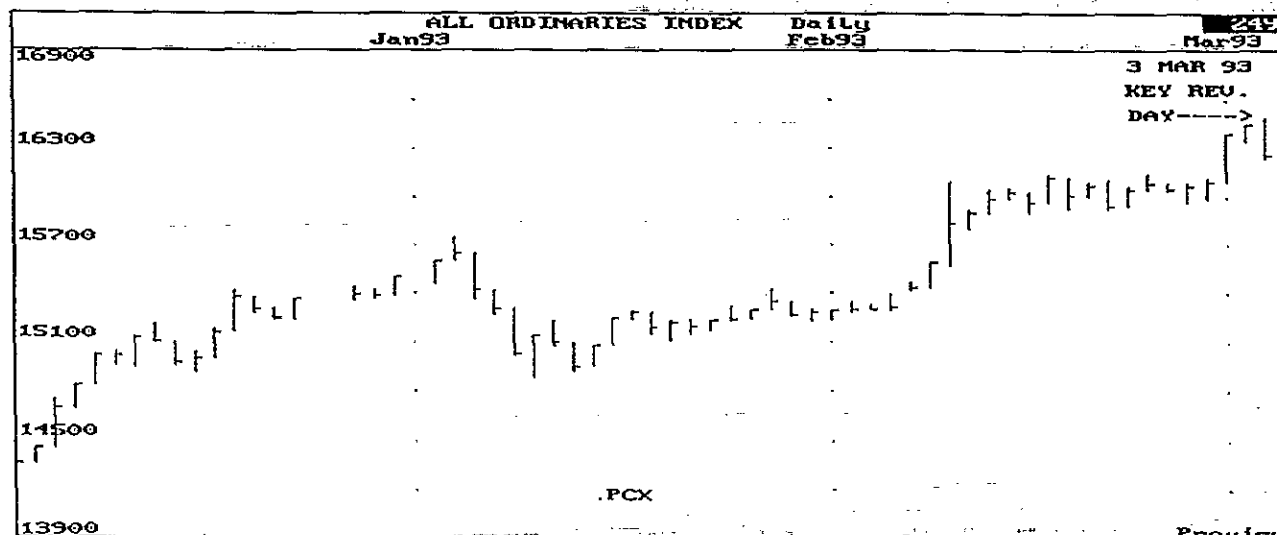


Figure 2



From late March to mid June Wave (3) of (C) should be dominant, bringing increasingly favourable fundamentals and a surge in buying interest into the market. Look at Wave (C) from April to October 1989, the last up move comparable to this one. Wave (3) of that move in July/August produced one of the most powerful buying binges since the crash. Expect a similar progression of events this time around.

Cycles projected monthly from the 1987 top have highlighted November 1987, March 1988, August 1988, April 1989, January 1990, January 1991, and February 1992 as turning point months. Quite a good record, as you can see! The next two months are June 1993, which I expect to be a top and November 1994, which I expect to be a major bottom. On a daily basis, look for 17/3, 1/5, 16/6, 1/8, 16/9, and 3/11/1993 as possible turning points this year. Look for 16 September 1993 for signs of a major top, as well as 16 June.

Support and resistance can normally be expected at important tops and bottoms. The major ones are 1658, the 1988 top; 1697.7, the 1991 top; 1730.8, the mid point of the crash; and in the 1780's, which contained the 1989 triple top. A .618 retracement of the crash lies at 1868.1, while 1872 is 144 X 13. These last two price levels represent probable maximum upside potential.

The end of the 1993 bull market will mark the end of Cycle Wave B and the entire post-crash counter-trend rally will be over. Cycle Wave C should usher in a crash. Due to the increasing concentration on "safe" blue chip stocks since 1987, it is precisely this group which will be hit the hardest in the next crash. They represent almost the last refuge of hope in the old bull market and once the last source of hope goes, it will go with a rush. Many small stocks are likely to go "down" by ceasing to trade altogether.

Downside projections can be measured in several ways. A whole series of tops in the late sixties/early seventies lay in the low 400 region. The 1982 bottom is also there, at 443.1. Projecting Cycle Wave A down by .618 gives a target of 430.1. 144 times 3 equals 432. The 1900 day rally of 1982-1987, when squared out in price from the top gives a target of 412.4. I personally favour the latter target as the best, though they are all in the same region. By the same method of cycle projection mentioned above, a final bottom on 3 December 1994 is probable.

From a bottom in the 400's, any rally which is both corrective in nature (i.e. not five waves up) and cannot retrace more than 50% to 67% of the previous decline, will increase the chance of a further decline to about the 200 level by the end of the decade. If you look at Figure 1, you will see that 200 is near the Wave (IV) base of 1974 and also a .382 retracement of the 1876-1987 five wave advance on semi log scale. Look for September 1999 for signs of a major bottom, since it is 12 years or 144 months from the history high of September 1987. The autumn equinox of March 2000 may also be near an important low.

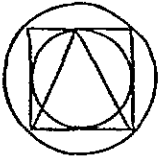
BHP

This stock is set for a real powerhouse run in 1993. Without going into all the maths, a top in the low \$25 range 25 years from the last time it breached \$25 would make a perfect selling point. A turn down from an approximate double top 25 years apart would see it down for the balance of the decade. Enjoy the ride but don't overstay your welcome.

DJIA

By my reckoning, the world's best known stock market average should top at 3703/3704 this year. Look for 7-11 May for a top or alternatively about 10 August. Once this is in place, the Dow should crash.

HAYDEN MURRELLS 3 MARCH 1993



**AUSTRALIAN
TECHNICAL
ANALYSTS
ASSOCIATION**

ABOUT THE ATAA

The Australian Technical Analysts Association (ATAA) is a member body of the International Federation of Technical Analysts (IFTA). The ATAA was established in 1990 with the goals of

- promoting the knowledge and use of Technical Analysis in Australia,
- providing a forum for new ideas and concepts,
- facilitating communication between users of Technical Analysis.

The ATAA has over 100 members in NSW, Queensland, South Australia, Tasmania & W.A.. Members include professional Technical Analysts as well as dentists, doctors, Corporate Treasurers, company directors, newsletter writers, professional traders and investors. The common bond between members is the use of Technical Analysis to determine the likely direction of markets.

Membership of the ATAA entitles you to:

- Bi-monthly Newsletters,
- Attendance at monthly meetings in Sydney, with speakers like Bryce Gilmore creator of the Wave Trader,
- Membership of The International Federation of Technical Analysts (IFTA),
- Use of the ATAA Computer Bulletin Board (ATAA BBS) to communicate with other ATAA members, swap market data and useful analysis programs, send faxes and much more. The ATAA BBS will soon be linked with the US Market Technician's Association to allow easy communications with their members.
- Discounts on the cost of The ATAA's Technical Analysis and Trading Course and discounts on other products and services.

Meetings are held at the State Library of NSW at 6 pm on the 3rd Monday of every month excluding December and January. An annual social function is held in December.

There are 2 classes of membership: Full & Associate.

- Full Membership is for those who use Technical Analysis for trading decisions or recommendations.
- Associate Membership is for those with an interest in Technical Analysis.

Membership is \$100 pa. For membership purposes our year runs from 1 July to 30 June.

There are special concessions for NEW members joining part way through a year. If they join between 1 July and 31 December, they receive copies of all newsletters published to date in the year. If they join after 31 December, their initial \$100 membership will, in effect, relate to the NEXT year, starting on 1 July. The balance of the current year membership is free.

For more information call David Hunt Secretary on (02) 545 2605 or Charles Balas, President on (02) 522 5220.. In Victoria call Paul Simmons, Victorian Chairman on (03) 593 1434.

WORKSHOP AUDIO TAPES

Every year, CompuTrac holds a conference on technical analysis in the USA. November 1992 saw the 14th conference at New Orleans and featured some prominent speakers.

Audio tapes of the conference sessions are available for purchase from CompuTrac. Each tape comes with a complete set of the speaker's graphic overhead materials that are referred to on the tape.

The speakers and topics available on tape are:

Aspray	X-Raying Chart Patterns, Trading Bands, Currency Analysis
Bierovic	A Synergetic approach to profitable trading
Blau	Double Smoothed Stochastics, the True Strength Index
Bressert	How to combine cycles & oscillators to identify cycle tops & bottoms
Daino	Computerised multi-trend analysis: intra day, daily, weekly and monthly
Dickson	Numerous tools used in conjunction with testing and money management
DiNapoli	Fibonacci Retracement Analysis
Elder	The Inner Game of Trading "How to Make Yourself Win or Lose"
Johnson	Global Equity Trading Strategy
Kase	Volatility and Risk Management
Krausz	Symmetrics [c] - A New Analytic Approach
Lane	Stochastics - taught by one of its developers
LeBeau	The New Environmental Indicators and Welles Wilder's Average Directional Index (ADX)
Long	How Gann made some of his predictions and how you can do the same
McDermott	Using classical chart patterns for profitable investment transactions
Mandl	Point and Line, P&L Trading
Miner	Time Projection and Time Rhythms in the Markets
Plummer	How to benefit from Crowd Behaviour which allows traditional technical analysis to work
Ross	Where do you place the stop?
Schutzman	There is trading power in older, simpler techniques
Watkins	The Art & Science of Cycle Techniques
Williams	Chaos Theory, Fractals, Market Facilitation Index, Trader Psychology

Up to nine tapes can be purchased for \$US30 each, with lower prices for more than nine tapes. For further details, contact Colin Nicholson on 02 436 1610.

CALLING INTERSTATE MEMBERS

You will notice that we are trying to write up a report of most Sydney meetings of the ATAA and publish them in our Newsletter. We would also really like to publish reports of interstate meetings. Why not take a tape recorder along to future meetings? You can either make a transcript of what was said, or just a summary in your own words of the main points covered. See the separate item on Newsletter articles in this issue for where and how to send reports.

THE DAWN REPORT

It was extremely satisfying to see so many well known faces in the Stock Exchange Theatre which was filled to capacity. I believe it was a big plus for the industry where so many people benefited. David Fuller's 25th Global Chart Seminar at the Hilton was also full and again quite a number of our members were able to attend. Technical Analysis should have a much greater profile in Australia, but that is coming. Our Association is dedicated to the educational side. I believe that each decade makes T.A. more important.

My thanks to all who helped make David Fuller's visit to Sydney so successful. A case of mission accomplished but not without a good deal of hard work. Peter Tooth, Nigel Hobbs and Judy from Research Technology helped with the promotion and consequently we had the numbers to show for it! David hosted a superb luncheon party for friends at Doyles Restaurant at Watson's Bay on the Sunday which turned on the right weather for such a venue with a ferry trip to boot. It is not everyone who can say they shared a lobster with David Fuller. Now we are awaiting FM 105 due to be released on Feb. 26.

I can remember Margaret Thatcher some years ago asking Economists to help Governments understand the peaks and troughs of the business cycles. At the time, I thought the ones to ask were the Technical Analysts. It was interesting to listen to Peter Pontikis, at the February meeting in Sydney, lecturing on Australian Financial History which seems a positive step forward. (We hope to have a full report in next newsletter, Eds.)

A book I can recommend "The Bull, the Bear, & the Kangaroo", The History of the Sydney Stock Exchange by Stephen Salsbury and Kay Sweeney and published by Allen & Unwin.. Available from Research Technology, Sydney (02) 233 6822 and the ASX/SFE. Indeed, it was after browsing through this book and looking at the Bank Index which confirmed that we were near the 100 year cycle. The study of cycles, along with the appropriate long term charts, can provide so much information and allow for forward planning and short selling, if appropriate. It is a pity that Technical Analysis is not used at the Board Room level. I would indeed like to see a competent and experienced Technical Analyst in every Board Room.

Like every profession, it takes many years of study and practical experience before one can really qualify. Some of the best technicians in the world to-day (and I am pleased to say that I know some of them) are connected with I.F.T.A. in some way and are sharing their vast storehouse of knowledge and experience to

help educate and promote T.A. globally.

It is with some pride that I can associate myself with the A.T.A.A. with its growing list of members - some of them educators and prepared to share with the younger up and coming technicians. Australia could well be the "clever country" if we continue to add to the development of T.A. through books, trading courses and computer software now being marketed by our members. A strong case for BUYING AUSTRALIAN.

Will Slatyer's new book "Trading Asia Pacific Financial Futures Markets", written jointly with Edna Carew was launched at the Sydney Futures Exchange on 22/2/93 by Les Hosking. It is published by Allen and Unwin. ATAA members will be able to buy at a concessional price to be announced.

Will is now working on his next book "Lost Art of Financial Warfare". I couldn't resist asking him what he does with his spare time.

I have been lucky to see an advance proof copy of Ivan Krastins latest effort - "Making Options Work For You" which will be published later in the year along with some software. It is certainly one to leave some space for on the bookshelf and an ideal companion to "Listen To The Market. It is the best book I have encountered so far on options and strategy. It really highlights the pitfalls and emphasises the opportunities. There are also some wonderful chart examples highlighting the run from the November 1992 lows.

Ivan is heading up to Singapore for more courses, but should be back in Sydney in about three weeks time. Members could well take advantage of his next seminar: "Timing is The Key" Market Analysis and Options Workshop on Sunday 28th March, 1993 (9 am to 5 pm). Venue: Seminar Room 1, Level 11, State Library, Macquarie Street, Sydney. The cost of \$395 includes tuition, detailed notes and lunch. Enquiries (02) 922 4991. Having participated with Ivan in an Option Workshop last year, I can recommend this one. Some of the new strategies will certainly prove to be winners.

David Bowden recently joined our Association and we are extremely pleased he has accepted your Committee's invitation to be the guest speaker at our March Sydney meeting. Most of you will have heard of David's fame with his Gann style teachings and "Safety in the Market" which has been under the Research Technology banner since 1988. He has taken his courses offshore to Singapore and Hong Kong. They have been extremely well received by Asia's "little tigers" and 1993 promises to be an extremely busy and successful year. Last year he made an impact in both London, Europe and the U.S..

Your Vice-President was first introduced to David

Bowden over the telephone by the Gold Coast City Council as a fellow Gann student. We had both responded to "The Lantern Letter", a publication on Gann Analysis published in Queensland. It was not until several years later, when I attended David's first Sydney seminar, that I realised who he was and I was able to verify his story about how he started with Gann Techniques. Needless to say, his track record now speaks for itself. I also attended one of his Sydney seminars for a refresher course. It would be hard not to enjoy his unique style and presentations.

David attended "The Trading Game" earlier this year and more recently the David Fuller two day Chart Seminar at the Sydney Hilton.

Members interested in attending David Bowden's 1993 3 day Seminars for A\$15,000 should contact Nigel Hobbs at Research Technology (02) 233 6822. The subject list is comprehensive and there will be something for everyone. Perhaps I will see you at one!

There is no limit to the acquisition of knowledge and I do believe that one should regularly attend the important seminars which can both refresh and revitalize. Besides it is a wonderful way of keeping in touch with people and making new friends.

I trust 1993 will be a successful year. We have certainly got away to a good start with the educational programme.

Dawn Bolton-Smith

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WHAT OTHER TECHNICAL ANALYSTS ARE SAYING.

... COMPILED BY DAWN BOLTON-SMITH

David Fuller's FULLERMONEY is published monthly by Chart Analysis Limited, 7 Swallow Street, LONDON W1R 7HD, United Kingdom. Annual subscription \$US 340.

FULLERMONEY FM 104 was widely distributed at the Stock Exchange Theatre and most of David's recent thoughts would have been included in the report in our current issue. There have been some violent currency movements and a big Wall Street correction since so it will be interesting to read FM 105. No doubt there will be a lot of new subscribers from the South Pacific area. I believe this is the newsletter for the global picture. Ignore it at your peril.

MoneyVision's INVESTMENT NEWSLETTER, published every two months, with Alert in between Bulletins if required, by MoneyVision Corporation Pty Ltd 333 Tallebudgera Creek Road, Tallebudgera Valley 4228 Q'ld. Annual Subscription \$100.

This letter concentrates on the big picture. The February 1993 issue suggests CAUTION. Speculative excesses of recent times will not be corrected overnight. Debt is a major problem and creating more of it is not likely to solve the situation. TO DATE, THE PROBLEM HAS NOT EVEN BEGUN TO BE TACKLED. Therefore the corrective restructuring, which is necessary, must lie ahead. PONDER THIS REASONING CAREFULLY.

Avoiding mistakes is as important as investing in profitable moves. The MoneyVision letters provide balance and perspective in this respect. These attributes will be essential in the years ahead!

OUR GANN CYCLE WORK SUGGESTS 1993 WILL BE AN EXCELLENT UP YEAR FOR MANY COMMODITIES WAS 1933. (This is an interesting perspective, including two charts. The CRB INDEX of 21 Commodities & the S & P 500 Index weekly back to 1988. The first shows a downtrend, the latter uptrend. Will these invert in 1993?)

MoneyVision puts it in perspective: "the top chart is the Commodities Index and the bottom chart is the American S&P 500 Share Index. Which one is likely to be topping out and which one is likely to be topping and which one is likely to be bottoming? Further which one is highly likely to be undervalued? Now you see why we have positioned ourselves more in favour of Commodity Trading Funds than shares and property for 1993 and 1994. Gann was emphatic about time, With commodities, the 90 year cycle was important. The 1986 bottom harmonised with the 1986 low (90 years), which then saw a higher final low in 1901-03. 1993 will be 90 years from the 1903 low." This newsletter has some really original research and charts with appropriate warnings for those risky area.

Richard Russell's DOW THEORY LETTERS Post Office Box 1759, La Jolla CAL USA 92038. Annual Subscription \$US 250.

Feb 3 1993. "The Question Mark is still in the Box": (It will be interesting to read the next issue which will take into account the recent BIG REACTION in the Dow & the S&P 500. The issue concentrates on values and the extent to which the US markets are overvalued on historical comparisons. He quotes specifically from Louis Rukeyser's Wall Street Report: "The two surest predictions I can make for you are (1) The market will frighten you badly one of these days, and (2) That those who ride out the terror with solid investments will do infinitely better than those who run screaming to sell everything." russell comments: "This is a very interesting and significant quote, because I think it underscores the current attitude of extreme complacency. Consider this —only five times in modern history has the yield on the S&P 500 been this low. Each time the low yield (over valuation) period has given way to a bear market. But investors have now become conditioned to believe that any market reaction constitutes a major buying opportunity and that stocks not only should be held through all reactions but positions should be increased on any reaction. When the next bear market arrives, this attitude will be disastrous." (This newsletter contains many chatty little items and from time to time some really worthwhile Research Analysis).

NEWS & VIEWS FROM GEORGE COCHRANE Annual Subs \$75

TECHNICALLY SPEAKING, WITH GEORGE COCHRANE Annual Subs \$195

George Cochrane is well known to readers of the Finance Section of the Sun-Herald and he has recently become a member of the A.T.A.A.

I found both letters extremely interesting with good common sense advice for both stockmarket and interest rates. Members might care to view them by sending a stamped addressed envelope to Private Bag 1, Tamarama NSW 2026.

Robert Prechter THE ELLIOTT WAVE THEORIST Published by Elliott Wave International, Inc., P.O. Box 1618, Gainesville, Georgia USA 30503. Annual subscription SUS 250 Overseas Airmail.

The issue of January 1 highlighted their view that the stock market was edging closer to the end of its bull market. Their maximum upside target is still 3600 for the Dow. They view the risk as great as Tokyo 3 years ago. 1993 is also viewed as a WATERSHED YEAR FOR THREE MAJOR MARKETS. The last such year was 1980 for stocks, bonds and gold. Fibonacci time intervals argue powerfully that 1993 will prove to be the cousin of 1980. The same markets will reverse major trends, but this time in the opposite direction. "Deflation" - Both bonds and precious metals have cycle lows due in May or June. EWT is still a bear on gold & silver, but a move above \$ 348 would negate the outlook for gold. Cycle lows are expected in June for both metals.

DBS CONCLUSION

The message from these letters suggests that this year will have plenty of volatility and perhaps spring a few surprises. The best way of avoiding this is to keep enough up to date charts and include ones showing the BIG PICTURE. My advice is to stay with the technical indicators which keep you on the right side of the market. Directional Movement, Parabolic SAR, R.S.I. the harmonic moving averages 5, 15 & 30 and MACD would have served you well in 1992 and should have continued to do so in 1993. I can only repeat the advice from J. Welles Wilder, given to me in 1980, that following the principles of Directional Movement will stop you being "wiped out" in the market.

RECYCLED POLITICS

"History repeats itself. That's the trouble with history"

- Clarence Darrow

When referring to history, Clarence Darrow, the American lawyer who in 1925 defended John Scopes against the charge of teaching the theory of evolution, was a student of human nature. He had observed that over time people tend to act the same in similar situations. Economists refer to the repetition of economic behaviour as economic cycles, such as the Kitchen or business cycle of approximately 40 months duration. There are economic models to explain the behaviour of the economy in cycles of up to 60 years in duration. These repetitive group actions can be also be referred to as political cycles, which are inextricably entwined with economic cycles.

The Greek philosopher Plato recognised the political cycle at the dawn of civilisation. He claimed that society progressed through the rule of one (dictatorship or monarchy) to the rule of a few (cronyism or oligarchy) to the rule of many (democracy) to non government (anarchy). Because anarchy is intolerable, people soon welcomed a dictator and the cycle started again. Elements of Plato's long cycle are evident in modern politics.

Professor John Sterman (MIT, Cambridge USA) recently presented a paper in New York identifying a political cycle. Political value shifts were classed from progressive to cosmopolitan to conservative to parochial, and could be clearly identified in US political and economic history over 200 years. It was fascinating to learn that electoral patterns could be so cyclical, and apparently coincidental with phases of the sixty year long wave economic cycle. In the economic expansion phase, political values tend to become more liberal and progressive. At the peak of the cycle there is an outward, international focus - the cosmopolitan phase. As international trade becomes more competitive and the economies show strain, people start to become introspective as conservative policies try to maintain an unsustainable standard of living. When the economic cycle deteriorates markedly, groups of people seek to maintain their standards at the expense of others with parochial policies.

It is the parochial political phase which concerns us in this article because of the suggestion that the world economy is currently suffering a long wave depression phase. In the parochial phase, there is often a polarisation of society as socialists, radicals and

liberals react with conservative elements. The rise in fascism in the 1920's and 1930s was parochial. Nations often turn inward and isolationist. The current civil war in Yugoslavia is a particularly violent form of parochial politics.

American Cycles

Professor Sterman's paper "Long Wave Economic Decline and the Politics of Disillusionment" gave a number of examples from US history. Most striking was the similar political patterns of the 1830/40s and 1980/90s. In 1828 Andrew Jackson won the presidency by a large electoral margin. In 1832 Jackson, who although a Democrat was similar to Conservative Ronald Reagan, was re-elected in a landslide. Speculation in stocks and real estate was rampant in Jackson's second term and surface prosperity helped Vice President Martin Van Buren to win election in 1836. Real estate prices peaked in 1836 following a requirement that all land purchased from the government be paid for in silver or gold. In the spring of 1837 stock and commodities prices also broke, to precipitate the Crisis of 1837. The parochial political phase was well under way.

Van Buren was defeated in his 1840 re-election bid, due to the depressed state of the economy, by William Henry Harrison who waged a bitter negative campaign. No president was then re-elected until 1860.

In 1980 the conservative Republican Ronald Reagan was elected in a relatively narrow victory. In 1984 he was re-elected in a landslide. Reagan's Vice President George Bush was elected in 1988. In 1987 the government stopped allowing interest reductions on net non-performing real estate. The stockmarket crisis of 1987 was countered by a very loose monetary policy which devalued the currency but failed to revive the economy.

George Bush was defeated by Bill Clinton because of the recessed state of the economy. Cyclical political behaviour suggests that President Clinton's term will not be smooth and that he might not be re-elected. No cycle is exactly the same as previous cycles, but some features are repetitive.

Using Professor Sterman's theory as a guide I looked at Australian history.

Australia's 1st Financial Crisis

Australian history indicates that it too follows the political cyclical pattern. An inflow of English capital followed the 1834 Forbes Act which freed up interest

rates and allowed a land boom. Credit then contracted rapidly following an English economic crisis, and this led to the collapse of the land boom in 1840.

There was little democracy in Australia when the country experienced its first financial crisis in 1841-1842. The English crown appointed Governors who were assisted in the administration of the colonies of New South Wales and Van Diemens Land by Legislative Councils. Two parties of graziers and merchants were influential in New South Wales in the 1830-40s - "pure merinos" or "Emigrants" and "emancipists" or "Liberals" - whose representatives made up the non official minority of the Legislative Council.

Australian colonial society underwent the changes expected from the parochial political cycle in the 1830s and 1840s. One historian (Fitzpatrick) suggests that "the coincident events of 1834 mark a definite point of departure in imperial affairs at large, and from that date the character of British interest in Australian colonisation underwent fast radical change".

Developing Democracy 1880-1895

By the late 1880s the Australian population had grown to three million with a third each in New South Wales and Victoria. Each colony had its own legislatures, based on semi-democratic representative franchises.

The Victorian parliament developed into a battle between the property based upper house (nominated Legislative Council) and the broad based lower house (elected Legislative Assembly) representing the farming, mining and manufacturing classes. The conservative Legislative Council managed to block land reform until 1883. The 1880s then became a decade of truce and coalition government, of apparently growing dissonance, of conflicts sharpening but losing their point and dying away. This constitutionalist-liberal government falls within the definition of parochial politics.

In New South Wales the colony was governed largely by factions which managed conservatively until 1882 when the government fell following failure of new land legislation. After 1884 a succession of weak factional governments struggled against powerful sectional interests which developed in their electorates. By 1886, tariff reform had caused societies to coalesce on both sides of the question. The appearance of Free

Trade and Protectionist organisations in the elections of 1887 and 1889 became the forerunners of a party system of Australian government.

The colonial working class became organised in the 1880s, initially through indirect parliamentary influence but then by the spread of unionism throughout the states. The antagonism between capital and labour, culminated in widespread strikes in the 1890s which led to organised labour parliamentary representation.

The cause of the 1890s depression in Australia can be debated by classical economists, but a number of cyclical features are apparent:

- there was a real estate boom concentrated in 1887-88. It was centred in Melbourne, but also prospered in the other states.
- the boom year 1888 saw the formation of 433 companies (1887 - 145) about half of which were land and finance companies.
- the stockmarket fell 36% from its 1888 peak to trough in 1893. Many minor shares were unsaleable at any price.
- the twelve major banks which went into "reconstruction" in 1893 wrote off STG 1.1m of their STG 8.3m aggregate capital called up STG 6.2m fresh capital.

The economic historian E.A. Boehm summarised the cause and effect of the period in a manner which basically holds good for the 1930s and for the present day -

"The timing of the external deflationary impulses in the early 1890s greatly determined the actual timing of the downswing in Australia, or its transformation from uneven recession to severe depression. The fact that the depression was severe and prolonged (particularly in NSW and Victoria) can be largely attributed to the effects at last being felt of the internal real and monetary structural distortions in the Australian economy itself".

The Roaring 20s & Whimpering 30s

I am neither a classical economist nor an economic historian. I am a market analyst, financial risk manager and student of human nature who believes that the clues to the future often lie in the past. My forecasting models do not have to suggest why markets behave in the way that they do, but they have to provide successful recommendations to corporations. Theorizing about political cycles simply

provides a basis from which to forecast the conditions in which business might have to operate in the future.

Another student of human nature, William Shakespeare, noted that there is a tide in the affairs of men, which, taken at the flood, leads on to fortune. In this context, all business would prefer to navigate in the conditions of a flood tide where there is room to manoeuvre, so that an adventurous course can be plotted. It is equally important to know when the tide is ebbing so that a different course can be chosen.

When I look to the conditions likely to prevail in 1993, I see an ebb tide with complex international cross-currents. My analysis suggests that the Australian parochial political phase will continue with a likely 1993 election result, either of a faction ridden Labor government without a clear mandate, or a Liberal/National Party coalition whose policies could be frustrated by a hostile Senate. In such conditions, business must continue to navigate with caution until the economic tide starts to flood again, possibly not until 1994/95.

Will Slatyer

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NEURAL NETWORKS

In last newsletter, we reported on Charles Rann's address to the Sydney ATAA meeting in November. The following has since been received from Charles, together with diagrams used in his talk.

History

Whilst men have for centuries endeavoured to create thinking machines it has been only recently that significant use has been made of machines that "think" - as compared to tools that do calculations. Recent developments became apparent about 1950 when Artificial Intelligence, Expert Systems and Neural Networks started to be seen. Whilst Artificial Intelligence and Expert Systems developed satisfactorily the Neural Networks faded due to the gross approximation used and the competition of the other techniques. As computer technology advanced, it became possible to overcome some of the old problems in neural networks and a new wave of development became apparent in the early 1980's. From this research work an information processing technology has evolved that can be usefully applied to many everyday problems - including stock market trading.

The technology basically operates as follows:

- accept input data
- process the data
- produce an output

When using the above methods this simple sequence, surprisingly, allows the solution of problems that cannot be solved satisfactorily by other methods.

Neural Networks

Neural networks is a technology that has been inspired by research on the brain and therefore it tends to excel at solving problems best handled by biological systems. Such applications include functional synthesis and pattern recognition or classification. Stock market applications usually fall in the area of pattern recognition. Basic pattern recognition is operating when an experienced trader has a "gut feeling" about a share investment or market movement. His decisions are based on his experience in the market (actually the experiences that he did manage to remember, consciously or unconsciously, from past markets).

A Neural Network can remember everything from past markets and can recognise much more complex patterns than the human brain can. It is this ability that

has resulted in the application of networks to stock market trading data. The basic data processing unit in the neural network is the "neuron" or "processing element" (used interchangeably). In the brain over 100 different types of neuron have been identified and a similar situation exists with neural networks where many types of processing elements have been developed. Fortunately in the field of commerce and stock trading relatively simple processing elements are able to produce useful results. The neural network can be considered as a black box into which data is fed and the output delivers a value for the required parameter - say the prediction of a share price.

The neural network has no preconceived ideas about how to process data until it is "trained". Training consists of feeding the network sets of input data and results. Many of these sets are required to enable the network to "learn" the characteristics of the system by a process of altering the mathematics within the network. The network recycles the internal data, each cycle progressively causing the output to get closer to the correct value or result that was initially fed to the network. During this learning process the network is tested from time to time, until it is producing outputs that show little error from the desired result. When this state has been reached the network is said to be "trained" and it is ready to predict results. The following Table for the results of training a network. The left hand column gives some daily WMC prices to which the network must be trained. The middle column gives the output of the untrained network (not many cycles). The right hand column gives the output from a trained network (many cycles until the results are satisfactory). In the application of neural networks to share trading, the network would be trained with data appropriate for predicting a share price (say 10 different individual parameters) and the output would predict a share price in the future, eg. say 5 days in the future. As the market changes from month to month it would be necessary to retrain the network often with the new data being produced, otherwise the predictions produced would gradually deteriorate as the market changed in characteristics.

Target Price	Table 1	
	Untrained	Trained
456	444.8	455.9
452	449.3	451.7
445	444.7	445.2
446	439.6	446.3

The basic element in both the brain and the network is the neuron. A biological neuron is shown in Fig 1. Electrical currents enter the neuron via the alien axions. The neuron sums all the input currents, then processes the resulting signal before passing it on to many other neurons. The synapse, which is an area between the axion and the neuron, acts as a control of the axion current modifying the current passed onto

the next neuron. In the brain there are billions of neurons, each being linked to hundreds of other neurons. It is currently impossible to duplicate such a complex network in computers. The neural networks used in computers are only a crude representation of the brain, yet it is possible to produce results that imitate the output from a brain but at a faster rate.

The structure of a computer neuron is shown in Fig 2. This is often referred to as a processing element. The unit receives many inputs, each of which are modified by a weighting factor which serves the same purpose as the synapse in the biological neural network. The modified inputs are summed. The result is then transferred to the output via a stage where the signal is further modified by a function, typically a non-linear function such as sigmoid distribution, before passing onto the output stage. The output stage passes the signal on to many other neurons. The arrangement of a neural network is shown in Fig 3. In the first layer, the "input layer", the input parameters are fed to the input neurons. The signal from each input neuron are the usual indicators that you use in technical share trading could be used as parameters, or you could make up indicators specifically for the application of a neural network to a given stock.

Final Comments

1. Experience so far with neural networks has indicated that a lot of trial and error is needed to evolve a set of input parameters that will lead to predictions reliable enough to use for share trading.

2. A problem arises with neural networks when they "memorise" the data. Memorising is said to occur when a network has been trained. However, it will not give accurate predictions for data that it has not been trained on. Any data that has been used in the training will give a good prediction but new data gives poor predictions.

Methods have been developed to deal with this problem but they are beyond the scope of this article.

3. Little useful information has been published about the application of networks to share trading as this application is treated with great secrecy. There have been many articles claiming success in share trading. However, the technical details given are never adequate. This is a field where individuals must work out their own systems.

C.S.Rann,

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FIG. 1

BIOLOGICAL
NEURON

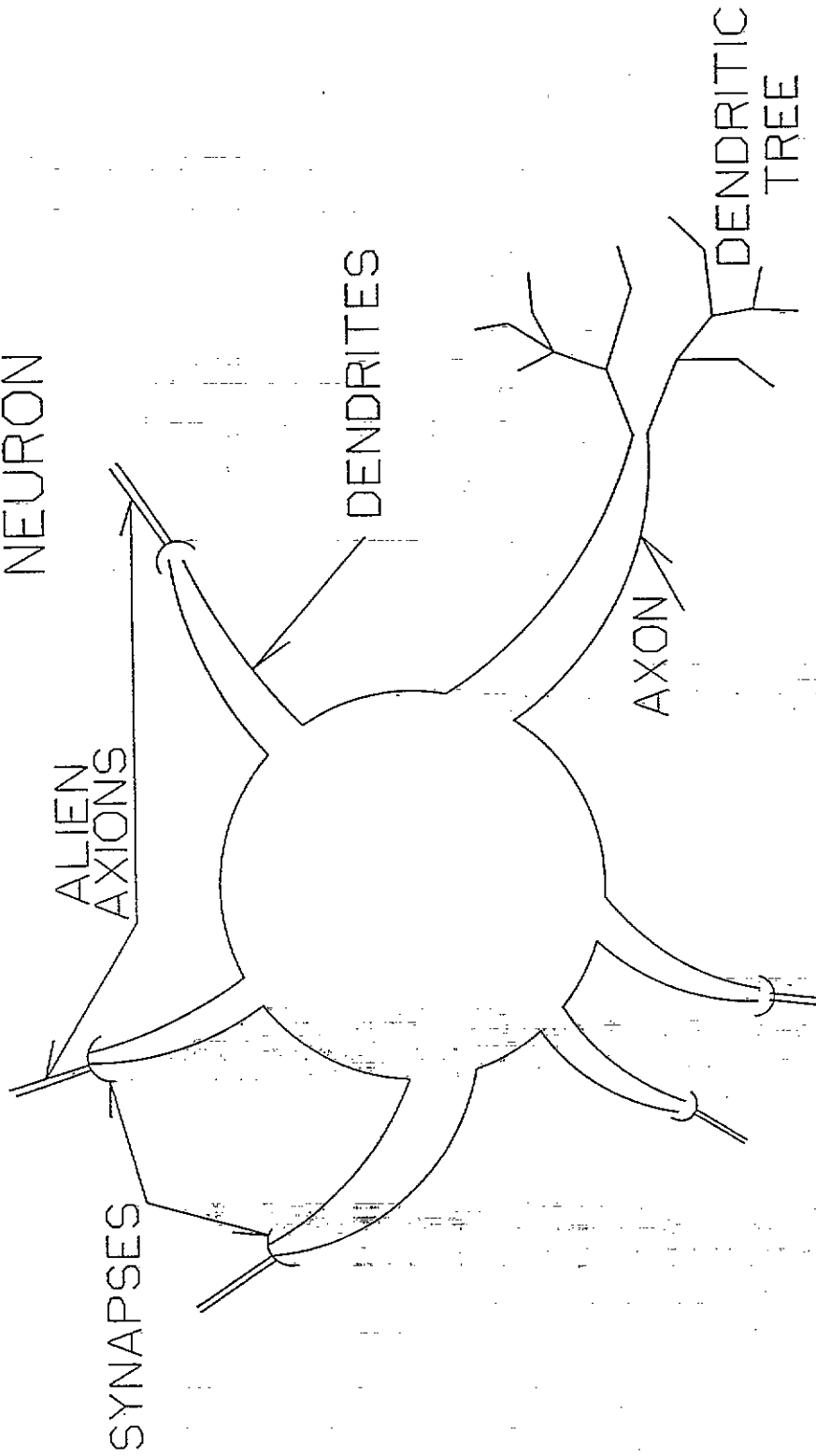


FIG. 2

P E PROCESSING
ELEMENT

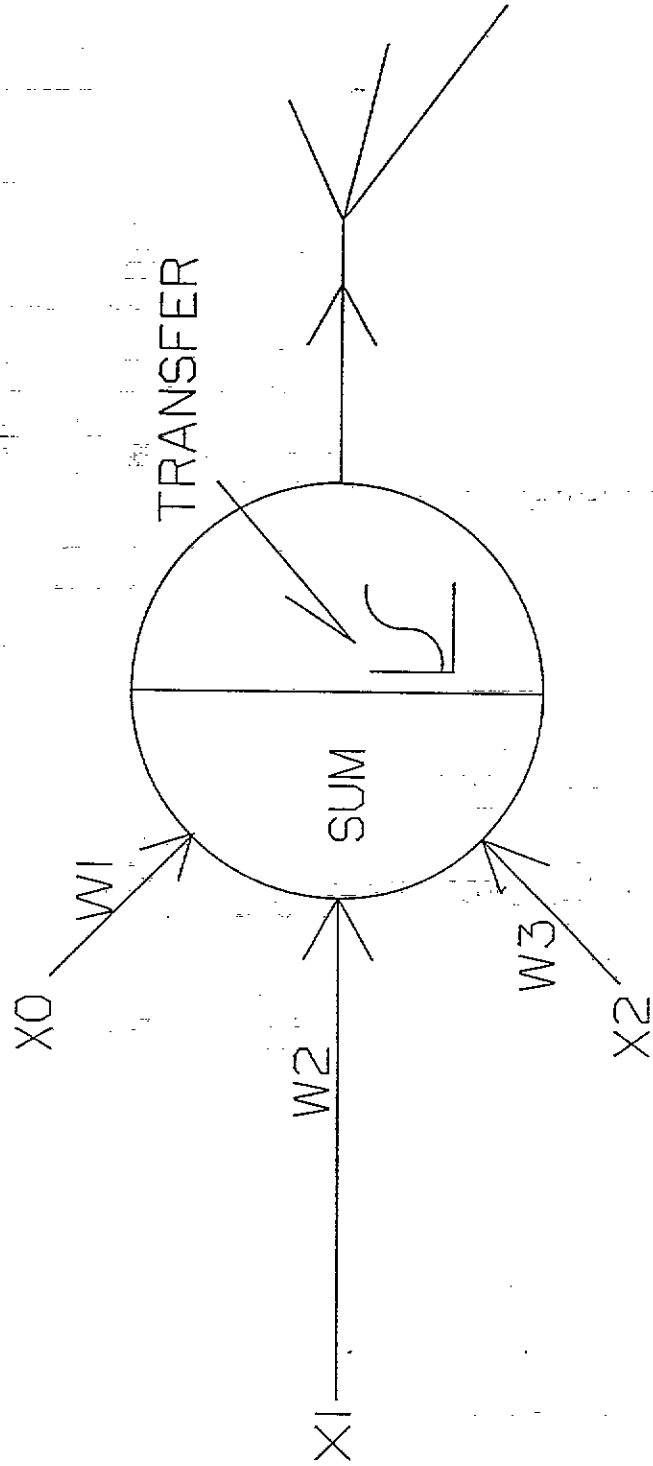
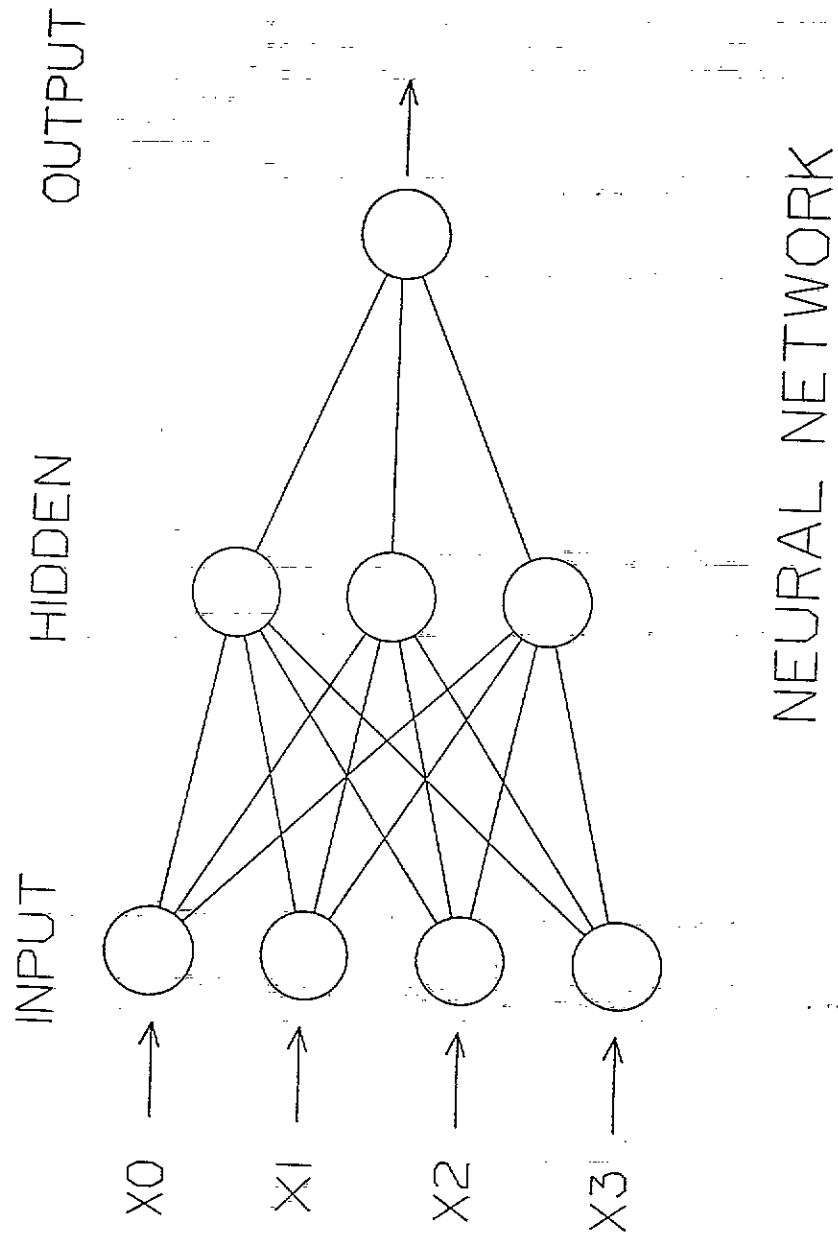
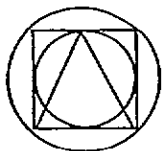


FIG. 3





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'The Trading Game'

"It enabled me to take responsibility for who I am and for the results I am getting in life and in the markets."

"I emerged empowered, energised and fulfilled with feelings that are continuously thought provoking and keep me on a growing edge."

"Self-awareness was the most valuable asset gained... allows me to make accurate and rational assessments on trades..."

I attended 'The Trading Game' several weekends ago and in this article I will attempt to relay the course objectives, events and results. How it has, and is, continuously assisting me with my trading and assessment of the markets and how it could be of benefit to you.

Let me take you back two weeks before the actual course was scheduled to go on. I received a call from my broker who had mentioned something about a course he had recently been on that has altered the way he views life, his relationships with those special people in his life, and most importantly himself. Several moments later I was introduced to a most fascinating, inconspicuous and truly talented man, Ken Windes, the mastermind behind it all.

Ken was accredited as a Clinical Transactional Analyst, Instructor and Supervisor by the International Transactional Analysis Association in 1974. He has been designing and conducting training courses for 22 years. With his wife Jane, a remarkable woman, he currently trains business and professional people in the U.S.A., Canada, Australia and New Zealand.

The objectives of 'The Trading Game', as specified in the initial introduction night were:

- 1) to make us recognise the importance of psychology in the financial markets;
- 2) to understand how mistakes happen and strategies for correcting mistakes immediately;
- 3) to experience how the individual personally operates when trading the markets; and
- 4) to provide information for improving ones performance when trading the markets.

Having heard these objectives explained, I asked myself how the hell were they going to be achieved.

I am not going to attempt to verbalise the methodology because I cannot, however the word that comes to mind that best describes the procedure is "confrontational". The point of 'The Trading Game' is that everything we do in life boils down to 'relationship': our relationship to each other, our relationship to the markets, our relationship to money. This process was a giant mirror, reflecting back to me who I was, who I thought others were, and what I had decided about how I could operate in the world. It enabled me to take responsibility for who I am and for the results I am getting in my life and in the markets.

The weekend was going to reveal who I was. I was intrigued and fascinated, a little sceptical and very scared. In fact, I was so scared I had doubts about whether I should be doing the course at all. You see, I was being invited out of my comfort zone into an area of uncertainty.

Of course, each of us has a different degree of comfort within our personal comfort zones but the focus of the weekend was to invite us out of our comfort zones in a fresh examination and awareness of how we operate in the world, particularly in a stressful situation such as when the market is running against you and you're losing money, your trading strategy doesn't seem to be working, you've just experienced a string of losses, etc. 'The Trading Game' creates similar emotional experiences throughout the weekend, enabling you to learn to continue to think rationally and logically under stress. This enables us to continuously assess and rectify, with ease, what were previously difficult decisions.



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Self-awareness was the most valuable asset gained from the course. Knowing where I am in the grand scheme of the markets and how I react to various situations allows me to make accurate and rational assessments on trades whether in the Stockmarket, Foreign Exchange or on the Futures floor. Just as valuable is my broadened perspective on the markets and the greater picture of the world.

You see, we all view things differently which is what makes us individuals. The parameter's of the looking glass through which each of us personally view the markets, people, and the world is predefined by various events and experiences that have occurred to us from day one. We are all subject to this conditioning what has, out of our awareness, influenced and shaped what we are and how we view things. What 'The Trading Game' enabled the participants to do, particularly me, is reassess those parameters and widen the spectrum of my looking glass; hence offering a broader, more complete and whole picture of the influences driving the markets and general economy.

Finally, in conclusion, this course has not only taught me self-awareness and recognition and given me a totally different perspective from which to approach the markets but also showed me a new way of accessing and improving my trading methodology whether technically or fundamentally oriented.

Furthermore, the wider implications of this course are endless and very relevant to all facets of life. I emerged empowered, energised and fulfilled with feelings that are continuously thought provoking and keep me on a growing edge.

I know my stance in the market and look forward to a profitable year and a prosperous life.

Lets talk again in 1994!

**Charles Alexiou
Public Relations Officer
Australian Technical Analysts Association**

BEN CHAN
60 STUD ROAD
DANDENONG
VICTORIA
AUSTRALIA 3175

The Turtle is coming to Melbourne and Sydney!

MELBOURNE: MAY 1, 2, & 3
SYDNEY: 8, 9, 10

15.2.93.

Dear Fellow Trader,

Over the past 18 months I have read no less than 50 books on trading futures and stocks. Most of the books have been about the timing of entries and exits with one or two books on money management. I had intended to go to the United States this year to learn about the total approach to trading from one of the well known professional technical traders. I have found piecemeal information from books and I know it would take me a few more years to formulate a complete trading strategy. I am willing to pay to learn as I did for my degree. I know that I can learn all I like from books without someone guiding me. However, I would lose more money in the market than I would have spent on education.

Learning never stops.

I have to learn to stand a chance of making it in the market. After all, isn't true that 90 % of people lose in the market? Quote: "I have to learn to trade like the few and not like the many".

Thanks to Richard Majewski, I came across the Turtle trading seminar in December 92 and I contacted Russell Sands. If you are not familiar with his name, he is one of the original Turtles who is featured in the December issue of Technical Analysis of Stocks and Commodities. If you still do not know who the Turtles are, I suggest you read the Market Wizards and the New Market Wizards.

I rang Russell to organise to do the course on audio cassettes as he no longer plan to hold any more seminars this year. I found out that I was the first Aussie to do the course and we have kept in touch. Doing it this way would save me the travelling and accomodation costs, plus the loss of income.

I have now completed the course and friends who know that I have done it are curious to know about the system. Unfortunately I am not allowed to divulge any part of the system as agreed.

The course has put the total concept of trading into a framework by which I can expand and modify on. Trading is a business! I have been taught when to initiate and when to liquidate. Most important of all, I have been taught how much to trade and how much to add on. This is all that I can say. It is a total trading concept. Nothing is left out.

I know that there are some of you who may be interested in learning how a professional like Russel would trade and for this very reason I have invited Russel to come to Melbourne. He has agreed to come for a holiday and to teach his trading concept. The fee is US\$2500 or A\$3750. Some of you have already shown keen interest and would like to know more. Bear in mind that I cannot divulge any part of the Turtle trading system to you but I can only send you the brochure which he used for the London seminar. Mind you, he is coming for your benefit and not mine, although I would really like to meet him in person. The Melbourne seminar will be on the May 1st, 2nd and 3rd. The Sydney seminar will be held on the 8th, 9th and 10th..

Russel is going to teach the system over a full weekend. By the way, he is also going to teach his own version as well as the system he was taught originally. I have convinced him to teach and demonstrate with live-data on the following Monday. What a what a bonus!

If you are interested, please contact me on 03-7915344 BH (preferably between 1-2pm) and on 03-5605686 AH.

Happy trading!

BEN CHAN

OUTLOOK FOR THE ALL ORDINARIES INDEX

In setting any investment or trading strategy, it always pays to take the long term perspective into account. This is because the influence of the long term cycles are the most important and can override the effect of any shorter term ones.

As professional traders in particular, it is very easy to concentrate exclusively on the short term perspective (especially when committed to a position) and lose sight of the big picture. This is unfortunate, because it is the long term trend which can provide us with the best profits if we are able to recognise it and trade with it. It is also the move which can take us to the cleaners if we fail to see it coming and try to trade against it. Whether in the markets or in life in general, therefore, recognition of the long term trend is the essential first step in any process of disaster avoidance.

The set of charts in this article provides an ideal combination, showing the long term trend of the Australian equities market based on the All Ordinaries Index, along with some shorter term data to give us some idea of the possible trends for the balance of 1993.

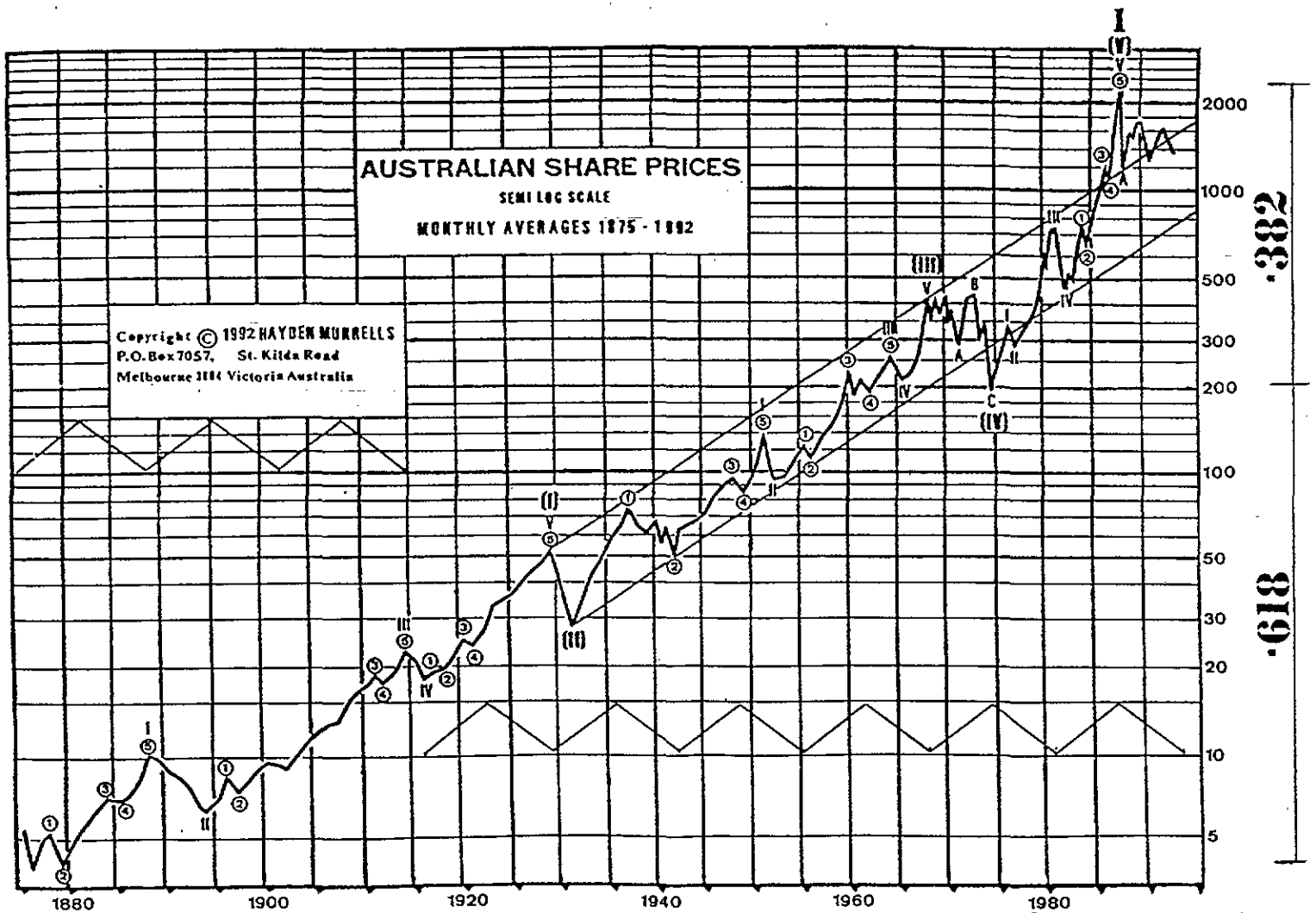


Figure 1

Figure 1 shows the monthly averages from 1875 to the present. Clearly, a five wave advance from 1876 peaked at the 1987 top. In accordance with the rules of the Wave Principle, the completion of any five wave movement, whether up or down, is followed by a three wave counter-trend movement for a total harmonic of eight waves.

382
319

Figure 2

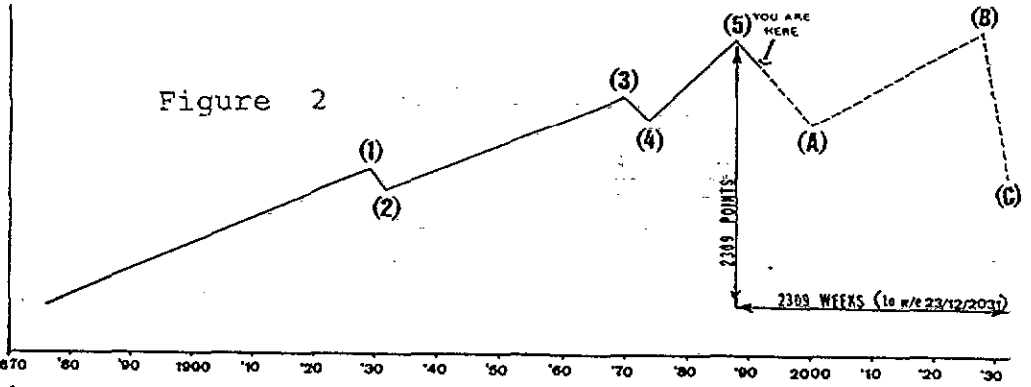


Figure 2 shows an idealised schematic of how the All Ords could appear under this scenario.

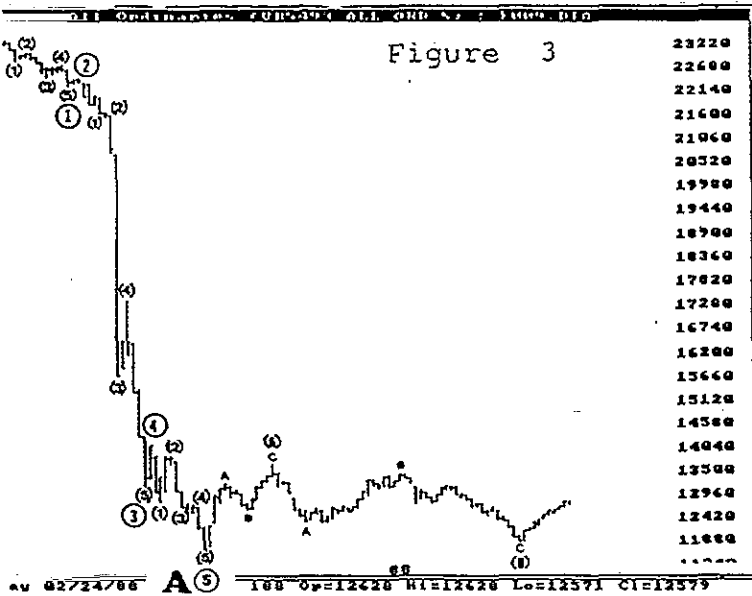
In this example, I have taken the 2309 point advance of 1876-1987 and squared it weekly on the time axis to give a major terminus

in the week ending 23rd December 2031. To those readers who live to see that year, I hope that you have a merry Christmas. I think that we're going to be in need of one.

The significance of this outlook for us is that although there will be some very good trading opportunities in coming years (and I believe that 1993 could be one of the best), this is not a long term investment environment. This class of participant should take market strength in 1993 as an opportunity to sell out 100 per cent and go to cash. The lesson of 1987 should by now be well and truly learnt: the winners are always those who get out too soon, never those who get out too late.

As for the economy, I believe that this long term outlook means that the business cycle has inverted. Ever since the onset of the industrial revolution, the economic scene has been one of progressive improvement over time, punctuated by downturns of varying degree every few years or so. Since the end of the 1980's, the trend is more likely to be one of progressive deterioration, interrupted by partial recoveries every few years. 1993 is likely to be one of those partial recovery years. This trend should continue for the duration of Wave (A) in figure 2 at minimum.

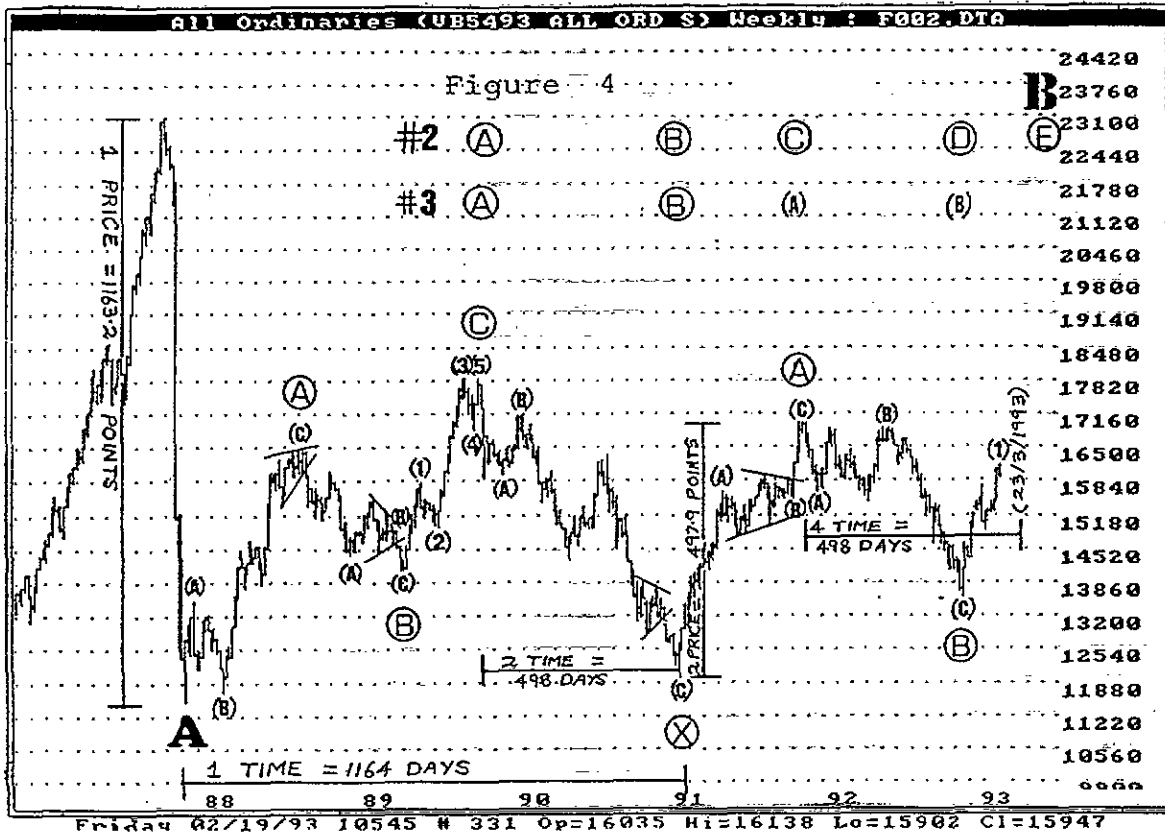
Figure 3



The post crash environment can be best analysed from the remaining set of charts. Figure 3 is the daily bar chart of the 1987 crash, labeled Cycle Wave A. This shows that the crash was an impulse wave to the downside, that is, a five wave progression. Equally obvious is the overlapping three wave movement off the crash bottom. From this we can deduce three things. First, Cycle Wave A was merely the first leg of a bear market which is still incomplete. Second, no long term bull market began after the crash, because there was no five wave advance off the crash bottom. Consequently, no matter how much rally takes place in 1993, it should not exceed the history high of September 1987.

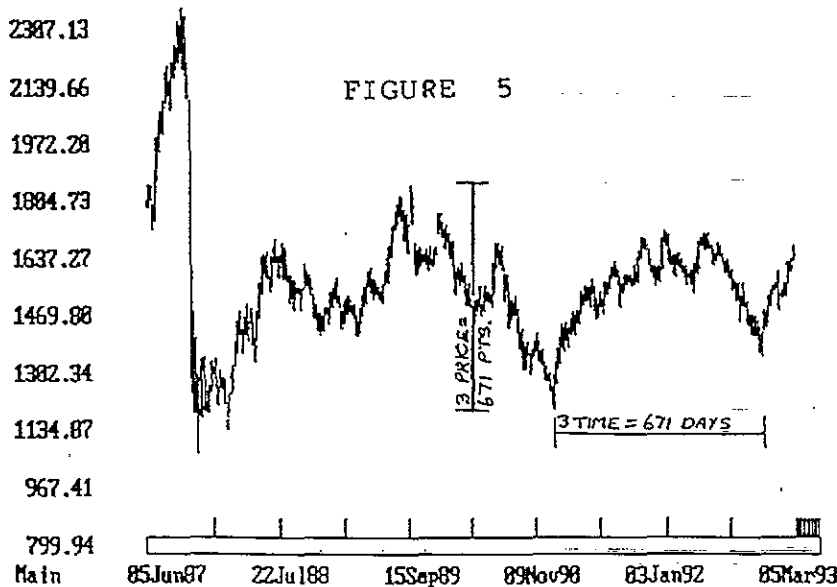
Third, at some stage a new bear market impulse wave is set to bottom below the the 1987 crash low of 1149.2.

Figure 4 shows the price action for Cycle Wave B to be tracing out a double three correction, with Primary wave (C) of the second three lifting off from the November 1992 low. Two alternative wave counts to that preferred are shown at the top of the chart. #2, a triangle for Wave B, would require the present rally, labeled Primary wave (E), to hold under the 1991 Wave (C) peak of 1697.7. Given that the market is already well into the 1600's on a still incomplete five wave advance, this is only a low probability outcome. The current market strength could easily take it above the 1991 top and indeed

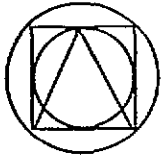


above the 1989 top. #3, also a triangle, but with Wave (C) still in progress, would imply several more years of sideways shuffle for Waves (D) and (E); time that I do not believe the market has. At this stage, therefore, the best count for Cycle Wave B is a double three, with only Wave (C) of the second three as yet incomplete.

Charts 4 and 5 also show some of the major time and price squarings since 1987. #1, the 1987 crash, squared out in time at the January 1991 bottom. #2, the 498 day decline of 1989-1991 was balanced out by the 498 point rally in the price in 1991. #3, the 671 point decline in the SPI from 1989 to 1991, was balanced in time 671 days later at last November's low. #4, the 498 point price rally to 11/11/1991, squares out on 23/3/1993. This last square is still incomplete and should result in a short, sharp drop into a March bottom.



From last November's low, Intermediate Wave (1), a five wave advance, appears to be near completion. Once completed, a Wave (2) panic sell-off on election, currency, Wall Street (choose your reason) fears should ensue. Fundamentals will seem to turn bad once again, as the market partially relieves its November gloom. Ratio estimates for Wave (2) will not be possible until we know that Wave (1) is over. The shake-out should be over by 23rd March, the next major time/price squaring, whatever the price. My long term charts show that the next Government crisis is likely to strike on 4th April 1993.



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MEMBERSHIP APPLICATION

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Type of
Membership Applied for Full Associate

Questionnaire

Please paint a word picture of your interest in TA?

*Membership Costs \$100 pa and is valid to 30 June 1994.
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Associate Membership is for those interested in TA.*
