

UNMISSABLE CHARTS

3 CHARTS YOU CAN'T AFFORD TO MISS

THREE READERS PICK THE CHARTS THAT POINT TO UNDERLYING TRENDS IN THE GLOBAL ECONOMY

1 Ian Williams, chief executive and chair of Charteris

PRECIOUS METALS: LOOK OUT ABOVE

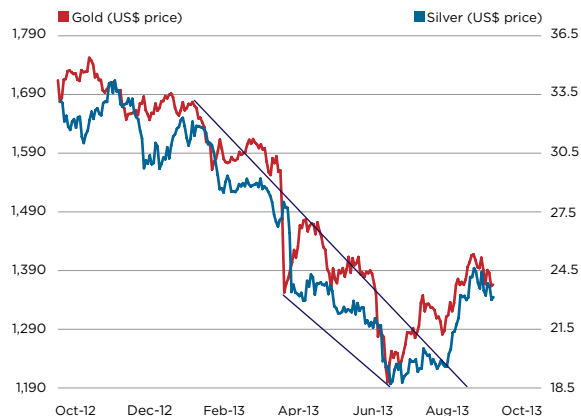
Gold has recently broken out of a falling wedge formation: this is a very bullish move on very heavy volume - much higher than 2008.

Falling wedge formations are among the most bullish and reliable of chart formations because they are counterintuitive, owing to the pattern of lower lows being established just before a turn in the market. This very often leaves a heavy short position as the market turns, which provides the springboard for sharply higher prices.

We have also passed major cycle lows - the 10-10.5 year cycle in silver bottomed on 28 June 2013 with a textbook capitulation sell-off.

The gold to silver ratio tends to hit extremes (silver is currently cheap relative to gold) at major market bottoms, because silver has a much higher beta than gold. Conversely, silver will rise much more in a bull market.

SILVER VERSUS GOLD SPOT PRICES



SOURCE: Charteris

2 Robert Jukes, global strategist, Canaccord Genuity WM

PE EXPANSION WILL ONLY GET YOU SO FAR

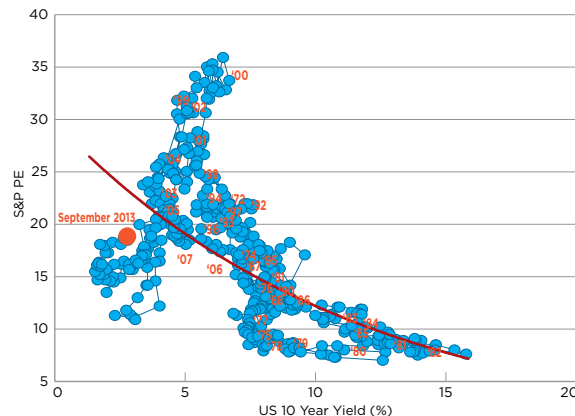
It is difficult to make equities look cheap. That is because equity prices have risen while earnings have not.

In the UK, the FTSE 350 has risen 40% since its October 2011 lows while earnings expectations have fallen: QE has valorised equity prices by forcing investors to accept lower compensation for equity risk, while doing very little for fundamental value.

The situation in the US is not much better, with the breadth of US earnings revisions flat to negative and top-line growth stagnant in the latest reporting season.

On valuation, plotting the S&P non-financial PE versus the bond yield shows the trailing PE above historic trend, but below where it should be given the (still) low bond yield. That's graphical shorthand representing the implied higher net present value of future earnings based on a lower discount rate.

COMPENSATION FOR RISK IS FALLING



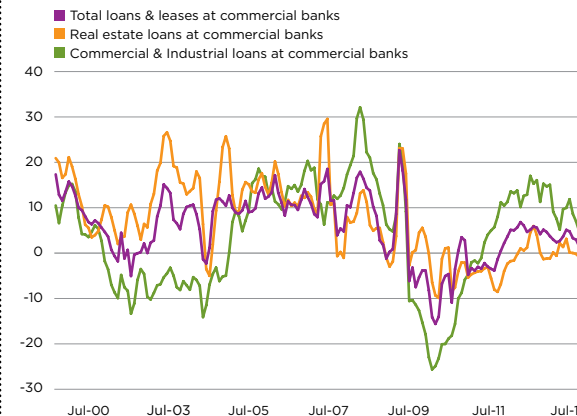
SOURCE: Canaccord Genuity

3 John Clarke, chief investment officer, GHC Capital Markets

TAPER TOTTER

A key driver behind the improvement in US economic conditions over the past 12 months or so has been the fact that the quantity of money has grown by just over 6% (to July). A large part of this has been attributable - at least since December last year - to the Federal Reserve's \$85 billion asset purchase programme. But just as important has been a pronounced acceleration in bank lending, particularly to industrial and commercial companies. However, after a brief spike at the start of the year, real estate lending is once again falling in absolute terms. This in turn has constrained the growth in overall lending to just 1% annualised in the three months to July. Were this to be sustained, monetary growth will slow, with adverse implications for the real economy. The Fed would be well advised to bear this in mind as it attempts to slow its asset purchases over the coming months.

US BANK LENDING HAS FALLEN



SOURCE: GHC Capital Markets