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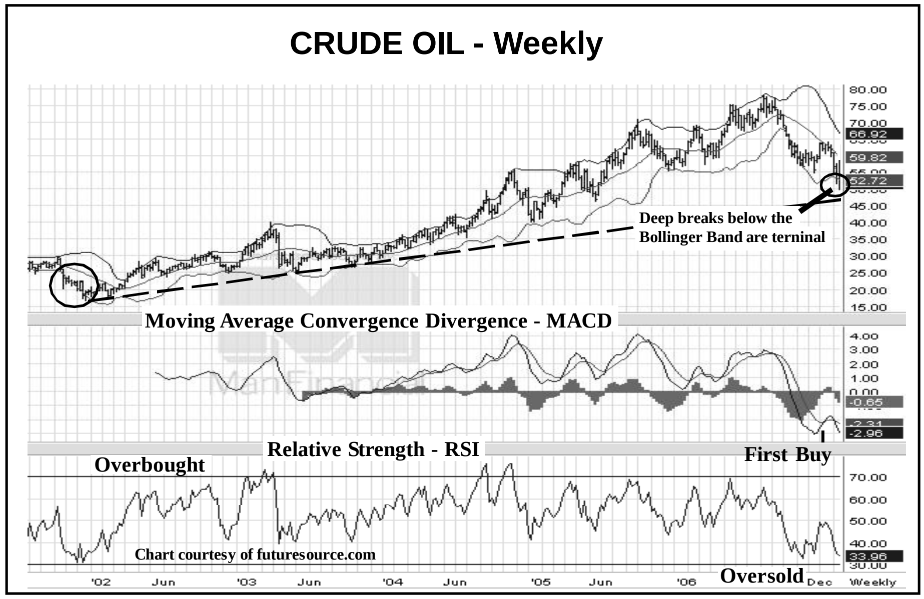
Oil and Gas - Technically Pleasing



I have to admit that the correction in oil and gas since the highs last July has gone deeper and lasted longer than I expected. Nevertheless, this is a correction - not the beginning of the next commodity bear market.

Corrections will bring out the best of rumors, and speculative interests are definitely on the bearish bandwagon. The theoretical struggle has pitted the peak oil advocates dead against the “everything is alright” crowd. Justice Litle described it well that this market suffers from “intrigue fatigue.” As it stands now, the best way to approach the situation is to divorce the fundamental bantering and take a look at the technical picture.

The most striking aspect of the weekly chart is that the correction has not yet taken prices down to the up trend line off the 2001 low. That would put crude at about $46.50. Note the break below the lower Bollinger Band, which is similar to what we saw in the summer of 2001 prior to the lows at $18.00. MACD is setting up for a second buy signal in deeply oversold territory. The second buys are normally very significant - especially on a weekly chart. RSI is close to oversold, but it could dip a little further.

My take is that the bears may push crude prices to the long term trend line at $46.50, but a powerful technical setup is in place to launch the next rally. Incidentally, natural gas looks like it has already turned, and it is probing over $7.00 again after bottoming out just over $6.00. All in all, the technical picture in energy is a textbook example of what a buying opportunity looks like. This is not the sort of technical scenario one would want to sell into.

- **You need to keep your portfolio balanced. The dividends are good in all of our recommended trusts.**

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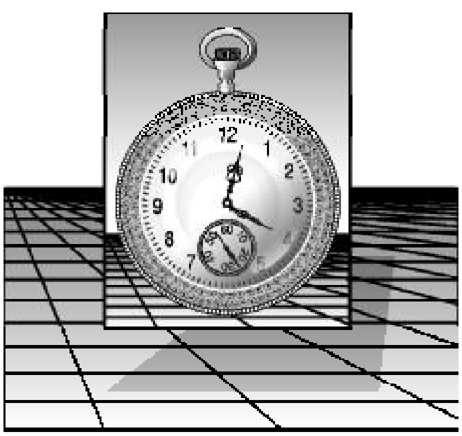

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Technically, energy looks bullish, and the geopolitical situation is less stable than it was last summer. Crude oil will go to $100 - and that is a timid estimate. It will eventually go much higher. Hang on to your energy positions, and don't let the media fake you out. If you are looking for the mother of all speculations, buy some Canadian energy trusts at or below our recommended buy prices.

You need to keep your portfolio balanced. Don't just chase yield. The dividends are good in all of our recommended trusts. Start by separating your Canadian positions into two categories: the "gassy trusts" and the others. **Shiningbank** (SHNUN-TSX-C$13.99) and **Paramount** (PMTUN-TSX-C$12.70) are the gassy trusts on our list. Balance your holdings between the two. Shiningbank was trading below our buy price of C$12.90 earlier this month, but Paramount remains a bit above our C$11.00 price. I would hold out for purchases at or below C$11.00.

The other trusts on our list produce more crude oil than these two. **Enerplus** (ERF-NYSE-$41.77) at $40.00 is a decent shot for some money, and it hit $40.00 for several days a couple weeks back. The dividend is not as generous as some of the others, but it has a place in a diversified portfolio. **Canetic** (CNE-NYSE-$13.06) and **Primewest** (PWI-NYSE-$18.57) pay better dividends, and I would split some money between the two of them - at $11.50 and $18.65 respectively. These two look like they have more potential at $100 crude oil than **Provident**.

You can add a little **Peyto** (PEYUN-TSX-C$17.44) to your energy portfolio, but only if you can buy it at C$14.00 or less. This one is a little different in that they do a good deal of development work, unlike most trusts. If the Canadian government actually passes the law eliminating preferential tax treatment on the energy trusts (something that is not "in the bag" at this point), I would still like to own Peyto as a taxable corporation. However, due to their development activities, their dividend is more speculative than the others.

If I had to choose among the trusts on our list and build a portfolio from scratch at this point, I would include Enerplus, Primewest, Peyto, Paramount, and Shiningbank. Any of the others are candidates, but these strike me as the most interesting. Don't concentrate your money in only one or two stocks, and buy at or below our buy prices.

The political wind in Canada is definitely blowing more in favor of the trusts than it was last November after the Finance Minister's announcement to tax the trusts. Combined with the bearish sentiment in the crude and natural gas pits as well as investors' intrigue fatigue, buying Canadian energy trusts looks like the best speculation I have seen for some time.

We did manage to see **Frontline** (FRO-NYSE-$33.15) dip under our $31.00 buy price earlier this month. Remember, the stop is at $28.70 if you took this position. **Kinder Morgan Partners** (KMP-NYSE-$50.66) has not dropped to our buy point. I don't want this one unless we can buy it at $46.00 or less.

An interesting article I read the other day analyzed wheat in 1932 dollars, making a case that the commodity market (although off its 1999 lows) is still young in the tooth and is still severely undervalued in constant dollar terms. In the early 1900's - including during the depression years - wheat would bottom at 50 cents in 1932 dollars. In 1999, wheat was trading at $2.50, which was only 15 cents in 1932 dollars. It was obviously undervalued on a historical basis.

Today, wheat is selling for about $4.80, which is only 30 cents in 1932 dollars. This is cheaper in constant dollars than during the depression. The commodity market has a ways to go before it gets back to normal historical values, let alone overvalued. Overvalued is what we would expect to see at the end of this commodity bull market. If $4.80 wheat represents 30 cents in 1932 dollars, then $650.00 gold is only about $40.00 on a constant dollar basis. This leaves a lot of up side in our future, even if the dollar were to stay where it is and not sink further.

We hit our buy prices during the last few weeks for most of the mining stocks on our list, including all of those we wrote up in the January monthly letter. You should be in good shape for the next up leg in gold.