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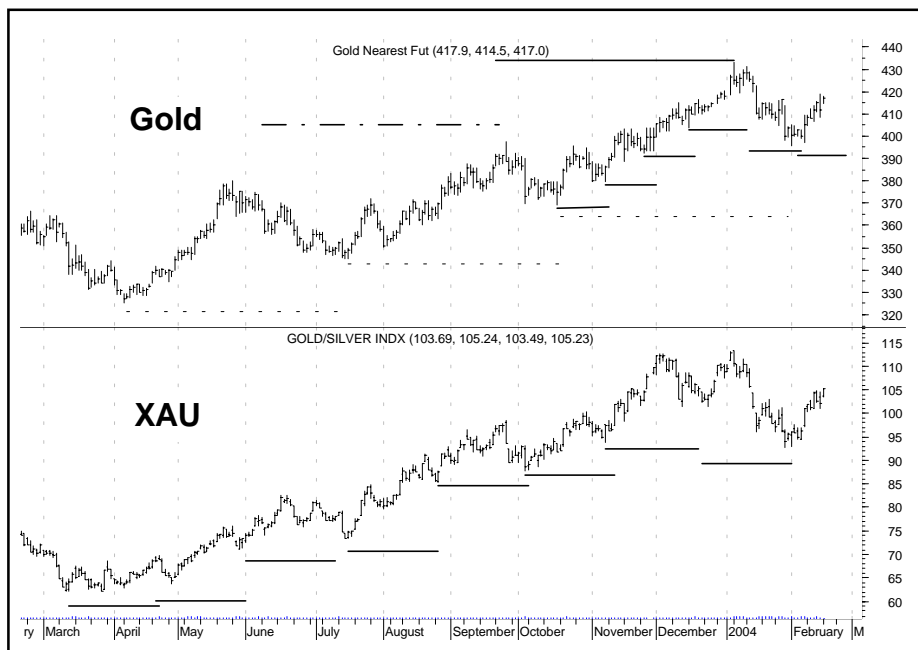
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GOLD MARKET IS WARMING UP



That little gold stock that I gave you in the last letter, **Kenor** (KNRKF-OTC BB), is holding up very well. I do caution you to be patient with this one. I think that if you approach this as if you were buying a call option on gold, you will do just fine. Don't put too much into it, and be patient.

Gold has been putting in lows about every 13 to 14 weeks, as you can see on the chart above. There has also been a shorter cycle putting in minor lows about every 3 to 4 weeks. The 13-week cycle has bottomed, and we should pull back briefly now to the next 3- to 4-week low.

It is positive that the rally off February's 13-week low made a new rally high. This is very positive. Note that gold has been putting in

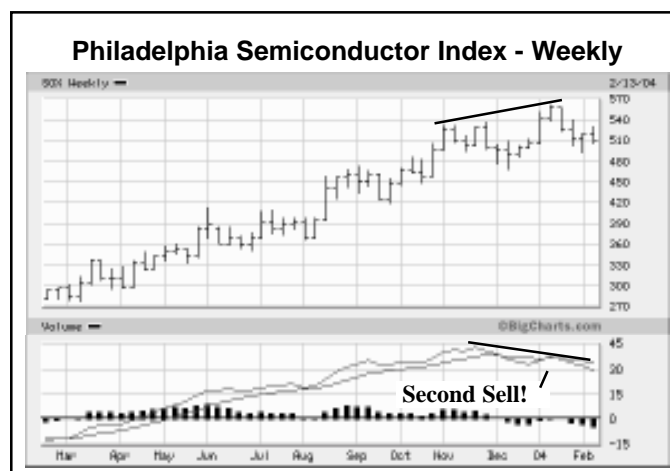
highs about every 14 weeks also. All in all, this looks like the correction is all but over.

The XAU cycles are a bit different. The XAU has been putting in short term lows about every 6 weeks, and it rallied smartly off the last one. The key is to watch for that next 6-week low to begin to unfold. We want to be buyers there. Rydex gold program followers - keep close to the hotlines for instructions.

DOLLAR

All my friends keep telling me that there are too many dollar bears and that the dollar is destined to rally to 91.00. I have read some forecasters that are looking for a recovery in the dollar to 100.00. These don't sound like bears to me.

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The best answer is to look at the dollar's behavior and make up your own mind. I have featured this chart on several hotlines lately, and I will continue to do so as this situation develops.

The dollar began a technical "recovery" in January, and overhead resistance has formed at the 88.00+ level. However, there is also support now at 85.00. One possible outcome is that the dollar simply plods along in this trading range for the time being.

That is possible, but the most important level is the 85.00 support. If the dollar breaks below that, it will quickly slide to 80.00. The technical view is always better; but from a fundamental point of view, it is difficult to be a longer term dollar bull.

STOCKS

The Canadian energy stocks have treated us very well. However, **Primewest** (PWI-NYSE-\$18.45) dropped their March dividend by 7 cents Canadian. I was not pleased in the slightest about that, and neither was Wall Street. They took the stock to the woodshed, and it promptly fell from \$20.00 to \$17.00. As we go to press, it has recovered to \$18.45.

They still pay well; but as a company, they should be doing better in this environment. My recommendation is

to hold off on further purchases of Primewest. Let the dust settle, and we will follow up on Primewest on the hotlines and in the next letter.

Most of our energy stocks have run ahead of crude, and I am getting concerned about their rising popularity. I don't like to be in the crowd, and I am looking into some other aspects of these companies concerning their status with the Canadian government. There are still some open issues with regard to the percentage of non-Canadian ownership.

My advice is to hold your Canadian energy issues now, and don't purchase more for the time being. We will visit this again in the March monthly letter, and I will announce any changes in my opinion on the hotlines.

BONDS

Bonds are plodding higher, and our Hyperion model is still long bond futures. Our Rydex bond work remains neutral, however. This all looks suspiciously like a "flight to safety" rally with no fundamental support.

We will stay with the Hyperion position, but I am looking for an important sell signal to develop by this spring. Again, trade bonds all you like, but do not make long term investments in bonds.

There are some serious cracks appearing in the foundation under the stock market rally. I continue to expect the market to wiggle its way into April, but I believe a significant high will occur at that time. The SOX, or Philadelphia Semiconductor Index, is the heart of the Nasdaq. This is the core of tech. It is also breaking down.

Above is the weekly chart of the SOX, along with its MACD pattern. There are two important things on this chart. First are two sell signals. The second sell signal is always the most important. Plus, this second sell is accompanied by negative divergence where the MACD pattern failed to make a new high with the index. A break below 490 will be the coup de grâce and a warning loud and clear that the stock market is becoming a very dangerous place to have your money - especially if it is in the tech sector.

SUMMING IT UP

Hold your Canadian energy stocks, but don't invest more in these for now. The most exciting area currently is gold. Most of the gold stocks we have on our buy-and-hold list have hit their respective downside target prices. You should stay with those recommended prices. We anticipate re-entering the Rydex Precious Metal Fund in the next few weeks. Stay in touch with the hotline for updates.