

BETTER TIMES AHEAD

*Where is that market rally I have been looking for?
It will start at 8:30 a.m. on February 23.*

I am being facetious, of course. No one knows for sure the exact time or date, but my technical work is looking better. February is the worst month of the best six months of the year, so we should have the nastiest of the selling behind us soon, at least for a while. Once beyond February, I can see the path to a decent price recovery. This will not be a new bull market, but the *potential* exists to see some 35% to 40% on the up side over the next several months.

Where are the buyers? There are discounts in the stores *everywhere*. However, if you want to put stocks on sale and bring in the buyers, the best way is to raise prices. I once overheard a stockbroker friend recommend a stock to his client at \$20. The client balked, so the broker asked, “should I call you back when it hits \$25?” Folks love to buy into strength. Also, consider all those money managers out there who are anxious to put some performance on the books and who are making nothing in Treasuries. They operate 99% by herd mentality, and none will want to be left behind once the rally begins.

The dollar surged on February 12 following a big selling spree that week. That indicates the deleveraging process is not over yet - selling assets, converting the proceeds to dollars, and paying off U.S. debt or buying Treasuries. Frankly, I think we will repeatedly see this process over the next couple of years; but near term, the market is oversold and there is plenty of fuel for a rally.

The jump in the Dollar Index tripped our Rydex U.S. dollar program out of the Weakening Dollar Fund and into the Strengthening Dollar Fund. This is all covered on Page 2 of the Tuesday and Thursday online updates. The interesting aspect of this is that the recent rally in the dollar from lows in December has not held gold back any. I think that gold has found its own market. Dollar strength is a function of abstract finance while the rise in gold is very real indeed. Remember, currencies - all fiats - bubble up and down against each other. The dollar has been relatively strong against a basket of other currencies, but not against the only non-fiat currency; i.e., gold. The rush to gold of late is a true flight to safety ... and for good reason.

Nevertheless, everything cycles. I remember when I learned linear programming in business school. My first thought was that it was useless because nothing in business and finance is really linear. The problem was solved by a friend of mine who broke up the data into short time spans and ran LP on the short segments. When the short segments were linked up, you ended up with curvilinear patterns and reality. Voila!

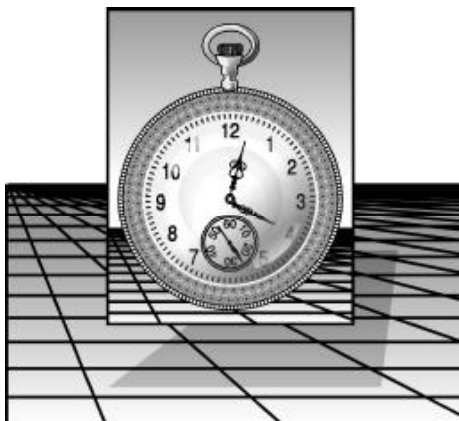
The next issue will be published Thursday, March 5.

- **We should be meditating on the post-oil era.**

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- **Cancel the buy for UGA as well as the buy for IRR.**

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Gold, too, is subject to cyclical behavior. Gold should encounter some resistance at \$950, and it needs to take a rest. The strongest support is \$875 to \$900, and you should wait for a pullback before buying additional positions. Regardless of my broker friend's suggestion to his client, don't chase strength. You could take some profits here, but I bet you won't buy back. You also risk being left out if something unexpected happens. It is up to you. I am holding on to mine. The important thing is not to chase gold here. There will come a better time to buy. Seasonally, gold usually falls off from February highs to lows in March. I will take a close look at the downside buy prices for our gold stocks in the March letter; but for now, stick with those published. I would love to add to my **Gabelli Gold** (GGN), **Kinross** (KGC), and **Goldcorp** (GG).

I will take up the case of the juniors in the March letter. It is time to think about doubling up on some of them. My advice stands in regard to **Nova** (NG), but some juniors like **Minera Andes** (MAI-TSX) and **U.S. Gold Corp.** (UXG) are perking up on the charts. Some like Nova and Minera Andes are finding handsome financing in an era when the only money you can borrow is your own. This is a bullish sign.

We should be meditating on the post-oil era. Essentially, all resources are depleting - with crude oil the most significant of the lot. Can our global society survive without oil? Yes, but not in the fashion we have become used to. You cannot build and maintain a nuclear power plant if the only energy input is electricity. The same goes for wind, bio fuel, and all of the alternatives. Half of the planet's crude oil has been extracted and used - most in the last 50 years or so. There are one trillion barrels left, but they are deeper, less accessible, of lower quality, and, bottom line, more expensive to extract. Oil at \$40.00 a barrel is not going to do it. Most of it will stay put at that price. If the world were to pare back from using 84 million barrels a day to, say, 80 million barrels a day (a 5% decrease in demand), how much time do we have? Well, you can do the math, but I come up with just shy of 35 years - a heartbeat really. Thirty five years ago is a recent memory.

There is one problem with my illustration. You will never recover 100% of the oil. That just cannot be done. We are left with 35 years to pray for a deus ex machina solution. That works in the movies, but not in real life. How much will the last barrel of crude sell for? What will be the price in depreciated dollars? The market will not just fall from producing 84 million barrels a day to zero all of a sudden. The process will be one of diminishing production over time. The rate of depletion will accelerate in the future, and I would not be surprised to see price jumps and supply dislocations yet this year.

I have mentioned the problem in Mexico at the Cantrell Field. It now seems that Venezuela has missed their 2008 expectations by 26%. As global production declines, exports will cease ... and then the fun will begin. We don't have enough domestic production in relation to our needs to even talk about it. Your assignment is to think about a world without oil. Take a look around you and consider what changes will occur in your life if there is no more crude oil.

One result in the process will be higher priced oil, but this will apply to other raw materials as well. I am looking for commodity price inflation in the double digits 24 months from now. That might be a conservative estimate, especially if the dollar crashes under the weight of the ongoing stimulus efforts. Remember, there are Keynesians at the helm. There will be bailout #3, #4, and #5 if need be. Keynesians will always attempt to sustain the unsustainable.

Buy some oil, but cautiously for now. I note that the nearby contract sells for \$37.50 while the December 2010 contract sells for \$59.60, or nearly 60% higher. The market doesn't think crude is going to stay cheap, and it is always good to listen to "Mr. Market." A little **Blackrock Global Energy** (BGR-NYSE-\$16.91) at \$15.00 or better looks attractive here on a dip. **Enerplus** (ERF-NYSE-\$19.50) would be my second choice at \$19.00 or less.

Commodity stocks were sucked down during the liquidity binges of 2008-09, but the bull still lives, even though commodities are being priced like they were in a bear market. How do I know the commodity bull lives? I know this because gold is approximately 20% higher than it was when the stock market topped out in October 2007 before its 45% plus loss to date.

We have two recommendations that have not met our buy price parameters, and I am going to cancel them. Cancel the buy for **U.S. Gasoline Fund** (UGA-NYSE-\$22.56) at \$19.10 and the buy for the **ING Managed Natural Resources Fund** (IRR-NYSE-\$13.78) at \$12.20. I will revisit these another time if they set up again in my technical work.