

ENERGY IS BEGGING

It looks more and more likely that we are going to see the “Obama rally” that I have been forecasting. The question, perhaps, is what investments one might make for the ride.

I am not going to venture into the generic sectors of purely financial assets. As you are well aware, I believe you should stay focused on commodity (tangible) related issues and shun financials. In that light, gold looks like it is leading the pack; and without a deeper selloff in the precious metals, energy looks like the place to find some relative bargains. As mentioned in the last letter, my technical work in crude oil, natural gas, gasoline, etc. is not as bullish as in the metals, but the time is drawing close to a resurgence in energy prices. Near term weakness should be exploited in energy issues.

- **Advantage Energy Income Fund (AAV - NYSE).**

Page 1

- **Accumulating gold under \$900 is prudent.**

Page 2

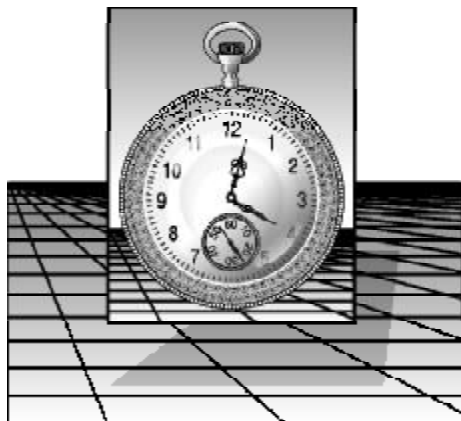
- **The best way to deal with this rally is to**

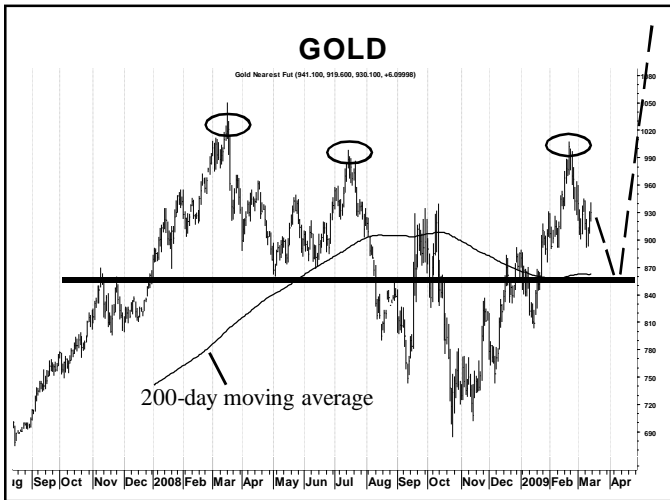
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On Page 2 of the Tuesday and Thursday updates is a list, including crude oil and its CPP (Critical Price Point). As we go to press, this model is still negative on crude, but the CPP was just ratcheted down a bit as we moved our attention to the June contract. The model will give us a buy signal in crude if the June contract trades at \$50.26. Unless prices weaken substantially, this point is within easy reach. My CPP work with gasoline - which is not listed in the online updates - went positive on March 13. Natural gas still has some work to do, though, and it remains negative. I think natural gas will continue to be the lagger in the sector, but it will begin to catch up once crude begins to move.

You can wait for “the whites of their eyes” in energy if you wish by holding off from making new purchases until these technical models all turn positive, but I think it is reasonable to at least dabble a little here in weakness. The energy stocks will do very well in the Obama rally as investors perceive (although erroneously) an economic recovery and anticipate higher energy demand. In truth, I can see domestic energy demand leveling off, but the real bullish element in all of this is rapidly declining global output rather than declining demand. I look for this process to elevate crude oil by year’s end - perhaps to as high as \$80.00.

I like the Canadian energy trusts, and I have been highlighting **Enerplus** (ERF-NYSE-\$15.87) lately. I still see this as a good buy under \$15.00. On the March 12 online update, I introduced a new Canadian trust that is appealing as a speculation - **Advantage Energy Income Fund** (AAV-NYSE-\$2.73). They were able to replace 290% of their annual production last year. Their proven plus probable reserve life index increased from 12.1 years to 15.2 years. The dividend has been cut (as has been the case at most trusts); but at the current rate, they are paying 14%. This is a small operation compared to Enerplus, and I think it’s a bit speculative, so you need to try to buy this right. Buy Advantage





at \$2.30 or less. Once the Canadian dollar recovers against the U.S. dollar and crude prices head higher, I expect to see dividends from the Canadian trusts on our list begin to climb, along with share prices.

Baytex (BTE-NYSE-\$10.61) is another trust on our list that has come off steeply due to lower dividends. I like Baytex and believe they, along with the rest of the pack, will recover over the course of this year. I am, however, lowering the current buy price on Baytex to \$10.50 where you should limit any new buying. The key is to use further weakness this spring for any additions to your portfolios. As always, be sure to balance positions and diversify.

Gold –The ideal time to buy was last October-November. Although the current correction may last a while longer, I don't expect to see anything big on the down side. As folks begin to be seduced back into the stock market, they will feel comfortable enough to shed some of the "safe haven" investments they sought out when the news was bleak. This could prolong profit-taking, but the savvy will not be fooled by the illusion that good times are just ahead. All in all, we could see gold work under \$900/oz., to even \$850 temporarily. This doesn't matter. Accumulating gold under \$900 is prudent.

As Arte Johnson of "Laugh-In" fame used to say ... "veerry interesting." Gold has made three attempts to break through the \$1,000/oz. level, leaving the three tops circled on the chart above. Once three tops form like this and are finally surpassed (as they are in almost every case), prices will accelerate strongly. Note also the support at \$860 where the 200-day moving average happens to be. If the correction continues that far, \$850-\$860 is a superb buy level.

The mining stocks have been strengthening versus gold. That is a bullish sign longer term. Heed the downside buy prices, but exploit any weakness in the the stocks that a dip in bullion under \$900 might bring. You can review the last letter for specific ideas in this regard; but I, for one, am anxious to add **Royal Gold** (RGLD-OTC-\$38.92) to my portfolio if it drops to our buy price at \$32.50 or better.

Where do I see the stock market averages going? I had been talking about prices moving to 1,300 in the S&P 500. That looks like a stretch at this point, but it's not totally out of the question. I just wouldn't bet on it with real money. Prices are going to have a problem at the 800 level near term, but I expect this resistance level will be dealt with successfully. It will then be a struggle to get beyond 900. Nevertheless, the averages should struggle higher into summer.

We must be content to follow this rally as it unfolds and take our cues from the market itself. Breaking over 900 in the S&P 500 will not be easy. I can still envision that 1,300 level, but only because experience has taught me that bear market rallies will surprise the majority, including the professionals.

The best way to deal with this rally is to contain your enthusiasm and commit new money only to investments that will be advantaged by higher commodity prices and a lower value for the U.S. dollar. Incidentally, as we go to press, our dollar model is still positive (see the Rydex dollar program Page 2 of the updates). It will turn negative again if the June contract falls to 86.30. I think it is currently in the process of forming a double top at the 90.00 level ... very bearish.

The second action you should prepare to take is to sell financial assets during this rally. Regardless of government economic reports - which are of questionable validity and accuracy - nothing has fundamentally changed except that debt continues to balloon beyond anyone's ability to pay it back. That is how we got into this mess in the first place. Massive U.S. financial obligations will come to bear in terms of the value of the dollar and the level of interest that will be required to attract capital. I can see long term rates at 7% to 8% within 18 months. The stock market will fall lower than we have seen so far, but only after a bit of relief this summer. Use whatever strength we are blessed with to good advantage.