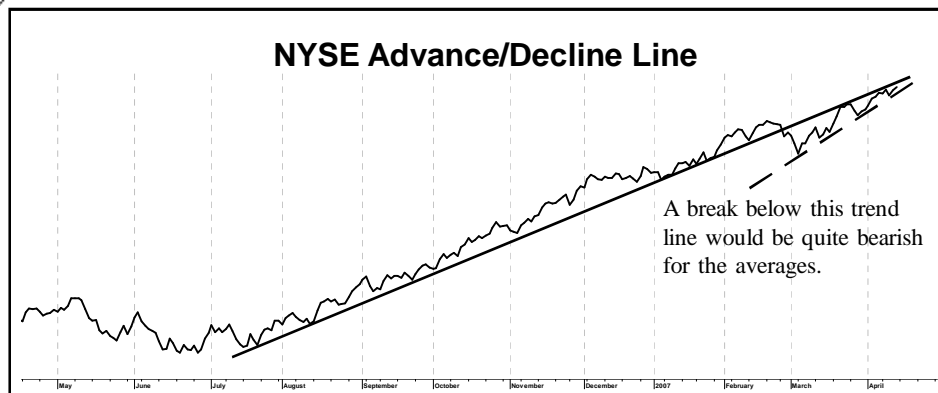


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BUCKLE UP



The next issue will be published May 3.

The stock market has recovered into the gaps left when it suddenly dove into a panic meltdown on February 27. Meanwhile, the dollar has approached its December low, and its decline seems to be accelerating. Crude oil is recovering well after dropping under \$50 last January. Gold has run from \$635 to \$690, and it has recovered its entire decline since the February highs. It appears everything is on the move here.

- The point is that long term gold is going much higher. Page 2

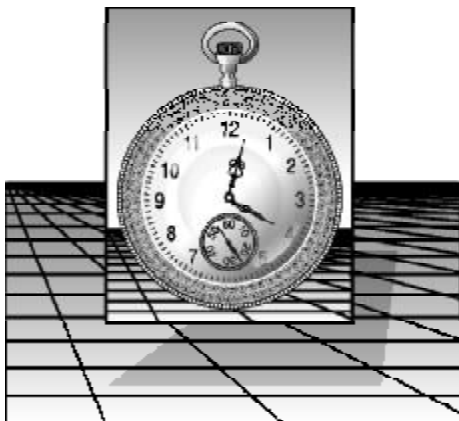
- Don't overlook Golden Valley Resources (GZZ-TSX-C\$0.73). Page 2

The Street is in a good mood. The dollar has not dampened anyone's spirit thus far. Inflation figures are coming in on the up side - as they should with commodities in a strong up trend. Yet, the popular averages are moving higher and technical divergences keep cropping up in my work. What's up?

In terms of the popular averages, there is strong statistical evidence forecasting a drop in the growth rate of corporate earnings for 2007-2008. From a technical perspective, we are nearing the beginning of the next "worst six-month" period for stock performance (which is due to begin the first of May), and the dollar keeps falling. Internal conditions are becoming overbought, so the thought of a possible double top comes to mind.

The chart above illustrates an interesting phenomenon you will often see in the markets. It shows the advance/decline line for the NYSE. Last July, it began a nice, orderly up trend. Then, commensurate with the February meltdown, the advance/decline line broke below the trend.

Note the advance/decline line has not been able to get back over the trend line. Yes, it has made a new high, but it is still trading under the trend line. This is typical of a false recovery. A retracement back to the trend gives the illusion of strength. However, without the power to move back over the trend that was broken, the move should be viewed as a "test" of the breakout and not a re-emergence of the original up trend.



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My fear with the dollar being in such dire straights is another panic like we saw in February. I do have cyclical highs due in the averages April 23-24. Bottom line, the technical and fundamental evidence calls for caution. If we see another panic, I expect that we will see everything come down, just like we did in February. Where does that put us with our precious metal and energy positions?

Gold has made a nice run here, but it is hitting old highs at \$690 basis April. Every gold stock on the planet seems to have just been elevated to a “buy” rating. Where were these guys three months ago? Since the first of the year, most of our recommended gold stocks have traded at their downside buy prices and are now moving higher. You have to get a little uncomfortable when everyone on the Street suddenly wants to buy *after* prices have run up.

I forecast a cyclical high in gold for late February, and that high came in on schedule. It should have been followed by a cyclical low in late March. That low didn’t appear, but cycles do tend to misbehave. Still, keeping an eye on the cycles is a good idea. Currently, gold is overdue for another cyclical low. It is reaching overbought readings associated with past highs, and it is not immune to being brought down if there is another general selling panic.

I believe that gold will eventually double its 1980 high, which will put it over \$1,600. Rob McEwen, the brains behind U.S. Gold (UXG-AMEX-\$6.85), thinks gold will go to \$5,500. Perhaps something in between is more reasonable, or perhaps we are both too conservative. The point is that long term gold is going much higher.

You could follow all the hot stock tips coming out about the metals recently, but you will have to be ready to weather a correction if you do. It would be smarter to hold what you have and accumulate more at a better time and price. I am not making any adjustments at this time, and all of our recommendations look good at their respective downside buy prices. Be sure you diversify and balance your portfolios. If need be, we will adjust buy prices once we see some selling come in. For now, stick with our recommendations as they are.

If you have a little “mad money,” don’t overlook **Golden Valley Resources** (GZZ-TSX-C\$0.73). This is better than an option, but one cent is, after all, 1.5% at today’s price, and these little guys are volatile. My buy price is C\$0.50 - 50 cents Canadian. That amounts to about 44 cents U.S.

Gold should find support during the next correction at \$640.00. I look for the XAU to pull back to 135.00 or better, at which point I think our Rydex gold program will re-enter the long side.

Crude oil is also doing quite well. It has rallied as high as \$69.10 basis June, but it has run into a bit of resistance at \$68.00 to \$69.00. This rally is also showing signs of fatigue, and it is due for some profit-taking. On the bright side, there seems to be viable support at \$60.00 to \$62.00. That is potentially a 10% to 12% correction. In matters of crude oil, 10% is not out of the ordinary. Consequently, my take on energy stocks is to maintain the stops we have on the buy-and-hold list. Postpone new buying for now, and heed our downside buy prices.

The jimmy in all of this is the U.S. dollar. The U.S. dollar index has taken a nose dive since the first of the year, and has just broken an important low established last December at 81.79 basis June. The dollar is key here. It is going to fall much further. I fully expect to see the dollar index make a new low by year’s end. My longer term target has been 60.00, but that may, indeed, prove to be conservative (like my \$1,600 gold outlook).

How should you play it? If you have investments in the overall stock market, be sure to have protective stops in place. Once we enter May and the “worst six-month period” begins, you may want to be more aggressive by taking profits and placing closer stops. That is assuming we don’t see the market tip over sooner (a distinct possibility). The best investments will be in commodity-related and inflation-advantaged investments. The weakness in the dollar is inflationary, pure and simple. Housing will likely cause an economic recession in the U.S. However, the economies of China, India, and the rest of Asia will continue to roll merrily along without us. Asian demand for raw materials will continue to outpace global supply, and the last thing they will want to own is dollars.