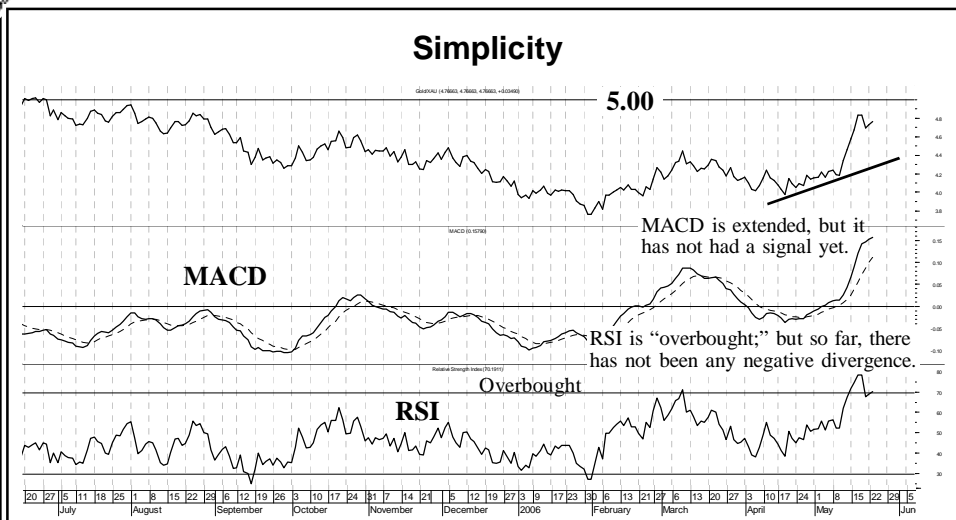


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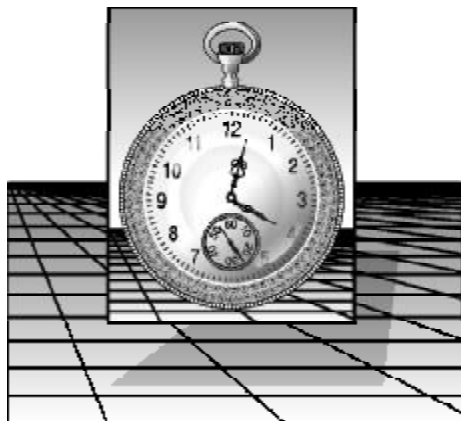
SIMPLICITY REVISITED



The next issue will be published June 8.

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Simplicity is my name for the gold/XAU ratio. When the index moves over 5.00 - as it did in May 2005 - you can buy precious metal mining stocks with gay abandon. In the current correction, the index reached as high as 4.82 on May 17, and it has dipped a little since.

This is in line with my expectation stated in the last letter of seeing it run to "at least 4.70." The second important aspect of the index is its trend. When it is moving higher, mining stocks are getting cheaper in relation to gold. That is what occurs during corrections. When the index is falling, mining stocks are gaining on gold. Hence, once the index turns back down, the current correction will be over.

I don't know if Simplicity will move over 5.00 before the correction ends. More important, we should be watching the MACD pattern, RSI, and trend of the index itself at this

point. If it moves to 5.00 before we see these three elements signal that Simplicity's trend is reversing, so much the better for buyers.

It is too early to draw a valid trend line at this point. I have sketched one in, but it is not very helpful. By the time Simplicity falls far enough to break that line, the next rally will be well under way. MACD is instructive here, however. Although there is no buy signal yet (which will occur once the solid line crosses under the dashed line), it is peaking.

The implication is that there may still be time left before the next rally unfolds. RSI reads much the same. Both MACD and RSI are overdone, indicating that the worst of this decline is behind us - but the market needs some time to form a base.

I will follow up on Simplicity in the next letter and on the hotlines, but I believe the worst is over. It is time

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to be accumulating positions. Now is the time to buy, not to sell.

If you are hesitant, buy some at or below our downside buy prices, and then buy more if prices fall further. Use “good ‘til cancelled” orders under the market. The correction we envisioned has come, and now it is all about the joy of bottom fishing.

I like all of the issues on the buy-and-hold list, but my favorites are **Goldcorp** (GG-NYSE-\$30.68), **U.S. Gold Corporation** (USGL-OTC-\$7.45), and **Silver Wheaton** (SLW-NYSE-\$8.66).

I know it has been a difficult couple of weeks, but take heart in the following gems mentioned on May 18 by Jim Sinclair jmineset.com: “Gold is going to \$1,650. Margin is a financial death wish. Courage lies in understanding. Your emotions are always WRONG in gold. Get a grip, and hold that grip.”

I can buy into the \$1,650 figure with ease. That will probably prove to be too low in the longer run. More immediately, my work is pointing to the next upside objective of \$815 for gold. That is basically the old 1980 high. I will get a better number once the lows are set for this correction.

Silver looks like it will double from its recent low. That puts its objective at about \$25. It’s hard to tell at this point how soon, but we should see these prices within the next 12 months. Bottom line, Simplicity is closing in on a buy signal, and the current weakness may well be THE last best chance to buy gold and silver.

The energy sector has been relatively quiet. Crude has eased back to the \$71 level basis December futures.

Support is in the \$70 to \$72 area, so there are no surprises here. Crude prices are not quite oversold yet; so unless there is some exogenous world event to spike prices suddenly, I look for more consolidation before the next rally. I expect crude to top \$81 within the next 12 months.

It has been said that there is a “glut” in natural gas supplies. Supplies of natural gas are ample at this point, but demand is not declining ... and on a year-over-year basis, neither is price.

A recent study by the Federal Energy Regulatory Commission (FERC) found that the average wholesale price for this winter’s November-through-March heating season was \$9.26/MMBtu, or 43.1% higher than the \$6.47/MMBtu average for the 2004-2005 winter — and 81.9% above the \$5.09/MMBtu average for five winters previous to this one. Also, commodity prices (including energy and precious metals) are nowhere near where they were in the 1970’s on a constant dollar basis ... but they will be.

Canetic Resources (CNE-NYSE-\$20.83) fell below our maximum buy price and looks attractive for accumulation here. If you need some balance in your portfolio, Canetic would be a nice addition. I still like **Paramount** (PMTUN-TSX-\$18.83). They will do just fine. Although I like a position in natural gas and they are a 100% producer, you need to be diversified into other areas as well.

Headwaters (HW-NYSE-\$27.32) has been weak of late - all apparently due to their participation in the synthetic fuel industry and concern over losing a tax perk. The perk has to do with “Section 29” tax credits allowed by Congress in order to encourage alternative energy. There is now some

talk in Congress that the credit should be allowed to expire in 2007. Taking the conservative accounting route, Headwaters decided not to recognize \$10 million in sales tied to tax credits. They are also diversifying away from “Section 29” revenue, which has been reduced from 100% in fiscal 2002 to 28% in fiscal 2005.

Meanwhile, the company’s operating results are outstanding. Second quarter sales were up 21%, net profits were up 84%, and per share earnings were up 53%.

Nevertheless, due to the current storm in the synfuel industry, I am going to put Headwaters on hold until the dust clears. This is not the time to sell Headwaters, but new investment money would be better spent elsewhere at this point - for example, in precious metals.

The stock market in general has taken a turn for the worse.

I expect it will deteriorate further over the next six months. The beginning of the worst six months of the year was officially signaled when MACD issued a sell signal for the S&P 500 on May 12. As suggested, we have a 50/50 split investment in the **Rydex Inverse OTC Fund** and the **Rydex Inverse S&P 500 Fund**. That is, the best/worst seasonal program is 50% invested in the Inverse OTC Fund at \$22.86 and 50% in the Inverse S&P Fund at \$8.14.

We will hold this position until the worst six months end in October. We will then make an exchange into the Rydex Nova Fund and the Rydex OTC Fund in order to participate in the following “best six months” period. If you took this trade, there will be nothing to do until then.