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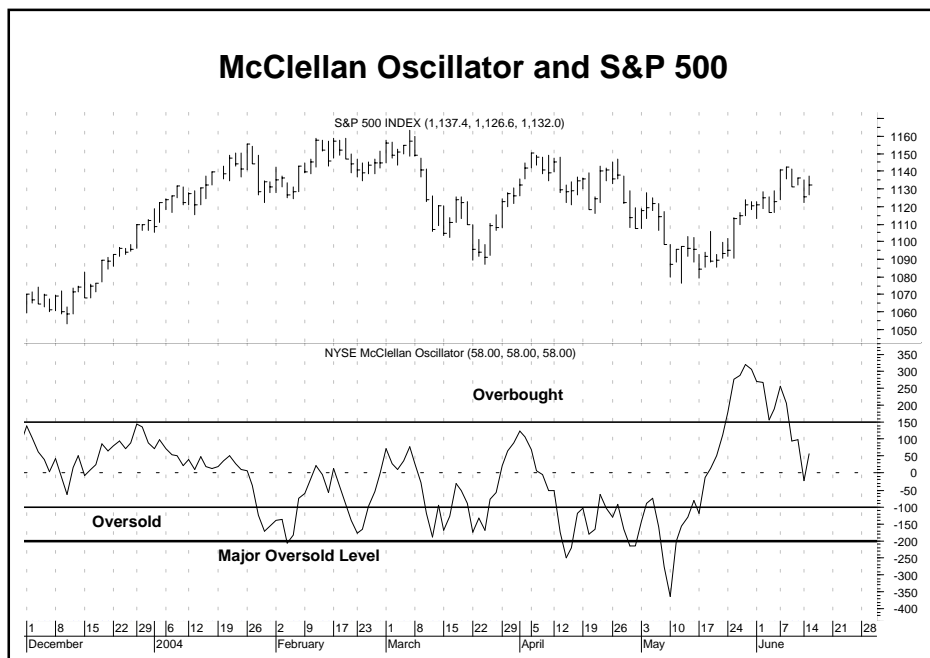
**The next market letter will be mailed on July 1.**

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## TROUBLE AHEAD



Bottom line, the market does not look good, and there is the potential for a crash. I expect that will occur later in the year - probably in October, which is typical of crashes. Nonetheless, you should be on guard. A crash is not certain, but it is certainly possible.

After becoming excessively oversold, the market bounced and quickly became equally overbought. It is odd that the oscillator moved so quickly from deep, oversold levels to stratospheric, overbought readings in a matter of only three weeks.

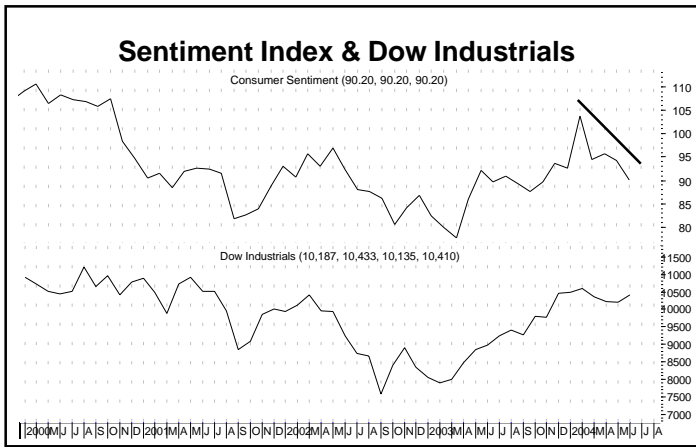
It is also odd that the averages made so little progress during that rally. The S&P 500 only managed a 66-point rise from low to high. The averages didn't even manage to make it to the highs set earlier this year. You would think the market

would have done better - unless the true pros (the smart money) were using strength to liquidate and raise cash.

The oscillator is headed back down again, and the averages are softening also. It is typical for the oscillator to turn down ahead of prices this way, and the resulting "negative divergence" is bearish. This does not bode well for the stock market over the next several weeks.

The Fed has been pumping up the money supply at a feverish rate in the last few months. In fact, money supply has been increasing at a pace only seen in the past when the Fed has responded to crisis events like the 1987 crash, or 9/11. Perhaps they are liquefying in anticipation of

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*Remember, it is the level of interest rates in respect to the level of inflation that is important.*

Currently, interest rates are well below true inflation. The second factor in this is the direction of rates.

new gold stocks that I will share with you in the next monthly letter. I will also explain an interesting strategy that will allow you to take some speculative positions in some of the junior gold and silver stocks, with no risk.

Crude oil has backed off, much like we forecast. I am not worried about crude going back to \$26.00, as some talking heads have been touting - or perhaps hoping. As John Meyers said recently, "the only thing higher than oil prices is Middle East tensions."

### **Keep your eye on the news.**

The developments in Saudi Arabia are very disturbing. The militants are scaring the Westerners out of the country. Once they leave, I am not sure who is going to keep the oil pumps and pipelines running. You can forget the Saudi swing production that is supposed to take up the slack in supply. We will be lucky if they can maintain current production for the next two years.

Canada does not have that problem, and they are on our doorstep. I was told that Enerplus has a 60% foreign ownership, and they don't have a plan as to how they will deal with this issue. They say they have plenty of time.

Perhaps that is so, but I still advise selling half of your position of **Enerplus** at \$30.50 and reinvesting that into positions in **Shiningbank** and **Baytex**. Shiningbank, incidentally, has 15% foreign ownership. That is probably because they are not listed on the NYSE. Both of these companies pay 14% versus 11% at Enerplus.

A few bucks in **Suncor** is a great growth play also. There is not a dividend to speak of here, but their growth potential rivals that of Standard Oil in the 20's.

something. I have no idea what they might be afraid of, but it can't be good.

I came across an interesting study the other day by Robert McHugh, [www.technicalindicatorindex.com](http://www.technicalindicatorindex.com). He correlated the University of Michigan Consumer Sentiment Index and the Dow Industrials. As you can see from the chart above, there seems to be a strong fit. At times, the index and the Dow move in concert; but occasionally, the index will lead (as it is doing now). You can see it is heading lower. I will follow up on this as time goes on.

### **The Fed says they will raise rates.**

A couple of their folks indicated the other day that the Fed will be aggressive in this effort, meaning that they may well be moving rates up faster than most of us expect. That took me back a bit. I was thinking that there was a chance that they might leave rates alone at the June meeting, but now it seems the market, at least, is looking for 50 basis points.

I guess I will have to leave the guessing to others at this point. If the Fed does not raise rates by 50 points, the dollar may take that as bad news and tank. We shall see. Longer term, higher rates will deepen the federal budget deficit, which is already ballooning out of control. Higher deficits are negative for the dollar.

The trend defines the future, and it looks like higher rates are in the future - higher than whatever level is set or not set at the FOMC meeting at the end of June. Higher rates are not good for stock or bond prices.

I think the Fed wants an orderly destruction of the dollar rather than the panic-inducing decline we have seen over the last two years. Whether they can get such order is yet to be known. We shall see.

Orderly or not, the dollar is going to fall further. In the next monthly letter, I will delve into some thoughts on this and analyze the effect on the dollar's decline if other countries also begin to devalue their currencies in an attempt to retain trading advantages. That's likely. However, there is one currency which will not be devalued in step with the dollar - gold.

Apparently the **Equity Gold Trust** is jumping through the hoops at the SEC in preparation for listing on the NYSE. The gold trust will be an Exchange-traded fund (ETF) that is gold backed. Each share will represent 1/10 of an ounce of gold. The gold is real gold bullion stored in a vault.

This is exciting since I, for one, want to own some. It is also exciting because all that gold in the vault is yet to be bought. I am looking at a couple of