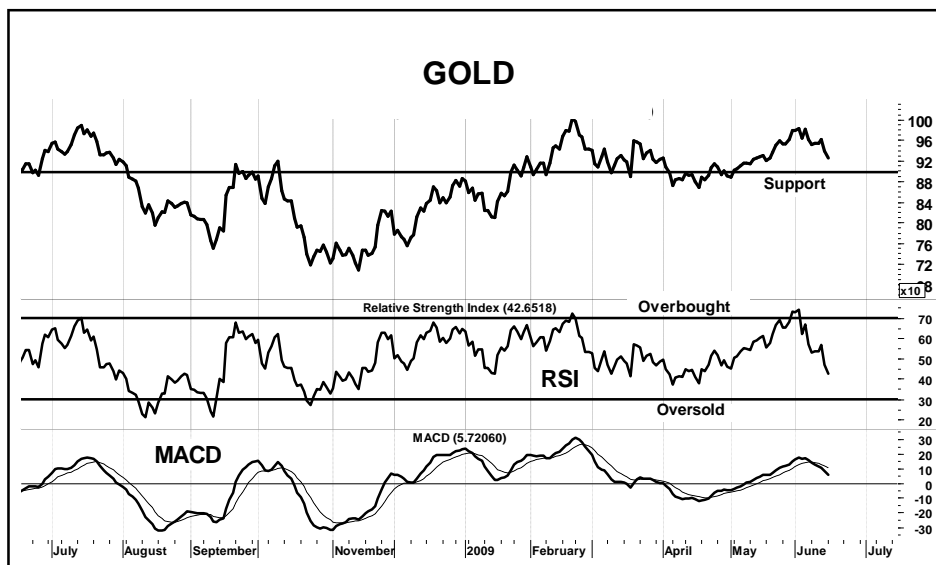


The next issue will be published July 1.

## CYCLES ARE WEAKENING



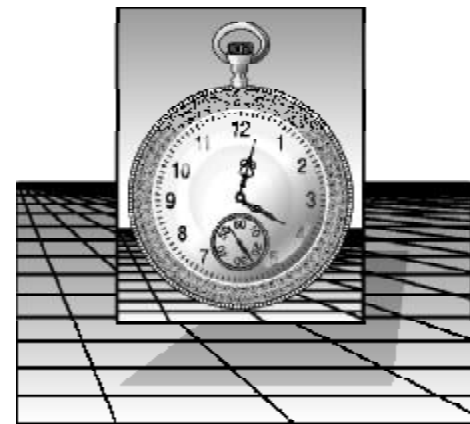
Gold is selling off, and the mining shares on our list are pulling back toward their respective downside buy prices. An excellent buying opportunity is approaching.

I look for good support at \$900/oz., give or take a few dollars. You can see that bullion is coming off overbought readings in both the RSI and MACD. Most likely, we will see the RSI fall to at least 40, and MACD will drop under the zero line before the next low is set. I also look for the gold/XAU ratio to rise over 7.00 from its current level of 6.60. This process needs more time, but early July is a probable time frame for an up turn to begin.

The July through October period looks very bullish in my work. Once through \$1,000, look for a brief pullback and a test of the breakout, followed by further strength. Once gold has broken free of the psychological \$1,000 level, it will rally untethered as the dollar breaks to new lows.

I adjusted the buy price for **Royal Gold** (RGLD-NYSE-\$42.00) on the online update on June 16 from \$40.00 to \$38.00. We should have no problem nabbing some at \$38.00. Some of my shorter term models are negative on bullion (that is currently in line with the correction); but when they kick back in with buy signals, I will increase our 77.5% exposure in the Rydex gold program. The signals are posted on the online updates.

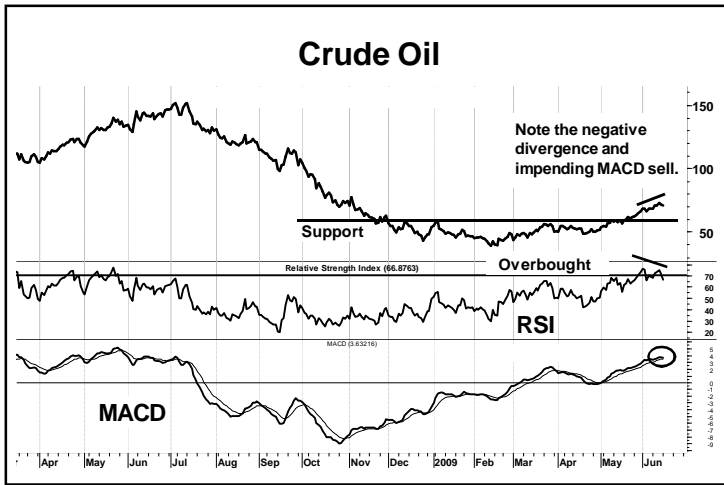
At this time, precious metals are the most interesting investment opportunity we have coming up. Heed the downside buy prices shown on Page 6 of the monthly letter and Page 3 of the Tuesday and Thursday online updates.



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- **At this time, precious metals are the most interesting investment opportunity we have coming up.**  
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- **Liquidate financials during up days and place protective stops on .....**  
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The crude oil rally from lows in February has been persistent, and crude has been able to surpass two important overhead resistance levels. There is no question that the energy markets look very bullish. Nevertheless, markets cycle. Bulls and bears alike zig zag their way along the trend. Crude is overdone.

*Again, the chart says it all.* The Relative Strength Indicator (RSI) has not been this overbought since April-May 2008 when crude was heading toward \$150.00 and an important high. MACD looks like it did last year before a series of sells and negative divergences set in during June. Crude is not going to break to new lows this time. The

recession has cooled demand, but supply is falling faster - simply due to global peak oil production. The fundamentals could not be more bullish, but the current technical condition of this market demands that you not chase strength. Crude should correct back to about \$60.00 basis July futures where there is decent technical support before moving higher.

The commodity market at large looks incredibly bullish longer term, but I have been seeing some caution flags pop up lately. It looks like we could see a 10% to 15% correction in the DJ AIG Commodity Futures Index (BigCharts symbol 26099104). We have the **Pimco Commodity Real Return Strategy Fund** (PCRAX-\$7.34) on our list with a buy price of \$6.50. That looks realistic, and it's in line with the expectation of a correction due soon. You might want to go back and review the comments on this fund in the June monthly letter.

The stock market will find a high soon, and will correct along with commodities. However, I encourage you to decouple these two markets in your mind. Although they have traded in tandem for some time, they should be approached independently and should be considered based on their individual merits from now on.

The stock market looks scary. The averages consolidated in May and broke out in June, as expected. So far, though, the breakout has not been followed by a rally - only further consolidation at a little higher level. This is disturbing.

The May consolidation was not accompanied by a significant retracement in overbought readings or in MACD. These indicators should have fallen back to at least neutral readings, if not back to oversold levels. They did not. There now seems to be a good deal of "price friction." That is not good. MACD on the S&P 500 continues to hover in overbought territory, and it has produced a second sell signal replete with negative divergence. The RSI is overbought and is fading while the S&P 500 is rotating between 920 and 950.

Regardless of my expectations for a high in July and a test of that high in August, the stock market is vulnerable here. Another negative element tossed into the mix is that our Palio model served up a sell signal on June 15. The Nasdaq Slow Tracker will turn negative if the Nasdaq Composite falls to 1,677.50. That sell point is a bit behind the curve in that the Nasdaq will fall substantially from current levels before its sell executes. Palio is more sensitive to market conditions; and considering the other negatives I have mentioned, you need to take the Palio signal seriously and act accordingly.

*So, what should you do?* Liquidate financials during up days and place protective stops on any stocks based on paper assets; i.e., any non-commodity-advantaged issues. We may see the market attempt to recover as July approaches ... but time is running out on the Obama rally. Technical factors in my work suggest using strength to sell financial issues, even though you may end up selling some of them early. Hold your tangible assets - your metals and energy issues. Use money raised from selling financials to buy tangibles during this next phase of profit taking. The key is to buy "things." Tangibles will zig zag; but over time, they will hold their value. The government has recently proven that paper money can be created at will, seemingly without limit. On the other hand, gold and crude oil cannot be created, and the commodity bull is far from over.