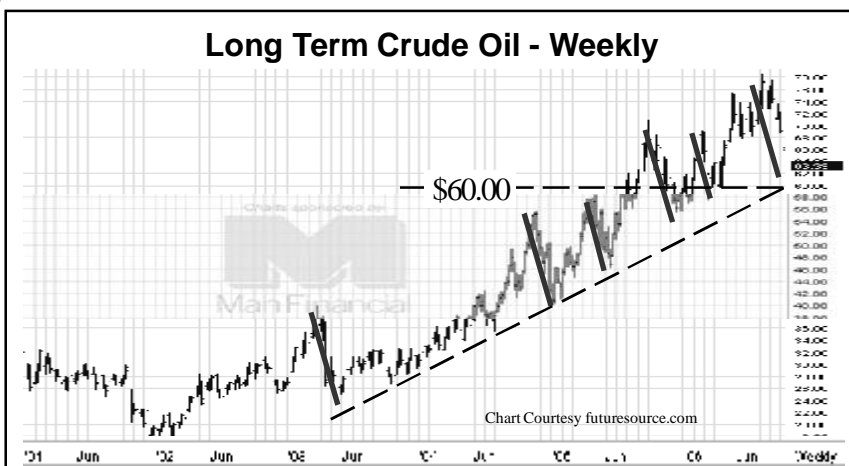


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VULTURE INVESTING

Long Term Crude Oil - Weekly



The next issue will be published October 5.

• **What should you buy?**

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My old friend, Tom, visited recently. Tom invests in real estate - as his father did and as his grandfather did. It's not that Tom won't jump on other opportunities, like stockpiling oil well casing pipe during the last oil bear market. He did very well with that.

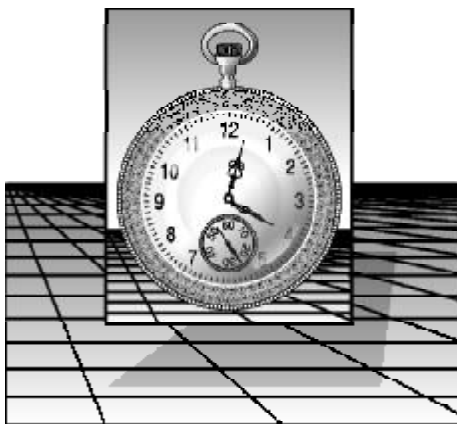
Our visit was educational, as always. He had told me some years ago about buying a strip mall for \$5,000. It was the jewel of his real estate portfolio. He told me that he made that purchase because he is a "vulture investor."

"When you find such opportunities," he said, "you need to be able to afford to feed them. You will sit on a 'loser' for awhile before the conditions return to normal and you start making money." He added that he recently sold the mall to a long time tenant for \$1.3 million.

I have learned that following Tom's vulture investment approach can make you a lot of money. Buy extremely low, be well-financed, and be patient.

Over the last several weeks, crude oil has corrected to the point that there are few believers left, and the vultures are circling. Sentiment is as bearish as I can remember. It is almost as if someone were orchestrating the decline in order to buy in on the cheap - a vulture investor conspiracy perhaps? The truth is, this correction is not unusual. There have been five previous corrections of similar magnitude since crude launched into a bull market in 2002. How quickly we forget!

Past corrections have lasted about eight weeks on the average. The current decline has been in effect for nine. Bottom line, the bull market in crude oil - indeed, the entire commodity bull - is still intact, but it is severely oversold. What we have here is a vulture investor's opportunity. The bare minimum one can conclude is that this is certainly not a good time to sell.



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What should you buy? Many of our energy recommendations have fallen below their respective buy prices and are, therefore, candidates for purchase. If I were to pick one, I would suggest some **Energy Split II** (EN-TSX-C\$17.55). Energy Split II is the Canadian equivalent of a closed-end fund and holds a portfolio of Canadian energy trusts. One element to note is that this fund does use leverage, so don't go overboard here. Nevertheless, the yield is nice (they pay quarterly). You should look them up at www.scotiamanagedcompanies.com and review detailed information as to the portfolio's makeup, etc. During vulture investment time, this is a good way to invest in a portfolio of Canadian trusts. It trades a little thin, so be careful to only use limit orders at C\$17.00 or less.

Another approach with built-in diversification would be to buy some **Blackrock Global Energy & Resources Trust** (BGR-NYSE-\$24.50). They should give you a 6% dividend; but every once in awhile, they make an extra payment. You can review their dividend payments and portfolio at www.blackrock.com. Blackrock pays a regular quarterly dividend of \$0.375; but occasionally, they pay a little extra. Their September declaration included an extra dividend of \$0.685 "given the performance of the Trust's investments and option writing strategy." Buy Blackrock under \$26.50. If you are low-balling, you might try for something just shy of \$24.00.

The vultures are circling the precious metal pit as well. Most of the stocks on our list are at or below their respective downside buy prices and are candidates for purchase. Again, be mindful of keeping your portfolio diversified and balanced.

The current technical situation in gold is, perhaps, not as immediate as that in crude oil. The RSI oscillator and MACD on gold are at deep, oversold levels. Be mindful that there is a problem I keep bringing up on the hotlines - it is early for seasonal lows. They normally form in November. I think the worst is behind us, but we will likely see a period of basing before the next rally gets in gear. There could even be a dip toward \$550 basis December where I would expect to see positive divergences form in the RSI and MACD patterns before the next rally.

The current situation with the mining stocks is more bullish. The mining stocks and bullion do not move in lock step. That is what Simplicity is all about. Simplicity measures the relative strength between gold bullion and the mining shares represented by the XAU Index. Simplicity has remained remarkably steady during the latter part of the current correction in bullion, oscillating between 4.30 and 4.60 over the last four months.

I apologize for my change of attitude concerning **Goldcorp** (GG-NYSE-\$22.54). Here is the problem and some of the things I don't like. There is new management since we first recommended it; and with the Glamis merger, management will likely change again. I think Goldcorp is paying too much for Glamis. This is not vulture investing. Furthermore, the stockholders are not being given the opportunity to vote on this. For now, Goldcorp is a hold. This is not a good time to sell. However, I am recommending that when it rallies, sell it at \$28.50. One caveat - I am keeping a close eye on this situation. The merger may fall through. Management may change. Major stockholders may sue. If there is a reason to revise my opinion in the future, I will let you know.

There are better buying opportunities. I like **Minera Andes** (MAI-TSX-C\$1.20) that we talked about in the last letter. Buying at C\$1.20 or better has not been a problem, and the stock has held up remarkably well of late. This is a speculative, "on the come" investment, so do exercise prudence. Consider this as an option that won't expire.

Silver Wheaton (SLW-AMEX-\$8.84) is still strong on my list, and it's selling under our buy price of \$10.00. If you already hold some and want a good place to add at a lower price, accumulate more at \$8.00 or less. I am looking over several new gold ideas that I will share with you in the October monthly letter. I am seeking a replacement for Goldcorp - some major producer.

Those of you who are shareholders of **U.S. Gold Corporation** (USGL-OTCBB-\$4.66) should go to their Web site www.usgold.com. Click on the "News Releases" tab to the left and read the "Open Letter to U.S. Gold Shareholders."