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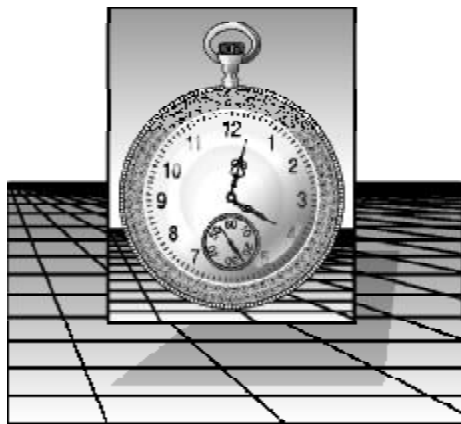
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Commodities Warming Up As The Stock Market Chills



The next issue will be published October 3.

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A shortage of crude oil supplies will cause a recession, but a recession will not, in itself, dampen the U.S. consumer's appetite for crude oil. Domestic consumption of crude oil has increased every year since 1991 - with the exception of 2001, the year of the last official recession when crude demand was essentially flat.

You might argue that an ensuing recession is going to be extremely severe - not as benign as the 2001 experience. However, it is an election year, after all, and only something outside the control of the Fed would produce a harsh contraction. The Fed is already beginning to pull out the stops and rev up the economy to the best of their ability. If that takes opening up the liquidity spigot full bore and running rates back to zero, so be it. How about this: the U.S. Secretary of the Treasury, Henry Paulson, is suggesting that the solution to the mortgage problem is to create new products! Hmm... cut interest rates to zero, flood the markets with liquidity, and come up with new, "creative" financing schemes to bail out those liar loans! This seems like curing morphine addiction with a big shot of heroin.

The cost will be a weaker dollar. If there is anything I see in the markets today that looks close to a lead pipe cinch, it is that the dollar will be sacrificed for a short term economic rebound - all for political purposes. It is a matter of retaining power, not retaining or improving the value of the dollar. It's too bad because a nation's currency is really its measure of value, much like a stock is the measure of the value of a corporation.

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All of this political mischief is beyond our control, but it does affect the value of our investments and how we should hold our wealth. Investors need to position their money in order to be advantaged by future circumstances and not impoverished by them.

The U.S. Dollar Index has worked its way below the long-standing lows at 80.00. You can see on the chart on Page 1 that it is not quite as low yet as the bottom established in 1992 at 78.43. New, all-time lows are in the offing; and as long as the weakness is orderly and no panic ensues, I don't think the Fed will step in and defend the dollar. Near term, our Rydex dollar trading model is on a sell (see Page 1 of the Tuesday and Thursday Web sites updates). There is nothing fundamentally to support a higher dollar; and, frankly, I expect to see the Dollar Index hit 60.00 eventually.

It is not surprising that the commodity bull is awakening. Gold is breaking over \$700.00, and crude recently moved over \$80.00. I need to mention again that you need to look for a separation between the movement in the commodity market and commodity-related stocks and the movement in the general stock market. We have been through a long stretch where everything, including gold mining stocks and oil issues, have gone up and down in tandem with the movements in the popular averages (Nasdaq, Dow, S&P 500, etc.). We are going to enter a phase now and through 2008 where this will no longer be the case. Next year (2008) looks like it will be a very profitable year for commodity-related (real asset) issues, but dismal for financial (paper) assets. I am looking for \$850.00 in gold, \$100.00 crude oil, and 72.00 in the Dollar Index during 2008. This should be the basis for your strategy.

The commodity bull will thrive in 2008 at the expense of the general market, and the weak dollar will be no small reason for this. So, what looks good here? Anything on the recommended buy-and-hold list (Page 6 of the monthly letter and Page 3 of the twice weekly updates) at or below their respective downside buy prices. Just be sure to balance your holdings and diversify among sectors, individual stocks, and risk levels. Don't hold the mother lode in juniors, but a few bucks in them will provide greater potential if you have the risk tolerance for speculative issues.

Coeur d'Alene (CDE-AMEX-\$3.49) looks interesting at \$3.50 or better. Silver has not kept pace with the run in gold, but it will soon find its own footing. Silver, basis December, has a nice base just below \$12.00, but there is some technical resistance at \$13.50. Nevertheless, it will not stray behind gold for very long. Once solidly through \$13.50, silver will get more exciting. I think some CDE under \$3.50 looks like a better bet than buying call options.

On the energy front, you should continue to buy into weakness at or below our downside buy prices. The refiners, shippers, and my favorite driller, **Transocean** (RIG-NYSE-\$108.41), should have a place in your energy portfolio. The only major you should own is **Apache** (APA-NYSE-\$86.89). If I were to pick one stock to buy today, it would be **Nordic American** (NAT-NYSE-\$38.14). If you already have some, hang on. If you don't, pick up a few shares ... but don't overload your portfolio just because NAT is selling below its buy price and others are not.

If you visit their Web site, www.nat.bm, you will see that their dividends are not consistent. They will vary from quarter to quarter, as will the dividends from other shippers. However, I expect you will get better than 10% on today's price. If things go as I think they will with crude oil, you may be very pleasantly surprised with both the dividends and the price of this stock a year from now.

As for the stock market in general, it is becoming a very dicey game. Although I don't recommend that you make long term investments in financial assets, I do think you can trade the averages by following one of our Rydex trading programs like Palio or the Nasdaq Slow Tracker. Palio is not as focused as the Tracker is; and so far, it has done a decent job of aligning itself with the general trend of the overall stock market.

The signals are announced on the online updates or by special e-mail alerts to those signed up to receive them. Those who subscribe through Forbes get these updates and alerts in their e-mails, but those who have subscribed directly with us need to opt for these e-mail messages. We have changed our system to make delivery more reliable; so if you are not on the list and would like to be, let me know and I will set it up for you.