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The next issue will be January 2, 2008.

- **Keep your eye on the energy stocks as we enter the first quarter of 2008.**

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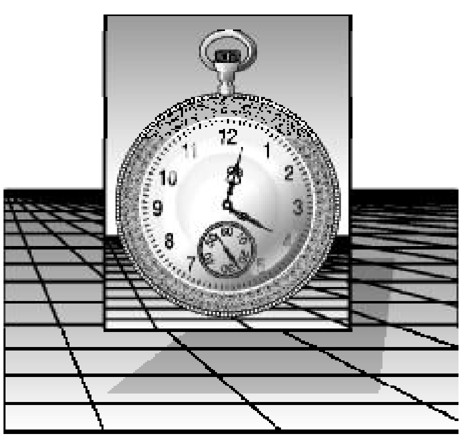
We want to wish all of you a very happy holiday season and a most prosperous new year!



Some Thoughts On 2008

I continue to look for gold to drop to somewhere between $740 - $720. Due to its volatility, it could even tease $700 briefly. However, it is more important to watch Simplicity as the New Year gets under way.

Gold has been consolidating just over $780, basis the February contract. There are likely a lot of stops under those lows that, once tripped, will propel gold to our downside expectations. Gold investors may want to take a little gamble on new purchases and wait for Simplicity to hit 5.00.

The gamble is that some unexpected event will occur that will abruptly set the dollar on its ear and gold into the stratosphere. If you hold your current precious metal positions, wait for a 5.00 reading from Simplicity, and heed the downside buy prices on our buy-and-hold list, I think the odds will be squarely in your favor. Readings over 5.00 have been profitable 97% of the time. As we go to press, Simplicity is close at 4.95.

Direct your initial interest to the larger producers. I will review the smaller and more speculative, lower tier miners in the January letter. I am particularly interested in buying some **Kinross** (KGC-NYSE-$16.08) at $15.00 or better and **Street Tracks Gold ETF** (GLD-NYSE-$78.13) at $73.00 or less. Any of the majors on our list are buys at their respective downside buy prices. Do be mindful of the tax consequences that I wrote about in the last letter concerning GLD. My GLD is going into an IRA, so the unfavorable long term gain rate will be sheltered.

We are likely going to hear a lot of bearish talk about the metals over the next month or two, but if you steel yourself against the ballyhoo, there is a great buying opportunity coming up.

Crude oil prices have come down some as well. Again, I am warning you about the bears now. We have been through this before, and we will have to put up with it again and again during every correction until the energy market finally finds its ultimate high. The talk will be that a recession will dampen the demand for crude, but I have been over the fallacies in that argument ad infinitum – see prior PTS issues.

We are going to see solid, scary evidence of both peak oil and peak gold next year. Yes, peak gold. Demand for gold is expected to outstrip supply this year by 234 tons, which, according to *Barclay's Capital*, will be the first deficit since 1979. Use the coming weakness to position for it.

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Keep your eye on the energy stocks as we enter the first quarter of 2008. This is typically a weak time for energy prices, and it's also where seasonal lows form. The question is how to make money in energy if your oil company is running out of oil. Start by buying **Schlumberger** (SLB-NYSE-$90.28) if it falls to $75.00 or better.

Frankly, we are going to see mounting evidence of peak everything in the raw material sector over the next seven years. Raw materials are all getting more difficult to find and more expensive to produce. Meanwhile, demand in emerging economies is in an accelerating, mega up trend that will not stop or falter any time soon.

The U.S. stock market remains vulnerable. Unlike commodities, the surprises will be bearish for financial assets, at least until the middle of the next decade. If you watch, you will find that "good news" will not have a lasting effect on prices, but each bit of bad news will see the stock market's foundation form a few more cracks. There will be some nasty, sudden surprises in 2008, and savage, swift downdrafts in stock prices will have the politicians making all sorts of ridiculous promises. As time wears on, the Dow and its fellow averages will be volitale, but confined, while commodity prices will surge higher. This will continue until the Dow/gold ratio falls under 5.

I sense we are currently in a new paradigm that will see the popular averages move within a wide trading range over the next few years. The Dow will find it difficult to break much over 13,700 for any sustainable time. On the down side, 10,700 will offer support, but momentum can temporarily take prices lower than that on occasion. All in all, the Dow has done better than the Nasdaq and S&P 500 since 2002, but I expect it will be confined between 8,000 and 14,000 at its extremes over the next seven years. Commodities, however, will move robustly higher.

I look for the S&P 500 to be constrained between 1,500 and 800. The Nasdaq is the weakest of the stock averages, with 1,500 offering some support on the down side. Nevertheless, the Nasdaq could easily see a trip to its lows at 1,000 before we see the Dow/gold ratio under 5 and the end of a bear market in financials.

Such is the environment we are investing in as far as financial assets are concerned. Since these trading ranges will last for several years, I see financials as solely a *trading* opportunity. Long term growth will be found in commodities, at least until 2014. In fact, the profit potential I see in commodities during 2008 is simply astonishing.

Note the stock market averages currently sit nearer the top of their trading ranges than the bottom. Although we are in the best six months of the year and although I don't expect any cataracts on the down side over the next four months, there is not much promise on the up side in financial assets.

Your fixed income money should be in short term T-bills. Be careful of your money market accounts. I will take up a discussion of money market accounts next year, but they are not all created equal. Some are downright perilous. If the interest rate is too high, it may be due to the fund manager holding dangerous assets. Be mindful of your bank's FDIC insurance levels and your brokerage firm's SIPC coverage. If you are not clear on your coverage or where your accounts fit with the guarantees offered, talk it over with your banker and/or broker.

Bond prices will go lower and interest rates will go higher during 2008 - on the long end particularly. I can't yet put a number on "how high," but high enough that you should be putting fixed income money in short term bills – yes, at 3%. It's better to accept a 3% yield now that will eventually increase as you roll over your bills in the future than being locked into 10-year Treasuries at 4%. Worse yet would be holding 30-year Treasuries at 4.5% and seeing your principal evaporate as long rates rise. It's better to roll over your T-bills as rates rise than seeing long term yields move to 10% and your principal fall in half.

I will be addressing real estate more specifically in 2008. There will be some bargains in that sector down the road, and you won't want to miss them. Once prices fall a bit further, real estate will join the commodity bull market. As the U.S. dollar weakens, U.S. real estate becomes very attractive to foreigners. We are already seeing some interest in Arizona and across the Canadian border in Montana due to the loonie being on par with the U.S. dollar.