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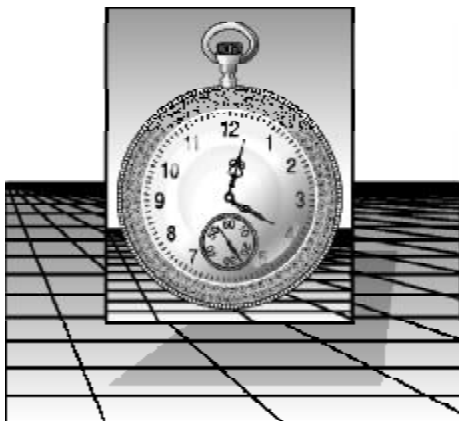
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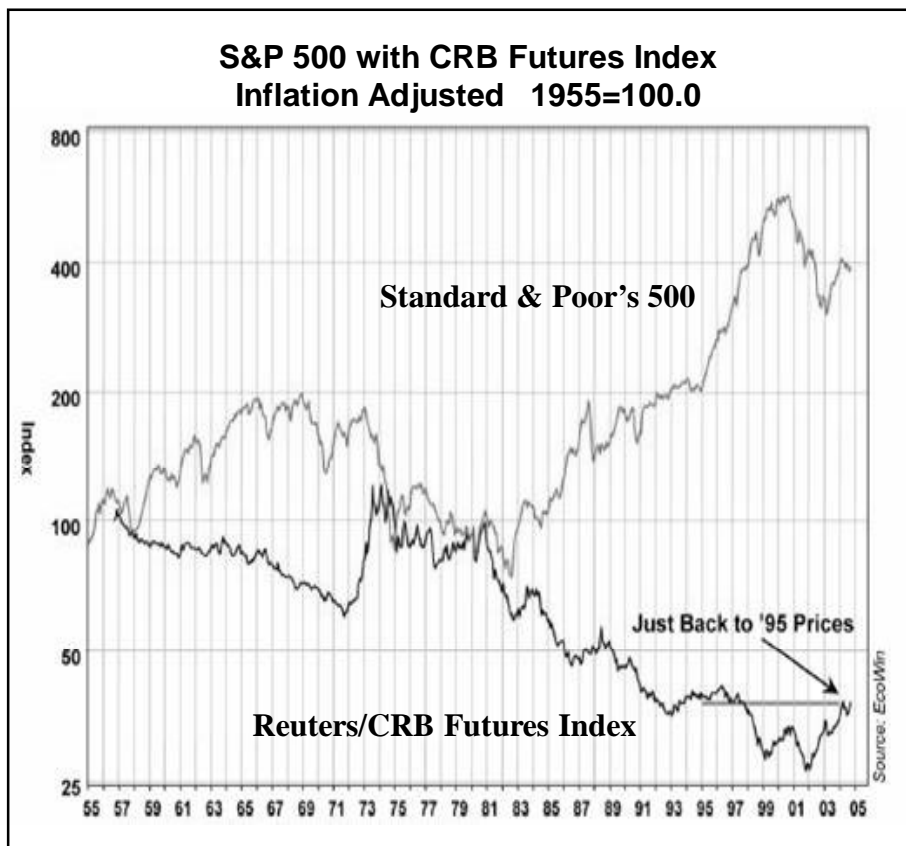
The next issue will be published January 20

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2005 - The Year For Commodities



I found this chart while reading a piece in *The Rude Awakening* from www.dailyreckoning.com. The chart shows a long term comparison between the S&P 500 and the CRB Futures Index on an inflation-adjusted, or constant dollar, basis. Stocks definitely beat inflation from the early 1980's until 2000, but that worm has turned in favor of commodities.

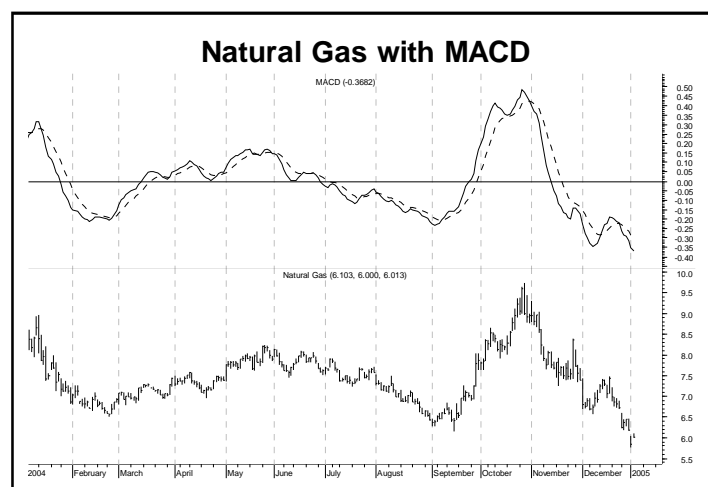
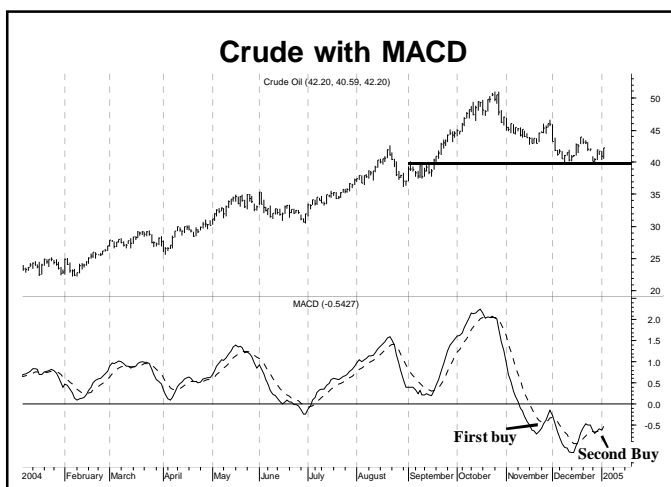
Once inflation is factored in, the view of the stock market is enlightening on its own; but you should direct your attention to the CRB. This representation of

commodity prices turned up late in 2001, and it has been working higher ever since. I want to remind you that our Annual Asset Allocation Model (AAAM) shifted from bonds to inflation-advantaged assets in October 2001 as well.

As 2005 opens, the CRB is hitting multi-year highs, both on a current dollar and inflation-adjusted basis. The bull trend in commodities is just getting warmed up.

Commodity bull markets last for 16 to 20 years, and this one is just getting its wind. This year looks

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to be a grand year for commodity investments - perhaps as good as we saw in the early 70's.

We can leave the question of "how good" 2005 will treat commodity investments to the market gods. It is good enough for us that the most promising area for investment money on the basis of the lowest risk for the largest reward is still in commodities and commodity-advantaged assets. It is important to note that studies have shown that 85% of investment success is on the basis of being in the correct sector. Beyond that, 15% is being in the right stocks.

Crude oil is still king for the longer term.

During the last three years, one of the best performers in the commodity pits has been crude oil. I don't expect it to lose its lead this year.

Near term, we are drawing close to the end of the correction that began last October when crude hit \$55.00/barrel. It looks like \$40.00 is a solid base now. The chart above has an interesting MACD pattern developing also. MACD has just kicked

in with a second buy signal, and second signals can be very powerful.

I am not worried about crude prices falling more than temporarily. On a per capita basis, the Chinese are using 1.7 barrels a year. U.S. per capita consumption is 25 barrels a year. I agree, U.S. consumption is well ahead of the curve; but both of these usage rates are increasing.

The key is that China has a lot more "capitas" than we do. With a population of about 1.4 billion souls, a jump of only 0.1 barrels a year represents a huge increase in demand on limited world supplies. India is also on the energy usage fast track. Both of these countries are expected to increase their energy consumption significantly in the next four years.

On the other hand, OPEC seems to have become accustomed to higher prices. They really don't have any meaningful "excess capacity" any longer, and I believe they will be quick to cut production in order to support crude prices at or above current levels.

We have seen about all the weakness we are going to see in crude for now.

The next bull phase will see crude prices advance once again to all-time highs over \$55.00. I have forecast that we will easily see \$60.00 this year - but I think that is a bit low - and \$76.00 is attainable.

It is important that even though crude oil has soared, there is no evidence of hoarding. Usually when a commodity has a strong move like we saw in crude over the last two years, speculators, users, etc. will stockpile to get ahead of rising prices. This has not happened during this cycle in crude oil because there is no excess production to hoard.

Natural gas is interesting.

Gas broke over \$9.50 in October, and it has corrected in line with the selloff in crude oil. While crude has sold off 28% from its October high, natural gas has sold off nearly 40%.

About three-quarters of new housing is heated with natural gas, and over half of existing homes use natural gas. Eventually, Americans will reconsider their taboo against atomic energy once natural gas and crude begin to become all but unaffordable. In the meantime, crude and natural

gas will be the energy of choice. Furthermore, the lion's share of new power generation plants being built are natural gas fired.

There is a 6x factor between crude and natural gas. Crude should sell for about 6 times the cost of gas. Today gas is \$6.00 while crude sells for \$42.00. This means that either crude is too high or gas is too low. With an impressive floor at \$40.00 in crude, \$6.00 gas is a bargain.

This is not that you should run out and buy a tank of natural gas. It is that natural gas energy trusts are a relative bargain right now.

I have added **Paramount Energy Trust** (PMTUN-YSX-C\$16.15) to the buy-and-hold list. This Canadian energy trust exclusively produces natural gas. Check out their Web site www.paramountenergy.com and review the caveats they discuss concerning unit holder liabilities.

There is a distant possibility that unit holders could, in theory, be held liable in the event that any Canadian energy trust were to go broke. However, as a practical matter, I don't see how they could enforce this against a large number of individual unit holders.

This issue is quite theoretical, but it does have the effect of holding institutional investors at bay. I have read that the Canadian Parliament is working on clearing this up; and once they do, this could open the floodgates of institutional money.

Future institutional interest is not our reason for investing. I simply want

to buy crude oil and natural gas in the ground and get paid for it as it is pumped out. Paramount is paying about 15% at today's price.

Natural gas should move to \$12.50 or higher this year, and our dividends should increase as a consequence. Keep in mind that natural gas is more volatile than crude, and gas stocks can gyrate more than most. Nevertheless, a few shares at current prices will add some diversification to your energy portfolios.

Shiningbank (SHNUN-TSX-C\$21.23) should be bought at C\$21.00 or less Canadian, and **Baytex** (BTEUN-TSX-C\$12.80) is still a bit under our buy price at C\$13.00. Both of these are currently my favorites.

Although 2005 looks like a great year for commodities, I don't expect you all to become commodity traders. In fact, although we offer commodity signals in the Hyperion trading program, I suggest that unless you are a seasoned commodity trader, you should only use those signals as a general guide as to how the prices of crude, natural gas, and precious metals are progressing.

In a year where commodities are likely to soar, your portfolio should have some gold and silver shares. Like the energy complex, precious metals have been correcting from highs set in November and December. As this letter goes to press, I feel that the

correction in the metals has a little further to go, but we are getting closer to a bottom.

GOLD

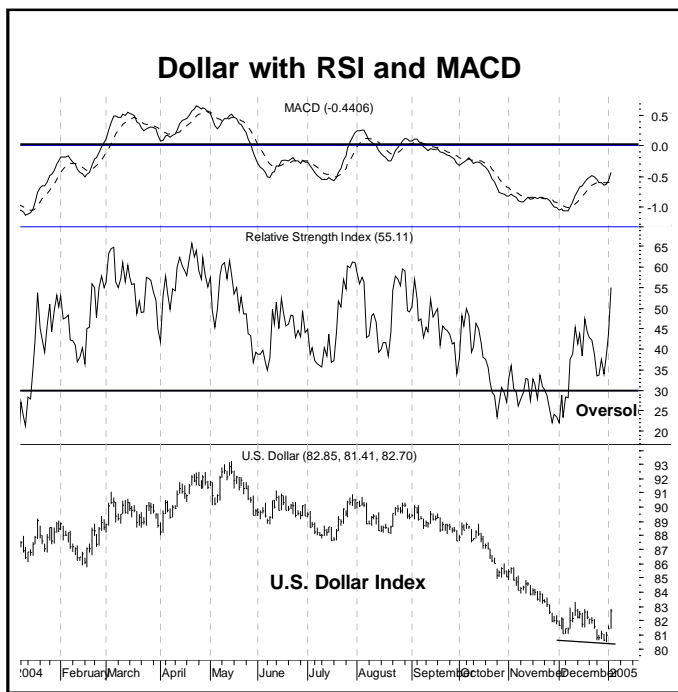
Buying gold for the longer run is a no brainer. It is just a matter of where and when. You must also be willing to accept its volatility. The market has the last say; and thus far, I don't have any green lights flashing in my technical work on the metals. However, it is time to target further weakness and buy some gold stocks on our buy-and-hold list. Consult the list on Page 6 for specific buy prices.

I can tell you what I am particularly interested in for my portfolio. I really like **Western Silver** (WTZ-AMEX-\$8.16), and I own shares at our original buy price of \$3.50. I also have open orders in at \$7.50 to buy more. If you do not have a prior position, you might nibble a little here, and then add to this at \$7.50 if given the chance.

Another mining stock I am adding to my personal portfolio is **Novagold Resources** (NG-AMEX-\$7.09). Our downside price is \$6.50, and I think we have a good chance at hitting that.

Novagold is involved in four of the largest undeveloped gold deposits in North America. They include the





Whether the merger deal with Wheaton goes through or if Glamis is successful in its hostile takeover bid does not make a lot of difference at this point. The important issue is that they are undervalued, and others in the industry recognize this.

I expect the U.S. credit markets to run into serious trouble in 2005.

The two-year Treasury auction on December 28 did not go well, which provides a glimpse into the future. It seems that the whole show encountered the lowest investor interest seen for the entire year. This includes interest from foreign Central Banks. The U.S. credit markets are beginning to encounter difficulties attracting the financing we need to maintain our bulging balance of payments.

As the commodity market improves, as inflation becomes a more obvious problem, and as more Treasury auctions find themselves begging for attention, interest rates will have to rise. I look for the Fed to abandon their “measured” responses and become more aggressive. They will move to half point rises and/or announce additional rate hikes between FOMC meetings.

The combined increases by the Fed and lower participation from foreign investors in our Treasury markets will push rates higher on both the long and short ends of the yield curve.

Perhaps I should have interjected the dollar and its outlook earlier in this discussion, as the U.S. dollar is *the key* to why our financial markets, bonds, and stocks are headed for worse days - and why commodities are now king. I had been looking for a bounce in the dollar, but about all we saw was a stall in the fall.

Ambler Project in partnership with Rio Tinto, the \$25 million ounce Donlin Creek Project in joint venture with Placer Dome, the multi-million ounce Galore Creek gold-silver-copper project, and the Company’s Rock Creek project in Nome, Alaska.

These projects give Novagold one of the best looking growth profiles of any of the emerging producers. Since 1998, Novagold has added an average of over 2 million ounces in new gold reserves each year at a cost of less than \$4.00 per ounce. Bear in mind that Novagold and Western Silver are on our junior gold stock list, and they are more speculative than the more conservative issues.

There is merger activity afoot with **Goldcorp**, and that should come as no surprise. This company is worth more than the market is willing to assign so far. I am going to hold my shares for now and see what comes of this.

I will, of course, be keeping a close eye on developments. For now, I advise that you hold your stock. If for some reason there is disappointing news surrounding these activities and the stock were to fall to \$12.50, buy a little more.

The Rydex gold program has been a bit bumpy, but I look for a significantly better year in 2005. As we stand now, my work has a downside target for the XAU at 92.00. Since I don’t see anything yet in my technical work to indicate the correction is over, a drop from current levels of about 4% is not out of the question.

How long will the gold market last? Again, commodity bull markets tend to last for 16 to 20 years, and this one is just getting started. Our Annual Asset Allocation Model tipped us off to the beginning of this trend in 2001, and the current bull market in tangibles (commodities) will last until the model tells us otherwise.

Positive technical divergences persist; but so far, the dollar has not been able to get much going on the up side. There is still that possibility - and perhaps this is why our precious metal work is telling us that the correction in gold is not over yet. It may be that this "correction" in the dollar is simply a sideways affair.

As you can see on Page 1, the stock market has not done much on an inflation-adjusted basis since the secular bear market began late in 1999. Don't discount the importance of beating inflation with your investments. With official inflation being understated, most investors have not paid much attention to this ... but believe me, beating inflation will become a front and center issue this year.

I thought recent comments from Pimco's Bill Gross on government numbers was interesting. In a recent Pimco commentary entitled "haute Con Job," he called the BLS to task for manipulating their results. We have been preaching to his choir for the last few years. His conclusion is that the CPI is 1% greater than official figures and that GDP was 1% less. Frankly, I think these measures are off by much more than that.

I gave you my take on the bullishness of years ending in 5 in the last mid-month letter. The key here is that all but one "bullish year ending in 5" has had a weak first quarter. Another interesting historical aspect is that the first two years of every Presidential term have suffered a losing market. One

exception brought to light by Kennedy Gammage in *The Richland Report* was FDR's first term 1933-34 ... but he took power at a particularly auspicious time in the market.

Long term cyclical studies show that just as secular bull markets in commodities last 16 to 20 years, secular bear markets in stocks also last 16 to 20 years. It coincides that about every 20 years or so, the best investment avenue shifts from financial assets to tangible assets.

That shift has already occurred, but these new trends are very young. There will be countertrend (cyclical) rallies and declines; but longer term, we are not at the end of the bear in stocks or the bull in commodities.

The high price of crude will eventually kill the economy, yet investors have elected to ignore the permanence of high energy prices and the effects to come. Higher interest rates will eventually kill the economy, yet investors seem to be in a state of euphoria and cannot be bothered with the prospect. A lower dollar is not a panacea for American corporate profits, yet investors choose to turn a blind eye to fewer buyers showing up to buy our debt.

What happened to *three steps and stumble*, the old Edison Gould rule that stated that once the Fed raised interest rates three consecutive times, the market ran into trouble? What happened to the rule that says after three consecutive drops in the government's Leading

Economic Indicators (LEI), there would be a recession.

We have seen the LEI drop 5 times now.

Just how bad is Wall Street's bullish hallucination? Over 62% of investors are now bulls according to *Investor's Intelligence*. That is extreme, and it's as many as you will see before the market tops out.

I have added **Google** and **Taser** to our Hyperion list. Some great shorts are coming up in "techie-cool" stocks like those, as well as Amazon, ebay, Cisco Systems, and Qualcomm. For those with an interest in speculative trading, there will be some good shorting opportunities soon.

Shorting is only suitable for traders who have the inclination and time. If this suits you, then short in accordance with the Hyperion list. An easier way to participate on the short side is to buy the Rydex Arktos Fund, which is short the Nasdaq 100. As per our hotline instructions, the Nasdaq 100 hit 1,587 on January 4, which triggered a buy signal for the Rydex Arktos Fund. If the Nasdaq 100 trades at 1,630 or higher, we will sell the Arktos Fund and exchange back to the money market fund.

I am not quite ready with the trend tracking model I mentioned last month, but it will be up and running soon. Finally, there is nothing wrong with some cash here, and preferably it should be in T-bills. I expect to see T-bill yields double or more by the end of 2005.

ProTiming covers a lot of markets and offers guidance to traders as well as long term investors. You should follow the program that offers you the most comfort. If short selling or trading is not for you, focus on our buy-and-hold list, sit back and relax, and forget the rest. Many of the following positions were initially taken some time ago.

What matters is here and now. The fact that we bought ERF and it is profitable is great if you followed our original advice (I talk with many that did). However, welcome to the show that never ends. Simply follow the guidelines stated in the letter, and put those open orders in at our suggested buy prices.

Recommended Stocks For Buy And Hold

Note: If you go to www.bigcharts.com, you can get quotes on Canadian stocks in Canadian dollars by using the symbols we have listed, preceded by CA: For example, if you want a quote for Shiningbank go to www.bigcharts.com, and type in CA:SHNUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .82

Last Updated 1/04/05

Company	Symbol/ Exchange	Initial Recom. Date & Price	Price 1/04/05	Div.	Downside Buy Price	Target	Web Site
Enerplus Resources	ERF-NYSE	4/20/01@\$18.00	\$34.79	9.77%	HOLD		www.enerplus.com
Peyto Energy	PEYUN-TSX	7/18/03@\$17.50	C\$47.40	4.81%	HOLD		www.peyto.com
Primewest Energy	PWI-NYSE	2/07/03@\$17.00	\$21.65	13.62%	\$20.50		www.primewestenergy.com
Provident Energy	PVX-AMEX	6/16/03@\$7.50	\$9.19	12.98%	HOLD		www.providentenergy.com
Shiningbank	SHNUN-TSX	1/02/03@C\$15.15	C\$21.23	13.00%	C\$21.00		www.shiningbank.com
Suncor Energy	SU-NYSE	2/07/03@\$16.8	\$32.79	0.59%	\$30.00		www.suncor.com
Anglogold	AU-NYSE	2/25/03@\$32.00	\$34.03	n/a	\$36.00		www.anglogold.com
ASA Ltd.	ASA-NYSE	11/19/02@\$31.00	\$38.35	1.04%	\$38.00		www.asaltd.com
Goldcorp	GG-NYSE	8/15/03@\$13.00	\$14.05	1.28%	\$12.50		www.goldcorp.com
Newmont Mining	NEM-NYSE	9/05/03@\$39.10	\$41.57	0.96%	\$43.00		www.newmont.com
Barrick Gold	ABX-NYSE	1/05/03@\$22.85	\$22.89	0.96%	HOLD		www.barrick.com
Baytex Energy	BTEUN-TSX	05/18/04@C\$11.90	C\$12.80	14.06%	C\$13.00		www.baytex.ab.ca
Alliance Res. Part.	ARLP-OTC	9/29/04@55.96	\$70.15	3.71%	HOLD		www.arlp.com
Fording Cdn. Coal	FDG-NYSE	11/16/04@68.20	\$73.50	5.75%	HOLD		www.fording.ca
Energy Split Corp.	ES-TSX	New Reco.	C\$16.84	14.73%	Buy at C\$15.00		no web site
Pengrowth En. Tr.	PGH-NYSE	Nwe Reco.	\$19.54	11.48%	Buy at \$17.25		www.pengrowth.com
Paramount En. Tr.	PMTUN-TSX	12/20/04@C\$16.44	C\$16.15	14.86%	C\$16.45		www.paramountenergy.com

Buy And Hold Junior Gold & Silver Stocks - The Option Alternative

Last Updated 1/04/05

Company	Symbol/Exchange	Intnl. Recom. Date & Price	Price 1/04/05	Downside Buy Price	Target	Web Site
Kinross Gold Corp	KGC-AMEX	10/2/02@\$6.30	\$6.79	\$6.00		www.kinross.com
Bema Gold Corp.	BGO-AMEX	6/6/02@\$1.06	\$2.86	\$2.40		www.bema.com
Coeur d'Alene	CDE-NYSE	9/2/03@\$3.19	\$3.61	\$3.50		www.coeur.com
Western Silver	WTZ-AMEX	9/2/03@\$3.50	\$8.16	\$7.50		www.westernsilvercorp.com
American Bonanza	BZA-V	10/2/02@C\$0.15	C\$0.17	C\$0.17		No Web site
Ivanhoe Mines	HUGO-OTC	6/4/04@\$6.00	\$6.65	\$5.50		www.ivanhoe-mines.com
International Wayside	IWA-TSX	4/26/04@C\$0.14	C\$0.08	HOLD		www.wayside-gold.com
Guinor Gold	GNR-TSX	6/4/04@C\$1.00	C\$0.99	HOLD		www.guinor.com
Novagold Resources	NG-AMEX	12/8/04@6.50	\$7.09	\$6.50		www.novagold.net

C\$ Denotes Canadian dollar Quotes for Canadian stocks can be obtained on the U.S. OTC Bulletin Board (Pink Sheets), with the following symbols. I want to caution you however, that OTCBB quotes are not always current. They can be a day or more old at times. You should take the quote in Canadian dollars, as described above, times .82 to see if the OTC quote looks correct. You can access these OTCBB quotes by using www.barchart.com. I don't have OTCBB symbols for American Bonanza, International Wayside, or Guinor.

Shiningbank SBKEF Peyto Energy PEYUF Baytex Energy BAYXF Energy Split EGYSF Paramount Energy PMGYF

Target The "Target" column represents the price at which you should liquidate the position and take profits. Do not reverse on the Target Price. There will not always be a target price. You should only reverse on the reversal stop price, even if there is no current open position.

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