

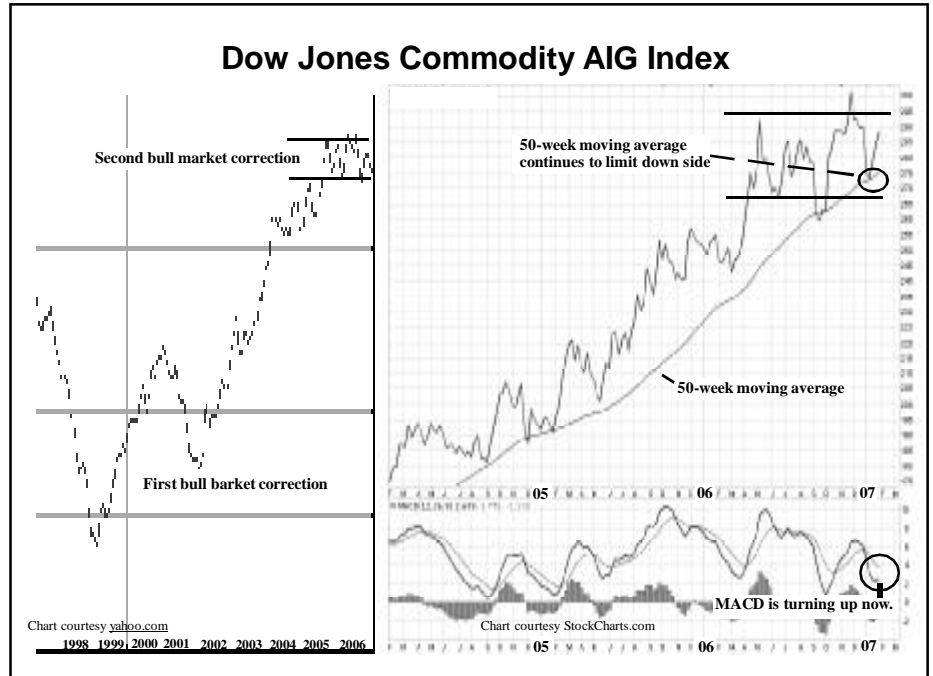
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The Stage Is Set For Taurus



- Investing means anticipating change.

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- The question, then, is what to buy.

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- When will oil take off?

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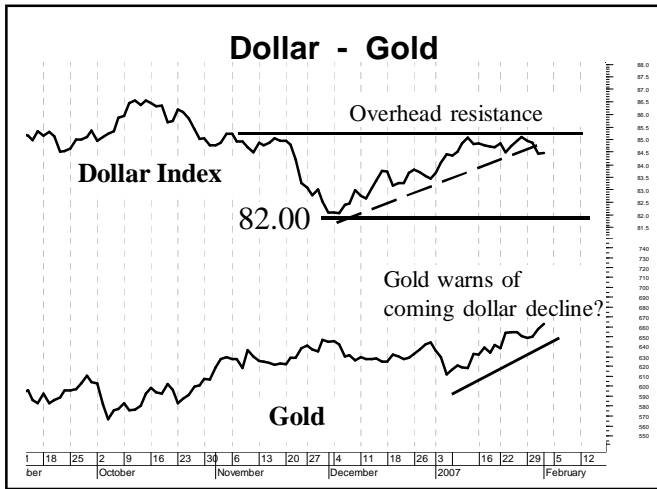


On a constant dollar basis, commodities have a long climb yet before reaching their historic averages. I mentioned in the last letter that according to a study by Howard Katz, wheat, which sold for 50 cents during the depression, still only sells for 30 cents today in 1932 dollars.

This is an interesting study that you might want to peruse in more detail at www.gold-eagle.com/editorials_05/katz122906pv.html. His basic conclusion is that on a constant dollar basis, commodities have only begun to lift from extremely undervalued levels. It is a thesis we have been consistently preaching during the last six years.

The underpinnings are in place for the next leg in the commodity bull market. These charts of the Dow Jones AIG Commodity Spot Index illustrates that. There are several commodity indexes available, each with their own special mix and balance. However, the Dow Jones Commodity Index shown here will suffice. The first chart shows a bottom in commodity prices in 1999 and a correction during 2001.

Note that the correction in 2001 was long and deep. Corrections happen during ongoing bull markets, but I think this reality has recently been lost on most investors. Since commodities have been trading in a sideways fashion for the last year or more, the bears now outnumber the bulls.



Investing means anticipating change. I want to draw your attention to the recent bounce off the 50-week moving average as well as the up turn in the MACD Index at the bottom of the chart at the right on Page 1. The times are a'changing, and the next commodity bull leg is set to begin. In today's investment environment, commodities offer investors the best place to put their money - the least risk with the highest reward potential.

The **Pimco Commodity Real Return Strategy Fund** (PCRAX-\$13.70) tracks the Dow Jones AIG Commodity Index, and it offers a decent dividend as well. Their strategy is essentially to buy futures contracts without

using leverage and put up Treasuries or equivalents against the contracts. Their approach is a bit more sophisticated, but it would be similar to you buying a gold contract for, say, August 2007 delivery at \$480/oz.

The 100-ounce contract would be worth \$48,000. Rather than put up the required margin, you would put up \$48,000 in T-bills yielding about 5.0%. That would give you a gold position with a yield, no leverage, and no margin calls. When the contract expires, you can roll out to another.

The Pimco folks use this strategy, but they have had to make some changes due to IRS rulings concerning the swaps and other instruments they were using instead of stodgy T-bills. Nevertheless, the fund should give you a decent yield and a play on the overall commodity bull market. Buy PCRAX at \$14.00 or less.

I like to focus on two specific commodity areas – energy and precious metals. Gold is the quintessential commodity. However, gold is really a dollar thing, so perhaps we need to start with a look at the U.S. dollar. The Dollar Index has rallied off of oversold lows at 82.00 set in early December. Since then, it has rallied, only to encounter strong overhead resistance at 85.00.

As you can see above, gold has held up very well during this bounce in the dollar, which is, in itself, bullish for gold. However, the Dollar Index is beginning to turn down from the 85.00 level. I look for the next decline to take the Dollar Index below its December low as it continues its long term decline. Eventually, I look for the Dollar Index to reach 60.00, and possibly lower. As the dollar falls, commodities rise - especially gold. This time around, it appears that the current rally in gold may be anticipating the dollar's coming reversal.

The question, then, is what to buy. **Yamana** (AUY-NYSE-\$13.33) hit our previous downside buy price of \$12.00 last month. Yamana is on our buy-and-hold list, which it has been for some time ... but I don't recommend chasing stocks. If you buy at or below the downside buy prices listed on Page 6, you will take a large step toward reducing risk and increasing your returns. Yamana is my favorite larger producer, but I would not pay over \$12.00 for it at this point. Put your orders in at \$12.00 "good 'til cancelled" and be patient.

ASA (ASA-NYSE-\$62.09) and **Barrick** (ABX-NYSE-\$29.98) are both close to their respective buy prices of \$60.00 and \$29.00. I suggest you stick with those downside prices.

Silver will do better than gold this year. I anticipate that silver will break over its May 2006 high of \$15.00 before gold breaks over its 2006 high of \$720.00. Unlike gold, silver is consumed in a growing number of products, from antibiotics to electronics. You should have some silver in your portfolio.

A long time favorite of mine is **Silver Wheaton** (SLW-NYSE-\$10.62). My downside buy price has been \$10.00 for some time, and that is the most I think you should pay for it. It is volatile, though, and purchases at \$10.00 are not out of the realm of possibility here.

Another silver issue that I like is **Silver Standard** (SSRI-OTC-\$33.45). It is a bit overbought temporarily, but I think there is a good chance it will pull back some. I am going to raise our buy price from last month's \$30.00, and you should now accumulate on weakness at \$31.50 or less.

There is a second list on our buy-and-hold page (Page 6) which consists of junior gold and silver stocks. These are speculative plays, for sure - perhaps even outright gambles. They do offer a better chance at generating large profits than buying options. They are truly an option alternative.

Bema (BGO-AMEX-\$5.72) is going to merge with **Kinross** (KGC-NYSE-\$13.03), and I suggest you take the merger. Kinross is a fine speculation in its own right.

I have gotten some e-mails concerning **Minera Andes** (MAI-TSX-C\$1.63) and their recent announcement about their financing proposals. I have faith in their management; and since the announcement, the stock has pushed to new highs. It appears that the Street likes what they are doing. Don't chase strength. The stock is a buy at C\$1.40 or less (C\$ denotes Canadian dollars).

One of my favorite juniors is **U.S. Gold** (UXG-AMEX-\$4.98). We have had a buy price of \$5.00 on this for a long time, and it is still a buy. There have been delays associated with several mergers they are seeking to put together that will consolidate their play in Nevada. The problem is not that the companies involved do not want to merge. It is that regulatory hurdles have been greater than expected due to some faulty guidance by their outside legal advisors. I still like U.S. Gold, but you will have to be patient. One day, it will all come together, and they will suddenly be off to the races.

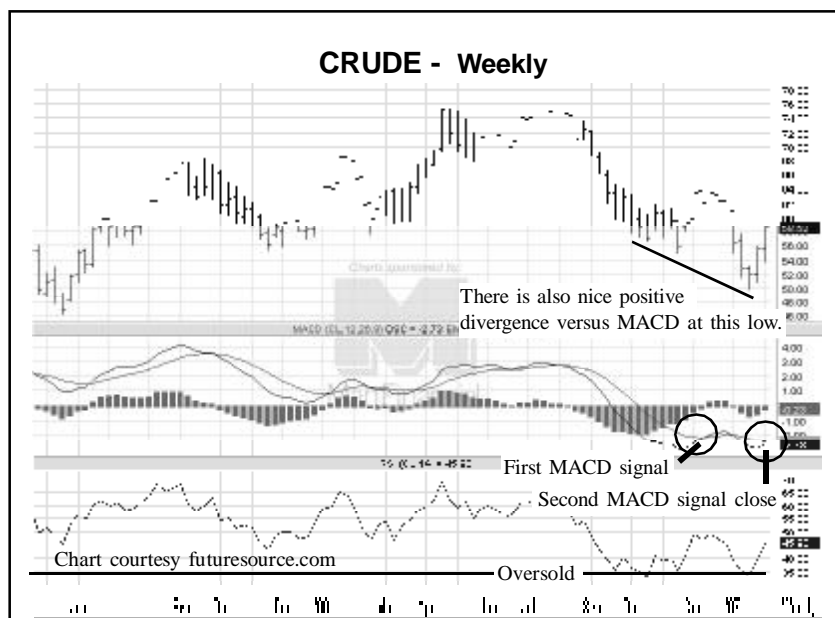
With the exception of Silver Standard and a couple of others, I don't see any reason to change most of our downside buy prices (Page 6) from those posted last month. Remember, the juniors are all speculative plays, "not for widers and orphans." Recognize the risk, diversify, and keep some balance in your portfolio.

That said, I have another for our list - **Golden Valley Mines** (GZZ-TSX-C\$0.60). You should not consider this one unless you can buy it at C\$0.50 or better (Canadian dollars). It is definitely a long shot, but they have the potential of developing some uranium property as well as precious metal projects in Canada. It's interesting and cheap if purchased right. You can check them out at www.goldenvalleymines.com.

A second new addition I would like to make to our list of juniors is **Baja Mining** (BAJ-TSX-C\$1.48). They are developing a very interesting project called El Bolero on the Baja in Mexico. It is a copper/cobalt/zinc/manganese deposit. They expect production in 2009. You can get more information and sign up for company announcements to be sent to your e-mail at their site www.bajamining.com. I recommend that you buy this at or below C\$1.20.

We follow several Canadian issues, and a great site to follow them on is www.tsx.com. There are OTCBB quotes for many Canadian stocks which are in U.S. dollars, but I do not recommend using them seriously. They are often inaccurate. Sometimes the OTCBB quotes on Canadian issues are a day or more late.

If you are looking for some yield to go with your gold positions, consider our old standby, **Gabelli Global Gold Natural Resources and Income Fund** (GGN-AMEX-\$24.38). It is approaching past highs at \$25.00,



where it should find some resistance. If it sells back to \$23.80, it would be a decent buy. At that price, it should give you a 7% yield. What's better, it pays monthly.

Gold is encountering its December highs, and perhaps it's in need of a brief rest. If some profit-taking settles in, you should take advantage of it to accumulate positions. Currently, gold should have strong support at \$620.00 basis April and silver at \$12.25 basis March. The next event to be preparing for is a rally in gold to the \$700.00 mark and for silver to new highs over \$15.00.

Energy is my other favorite commodity sector at this time. Again, mind your portfolio's balance and diversification. Everyone has a different financial position in life, so it is irresponsible for me to give you specific portfolio percentage breakdowns. It depends on your individual financial makeup, your age, your financial needs, your assets outside the markets, your income, etc. as to specific percentages you should put into each of our recommendations. Nevertheless, diversification and balance are important to your success.

The question on everyone's mind is, when will oil take off? You should be investing for the long term. Rather than trying to call exact lows, you should be searching for those times when conditions are right for accumulation. This is one of those times. The commodity bull is about to find new life, and crude oil is looking exciting. Above is an update of the weekly crude oil chart presented in the January mid-month letter.

The key indicator to watch on the weekly chart is MACD (Moving Average Convergence Divergence). My experience has taught me that a second signal is the most important. They don't always occur; but when they do, they are very powerful signals - especially on weekly charts. We are very close to that second signal on the weekly crude oil chart, and I will confirm it on the Tuesday-Thursday online updates when it is complete. The RSI indicator has also turned up from oversold levels, which is another sign that we should be anticipating the end to this correction in crude.

I have no doubt that we will see crude move to new highs this year - and eventually, well over \$100/barrel. Crude will encounter some overhead resistance at the \$62.00 level this winter; but following a pause, it should easily be able to launch over resistance. As it is currently, crude and natural gas are both looking very bullish. Natural gas is probing \$8.00 after making lows just under \$6.00 last December.

We have several Canadian energy trusts on our list. Although I pointed out five of my favorites in the January mid-month letter, I like all of them. They are all holding up fairly well and, with a couple of exceptions, are trading over their respective downside buy prices.

Although the political winds are blowing in a better direction as far as the Canadian Finance Minister's push to tax the trusts is concerned, that decision caused a lot of trouble for the sector and for Canada in general. The Canadian dollar has been weak ever since the Minister's announcement on Halloween, and it will take some time for currency traders to forget the idiocy of that move.

Canadian politicians are at least taking an in-depth look at the proposal, and there might be some changes. Perhaps the energy sector will be exempt - as the real estate sector was for some strange reason. Perhaps the 4-year tax deferral period will be lengthened to 10. Perhaps the liberals will take over and scrap the whole thing. There are a lot of uncertainties, and markets hate uncertainty. My approach is to assume the Finance Minister gets his way (although that is becoming more doubtful). Nevertheless, the best approach is to assume the worst and invest with that in mind.

These trusts are no different as operating companies than they were before the announcement, and their assets are valuable. We may see some dividends adjusted downward as the past correction in energy prices is factored in, but the worst is behind us as far as energy prices are concerned. Going forward, we will see the market attracted to energy plays again. It doesn't get much better than owning producing oil and gas wells and getting paid on a monthly basis for production coming out of the ground.

The trusts are exceptional values here, and I think they are screaming buys, However, to offset uncertainty, you should adhere to our downside buy prices for any new purchases. I am being repetitive, but I get e-mails from folks who are chasing yield and are failing to diversify and balance. The next important step we will encounter with our Canadian energy trusts is to evaluate how they are doing - not here at relatively low crude and gas prices, but rather when crude and gas move to new highs. That will be the time to look over portfolios and weed out weak sisters. For now, hang on to what you have and enjoy the dividends. I expect to see the Canadian dollar begin to find some footing soon, which will help improve our dividends in U.S. dollar terms.

Kinder Morgan Energy Partners (KMP-NYSE-\$50.45) has not dropped back to our downside buy price of \$46.00, and we do not yet have a position. I recommend that you stick with the \$46.00 price. If this doesn't fill, we can always find something else.

I am adding **Apache Corporation** (APA-NYSE-\$70.71) to our list, with a downside buy price of \$68.00. This is a great, all-around energy company with virtually no exposure to the strife which seems to seethe in the Middle East. It is estimated that there is no terror or war premium left in energy prices, but the threat has far from abated. Apache is a classic, major producer with unusual future potential in terms of both production and increased future reserves.

In terms of the overall stock market and the popular averages, the S&P 500 feels a lot like the Nasdaq felt in 1999. It moves relentlessly higher, but the technical numbers look grave and foreboding. Maybe it is a new paradigm, but I doubt it. We have heard that before. Gravity still exists, and there is a comeuppance in the market's future somewhere. Play the general market, if you will; but don't become complacent.

I think it was Hyman Minsky who warned that bad things are afoot when complacency becomes the norm. Our illustrious Fed Chairman, Ben Bernanke, said something interesting in a speech he gave to Congress a few weeks back. Referring to the deficit, he said, "we are experiencing the calm before the storm." Those were his words, and he should know.

On the other hand, if the stock market were a bull and the economy were in great shape and the next two years were to provide nothing but unfettered growth, what would be the best things to be invested in? I think commodities - especially raw materials - fit the bill in any case. The truth is that inflation is in the wind, and the government is doing everything possible to cover it up. They won't fool the commodity market with their Enron-style mathematics. The stage is being set for the next commodity bull phase, and those who are invested now for that eventuality will be very happy at this time next year.

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. Thus, 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 .85. You should buy at or below the posted downside buy price. The downside buy price does not imply that this level will necessarily be reached, but that this is the maximum price we recommend that you pay for the issue. Changes since our last posting are in bold letters.

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 02/02/07	Downside Buy Price	Div 02/02/07	Target-T Stop-S	Web Site
U.S. \$								
Agnico-Eagle	AEM	NYSE	1/10/2007 36.00	39.85	36.00	0.30%		agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004 27.98	34.94	34.00	6.18%		arlp.com
Apache corp	APA	NYSE	Buy at 68.00	70.71	68.00	0.85%		apachecorp.com
ASA	ASA	NYSE	11/19/2002 31.00	62.09	60.00	2.25%		asald.com
Barrick Gold	ABX	NYSE	1/5/2003 22.85	29.98	29.00	0.73%		barrick.com
Baytex Energy	BTE	NYSE	5/18/2004 9.00	16.96	17.00	10.86%		www.baytex.ab.ca
Black Rock	BGR	NYSE	8/3/2005 25.99	27.47	26.00	4.89%		blackrock.com
Canetic Energy	CNE	NYSE	4/19/2006 22.25	12.32	11.50	15.42%		canetictrust.com
Enerplus	ERF	NYSE	4/20/2001 18.00	44.22	40.00	9.70%		enerplus.com
Fording Coal	FDG	NYSE	11/16/2004 22.74	22.68	17.00	8.00%**		fording.ca
Frontline Ltd.	FRO	NYSE	1/4/2007 31.00	34.59	31.00	17.43	S = 28.70	frontline.bm
Frontier Oil	FTO	NYSE	8/3/2005 14.38	28.96	28.00	0.41%		frontieroil.com
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005 22.10	24.38	23.80	6.89%		gabelli.com
Gammon Lake	GRS	AMEX	1/4/2007 15.00	15.53	15.00	n/a		gammonlake.com
Headwaters	HW	NYSE	3/10/2006 36.30	23.00	18.00	n/a		headwaters.com
Kinder Mor. MLP	KMP	NYSE	Buy at 46.00	50.45	46.00	6.58%		kindermorgan.com
Mkt. Vectors, ETF GD	GD	NYSE	9/11/2006 37.00	39.32	36.00	n/a		n/a
Pimco Comod Fnd PC	RAX	NYSE	3/2/2005 13.97	13.70	14.00	8.70%		pimcofunds.com
Primewest	PWI	NYSE	2/7/2003 17.00	19.15	18.65	13.32%		primewestenergy.com
Provident Energy	PVX	AMEX	6/16/2003 7.50	10.54	10.00	11.69%		providentenergy.com
Silver Standard	SSRI	OTC	1/4/2007 30.00	33.45	31.50	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006 8.40	10.62	10.00	n/a		silverwheaton.com
St. Trs. Gold, ETF	GLD	NYSE	9/11/2006 58.85	64.28	61.00	n/a		n/a
Transocean Inc.	RIG	NYSE	1/4/2007 75.00	76.37	75.00	n/a	S = 64.50	deepwater.com
Yamana	AUY	NYSE	4/14/2005 2.90	13.33	12.00	n/a		yamana.com
Valero	VLO	NYSE	4/26/2005 36.63	56.23	50.00	0.85%		valero.com
Canadian Dollars								
Energy Split II	CA:EN	TSX	9/11/2006 17.00	11.75	10.00	19.40%		scotiamanagedcompanies.com
Paramount En. Tr	CA:PMT.UN	TSX	12/20/2004 16.44	12.41	10.50	19.34%		paramountenergy.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003 8.75	17.90	14.00	9.39%		peyto.com
Shiningbank	CA:SHN.UN	TSX	1/2/2003 15.15	14.40	12.90	19.17%		shiningbank.com

**The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. I have Fording with a dividend of 8% since I feel that that is a likely minimum you might expect. For further details on their past dividend histories, you should visit www.fording.ca, and www.arlp.com.

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

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 02/02/07	Downside Buy Price	Div 02/02/07	Target-T/ Stop-S	Web Site
U.S. \$								
Bema Gold	BGO	AMEX	6/6/2002 1.06	5.72	HOLD	n/a		bema.com
Coeur d'Alene	CDE	NYSE	9/2/2003 3.19	4.38	4.50	n/a		coeur.com
Kinross Gold	KGC	NYSE	1/4/2007 11.00	13.03	11.00	n/a		kinross.com
Mines Mgmt	MGN	AMEX	5/13/2005 4.50	5.46	5.00	n/a		minesmanagement.com
Taseko Mines	TGB	AMEX	7/24/2006 2.40	2.59	2.50	n/a		tasekomines.com
US Gold Corp	UXG	AMEX	9/9/2005 1.70	4.98	5.00	n/a		usgold.com
Canadian Dollars								
Baja Mining	CA:BAJ	TSX	Buy at 1.20	1.48	1.20	n/a		bajamining.com
Everton Res.	CA:EVR	TSX	1/4/2007 1.30	1.29	1.30	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	Buy at 0.50	0.60	0.50	n/a		evertonresources.com
Laramide Res.	CA:LAM	TSX	3/16/2006 5.20	10.55	8.00	n/a		laramide.com
UTS Energy	CA:UTS	TSX	5/15/2006 6.50	4.35	Hold	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006 1.20	1.63	1.40	n/a		minandes.com

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 .85 to see if the OTC quote looks correct. You can access these OTCBB quotes by using www.barchart.com. Shiningbank-SBKEF Peyto Energy-PEYUF Paramount Energy-PMGYF Minera Andes-MNEAF Laramide-LMRXF UTS Energy-UEYCF Minera Andes MNEAF

Target-T A price in this column preceded by "T" represents the price at which you should liquidate the position and take profits. **Stop-S** A price in this column preceded by "S" represents the price at which you should place a sell/stop. Do not short on the target price or the stop price. There will not always be a target or stop price listed. For a further definition of a sell/stop, see the Welcome Letter.