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published February 18.

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YIN AND YANG

According to Karen Armstrong in her fascinating book The Great Transformation, the concept of yin and yang evolved from the Chinese peasant's lifestyle somewhere between 1,600 and 900 B.C. At that time, their lives were dominated by a distinction between summer and winter. In the spring, the men would move out of the village to take up residence in huts by the fields. Wives and daughters were left at home in the village. The only contact was when the women would come to the fields to bring the men their meals. After the harvest, the men would lay the land to rest and return to the village. They would move indoors with their families, seal up their dwellings, and stay inside for the entire winter. This was a time for the men to rest and recuperate. The women, who had less to do in the summer while the men toiled in the fields, began their season of labor making wine, weaving, spinning, etc. The alternation of the seasons was to become known as yin and yang. The wisdom is that everything cycles.

My cyclical work continues to point to market weakness into about mid-February. At that point, the cycles turn up, indicating higher prices for several months. The market may well work its way higher into August from spring lows.

The problem with market cycles is that they are not well-behaved. Cyclical turning points tend to be early or late. They are never perfectly regular, which means they are useful to temper your expectations, but you need other technical tools to reinforce cyclical forecasts. Nevertheless, if you are currently short in the stock market, you should be looking to take profits during further weakness. The employment of protective stops would be a wise thing in case the lows come in earlier than expected.

With the prospect of a decent, sustained rally facing us, you should also take a long look inside yourself and decide how you will handle the rally. If you have traditional paper assets that you should have sold, you will likely get bailed out to some extent over the summer. It is a good time to sit down and look at where the overhead resistance levels are for the stocks you want to sell and put in "good 'til cancelled" sell orders at those levels when your emotions are not at play. Then stick to your plan.

The problem you will face is that you will emotionally want to buy into the optimism that this rally will cause. The media will be telling you that the stimulus packages are working. The press will be telling you that no further government money will be needed. You will feel good again, but it will be a trap. In fact, I believe the next sustained rally will be a major bull trap, and those who do not take advantage

of it to liquidate will lose a lot of money. Once this “Obama rally” is over, the popular averages will go back to new lows - below the lows set in November 2008. There will not be a new bull market for at least five years, and perhaps longer. Let’s just hope we can see the market muster some decent strength. The Dow Industrials have the potential to move to 11,000, and the S&P 500 could see 1,200.

Can the stimulus work? The stimulus package may appear to work temporarily; and because the stock market is considered a forward-looking indicator, a rally this spring and summer will seem to forecast an approaching turn in the economy. At least, that is what the Street is going to tell you.

We will hit a point in the next 9 to 12 months when the economic numbers will stop getting worse, but there will be no real growth. The next “recovery” cum plateau will show what seem to be improving economic numbers, only because of inflation. Any “growth” that the media reports will be completely artificial.

In response to a “flat” but struggling economy, there will be more “stimulus” applied. I fully anticipate the money supply will increase another 50% or more during 2009 and 2010, and the result will be inflationary. The correction in gold from its March 2008 high is over, and gold is gaining strength. As for the deflation argument, gold would be selling for \$500 rather than \$900 if we were looking at global deflation. A period of supercharged *inflation* is coming back, and gold is beginning to make that clear.

The Dow at 11,000 is the best you can hope for in the next rally. You will not see new highs in financial assets for a very long time. Due to impending shortages because of under investment and natural depletion and due to a depreciation of the U.S. dollar caused by current fiscal policies, commodities will move substantially higher this year.

The best guide to the twists and turns in the market and to identify the beginning of the next stock market rally will be our technical tools. I have been announcing Palio signals for some time. Palio is a proprietary, short term model based on several factors, including momentum measurements that I use to temper my outlook when timing buys and sells in my own accounts. Palio is not for everyone because it is a short term, mechanical model.

The way short term models work is that they give a relatively high number of signals. Many of the signals are not profitable, and they are quickly covered by a sell. This can result in short term whipsaws when there are several buys and sells back to back. Experienced traders are used to that because they know in the long run, there will be more profitable trades than losers, although the losing signals can bunch up during these whipsaws. Incidentally, periods of whipsaw signals tend to presage important changes in trend.

I don’t announce the signals with the expectation that you will follow them in an aggressive trading program on your own. However, I want to give you some idea what the short term technical picture is as time marches on. Currently, Palio is negative, which is in line with our outlook for another down leg before the next rally begins. If you are short, I would tighten up stops whenever Palio is positive.

Another model that we use is the Nasdaq Slow Tracker, which you will find on Page 2 of the online updates. The popular averages cannot sustain an up move without the company of the Nasdaq. Hence, the Slow Tracker signals are a good guide. The model is on a sell, which it has been on since September 11, 2008. However, the buy point was just moved down. So, as we enter February, the Slow Tracker will turn positive if the Nasdaq Composite trades at 1,569 or higher. I fully expect this model (along with Palio) will give us a good indication when the “Obama rally” has begun.

Some folks tell me they are worried the government will confiscate gold again, like FDR did back in the 1930’s. I am not concerned about that. His reason for the confiscation was to take the dollar off the gold standard so he could

debase it. He wanted to have no limits on spending. The freedom to debase the dollar is already in place today since the dollar is still not backed by gold. It is also a world of global commerce. China, India, and Dubai are about to launch their own gold ETF's, which will further stimulate the global demand for gold. As the current financial crisis continues, gold is going to find greater following worldwide. To make gold illegal in the U.S. would be ineffective, and certainly not necessary. It would also "legitimize" gold as money. This is something our government does not want.

Gold's strength over the last 2-1/2 months (it is up 34% from its October 2008 low) is telling us that we are going to see inflation return with a vengeance. It is also indicating that the U.S. dollar is due for a nasty return trip to its summer 2008 lows. The problem is that no one really believes in the dollar weakness and a resurgence of inflation yet, and they won't until *after* it happens. Most don't believe that the S&P 500 will fall to 600 or that gold will move well over \$1,600. Most don't believe that crude oil will rise along with gasoline and the rest of the commodity complex. As the Dow moves toward 11,000, most will not believe it will peak out there and fall back to new lows.

Nissim Taleb, author of The Black Swan, explained this phenomenon better than anyone I know. He relates that just because you're a turkey and are well fed for 999 days doesn't mean the butcher isn't going to show up on the 1,000th day. Folks will build up positions with high risk because the risk event hasn't happened.

Gold tells another story. It seems to know the dollar strength here is only a temporary phenomenon of deleveraging. The deleveraging process is still going on, and the process to some extent will continue for a long time – for years. Consequently, you shouldn't tie the short term, day-to-day dollar movements too closely with gold. The gold shares and gold bullion have done very well since the lows in November, but the best times for gold investors are still ahead.

There was ample opportunity to buy gold over the last several months, but I know there are those of you who just couldn't face buying into that kind of weakness. What to do now? Overhead resistance has been at \$900 basis April for some time, but resistance has finally been exceeded. Past resistance will become support, but support and resistance levels (like cyclical turning points) are general, not exact. Because gold is now a bit overbought, I expect to see it sell back to about \$875 basis April.

How to buy gold at \$900/oz. There is not a perfect correlation between gold and the **Spyder Gold Trust ETF** (GLD-NYSE-\$88.84). From a technical perspective, I prefer to look at the ETF on its own. I am raising the downside buy price to \$81.50. That may seem a little low for a pullback in gold bullion to \$875-\$900, but that is where the best level of support is for GLD. As traders lock down some profits from the last rally and push gold off its January highs, I will adjust the downside price if the technicals change and warrant it. For now, \$81.50 is an excellent place to add to positions. Remember, GLD is taxed as a commodity for capital gains purposes, which is at a higher rate than stocks are taxed.

Another issue on our list that I like is the **Gabelli Global Gold and Natural Resources Fund** (GGN-NYSE-\$14.98). It is a buy at \$13.10 or better. At that price, it provides an indicated dividend of 12.8%, and it pays monthly. That's not all bad, and this is a closed-end mutual fund rather than an ETF.

I am reviewing the junior gold producers and will have more for you in upcoming letters. Nevertheless, I still prefer to concentrate on the majors. I am making one exception at this time because this company has been able to attract some serious financing in a credit environment devoid of lenders - **Nova Gold** (NG-NYSE-\$3.29). We are definitely under water with our original purchase at \$11.50; but if you can buy some at \$2.10 or better, I think it is a good gamble.

If you made the original purchase and can add more at \$2.10, you will have an average cost of \$6.80, which I believe will end up being profitable. This will also insulate you from the risk of someone coming in (Barrick Gold would not surprise me) and making an offer. Barrick did that once before and offered Nova \$16.00 a share. Nova turned them

down. I doubt Nova will do that again. The problem for us is, at what price? I doubt that an offer for a buyout will be as high as \$11.50, but it should be somewhere north of \$6.80.

Those who have cash are not finding decent returns in the credit markets, and gold bullion is becoming the “go to” safe haven investment versus holding cash. It doesn’t take much to push gold. Although nearly all the gold ever mined still exists, there is still relatively little compared to the amount of currencies that want to convert to gold. The desire to find a safe haven for cash extends to those holding Swiss francs, Canadian dollars, yen, euros, etc. The financial problem is global, and so is the demand for gold. Gold demand stems beyond the strength or weakness in the U.S. dollar.

What about silver? Silver is acting better; but unlike gold, it is still a long way from its highs of last summer. Silver is acting more industrial than monetary. That will change, but only after gold breaks to new highs and investors discover that they should have been buying precious metals during the crash of 2008. Once gold breaks to new highs, latecomers will be looking for the laggards. The first lagger to attract attention will be silver; the second will be the junior miners.

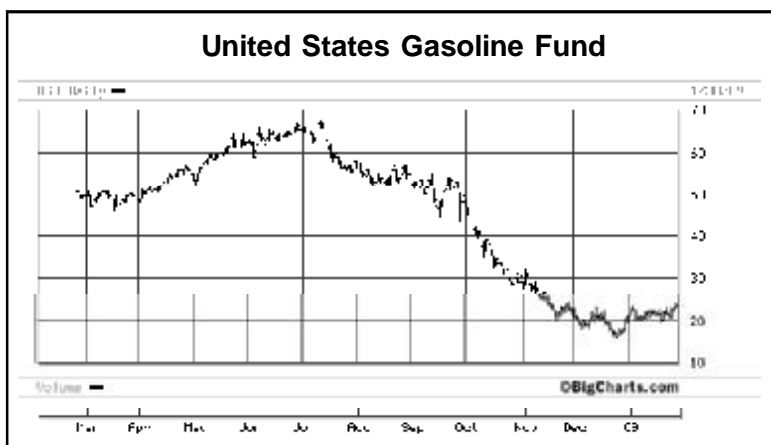
You may already have sensed this at the gas pump, but gasoline prices are starting to rise. I suspect you could see \$2.00 fairly soon. The Critical Price Point (CPP) on gasoline turned positive on January 30. The party at the pump is over. This will have a nasty impact on economic circumstances. All the growing ranks of unemployed need right now is higher fuel costs ... and higher fuel costs are pervasive in the economy.

Here is a gasoline play for you. Buy the **United States Gasoline Fund** (UGA-NYSE-\$21.53) at \$19.10 or less. This is a gasoline ETF and thus not the safest bet on the Street. I am still not 100% comfortable with ETF’s. Nevertheless, this looks like a good speculation on higher gasoline prices if you can buy at \$19.10 or lower. If you take the position, use a protective stop at \$16.05. Keep in mind that this is not a conservative recommendation and that the fund is taxed as a commodity, like GLD discussed previously.

We appear to be close to a new bull move in energy. The CPP on the Energy ETF (XLE) has already turned positive, as per our January letter. Our crude oil CPP is now \$48.60 after recently being adjusted lower. Energy is going to start moving higher; and once it joins gold on the up side, the rest of the commodity complex will follow suit. Rising commodity prices during a severe recession is not bullish for stocks or financial-based assets. It translates to higher costs, lower sales, and red ink at the bottom of the ledger. With the money supply due to increase 50% or more by the end of 2010, you can’t say you don’t see it coming.

Crude oil production declines will be faster than the decline in demand this year, and the lack of current investment is going to result in a widening gap between demand and supply. The economy is not going to stop - only slow. There will still be 144 million workers getting paychecks. They will continue to drive, although perhaps more conservatively.

Global oil production is falling at an alarming rate, and actual figures are eclipsing estimates. For example, I have mentioned in the past that production at the Cantrell Field in Mexico declined twice as much as expected during 2008. Production fell by 33%! Expect more surprises and higher crude and fuel prices this summer, regardless of the recession. Our biggest problem may well be availability. Will the U.S. be able to get its share of global production, regardless of price? This is an important question, even assuming there is no problem with our “friends” in the Middle East – a fragile assumption.



Montana is going to raise the tax on the extraction of oil and gas. The Feds are likely to view carbon energy in the same light as they are looking for ways to increase tax revenue. Take another look at **Great Lakes Hydro** (GLH-TSX-C\$15.80), a Canadian energy trust. The result of any energy taxes on carbon is going to be higher electric bills in your mailbox because 50% of electricity is produced with coal. Electrical rates will go up, but Great Lakes Hydro will incur no extra tax costs since they are 100% non-carbon energy producers. They should see a nice boost in their margins. At \$15.80, they have an indicated dividend of about 7.9%. As the year wears on, I expect to see that dividend increased. Buy some Great Lakes Hydro up to C\$16.00. If you have some and are looking for a deep bid, put an order in at \$15.00, but I think that is a long shot.

I still like **Blackrock Global Energy and Resources Trust** (BGR-NYSE-\$15.87). This is a closed-end fund similar to Gabelli Gold. It has been beaten down from \$37.00 last summer, but the dividend was actually increased in September from \$0.375 to \$0.405 per quarter. I have to remind you that any dividend is a percentage - per annum - perhaps. Dividends can be decreased or eliminated, as well as increased. Companies do not normally declare a dividend that they don't feel they can maintain, and they certainly don't tend to increase dividends with temporary intentions either. Buy BGR at \$15.00 or better.

I have expressed a concern for America's continued ability to acquire the crude oil supplies that we are deeply dependent on. Everything in our culture is affected by the price of crude. Think of the problems we face if we can't get what we need. "Not get what we need!" ... them's fightin' words. Nevertheless, at some point, our fragile supply situation will come to bear. Mexico is our third largest supplier, and they will cease to export crude within the next few years. They will need all of their production domestically. Great Britain went through this process when the North Sea played out. Not that many years ago, they were a net exporter, and they now are a net importer. Indonesia is another example of a previous exporter turned importer due to peak production.

Take a look at **Apache Corp.** (APA-NYSE-\$73.59). They offer several advantages. First, they are perhaps the best company around at squeezing extra oil out of played-out fields. This is a talent that will be more in demand as fields across the globe like Cantrell peak out and begin their slide toward zero production. They also get their oil from relatively friendly areas. There will come a time when our country will desperately NEED Apache Corp. Accumulate Apache Corp at \$70.00 or less.

You will note that I have not changed many of the downside buy prices. They will be adjusted once we have better technicals to base those changes on. For now, stick with the downside buy prices listed on Page 6. I have added a stop on the **CurrencyShares Euro ETF** (FXE-NYSE-\$128.43) at \$124.00. My work with the dollar is not all that strong, but you have a better play against the dollar with GLD. Remember, all currencies essentially fall, but at different rates. This gives the appearance of a relatively strong dollar if it is sinking slower than the rest. At any rate, this stop is technically formulated, and it is not reliant on fundamentals. If stopped out, I plan to re-enter at a better time and price.

Do not invest in long term bonds. Trade them if you like. You will find the signals and instructions for trading the Rydex long and short bond funds on Page 2 of the online updates. If you are holding bonds at a profit - be they corporate or Treasuries - you should think hard about selling and taking the money. Keep your fixed income money safe, and stay short term. Interest rates will be rising later in the year, and they may well end up increasing a lot. If our foreign friends decide to liquidate their hoard of Treasuries, the bond market may take a sudden hit. The Fed will step in and buy to support the market; but eventually, long rates will have to go much higher. They are certainly not going much lower.

All in all, I expect to see long interest rates return to double digit levels over the next few years while the Dollar Index seeks out all-time lows. This might not happen tomorrow, but don't forget Taleb's turkey who has been fat and happy for 999 days ... so far. Nevertheless, the cycles will repeat and yin will give in to yang.

Recommended Stocks For Buy And Hold

Note: You can get quotes on Canadian stocks in Canadian dollars by using the symbols we have listed at www.bigcharts.com. Thus, if you want a quote for Peyto Energy, go to www.bigcharts.com and type in CA:PEYUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .80. 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 2/02/09	Downside Buy Price	Div 2/02/09	Target-T Stop-S	Web Site
U.S. \$								
Agnico-Eagle	AEM	NYSE	1/10/2007 36.00	50.17	39.50	0.36%		agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004 27.98	31.30	25.00	9.15%		arlp.com
Apache Corp	APA	NYSE	3/5/2007 68.00	73.59	70.00	0.81%		apachecorp.com
Baker Hughes	BHI	NYSE	2/5/2008 64.63	32.75	35.00	1.82%		bakerhughes.com
Baytex Energy	BTE	NYSE	5/18/2004 9.00	11.11	14.00	15.48%		www.baytex.ab.ca
Blackrock	BGR	NYSE	8/3/2005 25.99	15.87	15.00	10.13%		blackrock.com
Central Fund Can.	CEF	NYSE	12/1/2008 9.50	10.90	HOLD	0.09%	S=\$9.86	centralfund.com
CurrShrs. Eruo ETF	FXE	NYSE	8/22/2008 148.57	128.43	132.50	2.00%	S=124.00	currencyshares.com
Enerplus Res.	ERF	NYSE	11/20/2008 19.00	20.22	19.00	8.73%		enerplus.com
Gabelli Glob. Gld.	GGN	NYSE-Alt	1/3/2006 22.10	14.98	13.10	11.16%		gabelli.com
Goldcorp	GG	NYSE	7/24/2008 40.00	28.44	22.50	0.64%		goldcorp.com
ING Mgn N Res Fnd	IRR	NYSE	Buy at 12.20	13.55	12.20	12.68%	S=\$11.33	ingfunds.com
iShares Silver ETF	SLV	NYSE	12/15/2008 10.56	12.21	10.56	n/a	S=\$10.19	ishares.com
Kinross Gold (1)	KGC	NYSE	6/6/2002 2.39	17.14	12.50	0.47%		kinross.com
Kinross Gold	KGC	NYSE	1/4/2007 11.00	17.14	12.50	0.47%		kinross.com
Mkt. Vectors, ETF	GDX	NYSE-Alt	9/11/2006 37.00	32.90	22.15	n/a		n/a
Pimco Com. Fund (2)	PCRAX		3/2/2005 11.89	6.16	8.10	12.38%		pimcofunds.com
Schlumberger	SLB	NYSE	1/18/2008 75.00	40.79	50.00	2.07%		nat.bm
Ship Finance (3)	SFL	NYSE	3/6/2007 0.00	11.30	HOLD	21.52%		www.shipfinance.org
Silver Standard	SSRI	OTC	1/4/2007 30.00	19.13	10.05	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006 8.40	6.42	4.00	n/a		silverwheaton.com
Spdr Gold Trust	GLD	NYSE	9/11/2006 58.85	88.84	81.50	n/a		n/a
Transocean (4)	RIG	NYSE	1/4/2007 75.00	53.64	49.20	n/a		deepwater.com
U.S. Gasoline Fnd	UGA	NYSE	Buy at 19.10	21.53	19.10	n/a	S=16.05	unitedstatesgasolinefund.com
Yamana	AUY	NYSE	4/14/2005 2.90	7.63	5.50	1.59%		yamana.com
Valero	VLO	NYSE	4/26/2005 36.63	22.90	HOLD	2.63%		valero.com

Canadian Dollars

Altius Minerals	CA:ALS	TSX	8/9/2007 17.88	4.84	HOLD	n/a		altiusminerals.com
ARC Energy	CA:AET.UN	TSX	9/8/2008 25.85	16.55	18.00	8.79%		arcresources.com
Crescent Point En.	CA:CPG.UN	TSX	9/16/2008 30.20	23.57	24.00	11.72%		crescentpointenergy.com
Great Lakes Hydro	CA:GLH.UN	TSX	12/17/2008 15.99	15.80	16.00	7.94%		greatlakeshydro.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003 8.75	9.14	HOLD	18.95%		peyto.com
Silvercorp Metals	CA:SVM	TSX	1/21/2008 8.00	2.68	HOLD	3.00%		silvercorp.ca

(1) On 2/27/07 Kinross acquired by exchange for Bema originally purchased at \$1.06 on 6/6/02

(2) PCRAX paid a distribution of \$2.08931 on Dec 08, 2008 thus reducing our purchase price by this amount.

(3) Ship Finance Intl. was acquired as a spinoff from Frontline 3/6/07

(4) Transocean merged with Global Santa Fe on 11/27/07 receiving .6996 shares in the new Transocean plus \$33.03 in cash.

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

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 2/02/09	Downside Buy Price	Div	Target-T/ Stop-S	Web Site
U.S. \$								
Coeur d' Alene	CDE	NYSE	9/2/2003 3.19	0.68	HOLD	n/a		coeur.com
Endeavor Silver	EXK	NYSE-Alt	7/26/2007 4.60	1.37	HOLD	n/a		edrsilver.com
Great Basin Gold	GBG	NYSE-Alt	12/21/2007 2.45	1.26	HOLD	n/a		greatbasingold.com
Nova Gold	NG	NYSE-Alt	2/29/2008 11.50	3.29	2.10	n/a		novagold.com
Taseko Mines	TGB	NYSE-Alt	7/24/2006 2.40	0.76	HOLD	n/a		tasekominer.com
US Gold Corp	UXG	NYSE-Alt	9/9/2005 1.70	1.78	HOLD	n/a		usgold.com
Canadian Dollars								
Everton Res.	CA:EVR	TSX	1/4/2007 1.30	0.09	HOLD	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007 0.50	0.09	HOLD	n/a		goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006 5.20	1.57	HOLD	n/a		laramide.com
Mega Uranium	CA:MGA	TSX	5/1/2007 6.75	1.00	HOLD	n/a		megauranium.com
UTS Energy	CA:UTS	TSX	5/15/2006 6.50	1.72	HOLD	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006 1.20	0.34	HOLD	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 .80 to see if the OTC quote looks correct. You can access these OTCBB quotes by using www.barchart.com.

Peyto Energy-PEYUF 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.