#1104/4-04-11

SPRING HOUSE CLEANING

Palio is an objective timing model I like to use to assess overall risk in the broad equities market. The model has a long side bias, which simply means that it is designed to favor being long in the market rather than short. It simply looks for long side opportunities rather than short opportunities. Nevertheless, it is totally objective and mechanical with no personal judgment tossed in. Overall, it has done a great job of assessing risk.

In March, it jumped out and then quickly back in again. The sell was announced on March 17, but the model quickly turned positive again on March 21. Such is the world of models. They lack perfection, and one has to take the whipsaws in stride. However, whipsaws have deeper meaning. They are signs of instability and they heighten the importance of sell signals.

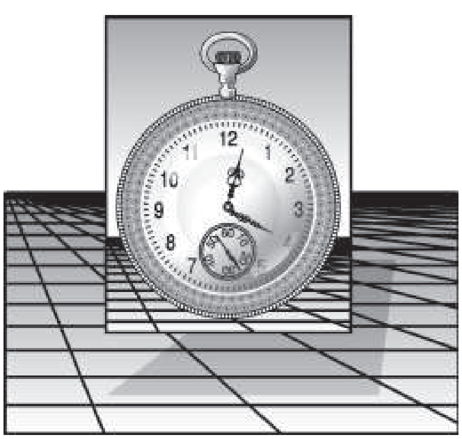
Musing aside, the market is looking less stable and more vulnerable as the rally that was born in the chaos of the 2008 debacle continues. After some two years of positive market action punctuated by a few months of corrective activity, one should be looking for a protracted decline. I believe the reason we have not had one is due largely to the Fed's intervention with QE1 and QE2. Regardless of the reason, equity prices have been on the rise for the last two years, and the rally is long in the tooth.

The stock market - after two years of what includes a good dose of artificially induced recovery - has yet to reach new highs. The Dow Industrial Average is still about 13% below its 2007 high, and the S&P 500 is some 15% below its pre-crash high. The Nasdaq has done a little better, sitting currently only about 2.5% below its 2007 high, but it is woefully below its all-time high of just over 5,000 set in March 2000.

There are currently some technical omens that do not look encouraging. MACD and RSI are showing negative divergence again, and volume characteristics are still not as robust as one would expect during a solid bull market.

My intent is not to obfuscate the situation with a lot of clap trap, but to point out that the market as measured by the popular averages is carrying a lot of risk here. One thing you need to avoid in the investing business is a permanent loss of capital caused by being caught in a situation that you cannot recover from. Financial/paper assets look extremely open to loss, and holding non-commodity advantaged assets could easily result in a permanent loss of capital.

The next issue will be published May 2.



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Incidentally, this is the last of the best six months of the year for stocks. As the wise man said, "sell in May and go away." Once the next crash unfolds, it will be too late to extricate one's paper assets from damage. My concentration has been entirely on tangible assets since our indicators told us to shift into them in 1999. It is evident that this strategy has born fruit with gold and crude oil, up some 460% since the late 90's. If you must hold financials, do not disrespect Palio's future sell signals and stick with a tangible asset investment strategy until the Dow/gold ratio falls to 2.

The Dow/gold ratio, which perhaps could more aptly be named the Long Term Gold Indicator, is still sitting at 8.7. You can easily monitor the ratio at StockCharts.com using the symbol $INDU:$GOLD. The ratio has fallen significantly since peaking at 43.7 in 1999, but there is still plenty of room remaining on the up side in the gold bull market. The problem is that although we are not yet at the end of this bull run, we are not at the beginning either. That means that new investment positions do not carry the margin of safety that we were able to gain earlier on. The price we pay is now more important in order to offset the risk of buying into a more mature bull market. However, if you follow our downside buy prices on Page 7, I think you can manage this problem.

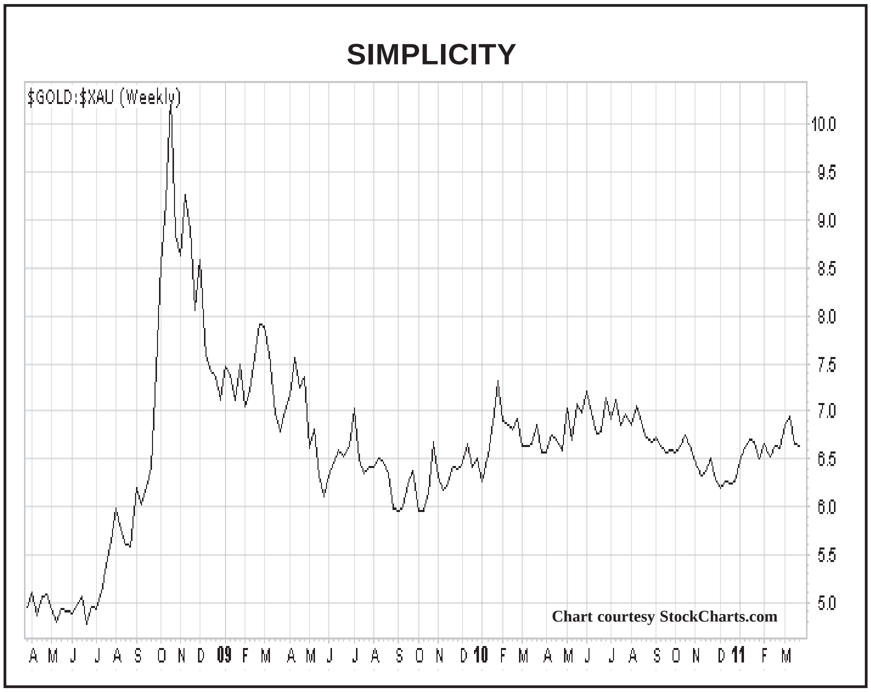
The good news is that we have a new phase of the bull market ahead that I expect to see unfold over the next several months. The velocity phase will develop once gold is able to finally break through overhead resistance at $1,420.

I have to admit that the breakout may be already occurring in a somewhat stealthy manner. You can see the three highs that formed at the $1,420 level late last year. I discussed those in previous letters. Recently gold has managed to push modestly higher into the $1,440 range, but a sustained breakthrough on the up side has not occurred. Sometimes when several highs form, as did late last year, prices will break above them only to retreat back to the breakout level before moving higher.

This may well be what is developing now in gold. Regardless, there is minor support at $1,400 and more significant support at $1,375. Gold is volatile, and a spike to $1,375 (while not something I would bet on heavily at this juncture) is a possibility. Any such weakness should be viewed and acted upon as a buying opportunity.

Our strategy is directed primarily by the Dow/gold ratio, and you should hold your precious metals positions until the ratio tells us otherwise. Aside from that, you should use any weakness to accumulate precious metals if you have extra investment funds to commit. Strong portfilios are not purchased in a day, but accumulated equity by equity over time.

Our Rydex gold trading program (which is monitored on Page 2 of the online updates) moved to an 80% invested position on March 24 due to the XAU hitting our trigger point of 218.70. Newcomers were instructed to determine an amount to commit to the program and invest 50% in the Rydex Precious Metals Fund (RYPMX) on that signal. You could use any equivalent fund. Not much has evolved thus far, but this signal lends support to my argument for a limited down side in gold. Purchases in line with the above instructions while the XAU is under 218.70 are valid.



I see that Ireland's banking system is in the news. They need money. Global banking weakness is going to be a never-ending story I'm afraid. The U.S. dollar has firmed up some over the last two weeks, and short sellers may well take some profits this month. I don't expect to see anything significant on the up side. Nevertheless, if the dollar works higher over the next few weeks, we may see gold take a breather as well. That would offer an opportunity to accumulate additional mining shares.

Mining stocks and the price of gold will diverge over time. Sometimes the mining stocks will run ahead of gold. This can happen on the up side or on the down side. Obviously, if they weaken more than gold, opportunities will avail. The best way to get a fix on this relationship is to watch the gold/XAU ratio, or Simplicity as I am fond of calling it. This is another ratio you can follow at StockCharts.com with the symbol $GOLD:$XAU.

Simplicity did not quite reach 7.0 in March as I anticipated, but it did come close. High numbers indicate relatively good times to buy mining shares, and low numbers indicate inopportune times to be a buyer. In the old days before the great chaos of 2007-08, Simplicity would run from 5.00 on the "bargain" side to 3.75 on the "sell a few shares side." The market crash threw this out of whack; but at current readings, mining shares in general are not historically expensive in relation to gold. However, as I said above, this bull is beginning to mature, so the price we pay and the issues we buy are important considerations.

Once the velocity stage unfolds and prices begin to get crazy and very volatile, Simplicity will fall back to the traditional 5.00 to 3.75 zone. As Simplicity falls, we will make a lot of money with our mining shares.

I see gold reaching at least $1,800 this year - but again, the volatility we will see in the coming velocity phase will make it difficult to predict upside numbers. Toss in a little more global unrest, banking problems, and government engineered U.S. dollar debauchment, and you can pick any number. I look for the Dow gold ratio to fall to 2, and that could easily put the Dow at 6,000 - only somewhat lower than it was in March 2009 - and gold at $3,000. This is not a wild expectation, but back in my mind rumbles the possibility of an overshoot on both sides and the ratio falling to 1.0.

In looking over our list of recommended stocks, I don't see too many things that need changing. I would like to average our position in **Gabelli Global Gold Natural Resources and Income Trust** (GGN-NYSE-$18.85). GGN is actually a closed-end fund that sells calls against their positions to generate income. They have been able to pull this strategy off fairly well; but in hedging their positions, they also limit upside capital growth potential. They also invest in commodity-advantaged companies other than precious metals miners. Still, this is a great dividend payer that will benefit as the commodity bull progresses.

In the January 2011 issue, we raised the buy price to $17.75. On March 15 and 16, GGN finally traded under that price. It has since recovered back to $18.85. Such is the benefit in patience. I am going to reflect this purchase on the recommended list as it was suggested as an average down strategy. Hopefully, you were able to take advantage of that buy. If not, you might try and pick some up at $18.00. There should be very nice support at that level, and purchases at $18.00 will have an indicated dividend of 9.3%. Incidentally, they pay 14 cents a share monthly.

Goldcorp (GG-NYSE-$49.23) remains one of my favorite gold miners, and we have done very well with them. Our most recent buy price was $46.00, and that was easily attainable last month. I see no reason to alter that price. If you are looking for a stink bid on this one, you can try open orders in at $43.75. I don't look for GG to fall that far; but in the short term, the gold sector can be very volatile.

Royal Gold (RGLD-OTC-$51.71) has been swinging wildly of late, but I believe if you do not pay over $49.00, you will come out just fine overall. I am leaving the official downside buy price there. Remember to keep your portfolios balanced and not overload on one issue just because it happens to be at its buy price at a time when others are not. Diversify. If you would like a deeper support level to shoot for, you might try some orders at $47.50. With the gyrations we have seen in Royal Gold over the last few months, $47.50 is not out of the question. Just don't pay over $49.00.

Sprott Physical Gold Trust (PHYS-OTC-$12.57) is doing alright since our original buy at $11.50. This is a physical gold, closed-end fund, and I definitely prefer this approach to physical gold than buying ETFs. ETFs are fraught with risk, and closed-end funds are taxed more favorably as stocks and not commodities. This is a suitable position, but I would not pay more than $11.50.

More to my preference is **Central Gold Trust** (GTU-NYSE-$54.16). They are also a closed-end fund arrangement and carry advantages over ETFs. I am moving the downside buy price up to $52.50. There is very decent support there, and that could offer a last chance to buy gold before it breaks out on the up side.

Yamana (AUY-NYSE-$12.48) remains a hold, as does **Silver Wheaton** (SLW-NYSE-$42.83) and **Silver Standard Resources** (SSRI-OTC-$31.96). Yamana is doing alright, but I think new money can be better put elsewhere. The same goes for **Endeavor Silver** (EXK-NYSE-$9.75). It should be put on a hold rating. Silver Wheaton needs to set up a better buy point than anything I can come up with at present. Silver Standard is finally beginning to come alive, and it has rocketed higher of late along with the price of silver. I see silver moving to at least $50.00/oz. eventually, but the silver miners need to back off and consolidate before we commit any more of our financial resources to them.

The juniors on our recommended list were originally billed as "the option alternative," and some have worked out well for us. In total, they have done better than options, which most investors lose money on regardless. I still have most of the gold juniors on hold and I see nothing to change there. We are profitable with most of these, but they do carry more risk than the majors on our list. With gold up to $1,400, it is time to consolidate and cull out the weak sisters.

Three juniors in particular are not faring as well as I would like. They should be sold and the money diverted to stronger issues. **Everton Resources** (EVR-TSX-C$0.335) needs to be eliminated. There are also a couple of uranium issues we should sell **- Laramide Resources** (LAM-TSX-C$1.49) and **Mega Uranium** (MGA-TSX-C$0.62). Nothing in this game is perfect and these need to go. Nuclear power is now on the back burner for at least a few decades. I don't see any point in trying to identify an upside price target. Just sell them.

If you want to stick with the speculative issues, put the money in **Great Basin** (GBG-NYSE-$2.61), but don't pay over $2.40. Another candidate for the proceeds would be **Coeur d'Alene** (CDE-NYSE-$34.22), but I don't want to pay over $30.00 for it. I realize that is a ways away. Be patient. The reason that Coeur d'Alene is priced this high is that it had a 1 for 10 reverse split some time back. We originally paid $3.19 a share. A final speculative candidate is **Minera Andes** (MAI-TSX-C$2.95) at C$2.50 or better.

It is time to be aligned for the coming velocity stage of the gold bull. Prices may gel at the sub $1,450 level for some weeks yet as gold will often become lethargic during the summer. However, I suggest you get invested and then be patient. Something may well occur unexpectedly that will kick of the next rally phase and accelerate gold above recent highs. You need to be invested before that event. Once over $1,450, volatility will increase and gold will be very difficult to invest in without added short term risk.

The commodity complex overall is doing very well; and on most fronts, it is beating investments in financial assets hands down. We have concentrated on precious metals and energy because I believe that to be the epicenter of the commodity bull. There will be and has been money made in other commodities, but there is no reason to make your financial life complicated. If there aren't profits in metals and energy, there won't be profits anywhere.

With global energy demand on the increase, with supplies becoming more restricted and at peril due to unrest in the Middle East and in Africa, with new sources extremely expensive and risky, and with no real energy policy in the U.S., it is no wonder that crude oil is selling for nearly $110.00 a barrel. I think that my forecast of $120.00 crude is going to prove short of the mark.

If crude sells over $120.00, the problem becomes more serious as to the effect on the American economy. That is, indeed, bad news. Crude oil selling over $120.00 will severely choke whatever recovery the Fed has been able to orchestrate with quantitative easing. In a nutshell, $120.00 crude oil will crush the recovery and bring the inflation problem to the forefront.

The question is still being bandied about as to whether we are heading into a period of inflation or deflation. The U.S. dollar is an important element in this question. My take is that you will see deflation in items that one has a decision in purchasing. One dynamic in this is that consumers will be changing their attitude toward what they can do without and what they simply have no choice but to pay for. Previous necessities will become not so necessary. This attitude adjustment could extend to some elective areas in medicine and the need for higher education. Specialty training will suffice. Demand on many fronts - especially for "stuff" - will evaporate. Meanwhile, those things you cannot avoid paying for or postpone buying - taxes, food, energy, rent, etc. - will see prices spiral higher.

Energy, and this includes transportation fuel, may well see hesitant demand from a weaker economy, but that is not enough to drop the price of crude oil. Crude oil demand is global, and it only takes a tiny bit of increased demand from 4 billion Asians and another 1 billion Africans to more than make up the difference.

There is the further question of supply and who is in line to get it when supply gets tight. If delivery were restricted due to a closure of the Suez Canal or the straights of Hormuz, or due to a civil war in Saudi Arabia (very likely), who will get the remaining oil being produced and shipped? I don't think North America is first in line.

Can life go on at, say, $150.00 crude? The answer is yes, but it will certainly be a new normal. I read the other day that on the basis of the recession, U.S. imports have fallen from 11 million to 9 million barrels a day yet crude oil is hitting new, all-time highs. The U.S. recession - even as it struggles in the future - is not going to be enough to push crude prices lower, especially crude oil priced in depreciating U.S. dollars.

Bottom line, crude oil and other energy prices will fluctuate, but they are also going to become very expensive in U.S. dollar terms. I suppose we could invest in alternative energy schemes; but unfortunately, most of what you are touted are just that – schemes with little potential. Again, make your life easy and avoid added risk by sticking to the heart of the matter. Stick with North American crude oil and natural gas production and the folks that support that production.

An example is **Natural Gas Service Group** (NGS-NYSE-$17.83). Our buy price is $18.50, and it is currently selling below that level. Just don't pay over $18.50 for it. The second natural gas company on our list is **National Fuel Gas Company** (NFG-NYSE-$75.31). We were able to get a pilot position at $70.00, but prices did not weaken eough to allow us a second scale-in at $65.00 before the stock recovered. I am eliminating the scale-in instructions and recommend that you fill the balance of your position at $70.00 or better.

The only international major that I like is **Apache Corp.** (APA-NYSE-$129.98). They have this talent for squeezing oil out of "played out" fields. That is a talent that everyone, friend and foe, is going to need desperately as we move toward the close of this decade. I can't in good faith offer a buying recommendation on Apache or a better downside buy price than $110.00 at this point. You should hold what you have for further gains.

We tried to scale into **Legacy Reserves LLC** (LGCY-OTC-$31.78) without much success. We were able to place an initial position at $24.00 last August, but the stock has been strong since. I am cancelling the scale-in instructions and recommend buying the balance of your position at $29.50 on a pullback. Incidentally, Legacy just increased their dividend to $0.525 per quarter.

I would like to offer more energy suggestions, but it is best at this juncture to wait for an opportunity to develop. I have my eye on a couple of interesting ideas in the event they corrrect and my technical work comes up with some buy points. Crude is on a tear, but all markets correct. We need to wait for the next correction before getting overly aggressive here. Crude prices will often soften during the spring months before moving higher in the summer. Hold what you have, heed the downside buy prices, and be patient.

The bond market disturbs me greatly. The Fed has purchased a ton of Treasuries in junction with QE2. I don't know who they might sell them to. U.S. Treasuries in quantity may become harder to unload than real estate in Las Vegas. It is always good to think contrarian in investing. The least loved item these days is cash. The Fed is going to have to raise rates or their foreign lenders will force it upon them. I think the change will come by year's end. This will certainly be upsetting to the market for financial assets.

The bond market looks exposed to a negative surprise; and once it begins to cave in, the losses will be devastating to bond investors, and the decline will last for years. The least attractive Treasury and most contrarian investment in the fixed income arena is the 90-day T-bill. I believe that in the longer run, T-bills will work out to be extremely prudent. T-bill investors will not be caught in the great bond bear market. In fact, they will be rewarded with higher interest rates with each successive rollover. Cash is not king – at least not yet – but a contrarian attitude to fixed income investing is a good idea.

We have a technical bond model and a bond trading program listed on Page 2 of the online updates. Currently, this program is long the 30-year Treasury, but this is a trading approach rather than a long term investing approach. When the time comes, the program will issue a trading sell and shift to a short position. If you are going to have anything to do with long bonds, do so only on a trading basis and be sure to use an objective system to call your trades. Your emotions will prove to be a terrible bond advisor.

All in all, you should shun debt. This is something I have argued for years, but the mantra is easier for folks to adhere to now in this more modern deleveraging era. Polonius was right advising his son Laertes to "neither a borrower nor lender be." Or as James Montier has said, "leverage is dangerous. It can't ever turn a bad investment good, but it can turn a good investment bad. It limits your staying power." Leverage makes weakness your enemy rather than the friend it should be.

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 1.03. 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 letter are in bold letters.

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 04/01/11	Downside Buy Price	Div 04/01/11	Target-T Stop-S	Web Site
					U.S. $				
Apache Corp	APA	NYSE	3/5/2007	68.00	129.98	110.00	0.46%		apachecorp.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	59.25	HOLD	4.05%		www.baytex.ab.ca
Blackrock	BGR	NYSE	8/3/2005	25.99	31.75	HOLD	5.10%		blackrock.com
Enerplus Res.	ERF	NYSE	11/20/2008	19.00	31.80	HOLD	6.79%		enerplus.com
Gabelli Glb. Gld.*	**GGN**	**NYSE**	1/3/2006	22.10	18.85	**18.00**	8.91%		gabelli.com
Central Gold Trust	**GTU**	**NYSE**	7/27/2010	45.50	54.16	**52.50**	n/a		gold-trust.com
Goldcorp	GG	NYSE	7/24/2008	40.00	49.23	46.00	0.83%		goldcorp.com
Legacy Reserves LP	**LGCY**	**OTC**	8/6/2010	24.00	31.78	**29.50**	6.61%		legacylp.com
Linn Energy LLC	LINE	OTC	11/18/2009	24.72	39.47	HOLD	6.69%		linnenergy.com
Natl. Fuel Gas Co.	**NFG**	**NYSE**	3/10/2011	70.00	75.31	**70.00**	1.83%		natfuel.com
NG Service Grp.	NGS	NYSE	1/6/2011	17.50	17.83	18.50	n/a		ngsgi.com
Pimco Com. Fund	PCRAX		3/2/2005	11.89	9.56	8.50	8.32%		pimcofunds.com
Prospect Capital	PSEC	OTC	1/5/2009	12.00	12.18	HOLD	9.97%	T=13.00	prospectstreet.com
Prospect Capital	PSEC	OTC	2/1/2010	11.00	12.18	HOLD	9.97%	T=13.00	prospectstreet.com
Royal Gold	RGLD	OTC	7/8/2009	38.00	51.71	49.00	0.85%		royalgold.com
Schlumberger	SLB	NYSE	1/18/2008	75.00	93.70	HOLD	1.07%		slb.com
Silver Standard	SSRI	OTC	1/4/2007	30.00	31.96	HOLD	n/a		silverstandard.com
Sprott Phys Gld Tr.	PHYS	NYSE	1/21/2011	11.50	12.57	11.50	n/a		sprottphysicalgoldtrust.com
Silver Wheaton	SLW	NYSE	3/10/2006	8.40	42.83	HOLD	n/a		silverwheaton.com
Yamana	AUY	NYSE	4/14/2005	2.90	12.48	HOLD	0.96%		yamana.com
					Canadian Dollars				
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	13.65	HOLD	n/a		altiusminerals.com
ARC Resources	CA:ARX	TSX	9/8/2008	25.85	26.50	HOLD	4.53%		arcresources.com
Crescent Point En.	CA:CPG	TSX	9/16/2008	30.20	48.02	43.00	5.75%		crescentpointenergy.com
Brookfld Ren Pw	CA:BRC.UN	TSX	12/17/2008	15.99	22.70	21.00	5.73%		brookfieldpower.com
Peyto Exp & Dev	CA:PEY	TSX	7/18/2003	8.75	20.65	HOLD	3.49%		peyto.com
Silvercorp Metals	CA:SVM	TSX	1/21/2008	8.00	14.23	HOLD	0.56%		silvercorp.ca

*** GGN was bought at $17.75 on March 15, 2011 to average down original positon.**

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

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 04/01/11	Downside Buy Price	Div	Target-T/	Web Site
					U.S. $				
Coeur d'Alene	**CDE**	**NYSE**	9/2/2003	31.90	34.22	**30.00**	n/a		coeur.com
Endeavor Silver	**EXK**	**NYSE**	7/26/2007	4.60	9.75	**HOLD**	n/a		edrsilver.com
Great Basin Gold	**GBG**	**NYSE**	12/21/2007	2.45	2.61	**2.40**	n/a		greatbasingold.com
Nova Gold	NG	NYSE	2/29/2008	11.50	12.98	HOLD	n/a		novagold.com
Rubicon Min.	RBY	AMEX	2/1/2010	4.00	5.20	HOLD	n/a		rubiconminerals.com
US Gold Corp	UXG	NYSE	9/9/2005	1.70	8.75	HOLD	n/a		usgold.com
					Canadian Dollars				
Everton Res.	**CA:EVR**	**TSX**	1/4/2007	1.30	0.34	**SELL**	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.49	HOLD	n/a		goldenvalleymines.com
Laramide Res.	**CA:LAM**	**TSX**	3/16/2006	5.20	1.49	**SELL**	n/a		laramide.com
Mega Uranium	**CA:MGA**	**TSX**	5/1/2007	6.75	0.62	**SELL**	n/a		megauranium.com
Minera Andes	**CA:MAI**	**TSX**	9/11/2006	1.20	2.95	**2.50**	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 .1.03 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.