

Summer Publishing Schedule:

June 22

July 13 and July 27

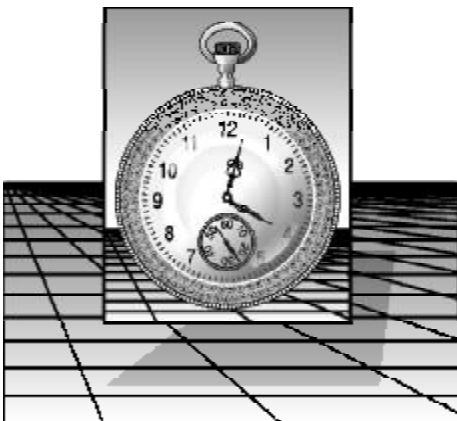
August 10 and August 24

- **You should only hold stocks that are advantaged by higher commodity prices.**

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- **What to do in June.**

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The Commodity Bull Is Alive and Well

Commodity bull markets last 15 to 20 years on average, and the current bull phase is but 6 years along. Commodities always go to new highs once a bull market starts.

Studies have shown that the best-performing assets during the first five years of the decade are the best-performing assets during the last five years of the decade as well. Conversely, the worst-performing assets during the first five years of the decade are the worst-performing assets during the last five years of the decade.

Grasp these thoughts ... they should be your guiding light. Furthermore, following the recent corrections in metals and energy issues, this may be one of the better times to be making tangible asset investments.

**I have a stop gap -
a fail safe, if you will - model.**

It is the Annual Asset Allocation Model that we calculate each October. This model will tell us which of three asset classes offers the best risk-to-reward potential for the next year. In October 2000, it shifted from bonds to tangible assets, and it has remained solidly in that mode ever since. If I were to calculate the model today, it would still tell us to invest in commodities.

I often talk of balancing risk to reward. What does that mean? There was a time in the Middle Ages

when you could shoot dice and get the same payoff no matter what number you bet on. You could win 10 Flanders on a 2 or on a 7. Well, there is risk and reward.

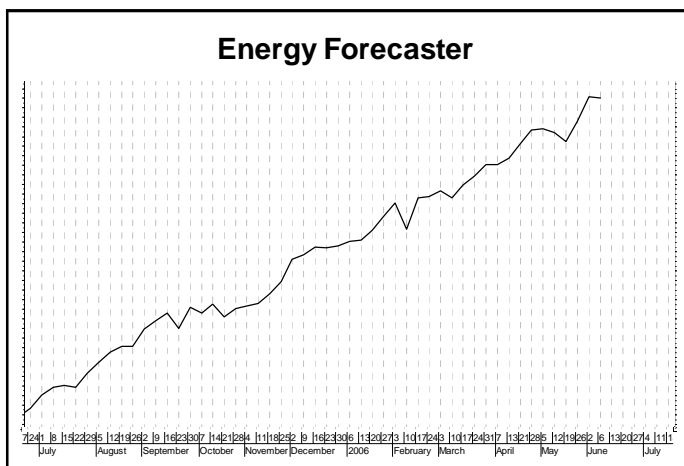
The 7 is the most likely outcome. There is only one way a 2 can come up out of 36 possibilities - a 1 on each die. However, there are 6 ways a 7 can occur - 6 on one and 1 on the other, 5 on one and 2 on the other, etc. Some bets are clearly better.

In this case, the rewards are inadequate - equal payoffs will kill you. Successful investing, then, requires that you assess both risk and reward. Today's stock investors are obsessed with imagined potential rewards, and they have no regard for risk.

Buckle up.

Stock market investors and bond buyers are betting on a 2 - lots of risk for little reward. Commodity buyers are betting 7's, but the reward potential is enormous.

The commodity naysayers are essentially arguing that higher commodity prices will cause a worldwide recession ... then raw material demand will fall and, thus,



Betting on higher commodity prices during the next 5 to 10 years is as close as you will ever come to placing a bet on a sure thing to show. The potential rewards far outpace the risk. The asset class that performs the worst

Bottom line, you should only hold stocks that are advantaged by higher commodity prices. Due to the recent corrections in metals and energy, this is an excellent time to be using weakness to accumulate commodity-related investments.

Energy is looking exciting.

Here is the most recent look at our Energy Forecaster. This is a model designed to measure the potential in the energy sector. It looks great.

commodity prices will fall. This ignores the dynamics at work. China's economy alone is growing at over 9% annually. If it were growing at 7%, it would essentially double in the next 10 years; and quantitatively, that is a huge double.

in the first 5 years of the decade tends to do the worst in the last 5 years of the decade. That should bring the Nasdaq to mind. This should not be surprising as commodity bull markets are always accompanied by bear markets in the popular averages.

Something wicked this way comes, and it is Iran. The little rhetoric episode on June 5 is a preview. Iran will convert threats into action, you can count on that. They want oil denominated in euros, they want to decrease production to increase prices, they want to use oil as a weapon against the West while they develop the bomb, they want political control in the Middle East, and they want to hurt the West. They will accomplish most of these goals.

Their consumer class amounts to about 300 million souls currently, which is equal to the entire population of the U.S. Already there are shortages of raw materials and energy. A doubling of Chinese demand will not relieve the pressures we are seeing on commodity prices.

The Nasdaq has made a decent recovery from its first bear market leg and is now beginning its next decline. The other popular averages will follow suit. How far will they fall? Look for the Nasdaq to break 1,100 and the S&P 500 to go under 775.

The problems facing the stock market are many.

Don't ignore India and the rest of Asia. Global commerce is expanding in areas where the numbers are enormous, and this growth is energy intensive. In 10 years, the number of people demanding more goods and services will easily double, but the amount of available energy and raw materials will diminish.

A secular (long term) bear market began in 2000, and a cyclical correction which launched from lows in October 2002 is ending. The next leg in the secular bear is beginning. The Fed is targeting housing prices, and the housing market is already slowing in many parts of the country.

Crude settled back to \$71.45 December basis, which is in line with the support level I was looking for. Currently, crude is looking stronger, and the next stop should be \$81.00 basis December - probably this summer. It will not be long before the oil guys will be talking about a floor at \$70.00, and I expect to see crude over \$100.00 during the year.

We will see crude oil production peak, as well as the peaking in the production of other basic commodities like copper. A lack of new investment has left the world with a lack of new supply. The next 10 years are going to be a whole lot like the 1970's, with a global bent.

Phoenix and San Diego are particularly soft. Higher energy prices are beginning to affect consumer behavior, and consumer spending is directly related to stock prices. As consumer spending slows, the stock market will fall.

Natural gas also looks solid, although our Hyperion model is currently on a sell. You have to realize that the Hyperion model is a systematic trading model which does fine in the longer run. However, every signal will not be a good one,

and I am not optimistic about this sell. The overall natural gas market looks like it is forming a nice base; and once crude takes off and makes new highs, bullish attention will turn to natural gas and coal.

I am not excited about most alternative energy schemes I see being touted of late. Most of them lack substance. The real money is going to be made in traditional energy production. The exception is tar sand, which is currently a viable energy source versus a pie in the sky future expectation. Tar sands are being mined, energy is being produced at a profit now, and the industry is gradually expanding. The second alternative to crude oil is coal.

I have struggled with **Headwaters** (HW-NYSE-\$26.39) recently, and I have discussed the subsidy problem concerning the possibility of the alternative fuel industry losing Section 29 benefits. The key is that Headwaters has and is licensing proprietary, ground-breaking technology that converts coal to clean burning oil at approximately \$35.00 a barrel. This is profitable, as are their other divisions.

Hang on to your Headwaters, and add more to your position at \$25.00. Coal is going to be very important to meeting future energy requirements in the West and dealing with supply problems from Eastern militants.

Canadian tar sands are also important in this light, and **UTS Energy Corp.** (UTS-TSX-C\$6.79) has big potential in the tar sands business. It is still relatively inexpensive, and it is still close to our buy price of C\$6.50.

Uranium is also interesting.

From a global perspective, nuclear energy is a fact. This country is well behind the curve, but Asia and Europe are not. I like our little **Laramide** (LAM-TSX-C\$6.16). It dipped under our C\$6.05 buy price last month, so perhaps you were able to pick some up there. If not, put your open orders in at C\$6.05 or better and try to accumulate a few shares.

Incidentally, as the nuclear movement gains momentum and more plants are being built, the demand for concrete will increase. It takes an amazing amount of natural gas to produce cement.

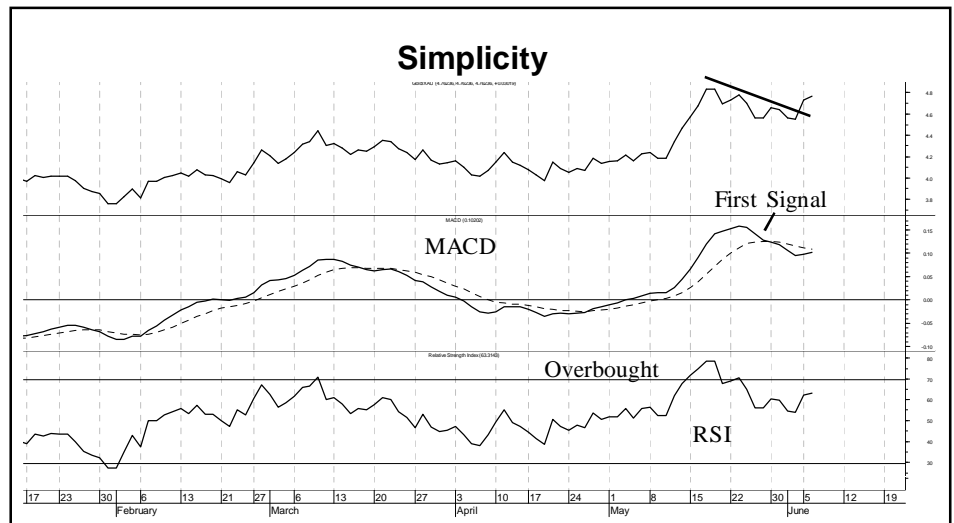
I think if you are patient, the chances of buying **Canetic Energy** (CNE-NYSE-\$21.47) at our downside buy price of \$20.00 is very good. Canetic is on the top of my list if it drops off a little bit here.

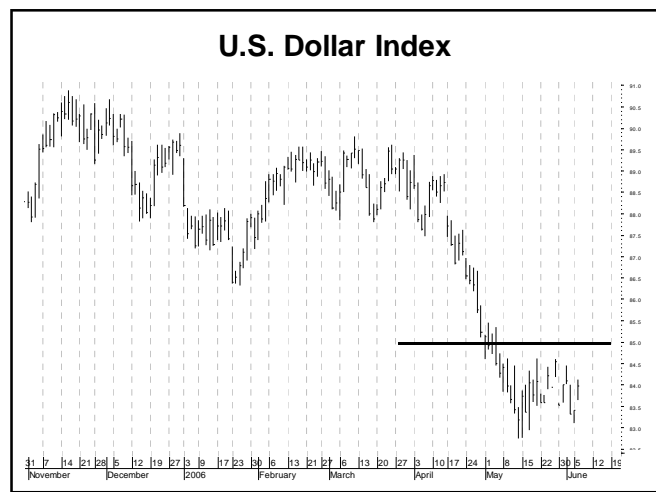
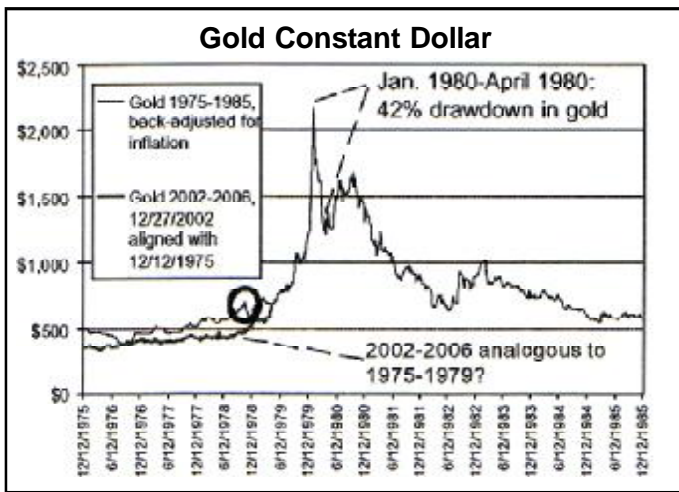
Energy is about to be on the move again, so it is time to review your holdings as well as the downside buy prices on our buy-and-hold list. Just be sure to diversify and keep some

balance in your portfolio. You must invest in the right asset class and invest in the right stocks; but to manage risk and maximize returns, you also need to be mindful of paying the right price.

I think the recent correction in the precious metals is all but over. At least, the worst is behind us. The “Simplicity” model is peaking out, although we have not had the classic signals as yet from MACD and RSI. MACD has issued a first signal; but typically, we will see a bounce and then a second signal before the correction process is finished.

RSI moved to the “overbought” level and has fallen back, but usually we will see another move in Simplicity to a new rally high, if you will, without an accompanying high in the RSI before the correction phase is finally over. The Simplicity report discusses these processes. Direct subscribers can get a copy in the Subscriber Services section of our Web site. Forbes’ subscribers can get a copy in the Special Reports folder after they have logged into Professional Timing at the Forbes’ newsletters site.





Note the upside trend break in the Simplicity index. This should signal a last rally in the index and final drop in the metals. If you are waiting for the last moment to buy, this move in the index will set up the MACD and RSI signals we are waiting for. The near term is setting up an excellent low in the precious metals. From a long term standpoint, we are looking at a time that we will look back on as the last best place to buy gold and silver stocks.

Gold is going to go to \$1,600, and at least double its 1980 high, regardless of whether it goes to \$600 or \$580 first. The key here is to augment your future rewards and minimize risk by accumulating mining shares during weakness. The downside buy prices are there for your guidance.

I have been looking for the XAU (Philadelphia Gold and Silver Index) to reach 130.00, and it came close on May 24 at 133.19. Perhaps that is as close as it will get to my target; but since Simplicity is suggesting that there is a little more time before the next bull leg unfolds and that we may

well see another shot at the correction lows, the 130.00 target is well within reason. Once Simplicity issues its go-ahead and some other proprietary models I keep turn green, we will announce a move back into the **Rydex Precious Metals Fund (RYPMX)**, which tracks the XAU.

On May 22, a new gold ETF was launched – **Market Vectors - Gold Miners ETF (GDX-AMEX-\$37.01)**. GDX is designed to mirror the **Amex Gold Miners Index (GDM-AMEX-1,006.87)**. Now, I am not an ETF enthusiast normally, but this one is interesting.

The XAU includes several mining stocks like Phelps Dodge. Although all of the XAU companies produce some gold, they are not all true gold mining companies. The Market Vectors ETF tracking the Amex Gold Miners Index, however, includes 43 true gold and silver mining companies. This neat little ETF package can be bought and sold during the day - unlike the “day end only” limitation to trading the Rydex Precious Metals Fund.

Since the Gold Miners ETF is rather new, I suggest that you bide your time and let it settle in awhile. In the event that we do see a break in the precious metals market and the Gold Miners Index (GDM) falls to 850, I recommend that you buy the Market Vectors ETF (GDX). I will follow up on the Web site hotlines, of course.

Above is an interesting chart of gold on a constant dollar basis. It is from Gerald Appel’s wonderful *Systems and Forecasts* newsletter, www.systemsandforecasts.com. Those folks who are trying to convince you that the commodity market is in a bubble haven’t seen anything yet. The bubble part is yet to come.

The key to the rise in commodity prices (and a major reason that I am enamored with Canadian energy stocks) is the weak U.S. dollar. The dollar - like everything else in the markets - will have its up and down wiggles.

The overall trend in the dollar is down, and it will continue to fall through the balance of this decade. My ultimate downside target is

60.00 for the U.S. Dollar Index, which is currently at 84.50.

I have shifted my reference to the December contract from the June contract, so a re-evaluation is in order. I look for overhead resistance at 85.00; and once that level is reached, we will address the **Rydex Weakening Dollar Fund** (RYWBX). I would like to find a low risk opportunity to take a position, but it is too early to do that right now. We should see a bit more on the up side in the dollar, and that may well coincide with our last dip in the metals.

The interest rate picture looks interesting.

Our Hyperion trading model just went long the 30-year bond, and it does look like the long Treasury wants to bounce here from the oversold levels reached recently. As the stock market falls - and if we, indeed, see the last capitulation drop in the metals - there will be a lot of money looking for a safe haven. Traditionally, that safe haven is the U.S. government Treasury bond. Technically and circumstantially, the bonds look like they will rally here.

The real push and shove will come later in the month at the next FOMC meeting. The Street is all a'twitter discussing whether there will be another rate hike. If I were to guess, I would say they will raise the rate again. The key to watch for now is the amount. If they pop Fed funds by ½ point rather than the ¼ point they have been posting, I think they will stop temporarily.

A 50-basis-point jump will signal the end to the current string of raises, but not an end to the rise in interest rates we are going to see over the next five years. Fighting inflation with higher rates in the U.S. will not be effective in a global world of exploding Asian demand for limited resources.

Bernanke is likely to have one foot on the brake fighting inflation and one foot on the accelerator fighting a domestic recession. Couple this with a declining dollar and it's déjà vu 1970's all over again.

As a follow up on the **Pimco Commodity Real Return Strategy Fund** (PCRAX), I am not happy about the lack of a dividend payment. I realize they are adjusting from the recent IRS ruling and all, but I am disappointed that we haven't seen anything more concrete in terms of current yield.

The fund is supposed to track the Dow-AIG Commodity Index; and in this respect, it is lagging as well. I am putting this one back on "hold for now." This is not the best time to be selling it, but there are better buys out there.

On May 12, we took positions in **Rydex Ursa** at \$8.14 (50%) and in **Rydex Arktos** (50%) at \$22.86 commensurate with the beginning of the worst six months seasonal period. Our intention is to hold these positions until we get a signal that the unfavorable time frame is over. This will most likely occur in October. At that time, the worst/best six month program will

exchange into the Rydex Nova and Rydex OTC funds. Thus far, the program is ahead by about 3%.

What to do in June:

Sell stocks that are not driven by higher commodity prices. Use further weakness in the precious metal sector to accumulate positions. You should also be looking at buying into weakness in the energy issues on our buy-and-hold list at or below their respective downside buy prices. Some downside buy prices on Page 6 have been adjusted since the last letter.

Keep in mind while managing your investments that I don't have every idea or investment possibility included on the buy-and-hold list. Listed are those stocks in which I have the most confidence. You may have your own favorites. Just be sure they will benefit from higher commodity prices.

Being in the right asset class (tangibles) will account for 85% of your investment success. Being in the right stocks within that asset class will account for 15% of your success. Do avoid the flaky fliers you get in your e-mail and through the post office.

As energy and the metals take more of the spotlight, the scams will come out of the woodwork. In the 60's and 70's when the space program was all the rage, sheet metal companies were going public with names like Space Age Metals. Stick with solid, proven enterprises and avoid the fly-by-nights.

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 .90. 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.

Last Updated 06/06/06									
Company	Symbol	Exchange	Initial Recom. Date and	Price Price	Price 06/06/06	Downside Buy Price	Div 06/06/06	Target	Web Site
U.S. Dollars									
Alliance Res	ARLP	OTC	9/29/2004	27.98	36.85	39.75	4.99%		arlp.com
ASA	ASA	NYSE	11/19/2002	31.00	59.22	60.05	0.68%		asaltd.com
Barrick Gold	ABX	NYSE	1/5/2003	22.85	29.45	28.00	0.75%		barrick.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	22.26	20.00	8.72%		www.baytex.ab.ca
Black Rock	BGR	NYSE	8/3/2005	25.99	26.88	26.15	5.58%		blackrock.com
Canetic Energy	CNE	NYSE	4/19/2006	22.25	21.47	20.00	11.54%		canetictrust.com
Enerplus	ERF	NYSE	4/20/2001	18.00	56.14	50.05	8.15%		enerplus.com
Fording Coal	FDG	NYSE	11/16/2004	22.74	33.45	32.00	8.00%*		fording.ca
Frontier Oil	FTO	NYSE	8/3/2005	28.75	54.49	45.10	0.22%		frontieroil.com
Gabelli Glb Gld	GGN	AMEX	1/3/2005	22.10	22.07	22.50	7.61%		gabelli.com
Goldcorp	GG	NYSE	8/15/2003	13.00	28.25	30.00	0.64%		goldcorp.com
Headwaters	HW	NYSE	3/10/2006	36.30	26.39	25.00	n/a		headwaters.com
Pimco Comod Fnd	PCRAX		3/2/2005	13.97	15.16	HOLD	4.50%		pimcofunds.com
Primewest	PWI	NYSE	2/7/2003	17.00	28.95	26.00	13.49%		primewestenergy.com
Provident Energy	PVX	AMEX	6/16/2003	7.50	12.38	10.50	10.57%		providentenergy.com
Silver Wheaton	SLW	AMEX	3/10/2006	8.40	7.75	9.00	n/a		silverwheaton.com
Suncor	SU	NYSE	2/7/2003	16.80	79.44	75.00	0.36%		suncor.com
Valero	VLO	NYSE	4/26/2005	36.63	60.85	56.00	53.00%		valero.com
Canadian Dollars									
Paramount En. Tr	CA:PMT.UN	TSX	12/20/2004	16.44	18.68	18.00	15.42%		paramountenergy.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	24.75	Hold	6.79%		peyto.com
Shiningbank	CA:SHN.UN	TSX	1/2/2003	15.15	22.01	21.25	13.63%		shiningbank.com

**The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. I have listed these 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	Price 06/06/06	Downside Buy Price	Div 06/06/06	Target	Web Site
U.S. Dollars									
Bema Gold	BGO	AMEX	6/6/2002	1.06	5.04	4.10	n/a		bema.com
Coeur d'Alene	CDE	NYSE	9/2/2003	3.19	4.69	4.00	n/a		coeur.com
Mines Mgmt	MGN	AMEX	5/13/2005	4.50	7.18	7.65	n/a		minesmanagement.com
Novagold	NG	AMEX	12/8/2004	6.50	12.00	13.10	n/a		novagold.net
US Gold Corp	USGL	OTCBB	9/9/2005	1.70	8.01	8.05	n/a		usgoldmining.com
Yamana	AUY	AMEX	4/14/2005	2.90	9.37	9.05	n/a		yamana.com
Canadian Dollars									
UTS Energy	CA:UTS	TSX	5/15/06	6.50	6.79	6.50	n/a		uts.ca
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	6.16	6.05	n/a		laramide.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 .90 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 or International Wayside.

Shiningbank SBKEF Peyto Energy PEYUF Baytex Energy BAYXF 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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