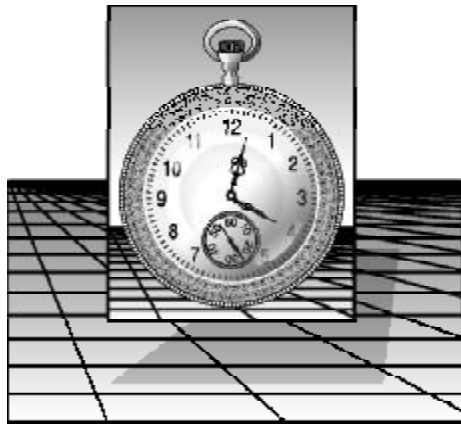


The next issue will be published September 19.

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SOME THOUGHTS ON 2008

First of all, I do see an economic slowdown coming, but I don't think a recession will dampen the price of crude oil. If that sounds outrageous, you need to stop and get beyond the American arrogance that is implied in that outrage. The U.S. is not the biggest kid on the block anymore. The U.S. will certainly act as if it is, just like the Saudi's are still acting as if they have the ability to swing OPEC production. The U.S. is important, but we're not the whole game.

The fact is that although we are an important player, there are others, and they are growing in stature and importance. Global demand for oil will increase at a rate that will offset any slowdown in demand that we may see in the U.S. I don't expect domestic demand for oil to actually decrease. The rate of increase may be slow; but year over year, we will find that the U.S. demand for crude in 2008 will be higher than 2007.

The "consumption function" describes how an individual's consumption increases as his income increases. The pattern is a typical French curve. Consumption increases slowly as income increases at the lower level, but it then accelerates as income grows larger. At a point, though, consumption plateaus and further increases in income go to investments and savings.

This is all logically reasonable, but what occurs when income falls off may be unexpected. Consumption does not smoothly fall back down the curve it followed on the way up. Rather, consumption stair steps its way down. Folks fiercely hang on to their consumption habits as long as they can before cutting something out of their lifestyles, and then they cut back whatever is least dear.

Everyone has priorities. We all have those little things we simply don't mind spending money on and those things we simply would rather go eat a bug than buy. However, one commonality among Americans is their car. This love affair has been a long time in the making, and our culture is wrapped tightly around the automobile. This is not going to change any time soon.

Furthermore, this seems to be an individual obsession. My wife and I will drive on freeway lanes designated for vehicles with two or more riders. There is no traffic on them, but there is gridlock in the other lanes. You could afford to hire a passenger. Not only do folks want to drive their own individual cars, they demand to have their car handy when they want it. Forget car pooling. Like low horsepower, "green" vehicles, the masses are not about to embrace it.



What is up with air conditioning? In some locations, it is imperative. Air in Arizona is as necessary as heat is in Montana, but air conditioning is not a necessity in the Northwest. Nevertheless, it is all the rage. In fact, air conditioning is considered essential now. Bottom line, folks want to be toasty warm in the winter and refreshingly cool in the summer. They may believe they are entitled.

The American consumer may give up eating lunch out. He may give up luxury cruises. He may give up that third vacation condo. He is not going to give up his energy addiction. In the meantime, Asia will continue to grow, and build, and sell cars to their citizens, and put

tremendous demand pressure on all raw materials - including crude oil in 2008. Asia alone will make up for any shortfall in the growth in energy demand suffered in the U.S. More energy will be used in 2008 than in 2007, both domestically and globally.

Next year will be plenty exciting on the political front. It will be a knock down, drag out for sure. I suspect the Democrats will take the White House, but they may end up holding the economic bag - a bit like Hoover did in the 1920's. I will be surprised if a Democratic administration will pull out of Iraq. Call me a cynic, but I just don't think whoever is in the White House will give up all that oil. More likely, they will also seek other "energy colonies."

The biggest controversy on the Hill will be about reinstating the draft. It will all be under the guise of homeland security, of course. However, this issue will be unpopular unless some event can strike at the hearts of the Viet Nam era voters and convince the population a draft is in their best interests. Another 9/11 event would likely do it.

The biggest energy problem we face in the future is available supply. If there is a dislocation in supply - either because of a surprise decline in production somewhere or a disruption in delivery - we will experience a more serious economic problem by far than that which will come from the housing problem. Any supply surprise will very quickly drive crude prices much higher.

Two events that could drive the consumption of energy lower in the U.S. are a dislocation in supply and/or a catastrophe like the flu pandemic of 1914. A disruption in supply is a possibility. A pandemic is not. An interruption in the supply chain would lead to a period similar to the 1970's where energy supplies were restricted, the economy stagnated, and commodity prices ran. In this case, there was a recession and crude demand fell, but prices skyrocketed.

On the production front, all I see are declining production figures. Kuwait and Mexico are down 600,000 bd. Nigeria is down 425,000 to 500,000 bd. Since 1987, Russian crude production is reportedly down 1.7 mbd. Venezuela is down 660,000 bd. Iran is down as well. The list goes on. Where do we see increased production? Only in our dreams of the future - the Jack Field and all. The problem is, by the time anything spectacular comes on line - assuming anything spectacular actually is out there - it will barely help to replace declines elsewhere. The truth is, supply is having a very difficult time keeping up with demand, and I think we will see the break point in 2008 where supply falls short.

Technically, crude prices are behaving as expected. In July, we called for a period of profit-taking that would take crude back to \$69.00 - \$70.00. It dipped a little lower than that, bouncing off \$68.20 basis the December contract. I marked support on the chart above, which remains at the \$69.00 level for all intents and purposes. I admit that reading charts can be subjective, but the chart above looks bullish.

If asked to name the core holding that should be in any energy portfolio, it would be **Apache Corp** (APA-NYSE-\$77.38). They are by far the very best of the major E&P companies, and they are the only major producer I recommend that you hold. Although they have some business in Egypt, they have no direct Middle East exposure. They know their business better than anyone, and they are on the cutting edge of exploration and production technology. There are few that can extend production from an old well like they can. So far, they have been able to grow their reserves; and with their properties in relatively safe countries, they will be a national asset in the event that U.S. supplies are threatened. You should buy Apache at \$76.00 or better.

A dynamite energy growth stock that everyone should have a few shares of is **Transocean** (RIG-NYSE-\$105.09). It has been trading under our buy price of \$100.00; but soon, the run will be on and Transocean will lead the pack. The merger with **Global Santa Fe** (GSF-NYSE-\$70.59), which we described in our August monthly letter, will make this one a powerhouse in deep water drilling.



For income in the energy sector, start with some **Blackrock Global** (BGR-NYSE-\$29.11). This is a diversified, energy-related, closed-end fund with a yield of about 5.00%. Our downside buy price is \$28.00, and it has been trading under that of late due to general market weakness. Put your orders in at \$28.00 or better.

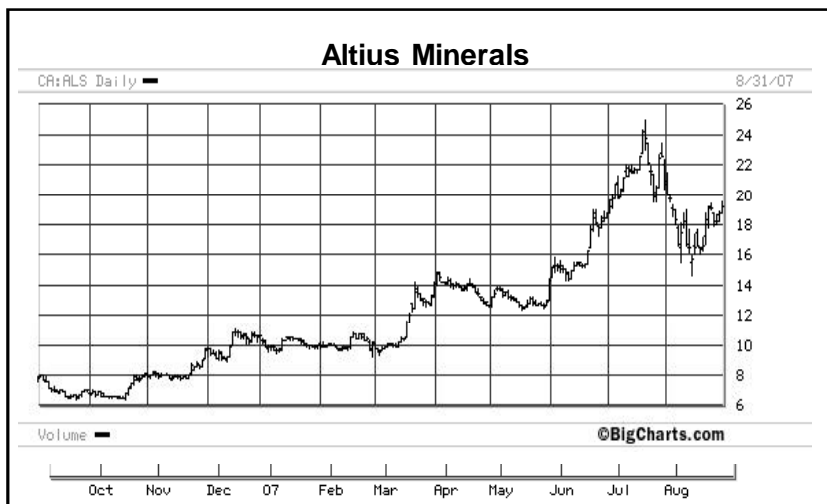
Frontline (FRO-NYSE-\$46.72) has run away from our \$36.00 buy price, but **Nordic American** (NAT-NYSE-\$36.88) is still selling under \$38.50. I think the overall

market panic has offered us an opportunity to buy Nordic up to \$38.50.

If you are growth oriented and can put on a more speculative position, the recent market meltdown has provided us with an excellent opportunity to buy **Altius Minerals** (ALS-TSX-C\$19.25). My downside buy price is C\$18.00. This may be a last chance to pick some up at a decent price. If this schizo stock market pushes it back again, climb on board at C\$18.00 or less. This will give you an interesting play in minerals as well as a new refinery to be built in Newfoundland. It will be state of the art, and it will be able to process sour crude.

So, where does the recent selloff in all things leave gold and silver? I'd say, "looking good." Gold – The Once And Future Money, by Nathan Lewis, is an interesting read. It may be preaching to the crowd a bit, but I found the economic discussion enlightening. Lewis points out that gold is money, no matter what government you live under. That is, indeed, profound and is worth thinking about.

It means that gold is money, no matter where you live on the planet. It also means that gold is still money if your present government



changes. That change might be benign from a Republican to a Democratic administration, or the change might be as subtle as the government's drastic evolution since Bush first took office. Governmental change can be more disruptive, as in the event of a revolution ... but no matter - gold is money. The U.S. dollar can be destroyed and even replaced with a new and better dollar; in any event, gold is still money.

You should own some gold. I see 2008 as a banner year for gold and a difficult year for the dollar. I expect to see gold back over \$700 - likely in the first quarter of 2008 - and well over \$800 by year's end. My technical work shows the Dollar Index is currently on the brink; and by the time the government and the Fed are finished working over the sub-prime loan mess, the dollar will be sacrificed on the altar of bailouts. A key level near term for the Dollar Index is 80.50 September basis. A solid close under that will be a dire omen indeed.

The matter of rare and collectible gold coins is beyond what I am qualified to discuss. I am not a numismatist. However, some bullion coins are not that bad of an idea, and this is an excellent time to buy some. I don't have any favorite dealers, but be sure to take delivery and take responsibility for storage yourself. Any of the bullion coins will do - Krugerrands, Maple Leafs, etc. Just buy what has the lowest premium.

We do have the gold **ETF Street Tracks Gold** (GLD-NYSE-\$66.52) on our list. It hit our \$64.00 buy level several times in the last couple of months. Here is how to handle this. Gold may pull back once more, commensurate with a last ditch, short term attempt by the Dollar Index basis September to challenge 81.50. Put your open orders in at \$64.00, and sit back. If GLD hits \$64.00 again, it may well be the last time it does.

I bought some **Gabelli Global Gold** (GGN-NYSE-\$24.89) during the panic recently, and it is still selling under our \$26.00 buy price. It will give you a decent 6.75% yield here as well as some built-in diversification in the gold sector since this is a closed-end fund.

On the more speculative side, if you don't have a stake in **U.S. Gold** (UXG-AMEX-\$5.96), you should have a few shares. The ideal buy price for this one is \$5.00. This one costs no more than a call option, and it has many times the potential reward.



This letter talks about issues that look particularly interesting to me at this point. There are several more stocks listed on our buy-and-hold list (see Page 6), and they all qualify for purchase at or below their respective downside buy prices. Just because I have not mentioned an issue does not mean that I don't like it or have changed my mind on its desirability as an investment. Just make sure that your portfolio is diversified and balanced.

I still have some Canadian trusts on the list; but with the exception of **Peyto** (PEYUN-TSX-C\$16.65) and **Pembina Pipeline** (PIEUN-TSX-C\$16.64), you will do better investing new energy money elsewhere. Thus, most of them are rated "hold." The average trust will have a difficult time raising capital in the future, and they can't perpetuate their business without the tax free "arrangement" that they were designed for. Ottawa ruined a wonderful efficiency in energy production by destroying the energy trusts. Only those that look good as corporations should be purchased at this point. Our buy price of C\$15.50 for Pembina hasn't been hit yet, but being stingy is important to offset risk.

Energy Split II (EN-TSX-C\$13.08) is a Canadian version of a closed-end fund that holds Canadian energy trusts. It has had several days recently when it hasn't traded at all. This has nothing to do with the viability of the issue. It does, however, reflect the waning interest in Canadian energy trusts by international investors. Perhaps "once burned, thrice shy" is a good adage when dealing with international capital. The trusts need this capital, but Ottawa has shut that door. I suggest you continue to hold your Energy Split if you have some. Don't buy more as it has become too thin. They are going to vote in October on extending the life of the split, and I see that as positive.

I sincerely believe that crude oil will surpass \$100.00 a barrel, and that could easily happen in 2008. When it does, we will take a long, hard look at our energy stocks to see which ones are performing and which are not. I don't expect to see the Canadian energy trusts keep up with our other recommendations, however. The best performance will be in non-Conroy issues.

The exact timing on \$100.00 crude does not matter so much. It does matter that you position for that eventuality now rather than later. Incidentally, have you noticed that all the talk we used to hear about a return to the good old days and \$35.00 oil has gone mum? Well, it should. Indications are that crude prices will be significantly higher by this time next year than they are now.

The commodity bull lives. Although 2007 has not been the most exciting year for commodity-related stocks, 2008 looks like a year for the record books. I don't expect to see much out of the stock market at large next year, but a repeat of 1973-74 is not out of the question - especially if there is a dislocation in the supply of crude oil and if the dollar plummets. Both are distinctly possible.

The stock market has become quite maniacal. This means that risk, which until recently was perceived as low, will be factored back into the market in the form of lower prices. This will make upside progress difficult, at best. It looks like a bear is coming on. It is typical to see a bear market start with a sharp break, not unlike what we have just seen. Then there is a recovery in the form of a strong rally. Joe Granville used to call this the "hook." The crowd sees the "recovery rally" as a turn and climbs on.

I remember sitting in a brokerage office - I believe it was in March 1973 - watching the ticker go by with a bunch of sippers and spitters. Suddenly, the market reversed - rather like on August 16. It was a big down day that reversed suddenly and closed strong. The shorts who thought they had found nirvana ran for the hills. You know the rest of the story. The rally ended, the market turned down, and it didn't look back.

What changes in this process, however, is that a disconnect comes between financial assets and real asset prices. While virtually everything has been rising and falling with the tides of purchases and sales so far, real assets will divorce from the mainstream and begin to trade independently. I expect this is what we will see in 2008.

When will we see this down turn - the end of the hook rally? Well, I caution you about September and October. I have always found it difficult to make any money in the mainstream stock market during September. It is a lousy month for stocks. October is another matter altogether. October is the most dangerous month for the averages, and it is the month during which all of the previous massacres have occurred. It remains to be seen what this October will bring; but if you are holding financial type assets, I suggest you err on the side of caution. Pay heed to Palio.

Palio is our newest general market timing device, and it is doing a decent job so far. The last signal was a buy on August 23; and so far, this is working out. It is difficult to tell where this market is going day to day. Palio will be a better guide for the intermediate to shorter term trends than guessing. Palio's signals and status are reported in the online updates.

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 .95. 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 08/31/07 U.S. \$	Downside Buy Price	Div 07/31/07	Target-T Stop-S	Web Site
Agnico-Eagle	AEM	NYSE	1/10/2007	36.00	44.45	36.00	0.27%	agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004	27.98	33.51	39.00	6.68%	arlp.com
Apache Corp	APA	NYSE	3/5/2007	68.00	77.38	78.00	0.78%	apachecorp.com
ASA	ASA	NYSE	11/19/2002	31.00	59.97	60.00	1.00%	asaltd.com
Barrick Gold	ABX	NYSE	1/5/2003	22.85	32.52	29.00	0.92%	barrick.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	17.40	HOLD	11.73%	www.baytex.ab.ca
Black Rock	BGR	NYSE	8/3/2005	25.99	29.11	28.00	5.15%	blackrock.com
Canetic Energy	CNE	NYSE	4/19/2006	22.25	13.87	HOLD	15.28%	S = 12.00 canetictrust.com
Fording Coal	FDG	NYSE	11/16/2004	22.74	32.72	HOLD	7.62%	fording.ca
Frontline Ltd.	FRO	NYSE	1/4/2007	31.00	46.72	36.00	5.35%	S = 27.70 frontline.bm
Frontier Oil	FTO	NYSE	8/3/2005	14.38	41.03	36.00	0.49%	frontieroil.com
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005	22.10	24.89	26.00	6.75%	gabelli.com
Gammon Gold	GRS	AMEX	1/4/2007	15.00	7.90	HOLD	n/a	gammonlake.com
Headwaters	HW	NYSE	3/10/2006	36.30	16.52	14.00	n/a	headwaters.com
Kinder Morgan LP	KMP	NYSE	6/8/2007	52.50	50.29	52.50	6.76%	kindermorgan.com
Kinross Gold***	KGC	NYSE	6/6/2002	2.39	12.22	12.00	n/a	kinross.com
Kinross Gold	KGC	NYSE	1/4/2007	11.00	12.22	12.00	n/a	kinross.com
Mkt. Vectors, ETF	GDX	AMEX	9/11/2006	37.00	37.65	37.00	1.22%	n/a
Nordic American	NAT	NYSE	7/26/2007	38.50	36.88	38.50	12.69%	nat.bm
Pimco Comod Fund	PCRAX		3/2/2005	13.97	13.94	14.00	4.42%	pimcofunds.com
Ship Finance Int. ##	SFL	NYSE	3/6/2007	0.00##	28.77	HOLD	7.65%	www.shipfinance.org
Silver Standard	SSRI	OTC	1/4/2007	30.00	29.21	32.00	n/a	silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006	8.40	11.38	11.00	n/a	silverwheaton.com
St. Trs. Gold, ETF	GLD	NYSE	9/11/2006	58.85	66.52	64.00	n/a	n/a
Transocean Inc.	RIG	NYSE	1/4/2007	75.00	105.09	100.00	n/a	S = 64.50 deepwater.com
Yamana	AUY	NYSE	4/14/2005	2.90	11.06	13.00	0.36%	yamana.com
Valero	VLO	NYSE	4/26/2005	36.63	68.51	65.00	0.70%	valero.com
Canadian Dollars								
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	19.25	18.00	n/a	altiusminerals.com
Energy Split II	CA:EN	TSX	9/11/2006	17.00	13.08	HOLD	15.60%	scotiamanagedcompanies.com
Pembina Pipeline	CA:PIF.UN	TSX	Buy at	15.50	16.64	15.50	8.65%	pembina.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	16.65	18.50	10.09%	peyto.com

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

***The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. 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 08/31/07 U.S. \$	Downside Buy Price	Div 07/31/07	Target-T/ Stop-S	Web Site
Coeur d' Alene	CDE	NYSE	9/2/2003	3.19	3.42	4.50	n/a	coeur.com
Endeavor Silver	EXK	AMEX	7/26/2007	4.60	3.53	4.60	n/a	edrsilver.com
Taseko Mines	TGB	AMEX	7/24/2006	2.40	3.86	2.60	n/a	tasekominer.com
US Gold Corp	UXG	AMEX	9/9/2005	1.70	5.96	5.00	n/a	usgold.com
Canadian Dollars								
Baja Mining	CA:BAJ	TSX	Buy at	1.50	1.90	1.50	n/a	bajamining.com
Everton Res.	CA:EVR	TSX	1/4/2007	1.30	0.70	0.80	n/a	evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.40	0.50	n/a	goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	5.98	10.25	n/a	laramide.com
Mega Uranium	CA:MGA	TSX	5/1/2007	6.75	3.60	6.75	n/a	megauranium.com
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	5.60	Hold	n/a	uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	1.73	1.60	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 .95 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.