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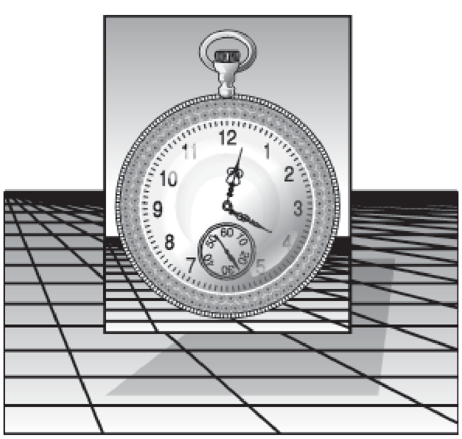
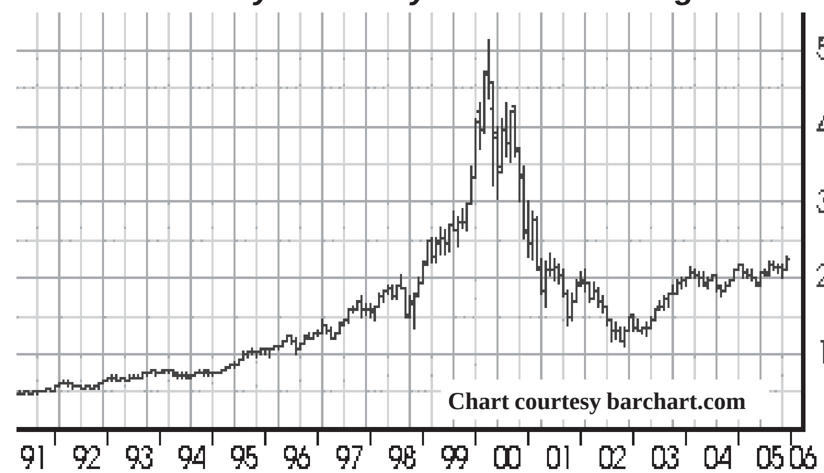


PEERING INTO 2006

Nasdaq - *The decade's biggest loser, cyclical rally not withstanding.*



Commodity bull markets evolve in three distinct stages. To use *Money and Market* newsletter's terms, there is the real demand stage, the investment stage, and the speculative stage.

The last speculative stage is the most interesting. As prices accelerate during the investment stage, production finally runs ahead of demand to the point that large inventories are accumulated and prices begin to decline. Production is then shut down, and it can take years for inventories to be worked off during the following bear market.

The bear is eventually taken over by the next bull. Demand begins to once again overtake available supply and limited production left over from the previous bear, and the demand phase begins. During the demand segment of the new emerging bull, prices rise and production increases. New wells are drilled and new mines are opened. Finally, the commodity business looks attractive again, and the investment stage takes over from the demand stage. At the onset, those with money and clout begin to acquire the smaller operations that hold good properties. Investment begins at the industry level; but slowly, the public and institutional investors catch on and join the party. As time goes on, the Street joins in and everyone looks for a stake in the commodity market.

We are at the very beginning of the investment stage of this commodity bull market.

Today, commodity investments are still viewed with some suspicion, but the merger activity is heating up. The **Barrick Gold (ABX-NYSE)** hostile bid for **Placer Dome (PDG-NYSE)** is just the beginning. Merger activity in mining and other extractive commodity industries will be heating up

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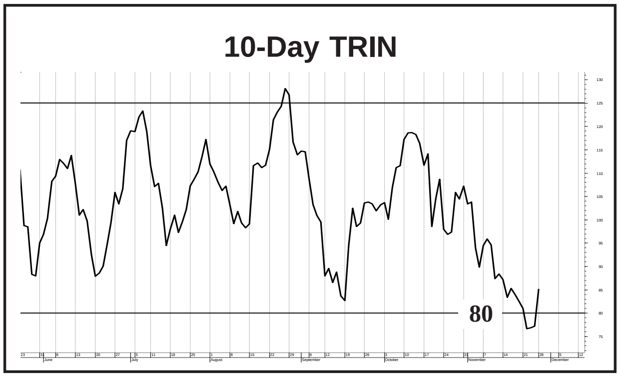


as the year moves forward. You will also be seeing more institutional interest in commodity-related issues by next December.

The investment period is the easiest phase to invest in because the rewards materialize sooner and the risk is still low. This phase will evolve over the next three to five years, and you will see commodity investing gaining popularity as the decade matures.

This will be a very profitable time for commodity investors ... but the best is yet to follow. The excitement will come during the final speculative phase. This will be a dot.com type market of the late 90's, but in real assets this time. The speculative phase will be where the commodity "bubble" will appear.

Stepping back to the beginning for a moment, to the end of the last commodity bear market and the beginning of the demand phase - how long might this process take? I am going to tag the very beginning to the year 2001. That is when the tide began to turn.

Our Annual Asset Allocation Model pointed us to tangible assets (commodities) in October 2001. I am confident that the AAAM will guide us through the entire bull market as well. If a problem with the commodity bull arises, we will get the first clue from the AAAM.

Regardless of this fail safe model, past commodity bull markets have lasted from a short 15 years – 1823 to 1838 - to a long 40 years - from 1878 to 1918. The last commodity bull was from 1963 to 1980, or 17 years. The average is about 20 years.

If I can set the current bull as starting even a year ahead of the AAAM's signal, we would only be five years into the game and barely into the first transition of stages. There's plenty more to come, and it will be easier to "believe" as we move into the investment stage of the bull.

Don Coxe, at Jones Heward, did a study I have mentioned before, but it needs to be revisited. He found that the asset classes that did the best in the first five years of the decade were the asset classes that also did well in the second half of the decade.

The asset classes that did the worst in the first five years of the decade repeated their dismal performance in the second half. As we leave the first half of the 2000's, our investment path should be obvious. Except for bonds, financial assets in general were losers in the first half of the decade. The Nasdaq was the champion loser.

The Nasdaq is down 60%, even factoring in the cyclical (intermediate term) bear market interruption from the lows set in 2002. The S&P 500 is down 18%. I think the general stock market is likely to treat investors very poorly in the next five years. Once the current cyclical bull ends, you should expect the 2002 lows to be revisited.

When should we look for the next high in the stock market?

The second year of a presidential administration is not usually bullish for stocks. My opinion is that a major high is due any time now. I recently presented the 10-day moving average of the Arm's Index, or Trin, in one of the hotlines. This oscillator does not register important readings very often; but as you can see to the left, it is seriously overbought as 2005 comes to an end.

Low numbers indicate overbought levels. When it falls under 80, it is time to batten down the hatches. Occasionally, it will fall under 75, presaging a major decline, even in bull markets. Below 70, it is Katie, bar the door.

The warning here is clear.

I am suspicious that the market this year is tracing out a pattern similar to what we saw in December 1972. Prices rallied, probing old highs, right into January 1973. The Dow managed to eke out a new high at 1,050, and the champagne corks popped. Then high energy prices and an inflationary recession took the market back to 570 over the next two years. It was an ugly time, and I remember it well. This December feels like de ja vu all over again.

Another loser in the last five years was the U.S. dollar. The dollar index is down 14% since the beginning of the decade, and I expect new lows at the decade's end. Actually, I expect new lows well before that, with an ultimate downside target of 60 in the index - currently at 91. That is a decline from current levels of 33%. If the Canadian loonie were to increase 33%, it would be 1.13 - well over par with the USD.

Needed Demand Cuts to Balance the Market

Million barrels/day	**2004**	**2005**	**2006**	**2007**	**2008**
World Oil Demand*	82.1	84.2	86.3	88.4	90.6
Maximum Supply**	83.0	84.2	85.2	86.0	87.7
Required Reduction in Demand	-	-	1.1	2.4	3.0

*Assuming 2.5% trend growth ** Projected capacity less 1 mil bbl/day "normal"supply cushion (maintenance, weather, etc.)

Numbers are provided by CIBC World Markets, www.cibcwm.com

Big changes are afoot.

Avoiding the losers of the last five years should be a high priority, but let's turn our attention to the decade's winners. One tangible asset class that has done well in the last five years, of course, is real estate.

The problem with including real estate in our analysis is that it is heterogeneous. There are demographic differences and different types of real estate to consider. There is also the Fed's artificially low interest rate foray to factor in. The best and worst of the first five years is better applied to homogeneous asset classes like stocks, bonds, and commodities.

Aside from this, my take on real estate is that better investment opportunities lie elsewhere - opportunities with less risk and higher profit potential.

Bonds made money in the last five years. They may very well make money in the next five years, but we do have to consider that the Fed artificially pushed rates to sub-inflation levels. Nevertheless, perhaps we will end up in a serious recession and rates will once again fall close to 0%. However, such action on the Fed's part would be inflationary.

The second problem I have with bonds as a bet for the future is that our AAAM has specifically pointed us away from them. It was invested in bonds when it made its last switch to commodities. The best road will be to take the advice of the model and avoid bonds.

If there is a profit in bonds in the next five years, the profit in tangibles will be far greater with much less risk. Let's go with the strongest asset class and leave our liquidity in short term T-bills. The asset class we should be concentrating on for the balance of the decade and as we begin the second phase of its bull market is commodities. These investments have served us well to this point, and they will continue to do well for us in 2006. Energy and precious metals are at the top of my list, but we need to also make investments in broader-based commodity vehicles.

Crude and natural gas are poised to begin their next up legs.

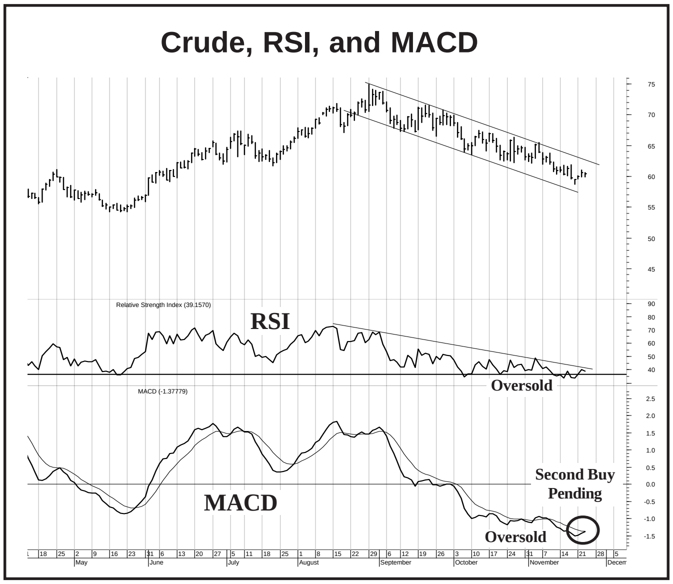
On Page 4 there is an update of the chart I showed you in the last letter. The RSI oscillator has been oversold, but it is now turning back up again. MACD, after being oversold as well, is about to kick in with a second buy signal. At important lows, you will usually see MACD put in a first buy, then an intervening sell, and then a second buy.

The stage is set. The setup in natural gas is similar. The fundamentals for energy are unchanged. The world is running out of cheap oil. In order to protect their sway as the world's leading energy power, the Saudis are doing all they can to convince the world that they have unlimited supplies of oil. Why lie? Reserves give them political clout and strong collateral for international loans, and OPEC output quotas are based on espoused reserves. The fact is, experts and insiders contend that they are at or very near peak production. I fully expect to see an announcement in 2006 to this fact as their secret cannot be kept much longer.

I told you in the last letter that Farouk Al Kanki revealed in November that Kuwait's Burgan field - the second largest in the world - has peaked. The Saudis produce 90% their oil from six aging fields. The largest, Ghawar and Safaniya, are the same age as Burgan.

The table above comes from CIBC World Markets, and it lays out the supply/demand situation quite clearly. It is interesting that their chart lists the "required reduction in demand" to keep supply and demand in balance.

This is entirely unrealistic. Global demand has never declined year over year. The required reduction in demand number would more accurately state the shortfall in production that needs to be made up to keep supply and demand in balance. Alternatives will come in time, but I don't believe world production of conventional crude will ever reach 90 million barrels a day.



My forecast for $76 oil still stands.

By the end of 2007, we will surely see oil approach the $100 mark. Natural gas looks like the bigger winner. Natural gas inventories are 100 billion cubic feet below last year's storage levels.

Better pray for a hot winter, but don't bet on it. AccuWeather found a high historical correlation between active hurricane seasons and ensuing cold winters in the Northeast. Hyper hurricane seasons 1933, 1969, and 1995 resulted in abnormally cold winters in the Northeast.

Bloomberg reported that North Sea natural gas output was declining and demand was rising. Andy Waring, who is the natural gas buyer for 20 plants owned and operated by Ineos Group Holdings, the world's fourth largest petrochemical company in Britain, is bolstering for $69 per million British thermal units. That is five times current New York prices.

Wow! With all this talk of $60 crude, imagine $50 gas and its economic effects. Nevertheless natural gas prices should realistically double to $20 - $24 by the end of 2007.

The correction in oil and gas is about over; and with a couple of exceptions, our recommended stocks have hit their downside buy prices. You should be all set for the next rally. The energy stocks are already heading higher, and they are leading crude and natural gas prices. This is typical in strong markets.

Our Energy Forecaster has done a great job for us. During the last correction, it barely flattened out, and it is now moving to new highs. This tool, at least, is saying that our energy trusts will be moving higher.

On November 24, the Canadian government ended the "consultation process" on income trusts. Consequently, they will not be implementing any incremental tax on the trust sector. We still have the possibility that the providences could enact their own taxes on the trusts, but the move in Ottawa should cool this.

The key is that fundamentals are always trumped by technical analysis. The stocks are acting well, and the Energy Forecaster is indicating sunny skies ahead.

I have updated the buy-and-hold list on Page 6. My approach is to buy weakness, and that time has come and gone for now. Hold your positions and enjoy your dividends.

Precious metals are also perking up. The XAU (Philadelphia Gold and Silver Index) just hit a new rally high since establishing lows last May. The Rydex gold program is back in with a 25% position, and our stocks are, by and large, doing well.

Note on the chart below that gold is probing the $500 level, which may be difficult to break through. There were highs at this level in February 1983 and in December 1987. Old highs are difficult to break over without some backing and filling first.

Near term, I look for gold to drop back to $485 - $490 basis June, which was the last zone of overhead resistance. This correction should be minor, and we intend to increase our Rydex gold position in that weakness.

Once gold takes a rest, it should break through $500 with little trouble.

Then there is really nothing stopping gold until it reaches the next old highs at $800. Yes, $800 gold will be a reality - perhaps not next year, but certainly within the next two years.

As for the stocks on our list, it is time to dump some weak sisters.

You should sell the **American Bonanza (BZA-TSX-C$0.45).** Try to get C$0.45 or better. The second one is **International Wayside (WGM-TSX-C$0.205)**. Hopefully, you can get C$0.20 or better, but it needs to be let go. The proceeds from these will do much better in any of the other stocks on the list.

Goldcorp (GG-NYSE-$21.39) is still my favorite major, and **White Knight Resources (WKR-TSX-C$1.83)** and **U.S. Gold Corp (USGL-OTCBB-$3.80)** are my favorites in the juniors. However, you must heed the downside buy prices. USGL is on a tear. That is what we would hope for. Don't chase it, and don't sell it. Add to your positions in Goldcorp at $18.50 or less, White Knight at C$1.60 or less, and U.S. Gold Corp at $2.30 or better.

The metals have begun to find a following as a dollar substitute. Even though the dollar is probing higher, there has been a definite effort around the world to diversify away from dollars and other currencies.

Cliff Harrison, who runs Jimmy Rodger's commodity hedge fund, likes to say that currencies don't float. They all sink - some at different rates than others. This is not lost on those with large current account surpluses. They will continue to move out of currencies - essentially a financial asset - and into commodities next year. One interesting aspect to this is that central banks now hold only 20% of the gold in existence. This leaves 80% of the gold in the hands of those who would like to see it go higher rather than lower. During the investment phase of the commodity bull market, the banks will reverse their attitude.

I like to pick the low hanging fruit when investing my money. The gold market corrected last summer and gave us a chance to do just that. During September-November, the energy sector took a vacation; and again, we were able to pick up some nice purchases for our portfolios.

What looks good now?

First, you should try to diversify a bit and invest some money in broader-based securities. We do have **Black Rock Resources (BGR-NYSE-$24.80)** on our list, and it is a decent closed-end fund. It is still selling at our original buy price, and you should have some in your mix.

I am rather excited right now about the **Pimco Commodity Real Return Strategy Fund (PCRBX-$15.91).** It, too, is selling close to our original buy price of $15.95. This is my mutual fund choice for 2006. My advice is to buy some.

There are three classes of shares offered: A, B, and C. You need to review the prospectus and determine what you feel fits your individual situation best. Bear in mind that I intend to hold this for the long term. If nothing comes in to change things (like a shift in the AAAM), we will hold this for at least five years. That will help you in deciding which class to buy.

If you have an account at Scottrade, you can buy D shares. These are essentially no-load, with the following restrictions. If you sell within 30 days, Scottrade will charge you a $17.00 commission. If you redeem them within 180 days, Pimco will assess a 2% redemption fee. Since I intend to hold much longer than these limitations, the D shares will do just fine.

The classes will have different internal charges as well, but I don't think that should be too big of a concern. The appreciation I see will be acceptable, regardless of the share class.

Currently, based on the four past dividends, the fund yields right at 7.8%. The dividend will be more erratic than our Canadian trusts pay, but it should be decent. You do have to consider that funds tend to pay year-end distributions, which are taxable if you are holding the fund in a taxable account.

The problem can arise when you buy late in the year. You might buy a fund today; and tomorrow, it pays a distribution. If you pay $20.00 for the fund and it pays a $1.00 distribution, the fund price would fall by $1.00. You would have the same amount of money that you had before the distribution. You would have a $1.00 distribution and shares worth $19.00, but the $1.00 is taxable.

Consequently, you should either buy your shares in a tax-sheltered account or wait until the distribution is paid. Regardless, every portfolio should hold some of the Pimco Commodity Real Return Strategy Fund.

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 .855. 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 11/28/05

Company	Symbol/ Exchange	Initial Recom. Date & Price	Price 11/28/05	Div.	Downside Buy Price	Target	Web Site
Alliance Res. Part.	ARLP-OTC	9/29/04@27.98	$39.25	8.00%**	$40.50		www.arlp.com
Anglogold	AU-NYSE	2/25/03@$32.00	$43.52	n/a	**$38.10**		www.anglogold.com
ASA Ltd.	ASA-NYSE	11/19/02@$31.00	$52.16	2.68%	**$45.90**		www.asaltd.com
Barrick Gold	ABX-NYSE	1/05/03@$22.85	$27.19	0.81%	$26.05		www.barrick.com
Baytex Energy	BTEUN-TSX	05/18/04@C$11.90	C$16.98	10.60%	C$16.50		www.baytex.ab.ca
Blk Rk Glb En & Res	BGR-NYSE	8/03/05@$25.99	$24.80	6.05%	$24.95		www.blackrock.com
Enerplus Resources	ERF-NYSE	4/20/01@$18.00	$44.88	9.47%	**$40.10**		www.enerplus.com
Fording Coal	FDG-NYSE	11/16/04@22.74	$38.76	8.00%**	$35.20		www.fording.ca
Frontier Oil	FTO-NYSE	8/03/05@28.75	$35.10	0.46%	$31.50		www.frontieroil.com
Goldcorp	GG-NYSE	8/15/03@$13.00	$21.39	0.84%	**$18.50**		www.goldcorp.com
Newmont Mining	NEM-NYSE	9/05/03@$39.10	$47.68	0.84%	**$42.50**		www.newmont.com
Paramount En. Tr.	PMTUN-TSX	12/20/04@C$16.44	C$22.17	12.99%	**C$20.50**		www.paramountenergy.com
Peyto Energy	PEYUN-TSX	7/18/03@$C8.75	C$25.40	5.67%	**HOLD**		www.peyto.com
Pimco Comod RR Str Fnd	PCRBX	3/02/05@$15.95	$15.91	7.80%	$16.50		www.pimcofunds.com
Primewest Energy	PWI-NYSE	2/07/03@$17.00	$28.52	10.66%	$27.50		www.primewestenergy.com
Provident Energy	PVX-AMEX	6/16/03@$7.50	$10.98	11.14%	$11.10		www.providentenergy.com
Shiningbank	SHNUN-TSX	1/02/03@C$15.15	C$28.10	12.81%	**C$24.10**		www.shiningbank.com
Suncor Energy	SU-NYSE	2/07/03@$16.8	$56.48	0.36%	$52.90		www.suncor.com
Valero Energy	VLO-NYSE	4/26/05@$73.25	$95.27	0.42%	$89.50		www.valero.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	Initl. Recom. Date & Price	Price 11/28/05	Downside Buy Price	Target	Web Site
American Bonanza	BZA-TSX	10/2/02@C$0.60*	C$0.48	**SELL**		www.americanbonanza.com
Bema Gold Corp.	BGO-AMEX	6/6/02@$1.06	$2.91	**$2.50**		www.bema.com
Coeur d'Alene	CDE-NYSE	9/2/03@$3.19	$4.58	$3.45		www.coeur.com
International Wayside	WGM-TSX	4/26/04@C$1.40	C$0.22	**SELL**		www.wayside-gold.com
Ivanhoe Mines	IVN-NYSE	6/4/04@$6.00	$7.21	$6.90		www.ivanhoe-mines.com
Mines Management	MGN-AMEX	5/13/05@$4.50	$8.19	**$6.50**		www.minesmanagement.com
Novagold Resources	NG-AMEX	12/8/04@6.50	$9.40	**$8.05**		www.novagold.net
U S Gold Corp.	USGL-OTCBB	9/9/05@$1.70	$3.80	**$2.30**		www.usgoldmining.com
Western Silver	WTZ-AMEX	9/2/03@$3.50	$9.88	$8.10		www.westernsilvercorp.com
White Knight Res.	WKR-TSX	7/20/05@C$1.25	C$1.83	**C$1.60**		www.whiteknightres.com
Yamana Gold	AUY-AMEX	4/14/05@2.90	$4.80	**$3.95**		www.yamana.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 .855 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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