

# **TRENDSMAN FORECAST 2007:**

## **Disclaimer**

**More of the Same, but Negative Consequences Building and Rapidly Approaching**

**by**

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*“No one should expect that any logical argument or any experience could ever shake the almost religious fervor of those who believe in salvation through spending and credit expansion.”*

*- Ludwig Von Mises*

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## Economic Outlook 2007

Since I began writing publicly, I put forth a prediction of a recession by mid 2006. According to government figures the US economy is still in expansion mode. However, these figures clearly delineate slowing economic growth and slowing growth in a period of increased stimulus.

	2003	2004	2005	2006
<b>Real GDP</b>	2.5%	3.9%	3.2%	2.9% <b>x</b>
<b>Nominal GDP</b>	4.7%	6.9%	6.3%	5.9% <b>x</b>
<b>Credit Growth</b>	10%	4%	25%	32%
<b>M3 Growth</b>	3.5%	6.3%	7.6%	11.5%

X = My estimate based on BLS Figures

Sources: Nowandfutures.com, Bureau of Labor Services, Jim Puplava- Richebacher Letter

The quarterly data reflects an economy that began to slow about mid way through 2005. As we can see, since that time the policy makers have accelerated both credit and money growth. The rate of growth has increased, as the economy has slowed. This tells us that the policy makers are steadfast in their dedication to prevention of a recession. Rather than allow the economy to slow completely, the policy makers have stepped in to provide stimulus in anticipation of a recession.

### **The Effect of Stimulus**

The recent economic recovery has been entirely driven by debt consumption from both the consumer and the government. Historic stimulus (in the form of money and credit growth) has failed to lift the economy into a self-sustaining mode. This is the huge problem.

As I have detailed in previous writings, inflation is not mandatory for economic growth. Though because most of today's professionals were Keynesian-educated, the overriding idea is that you have to have inflation if you want economic growth. The reality is that a tiny bit of inflation is supposed to stimulate the economy so that lower cost business investment is generated, products are produced more efficiently, and profits and savings are generated and thereby utilized for further economic investments. The build up of savings keeps interest rates low because there is a lot of "real" capital available.

Essentially, economic growth that occurs hand in hand with the changes in the monetary stimulus is not economic growth. The quarterly GDP data as well as annual data confirms this problem with the US. In analyzing the data, you can observe that there is a linkage between inflation (as reported by the Bureau of Labor Services) and GDP growth. We can see that a drop in real GDP is accompanied by a drop in inflation. However, if inflation was reported accurately, we would be able to see that in fact, since mid to late 2003, there has been flat or negative real GDP growth. Just by manipulating the CPI index, the government has been able to create the perception of a growing economy.

## Implications & The Financial Economy vs. the Real Economy

The fact is that monetary stimulus has continued to damage the real economy, while providing steroids to the financial economy, which creates the illusion of wealth and prosperity. Rather than stimulate the production of tangible goods and services, monetary inflation has primarily caused asset inflation in stocks and real estate. As Robert Prechter as said, credit is supposed to grease the wheels of production, not be the wheels of production. The beneficiaries of deficit spending and money and credit creation have been primarily the government, banks and Wall Street. These institutions get the newly created money or credit and benefit, while the public suffers the secondary inflationary effects once the money makes its way through the system. Evidence of this is the record bonuses Wall Street firms received in 2006. [http://money.cnn.com/2006/01/11/markets/job\\_bonuses/index.htm](http://money.cnn.com/2006/01/11/markets/job_bonuses/index.htm)

Wall Street firms have the ability to borrow Japanese Yen at 0.5% and invest in US long rates at 4%. This “carry trade” has fueled growth in the financial sector. Banks on the other hand, do not even need to borrow money. Because of fractional reserve banking, they have the ability to loan out money that was created from thin air and make interest on it. Because of historically low interest rates and no real lending standards, banks, in recent years were able to significantly increase their loans. These types of activities stimulate the financial sector and debt consumption (of things like housing, cars, boats etc), and therefore the economy. Remember my note about how most companies now make money through financing. I can get a new laptop for either \$1,200 or pay \$30/month for four years. Apple makes more money if I go the monthly route. This “free” money is doing nothing for the real economy in the US, except perpetually increasing the cost of living. The contrast is that similar policies exist all over the globe, but the cheap money is being invested in the real economy in places like Asia.

When does the game end? Either monetary and credit creation does not grow fast enough and deflation occurs (debt defaults, etc) or inflation expectations rise amidst this rampant inflation, causing a move to tangible assets. In 2001 when Greenspan and the US government decided to pursue this inflationary policy, Gold was under \$300, and the dollar was 120 on the dollar index. They had the ability to pursue these policies because there was no serious inflation or currency threat. Today it is a much different situation. Gold, is at a 25 year high and the dollar is sitting near important historical lows. Inflation expectations are rising. What is particularly interesting, (and annoying as an American) is the complacency in the US regarding the dollar and inflation, whereas sentiment is the exact opposite globally. Look through the links below. A plethora of countries are either selling dollar reserves, diversifying away from dollars or setting up oil exchanges to receive euros instead of dollars.

<http://www.bloomberg.com/apps/news?pid=20601085&sid=a5NCCnX8rCf0&refer=europe>  
[http://www.washingtonpost.com/wp-dyn/content/article/2006/01/09/AR2006010901042\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2006/01/09/AR2006010901042_pf.html)  
[http://www.usatoday.com/money/world/2005-02-22-dollar-korea\\_x.htm](http://www.usatoday.com/money/world/2005-02-22-dollar-korea_x.htm)  
<http://www.financialsense.com/fsu/editorials/ti/2006/1220.html>  
[http://en.wikipedia.org/wiki/Iranian\\_Oil\\_Bourse](http://en.wikipedia.org/wiki/Iranian_Oil_Bourse)  
<http://www.bloomberg.com/apps/news?pid=20601103&refer=news&sid=aCVBzwWdstPk>

While foreign nations are keenly aware of the risks of our policies, our leaders outright lie and obfuscate the negative consequences. Strong dollar policy, core cpi, lower dollar is better, etc. It is all hogwash and attempt to keep faith in the economy and dollar. Sadly it's working at home but not abroad. Before I get to the dollar, which is going to be a big factor in 2007, I'd like to conclude about the economy.

Because inflation expectations are now rising, the future effects of the same policies will generate greater perceptions of inflation as well as restrict even nominal economic activity. Furthermore, because the real producing economy (of tangible goods and services) has been weakened severely, there is no tangible stimulus to propel the economy through recession. In 1929, the US was self sufficient in energy, manufacturing and capital. Today our manufacturing base is dwindling, we have to import the majority of our energy needs and we have become the world's greatest debtor. The government can say inflation is 2% but if inflation expectations are rising, which they clearly are, it will take much higher interest rates to import capital and stabilize the dollar. Furthermore, because real economic capacity is diminishing, additional capital would not be invested into productive activities. Capital is either consumed or invested into tangible assets. If the economy goes into recession, we can't export mortgage brokers, loan officers, stock brokers and accountants over to China.

This is what inflation and eventually hyperinflation does to an economy. It destroys the real economy, while artificially lifting asset values and creating the illusion of economic strength. I would bet that in a fair share of small towns in America, that you see anecdotal evidence of the weak real economy. Once you get beyond the golden arches of McDonalds and the one car dealership, you see overweight parents and fat kids in run down schools who frequently play their X-Box and eat at McDonalds, having no hope of secure employment or college affordability. This is the 55-60% of America that disapprove of Bush's handling of the economy.

Sadly, the game is almost up for the US. Foreign countries are now eager to move out of the dollar and mitigate their exposure to US economic risk. The US does not have the ability to raise interest rates like it did in 1980. There is too much debt in the system. The debt will be extinguished ultimately through greater and greater levels of inflation. 2007 and 2008 will be powerful years in that the majority, the misinformed and ill-informed, will get a glimpse of what is happening and what lies ahead. The benefits of inflation come before the drastic consequences. With gold close to an all time high and the dollar close to an all time low, serious consequences lie ahead if the trends continue.

## **The Dollar**

Lots of talk about the dollar but little substance. The dollar is a big key in 2007. Everyone knows its going down. Everyone wants to get out but only the little countries can. It's like a game of musical chairs and no one wants to be the last one holding the bag. As noted above, some are diversifying away, some (Russia, Iran) want to receive petro euros instead of petro dollars, and some (the little guys like the UAE and Venezuela) are outright selling. Where is it headed in 2007? Let's look at the fundamentals, technicals and investor sentiment. I want to start with investor sentiment.

Two years ago I called for a dollar rally because of several reasons. Negative sentiment was one reason. I think most analysts, while thinking they know how to use sentiment, do not know how to and don't use it correctly. It has to be utilized in tandem with other factors. The dollar was going to rally in 2005 because sentiment was bearish, and interest rates were going to go up (which would provide a floor for the dollar at the time) and gold stocks were topping. There were multiple signals of a bottom. One very important thing to note about sentiment that is overlooked by analysts, is that the crowd is wrong at turning points but actually right most of the time. The crowd begins to get it right in the third wave when sentiment mirrors the fundamentals.

Yes, the crowd is bearish on the dollar for 2007, but what are the fundamentals telling us. The

fundamentals are outright terrible. The deficits are continuing to grow, (the budget deficit, accounted for correctly is growing) and the policy makers are creating money and credit at a rate that will eventually extinct trees. Furthermore, interest rates at 4-5% are not exactly generating any desire to hold dollars in a savings account. These are significant differences from two years ago, when short term interest rates were headed higher and gold stocks were topping after a three year run. The technicals are reflecting these fundamentals.



This is a monthly chart which reflects a longer term viewpoint. First there is a long term head and shoulders pattern developing. A confirmed breakdown below 80 would mean that 40 is the next long term target. Secondly, in terms of momentum this chart is setup for a strong decline. MACD and RSI are not going to hit 2004 oversold levels unless the dollar falls at least 25%. Now zooming in on 2004-2006 there are multiple bearish things. The dollar recently had a chance to break out of a four year triangle but failed. Also, in 2006 you can see that the dollar spent much of the year trying to break above the mid line of the bollinger bands. It could not do it. See from 1996-2002 how important the mid line was? Except for the one major correction, the dollar's lows were marked by that mid line. The dollar had a major correction in 1998 and touched the lower band. The same occurred at the end of 2005 (call it a bear market correction because the dollar rose within a long term bear market). Hitting the upper band there tells me that 2005's rally was sufficient enough for the dollar to then resume its downtrend. Overall the long term technical underpinnings of the dollar indicate that the greenback is

poised for a sharp decline in the next 24 months.

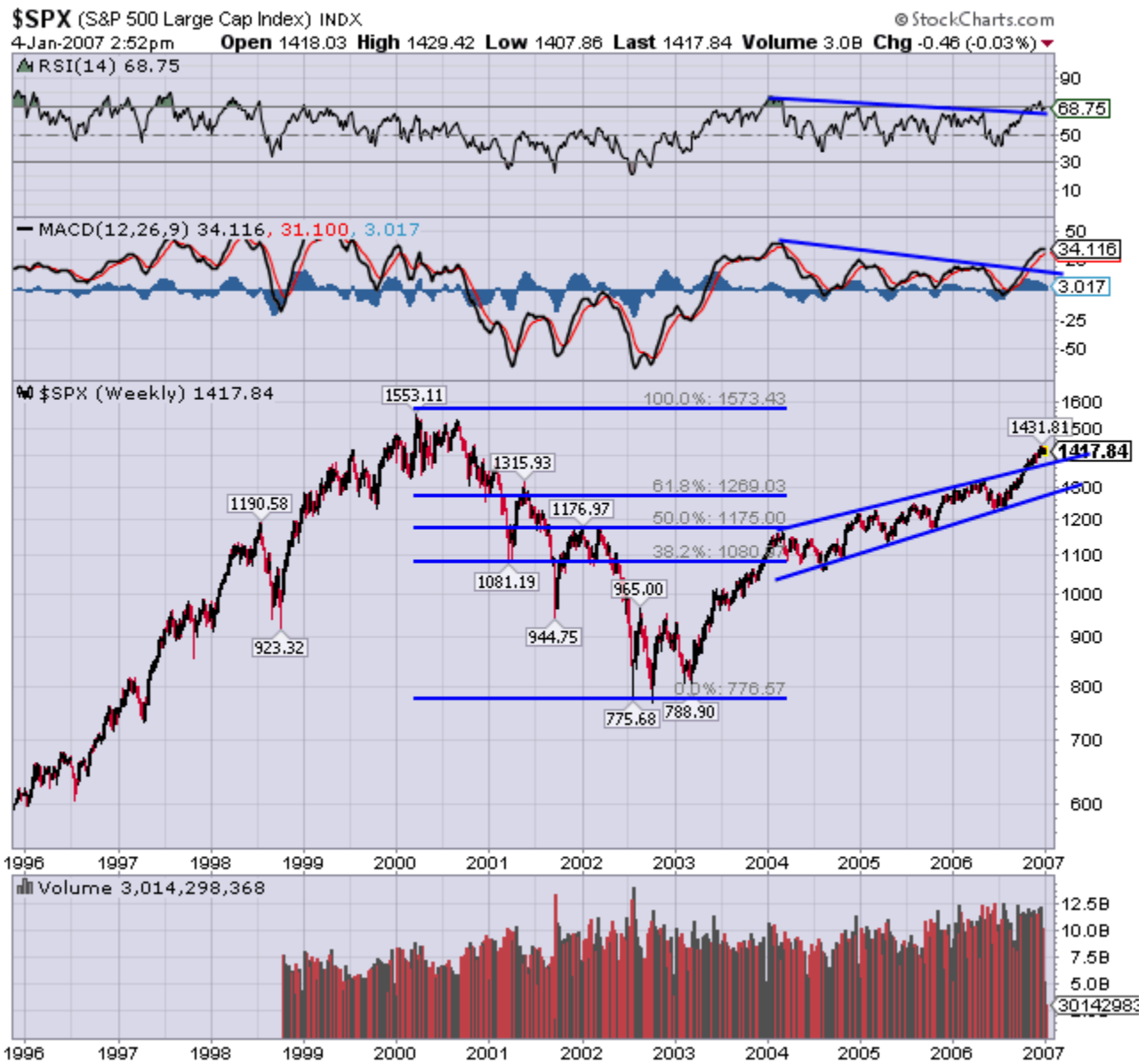
In summation, we have bearish sentiment on the dollar, coupled with even more bearish fundamentals and technicals. I would guess that the majority of sentiment on the dollar is not bearish enough. There is one important reason why the dollar will not see a short covering rally as some predict. It is because the supply of dollars is continuously increasing. With a fixed supply, if there are too many shorts, there are few left to sell and many left to buy. Yet, because the market at hand, the dollar, is continuously increasing in supply, there are not enough shorts and sellers to account for its increasing supply to prompt a short covering rally.

Lastly, there are a few more factors to discuss. First, the dollar does receive some support from foreign central banks. A falling dollar hurts foreign exporters to the US. These countries do not want to see their currency rise too high against the dollar. In turn, they are devaluing their own currencies against the dollar to keep their exports stable. Thus, a game of “competing currency devaluations” could keep the dollar stable. In this game, all currencies are moving towards their true value, nothing. This is a huge reason why gold and silver are far and away the only true protection against a falling dollar. Of course for liquidity purposes it is good to keep cash in Swiss Francs or Euros.

Finally, even though the dollar is a piece of paper, it is backed by US economic and military power. As a result of misguided economic and foreign policy, the US is waning in these areas. That also puts pressure on the dollar. I am not a geopolitical analyst but there are a few important observations in relation to all this. First, because of the energy shortage and high prices, Russia is now a world power. Second, and according to Richard Maybury, the blunder in Iraq has empowered Iran because Saddam Hussein kept Iran, a much more powerful country, in check. Consequently, US power and influence in Eurasia is receding, while Iran and Russia are growing dominant. Iran, Russia and China now have the power in the other hemisphere and there is no way the US can force them indefinitely to hold dollars or trade oil in dollars. I recommend Jim Willie ([www.goldenjackass.com](http://www.goldenjackass.com)) and Richard Maybury ([www.chaostan.com](http://www.chaostan.com)) for geopolitical analysis. Both guys are terrific.

If the US is to avoid a financial crisis in 2007, it will have to hope that the dollar does not decline severely. There is little support from 80 to 40. The dollar did fall from 120 to 80 in about three years before that support kicked in. Presently, the dollar looks ripe for a fall below 80 and once it does that target of 40 should be reached inside of two years. Nonetheless, the policy makers will do everything they can to “manage” the coming decline. With the economy slowly dying, we can expect credit and money supply growth to continue to accelerate as the policymakers accelerate their nonsensical public ramblings. As noted above, because this capital is being destroyed through one-time consumption rather than utilized productively, economic growth is non-existent and inflationary expectations rise. This is a troubling combination. Growth will move towards negative, even in nominal terms and inflation will continue to rise. I feel this crisis is going to hit in 18-24 months and that the current year is going to give us stronger indications that we are on the way to a such a crisis.

## The Stock Market



I expect more of the same from the stock market in 2007. Here we can see that the S&P 500 has retraced more than 61.8% of its losses. When that occurs, the correction is over and the previous larger trend, remains intact. Furthermore, the S&P 500 has managed to break above the upward consolidation channel. When that occurs, it signals a market that is about to enter into a runaway move. See the chart of Copper for an example of a runaway move after a breakout from an upward consolidation. The S&P 500 should continue on to a new all time high in 2007.



This is the S&P 500 priced in gold. There is a striking divergence between “nominal” price action and “real” price action. Priced in gold, the S&P 500 is in a nasty bear market. It has managed a nice recovery rally, but ultimately that will soon peter out as heavy resistance comes into play in the 2.5 area. Simply put, this chart tells us that without the extreme monetary inflation of the past six years, the S&P 500 would be about 50% lower than it is now.

Heading into 2007, the professionals are quite bullish on the stock market. The retail investor is still cautious, with the equity market carnage of 2000-2001 still in recollection. In market moves there are three phases. In the middle phase Wall Street and the professionals pile onto the trend. Finally, the retail investor and the public, unwittingly bid prices up to astonishing levels. While this isn't a secular bull market (10-15 years), I think it is evident what phase we are in. In the next year or so, the professionals are going to sucker in the retail investor and the public. By that point the professionals will be moving their money into tangible assets as the commodity bull market rages onward. Then, at the start of the next decade, the retail investor will begin chasing the commodity bull into a bubble and eventually mania.

Remember how pundits explained the healthy economy by the tremendous rise in home prices? Now we are going to witness this so called economic strength attributed to the rising stock market. Here is a quote from Treasury Secretary Paulson:

*"We had a retail housing market in this country that was growing at an unsustainable rate for a number of years, so we had to make that transition from...unsustainable growth to a more sustainable rate," he said in a radio interview by WTMJ Milwaukee.*

*"There's been a correction, a significant correction," he said. "I know the individual homeowner is feeling this concern as we have the correction. Hopefully some of that impact has been offset by an equity market that has added a trillion dollars of value and impacted positively peoples' 401K, their savings and other things."*

In regards to the housing market, you hear a lot of this “from unsustainable to sustainable” talk. In any bull market, long lasting unsustainable and parabolic moves are always followed by a crash. After a manic peak, psychology does not decline to merely bullish, it falls to bearish.

Heading into 2007, with the housing downturn continuing, the policy makers are now targeting the stock market as the next asset bubble that can reveal economic strength and perhaps prop up confidence in the economy. Thus, I would strongly advise against shorting the US market. The dual facts; amidst weakening economic fundamentals we have not had a 10% correction in the S&P 500 and, the complete divergence between real and nominal price action, is a testament that the stock market is likely being subsidized by the Federal Reserve and the US Treasury.

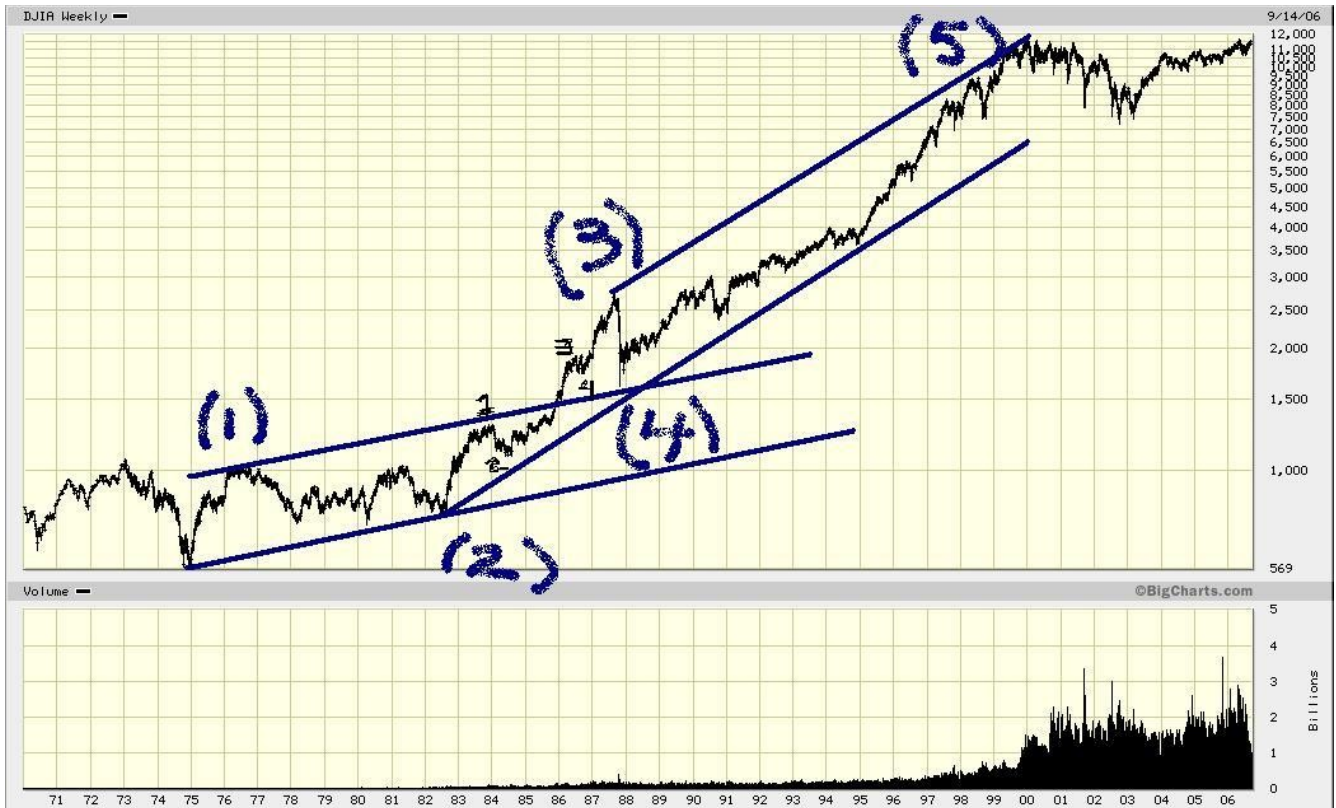


Left Chart: Gold Thanks to sharelynx.com

Right Chart: DJIA The Roaring 20s - Thanks to stockcharts.com

<http://www.stockcharts.com/charts/historical/images2/DJIA1900.gif>

Two different investments, that usually correlate inversely. Yet, they both follow the same Elliot Wave pattern. We can observe that the first wave tends to be the smallest, while the third wave tends to peak above the the initial trend channel. The fifth wave continues the rapid pace of acceleration. With respect to gold on the left, it was wave 3 of III that extended and established the new channel.



This is a chart of the Dow Jones Industrials. There are several different ways you can count this action. Nonetheless, most chartists will have wave (3) occurring from 1982 to 1987. Most important is the labeling of the point of recognition, which clearly occurred at the end of 1985 until the crash of 1987. You can see that 3 of (3) occurred in this time frame. Within that, if you counted out 5 waves you would notice that it's the third wave that crosses above the old trend channel.



Another bull market, another wave 5 that extended past the main channel. Because of the rules of Elliot Wave, wave 3 here can be labeled as the peak in 1986 or as the peak in 87. The specific rules are not important for this analysis. What is, is that once again we see wave 3, at the least is attempting to form a new channel, while wave 5 succeeds in extending into a new channel.



This is a Gold Stock index kept by Frank Barbera, (frankbgst@aol.com), who I consider to be the premier technician on the precious metals. Here we can see that wave (1) of III was the longest. Though, about 8 years into the bull market, gold stocks extended past the mid channel. They almost maintained that new channel near the end of wave (3). They extended completely in the final wave, (5).

## FINAL ANALYSIS

From looking at and labeling all of these charts, here are my conclusions:

- Wave 3 at the very least will peak at the initial trend channel
- If Wave 1 is small, then Wave 3 will peak quite a lot above the initial channel
- Wave 3 or 5 is usually the strongest
- Wave 5 usually is a blow off top and finishes in the newly formed trend channel
- The further you get into a bull market, the more strength you see



What does all of the above imply for today's bull market in gold stocks?

Wave I here was not small, though it had a small sideways correction in 2004-2005, that was more of a consolidation. Such a consolidation usually augurs for a very strong wave III. At the very least wave III should peak at the upper trendline. There is a good chance that it could peak above it. We will not know until we have more price action to analyze. For now, history and Elliot Wave analysis indicate that this bull market is about to hit the accelerator. Weekly momentum readings are in position for that to occur. The next major peak will not come until the upper trendline is hit.



Chart from Mark Lundeen, source: Barrons  
[http://www.gold-eagle.com/editorials\\_05/lundeen022106.html](http://www.gold-eagle.com/editorials_05/lundeen022106.html)

This chart shows the Barrons Gold Mining Index and the XAU Gold Index which was created in the 1980s. I am showing this chart to convey a bullish technical point. The point is that when a market makes a new high, and especially an all-time high, that means that market will continue to move higher. In the 40s and the 50s, the Barrons Index was relatively flat. It started rising in the early 60s and carried quite far once it hit a new high. The same happened with its high in the 70s and 1980. The chart is about 10 months old but since then the gold indices have been relatively flat. Today we see that both the Barrons Index and the XAU are very close to hitting all time highs. That's another bullish feather in the cap of gold investors.

(C)

### GOLD SHARES COMPARED TO GOLD Ratio still resisting at major downtrend



Chart from Aden Forecast, [www.adenforecast.com](http://www.adenforecast.com)  
<http://www.kitco.com/commentary/aden.htm>

In charts and updates I often mention the performance of the gold stocks against gold. This is a chart that measures that Barrons Index against the price of gold. This is a great long term chart that shows a decision point. Gold stocks can break out against gold and outperform or they can breakdown. Since the bull market began, gold stocks have been outperforming gold. In the middle phase of the gold bull market that we are in, one should expect the shares to strongly outperform the metal. A breakout to the upside would be a very bullish event for this bull market.

**\$GOLD:\$WTIC** (Gold - Continuous Contract (EOD)/Oil - Light Crude - Continuous Contract (EOD)) IND×IND×  
 2-Jan-2007 © StockCharts.com  
**Open 10.43 High 10.50 Low 10.42 Close 10.49 Chg +0.04 (+0.34%)▲**



**\$GOLD:\$CRB** (Gold - Continuous Contract (EOD)/Reuters/Jefferies CRB Index) IND×IND×  
 2-Jan-2007 © StockCharts.com  
**Open 2.07 High 2.09 Low 2.07 Close 2.08 Chg +0.01 (+0.40%)▲**





Long Term Weekly Chart of Gold. Here are my observations...

1. Gold broke out of its old trend channel in late 2005. In 2006 its correction stalled right above that middle line which is now support on pullbacks.
2. The arrows show points where the 20 week moving average provided support. A bounce off of that level is an indication of good short term upside ahead.
3. Our bottom indicators (MACD, RSI, Bollinger Band Width) are all at relatively low levels, which means there is a lot of room to run before a significant top is made.

## Final Observations on Gold

### Technical Analysis

1. Gold stocks are entering into a wave 3 of III move. Of the 9 intermediate moves in a bull market, this period is usually the strongest.
2. A break below 80 for the dollar is likely to usher in a severe decline
3. Gold Stocks are very close to hitting all time highs
4. Gold Stocks are very close to breaking out against gold
5. Gold is outperforming Oil
6. Gold is outperforming Commodities as a whole
7. Technicals on Gold are bullish

### Fundamentals

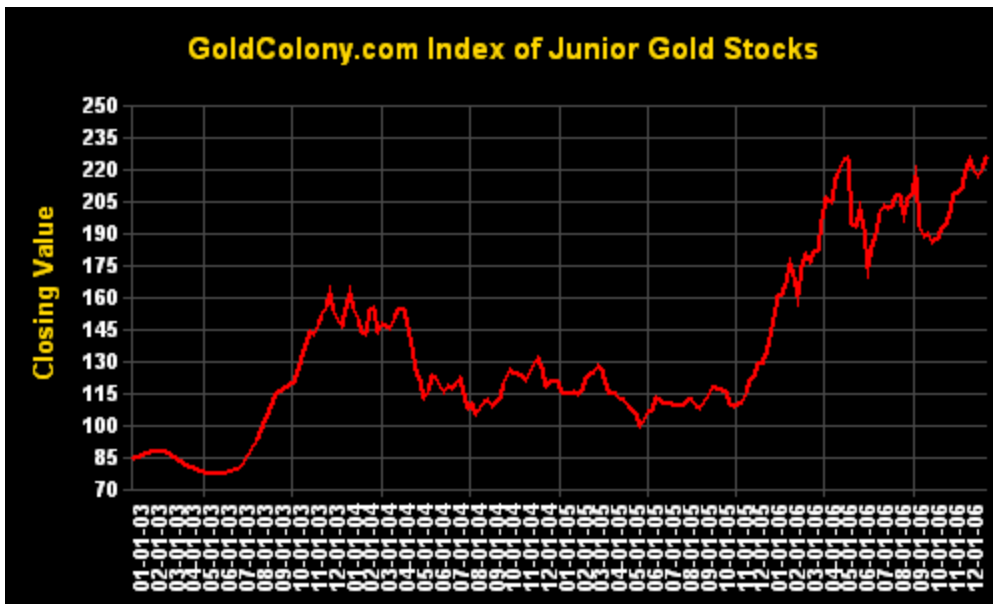
1. Pace of money and credit creation is increasing in the USA
2. Rampant money and credit growth is occurring all over the globe.
3. Flat to negative real economic growth in the USA
4. No reduction in the debt or deficits
5. Foreign countries adamant about decreasing dollar exposure
6. Some foreign countries/central banks are buying gold
7. Huge influx of liabilities in 2008 when baby boomers start to retire

### Sentiment

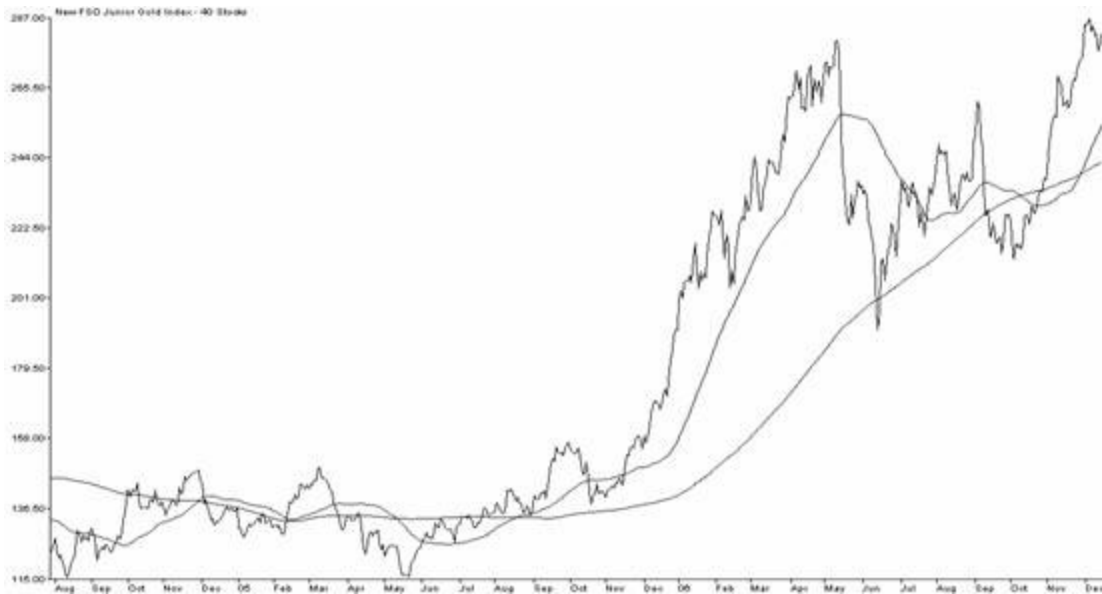
On CNBC.com's video section, a search for "technology" reveals 20 results in the past week. A search for "gold" generates just 10 results over the past month and half of those clips were from CNBC Asia and Europe. A search for "silver" over the past several months, generates just one video from CNBC USA. Despite the above technical and fundamental facts, Wall Street continues to be oblivious to the bull market in precious metals. That is fine, because it means there is tons of potential new investors that can fuel a tremendous rise in the coming months and years.

### Juniors vs. Larger Gold Stocks

Compare and contrast the two following charts with the HUI chart on page five. In the autumn rally, the juniors managed to hit new highs while the larger stocks did not. I am bullish on all gold stocks but the juniors are set to lead the sector in 2007.



<http://www.goldcolony.com>  
 Gold Colony Junior Gold Index



<http://www.financialsense.com>  
 Financial Sense Junior Gold Index by Frank Barbera & Jim Puplava



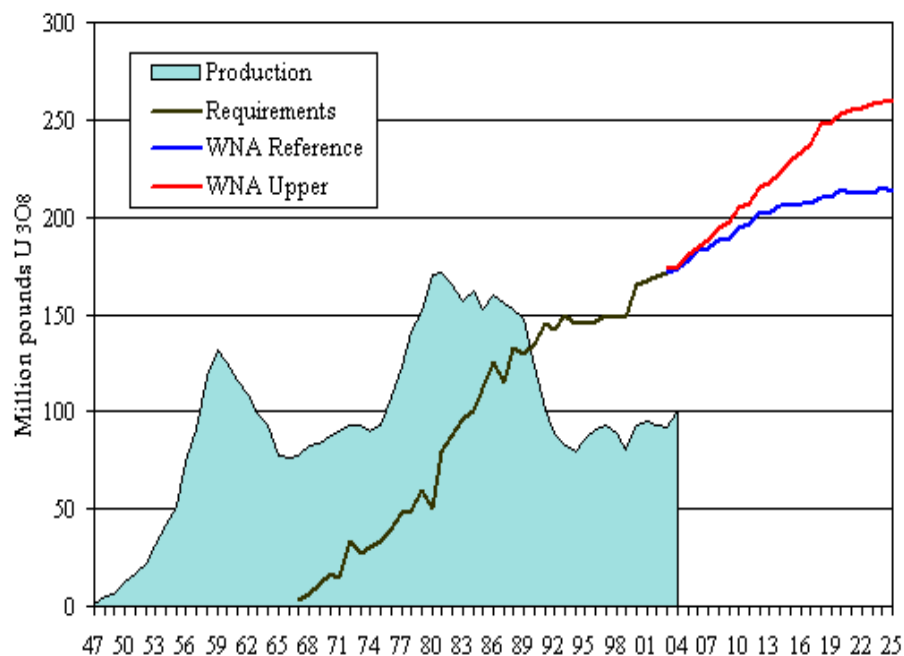
The bull market in gold does not end until the Dow/Gold Ratio moves down to at least 2. As for the next move, can anyone say Dow 15,000 and Gold \$1,500 in 2008?



In the autumn uptrend in precious metals we began to see silver outperforming gold more strongly than it had in the past. Silver should continue to close the gap on gold and this should become more noticeable in 2007.

## Uranium

This chart shows the production of uranium and the demand (requirements). This bull market is being driven almost entirely by supply constraints, however, demand is going to increase steadily as developing nations such as China, Russia and India have plans to build nuclear reactors. Even in the USA, nuclear is the best solution to long term energy needs.



Source: <http://www.world-nuclear.org/sym/2004/fig-htm/comf5-h.htm>

<u>Year</u>	<u>Price Increase</u>	<u>Production Increase</u>
2003	42.1%	-1.26%
2004	42.8%	12.9%
2005	77.5%	5.4%
2006	97.2%	???

Source: <http://www.world-nuclear.org/sym/subindex.htm>

Source: <http://www.uic.com.au/nip41.htm>

Source: <http://www.Uxc.com>

I constructed this data using the sources above. It is truly amazing to see how much of a price increase is needed to increase production. Part of the reason for this is the current situation. Because of the bad bear market from 1980 to 2001, there are few existing producing mines and we aren't likely to see a major influx of mines for another five years. Therefore, it will be most crucial for the industry to meet demand in the next five years. It takes roughly 10 years to develop a producing uranium mine from the ground up.

<b>TABLE 2: World Uranium Demand and Supply</b>						
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2010</b>	<b>2015</b>
<b>Demand</b>	<b>66658</b>	<b>68400</b>	<b>69600</b>	<b>70800</b>	<b>74800</b>	<b>79400</b>
HEU	10700	10600	10700	11100	12400	
US DOE Inventories	385	1192	1192	1192	2154	2346
Commercial Inventories	7876	7000	7000			
Russian Inventories	2900	3500	3800	3900		0
MOX	2500	2500	2600	2800	3000	3600
Uranium from other reprocessing sources	1500	1500	1700	1700	2000	2000
Russian UET	4250	3650	3300	3000	1500	
<b>Non Production Total</b>	<b>30111</b>	<b>29942</b>	<b>30292</b>	<b>23692</b>	<b>21054</b>	<b>7946</b>
<b>Production</b>	<b>36263</b>	<b>36575</b>	<b>36094</b>	<b>42286</b>	<b>48014</b>	<b>50321</b>
<b>Total supply</b>	<b>66374</b>	<b>66517</b>	<b>66386</b>	<b>65978</b>	<b>69068</b>	<b>58267</b>
<b>Uranium Shortage</b>	<b>-284</b>	<b>-1883</b>	<b>-3214</b>	<b>-4822</b>	<b>-5732</b>	<b>-21133</b>
<b>SOURCE: WMA 2004 Symposium at: <a href="http://www.world-nuclear.org/sym/subindex.htm">www.world-nuclear.org/sym/subindex.htm</a></b> <b>Taken From: <a href="http://www.sric.org/voices/2004/v5n4/uspotprice.html">http://www.sric.org/voices/2004/v5n4/uspotprice.html</a></b>						

While this data is two years old it is helpful and beneficial to see the breakdown of the sources of supply. Keep in mind this data also precedes the rock flood at Cameco's Cigar Lake Mine, that occurred in autumn of 2006. Cigar Lake was scheduled to commence production in early 2008. The rock flood has pushed production back towards late 2009. At full capacity, the mine will produce 18 million lbs, which represents 16% of total 2005 uranium production. The following is a comment by Jeff Combs at the World Nuclear Symposium:

*First, everything does not go as planned when it comes to production expansion. A prime example of this is the flood that occurred at Cigar Lake, which set back the commencement of production there. There have also been delays in expansion related to licensing issues, as seen in the delay in expanding the capacity of the McArthur River mill. As shown in Table 1, a number of production centers have fallen short of their 2006 mid-year targets, with the combined shortfall exceeding 5 million pounds. As a result, production for 2006 is expected to be about the same level as in 2005.*

*Also, there can be developments on the demand side that can pose challenges to production expansion. As pointed out above, there have been more ambitious nuclear power expansion plans since the last time the WNA issued a requirements forecast, so even the upper case scenario may not capture overall uranium requirements. Further, these requirements are largely predicated on a 0.27w/o tails assay, which may not be realistic, and do not contain any requirements associated with inventory building. As we have seen, inventory building is not just limited to utilities, but can include producers and especially hedge and investment funds. Further, there could also be some inventory building on*

*the part of governments as they seek to develop reliable fuel supplies to promote nonproliferation objectives.*

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<http://www.world-nuclear.org/sym/subindex.htm>

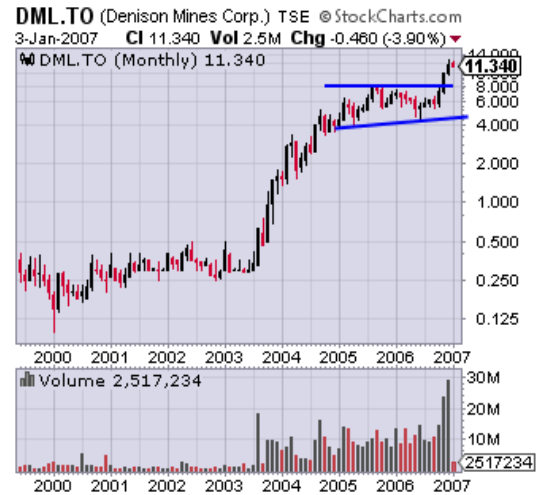
Prior to the Cigar Lake spill, one uranium company President told me that they were anticipating the shortage in 2010. According to the chart above, we are at the point where production needs to increase and where inventories will be crucial to meeting total demand. If production falters in the next year or two then extra inventories could aid, however that would just demand even greater production in subsequent years. And, as Jeff Combs noted, it is difficult to measure if and how the various sources choose to build inventories in the coming years. The uranium price bottomed in 2001 so new mines should be coming online in the next decade. Most certain is the need for increased production for the remainder of the decade. Prices will continue to rise to stimulate existing mine production to capacity and to stimulate new production from existing non-producing mines. Cigar Lake will not be producing at capacity until 2010 and that will put even greater pressure on the price over the next few years.

A bull market does not end until there is enough supply to meet demand. Commodity bull markets last on average 15 to 20 years because that is how long it takes to get production to meet demand. After supply meets demand prices stabilize and then fall once there is enough supply. On the other end, production declines when prices decline, ultimately prompting the cycle to repeat itself. Human psychology plays an extremely large role in these markets. At the height of commodity bull markets, buyers and suppliers become nervous and bid up futures contracts, often excessively, in order to ensure their supply.

What we have today in the uranium market is something that is on track to become historic. The price has risen after every exchange, (except a few in 2003) going back to its bottom at \$7.10/lb in November of 2000. Still, production is falling short of demand. Until there is enough supply to meet demand, the price will continue upwards. Given how acute both the supply constraints are and the potential for a major shortage, in the coming years we will likely see a bidding frenzy from the utilities who need uranium to run their power plants. Remember that the price of uranium is only a few percent of a utility's total costs. I believe we have only seen the start of what is likely to become an investment mania in the coming years.

Despite the price having risen 10 fold from its lows, you don't hear anything about uranium. Since the Cigar Lake Flood, there have only been four videos from CNBC.com mentioning uranium. Only two of those were CNBC America. In the major print news media you barely hear anything about gold or silver and much less uranium. This is amazing considering uranium has gone up 1000% and some uranium stocks are up 100 times from their lows.

The price action in the uranium group has been interesting. Rather than all the stocks moving like small fish, they seem to move in groups. Some stocks have been so strong that they didn't endure long consolidations like others endured. A good portion of the sector spent 2005 and most of 2006 consolidating. Nevertheless, the Cigar Lake flood was an excellent catalyst for the entire sector. On the next page are six small charts. These are the types of uranium charts to watch. Charts of stocks that have completed consolidations or are at the tail end of consolidations.



## Bonds/Long Term Rates



Long Term Rates have been in a rather choppy three year uptrend. The secular downtrend that persisted in the 90s and the early part of this decade is all but reversed. 2007 will confirm for us if rates are headed back up long term. With all of the comments from foreign nations about the dollar, it is likely that we see an upside breakout here. Conversely, the policy makers are well aware of the need to keep short and long rates low. Because of the indebted economy, rising long term rates could trigger some major bankruptcies. The Fed would like to see long term rates stay low but with the likelihood of the dollar falling and gold rising, we should bet on an upside breakout.

## Trendsman 2007 Top Picks

<u>NAME</u>	<u>SYMBOL: USA/CAN</u>	<u>SECTOR</u>	<u>RISK</u>
Cameco	CCJ / CCO.to	Uranium	Conservative
Urasia Energy	UAEYF / UUU.v	Uranium	Moderate
Strathmore Minerals	STHJF / STM.v	Uranium	Speculative
Kilgore Minerals	KLGRF / KAU.v	Uranium	Very Speculative
Bitterroot Resources	BITTF / BTT.v	Uranium	Very Speculative
Gold Corp	GG / G.to	Gold	Conservative
Yamana Gold	AUY / YRI.to	Gold	Moderate
Anatolia Minerals	ALIAF / ANO.to	Gold	Speculative
Jinshan Gold Mines	JINFF / JIN.to	Gold	Speculative
Bandera Gold	BDRGF / BGL.v	Gold	Speculative
Eastmain Resources	EANRF / ER.to	Gold	Speculative
Silver Wheaton	SLW / SLW.to	Silver	Moderate
Impact Silver	ISVLF / IPT.v	Silver	Speculative
Minera Andes	MNEAF / MAI.v	Silver	Speculative
ECU Silver	ECUXF / ECU.v	Silver	Speculative
First Majestic Silver	FRMSF / FR.v	Silver	Speculative

Recently many uranium analysts have knocked Cameco in favor of the juniors. I agree that the juniors will be stronger performers. However, Cameco is still the T-Rex of the industry. It is still the most viable place for the crowd to invest, if it wants to be in uranium. Urasia has shrewd management and until very recently has underperformed the likes of Cameco, Denison, IUC and EMC. The stock has been a strong performer in recent months and despite the country risk of Kazakhstan, the company has shrewd enough management to make the company an emerging leader in the sector. Similarly, Strathmore has top notch management. Once a darling, Strathmore spent the last two years consolidating. The stock has broken above the consolidation and should reemerge in the coming year. Kilgore has a market cap of roughly \$20 Million, but excellent prospective properties in the Western USA. The stock is under promoted but has started its move. With such a low market cap, the risk reward is excellent. Drilling on Bitterroot's uranium project in Northern Michigan is set to begin. With a market cap of roughly \$30 Million, a joint venture with Cameco and an excellent long term chart setup, Bitterroot is another excellent speculation at current levels.

On the gold front, Gold Corp and Yamana are your core positions. They are horses that you can count on to perform well in the bullish periods. 2007 will be one of those periods. With a market cap of \$191 Million, Jinshan Gold Mines is a company that could emerge in 2007. It has measured and indicated gold resources of 2.9 million ounces and this year is set to commence annualized production of 120K ounces. That is \$65 per ounce in the ground for a producer. That valuation should rise at least several fold if gold moves to its 1980 high. Anatolia Minerals has 5.4 million ounces in its Copler gold project in Turkey. Production should begin in late 2008. Tests have outlined a production rate of 160K gold ounces. This one is undervalued and the chart says its ready to move. Bandera gold has just a market cap of \$40 Million and is set to become a small gold producer. Production will give it cash flow which aids tremendously in funding exploration activities. The stock has an excellent chart and is a strong buy on the technical front. It's thinly traded though. Eastmain resources is an old favorite and technically the stock could be at the outset of a major move. It has a market cap of \$48 Million, one million ounces of gold in the ground and a major partnership with Gold Corp. It's properties are in Quebec where the government pays for 50% exploration. I have spoken with management at the gold shows and they are focused on their exploration duties and non promotional. Too many juniors can be promotion machines. Eastmain offers good risk reward here.

Moving to silver, Silver Wheaton is the core position. Impact Silver and Minera Andes are two juniors that are ready to emerge in 2007. Impact was recently added to the Model Portfolio. Technically, the stock looks very strong and that will beget more strength. After the recent surge its market cap stands at \$65 Million. That is still small for a company that is already profitable and set to expand silver output to two million ounces annualized. We are looking for more than a double or triple from this stock. Minera Andes has a market cap of \$200 Million and is set to begin annualized production of 60K ounces of gold and 3.2 million ounces of silver. The company only owns 49% of that, and still has great exploration potential. ECU Silver was a huge winner in early 2006 and has spent nearly nine months consolidating. The stock appears ready to move higher. First Majestic Silver has a current market cap of \$218 Million and according to management, will produce five million ounces of silver in 2008. The company has competent and proven management and should be a strong performer in 2007.

## Predictions

Highs for the Year:

Gold	1000-1100/oz
Silver	25-32/oz
Uranium	125/lb
HUI	800-900
S&P 500	1575-1650
DJIA	14,000
10-Yr T Note	5.7%

Economic Growth 2007:

Real GDP Growth:	1.4%
Nominal GDP Growth:	4.5%

- Recession at the end of 07, becomes official in early 08

Portfolio Asset Allocation for 2007:

Gold & Silver Stocks	30%
Uranium Stocks	20%
Other Energy Stocks	10%
Base Metal Stocks	10%
Large Cap Stocks	10%
Gold & Silver Bullion	10%
Cash (Swiss Francs & Euros)	10%