



Wealth Creation ... and Preservation

1st Quarter 2007

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2006 in Review

2006 was another good year for my clients. The best thing I did all year was to urge my clients to put more and more of their money into the stock market, particularly in their equity indexed annuities (EIAs). Take a look at the numbers below:

	12/31/05	12/31/06	Change
Dow Jones (DJIA)	10717.50	12463.15	+16.3%
S&P 500	1248.29	1418.30	+13.6%
NASDAQ	1645.20	1756.90	+6.8%
Fidelity High Income Fund			+10.13%
Gold	\$518.90	\$638.00	+22.95%
Silver	\$8.89	\$12.93	+45.4%
Fidelity Select Gold Fund			+25.38%

How much of those gains did you realize in 2006? Please check your statements.

Profiting from the New Technology

If you recall my article on Peak Oil a few months ago, you may also remember that I mentioned a book I didn't like. Its title was "*The Bottomless Well; the Twilight of Fuel, the Virtue of Waste, and Why We Will Never Run Out of Energy.*" I read it after reading a series of books on Peak Oil, all of which came to a conclusion diametrically opposed to that of "*The Bottomless Well.*"

I tend to believe high-quality research until such time as I find an equally authoritative refutation. I still haven't found anything to refute the Peak Oil hypothesis, though no one can accurately predict the date on which global Peak Oil will be achieved. As I mentioned in my article, it is a virtual certainty that the next few years will see frequent disruptions in the supply of oil. However, I recently read another book, "*The Singularity is Near*" by Ray Kurzweil, and I find I must change my entire approach to the problem.

"*The Singularity is Near*" is a unique book by a unique author. Ray Kurzweil is a famous inventor, recipient of numerous honorary doctorates, and one of only five scientists who comprise the U.S. Army Science Advisory Group. His resume is impressive, but most of this book is not about him and his research. Rather, it concerns ongoing research being

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www.wcandp.com

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The Future is Now

One of the important keys to future technological progress has to do with one of Ray Kurzweil's pet theories. He believes that the pace of technological development is accelerating exponentially. This means that things which scientists and researchers might expect to become commercially viable in another 20 years could actually happen in five years. If you are familiar with Moore's Law you know that computer processing speeds and storage capabilities tend to double about once a year; what you may not know is that both of those things are increasing at an accelerating rate.

You also probably know that today's computers can store and retrieve vast amounts of data, with an ability to organize, sort and recall that is superior to that of the human brain. Today's processors perform computations at incredible speeds. However, there is still one area in which the human brain is superior to that of our computers; the human brain has millions of paths along which data flows, thousands of times as many as that of the fastest supercomputer. you may recall the older style eight bit architecture which was replaced by 16 bits, then 32, 64, and so on. Ray Kurzweil believes that the day is coming very soon when computers - "intelligent machines" - will have as many paths as the human brain. When that happens, so the theory goes, computers will be able to think faster than humans, *and may reach the point at which we will be unable to distinguish whether or not they are conscious.*

conducted all over the world in fields such as nanotechnology and its newer cousin picotechnology. (Picotechnology applies to things roughly 1/1000th the size of those handled by nanotechnology; Femtotechnology deals with things 1/1000th the size of those dealt with by picotechnology. Pico- and femtotechnology both deal with subatomic particles.)

There is much important and valuable material in "*The Singularity is Near*", but I want to focus on just a couple of points, as follows:

The response to global warming

Ray Kurzweil does not discuss global warming in this book; he merely mentions that many are concerned about the amount of carbon dioxide (CO₂) the industrialized world is pumping into the atmosphere. Kurzweil's response is that nanotechnology will soon be able to use atmospheric CO₂ as a primary building block, to the extent that we will have to make a conscious decision as to when we have taken as much CO₂ out of the atmosphere as we ought to. In fact, **Kurzweil is confident that all the effects of industrialization and the consequent environmental damage will be reversed by nanotechnology.** He cites numerous sources for his predictions, far too many for me to try to research and possibly refute. For what it's worth, I am convinced that he knows what he is talking about. Yes, he sounds very optimistic, but it's hard to argue with the accelerating progress of rapid technological change we are all witnessing.

Solving the Energy Crisis

Kurzweil's solutions to Peak Oil long-awaited energy crisis are numerous and varied. most of them fall into three main categories;

- ★ Technological advances in nanotechnology will significantly reduce daily per capita energy consumption.
- ★ Environmental problems caused by the production and use of fossil fuels will be reversed and eliminated.
- ★ Nanotechnology and its successors will make all of industry and technology vastly more efficient than ever before.

Very few of these technologies are commercially viable just yet, but they will be. I encourage you to read *The Singularity is Near* to find out just what he thinks will happen. It makes for fascinating reading.

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Profiting from the New Technology

You may remember the technology 'bubble' that burst in 2000. In less than three years the NASDAQ index fell 83% from its all-time high, taking with it billions of dollars from unwise and almost frenzied investors. The problem was that people started throwing money at anything with a ".com" in its company name without looking at the commercial viability of the company or its products (if any). Most startup companies fail for any number of reasons. Even if they develop a successful product they may never make a profit from selling it. How could it be possible for *anyone* to profit from technology when it is fraught with peril for investors?

We came close to a profitable answer in 2006 with XsunX (XSNX), a high-tech stock that soared after plummeting 99.5% from its Initial Public Offering (IPO). My clients made as much as 165% in XSNX in a matter of weeks, but most of us gave back most if not all of our profits when I followed an age-old rule of investing; when an investment rises dramatically, sell half your position and keep the rest. That approach did not work with XSNX, nor is it likely to work with other, similarly speculative stocks and investments. We should have sold all our shares.

For this reason I have changed my operating rules. When the Refined Elliott Trader (RET) software tells me to buy a stock in anticipation of its rising to a certain target price, we will buy it, hold it up to the target price, and then sell all our shares.

Why not just buy a technology mutual fund and give someone else the responsibility for managing your speculative money? The answer is simple and obvious; **technology mutual funds have underperformed the overall market for years.** If a fund manager knows of a potential XSNX he cannot purchase more than 5% of its shares. Since mutual funds tend to be very large, finding one XSNX per year and making a 100% gain on it wouldn't make a dent in the fund's overall performance. And what happens if the manager buys 100 potential XSNXs and 50 of them fall in value or go to zero? The net impact to the fund could be a loss.

Technology funds averaged 7.08% in 2006. For the past five years they have averaged 1.06% per year. That's a paltry return for a lot of risk.

Why is this so? Because **the odds of finding "the next Microsoft" are 1,000 to 1.** For every company that succeeds and actually makes money for its investors there are hundreds if not thousands that fail. Even if you do find a good stock you have to buy it and sell it at the right price. Holding onto Microsoft, for example, has been "dead money" for the past five years and a losing proposition for the past six. It's easy to say "if only I had . . .", but it doesn't make you any money. To profit from any stock you have to buy low and sell higher, and the distance between those two events should be as short as possible. You also have to know what to expect from the stock, as we did with XSNX.

The companies Kurzweil is talking about may not yet exist. Those that do are likely to run out of money, fail in their research, be unable to sell the products they finally bring to market, or suffer some other fate. This leaves very few

S-I-R

Savings

ING Direct is currently paying an FDIC-insured 4.50% for those of you with Internet access. Otherwise, look for the best interest rates you can find at your local bank and Credit Union. *To open an ING Direct account, please e-mail me and I will send you a coupon good for \$25.00 cash.*

Everbank (www.everbank.com) offers an FDIC-insured checking account which pays a minimum of 3.1% with no fees. Their Money Market Account pays 4.01%. Please see their website for further information.

Investment

My recommendations for investment and retirement money have changed slightly. Check the *Recommended Investment Allocations* section. You should still have about 12-16% of your total net worth in precious metals mutual funds and in other forms of gold and silver.

Your Investment program can also include the "Stocks at a Discount" Program and The Silver "Insurance" Program.

Retirement

A significant portion of your retirement money should be invested in places where it is guaranteed by top-quality companies. This means Total Return Fixed Annuities (TRFAs) and Equity Index Annuities (EIAs).

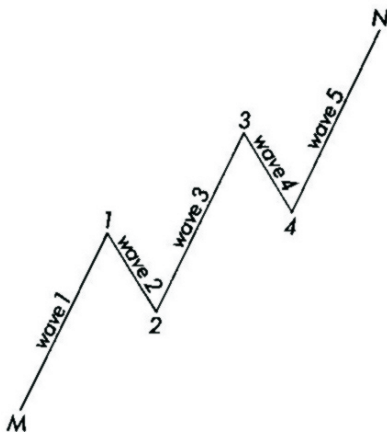
The balance - up to 50% or more, depending upon your circumstances - should be diversified into investments which have the potential to beat inflation, taxes, and the declining dollar. This would include the precious metals and energy funds, domestic and foreign stock mutual funds, foreign currencies, the precious metals themselves, and a few others. All investments should be professionally timed.



Going Paperless

In recent months I have been engaged in the lengthy and laborious project of scanning my clients' financial records and putting the information on my computer. To date about 28,000 pages have been input, which represents about 10% of the total. As each page is scanned and backed up to my external hard drive the paper original is shredded. This, of course, is a common business practice. It makes it much easier to retrieve paperwork and information, and it requires far less storage space than the documents themselves. For protection against computer hackers and such, like all business owners I take special precautions to ensure that none of the information is available to any remote user, whether on the Internet or elsewhere.

The technology is still mind-boggling, at least to me. I will be able to carry every piece of paper generated in over 26 years in business on one small hard drive weighing less than five pounds.



Basic Elliott Wave structure. After Wave Five up is complete, there will be a three-wave A-B-C downward correction or a change of trend resulting in a new 5-wave trend downward. I expect the latter for the U.S. Housing market.

attractive options. The only one of them I like for my clients is my one-stock-at-a-time approach using the RET software and my "Stocks at a Discount" strategy. This strategy combines fundamental and technical analysis to identify the right moment to buy the right stocks. Contrary to the old TV commercial, there are plenty of *bad* times to buy a *good* investment.

Even if you could identify several stocks poised to "take off", you should not put a significant portion of your assets into them. Stock speculation is just that, and most of my clients cannot afford to gamble on their future.

When you buy a speculative stock and it runs up nicely in a short period of time, you take your gains and have achieved a return of $x\%$ on $y\%$ of your total portfolio for an annualized return of $z\%$ for that particular stock. You then have to find another stock which will do just as well, and another and another in order to make that annualized rate of return a reality. Any stock along the way that underperforms or even loses you money will detract significantly from your overall return. It happens to mutual funds, institutional investors and people like you and me. As good as your analytical methodology may be it is not perfect. Taking a profit on more than 50% of your trades is a good goal.

What can you expect from the new technology? You can expect to trade frequently, to constantly second-guess your decisions, to experience gut-wrenching volatility, and to find lots of stocks that do not perform to your expectations. If you do find "the next Microsoft" you should not expect to hold it "forever" because it will have periods of sharp price increases as well as periods of sharp declines, along with periods when it is flat or gently declining. **Timing is everything** - along with finding the right stocks in the first place. I will continue to conduct this research for my clients because I have gained some confidence in my methods and my tools. We have enjoyed significant gains from several stocks over the past few years, and even with declines in stocks like PYTO and SVSE and holding on to half positions in XSNX we are still better off for having participated in the program. The net returns are still better than those we have experienced elsewhere.

If you want to see why you cannot simply 'buy and hold' a speculative stock, just look at the long-term charts for stocks like Google (GOOG) and Research in Motion (RIMM) on the next page. Please note that unlike many speculative and/or high-technology stocks, RIMM and GOOG are both profitable companies. Both stocks clearly show all three types of trends I have just described. The problem I face every day is determining the *current* trend and the *next* trend for a stock I am considering for purchase.

Update on the Housing Market

As a student of Elliott Wave I must look at all markets with an eye to their "fit" in an Elliott pattern. I never expected the U.S. housing market to fall apart all at once; in fact, that has been a valuable lesson with application to all markets. Trees don't grow to the sky and trends do not continue forever. The 40+ year rising trend in domestic housing had to end sooner or later, and it looks like it did so in late 2005. Commercial real estate, however, continued to do just fine since then.



Top: Google, Weekly chart. Note the horizontal blue line: it marked upward resistance at \$328 per share until it was broken in October 2005, at which point it became support. Each green or red bar is one week of trading.

Above: Research in Motion, Monthly chart. This chart has it all; sharp declines, sharp increases, and trendless sideways movement. Each bar is one month.

Now that the housing market has peaked, it will not just fall off a cliff. Rather, according to Elliott it will decline in either a three-wave or a five-wave decline. My feeling is that we have seen a small Wave One decline, and the builders and the media are making lots of noise right now about how the entire decline is over. Don't be deceived by what you read or hear. The only scenario in which the housing market decline could be over is if we have not yet completed Wave Five up. The odds of that are quite low, less than 20% in my estimation.

Rather, I believe that we are close to the end of Wave One down and are now seeing Wave 2 retrace some of Wave One's decline. What happens when Wave Two is over? Wave Three down begins, usually the longest and strongest wave of the trend.

Wave Three down could take housing down another 20-40% over a period of one to several years. Wave Four will see a rebound, and then Wave Five down will complete the trend as housing bottoms out at as little as 20% of its current value, depending on the market and the amount of speculation that propelled prices upward. The Midwest and the 'Rust Belt' might see prices decline as little as 25% over several years, while some condominiums built on speculation and sold to "flippers" could decline more than 80%. Parts of Florida, Los Angeles, and Boston will be hit very hard as Wave Three down commences.

“Stocks at a Discount”

NOTE: I already own most of the stocks mentioned below, and I actively trade all of them. Prices quoted are as of the December 29th close. Please use a trailing stop (TrSt) with these stocks whenever possible.

This program has been doing quite well with the exception of Silver Star Energy and Phytomedical Technologies.

Buy (Closed-end Funds):

1. Our only remaining Buy in the closed-end Funds is SBW, Western Asset Worldwide Income Fund. Try to buy it below \$13.60. (TrSt \$.30).
2. I don't expect it to happen, but if you could buy Colonial Intermarket Income Trust (CMK) below \$8.10, do so. (TrSt \$.30)

Buy (Aggressive / Penny / “Story” Stocks):

1. Buy Itronics (ITRO) at \$.013 or less. (No TrSt)

“Stocks at a Discount”

2. Buy Apex Silver (SIL) again below its previous low of \$12.46 if it falls that far. (TrSt \$.35)

3. Buy Ethanex (EHNX) once again at \$1.90 or better. (TrSt \$.30) I expect the stock to rebound to the low \$3.00s.

4. Taseko Mines Ltd (TGB) still looks good, though I would have preferred to buy it at or below \$2.00. If you own it, put on a TrSt of \$.35. Buy below \$2.05.

Current Positions:

1. We continue to hold MFS Government Markets Income Trust (MGF) at \$6.28 or less. It pays a nice dividend, and the biggest bond manager in the world says Treasuries might get into a rally. Current price is \$6.44. **Hold.** (Raise your TrSt to \$6.41).

2. We bought Salomon Bros Emerging Markets Income (EDF) at up to \$13.25 per share. Its price recovered nicely, hitting \$13.44 in December. **Sell EDF now.**

3. We bought XsunX (XSNX) several times, and are currently holding only a “half position” (about 1,000-1,500 shares) Current price: \$.42. **Hold only 1,000 shares or less.**

4. We bought ACM Managed Dollar Income (ADF) at \$7.40 or better. ADF sells at a 10.8% discount to Net Asset Value (NAV) and pays a 7.6% yield. **Hold it if you still own it, but keep a trailing stop on it.** (TrSt \$.25)

5. We bought WorldWater & Power Corp. (WWAT) at \$.21 or less. It doubled, hitting \$.495 in December. You may sell it now, sell half your position, or hold all your shares. (No TrSt)

6. We bought Itronics (ITRO) at \$.019 or better. **Hold,** and buy more at \$.013 or better. You might want to own at least 30,000 shares.

7. **If you still own Advantage Energy (AAV), hold.** It still pays a huge dividend. (Sell Stop at \$10.24)

The Plan for 2007

Each year is different in many ways. Trends in motion tend to stay in motion - until they change. History repeats itself, but seldom in the manner we think it will. The markets are great humblers, and make fools of all of us at one time or another.

Certain things "ought to" happen in 2007, which means they may or may not. I believe the stock market will continue to rise, though I expect a Wave 4 correction at any time. Markets climb a wall of worry, which means that I will spend the year second-guessing myself - nothing new there.

I believe that inflation as proclaimed by our government will become increasingly irrelevant. There appears to be genuine price inflation in the economy, but it is masked by the volatility in energy prices. More important, the rate at which the Federal Reserve is creating money is extremely inflationary, and the effects of excessive money creation can take years to appear.

My plan, then, is a simple one. In fact, it is the same as last year's plan, and the one for 2004, and so on. **I will continue my research and try to identify important trends in a timely manner so that my clients can profit and avoid the ravages of inflation, taxes, and the declining dollar.** My tools remain the same, though the RET software is becoming more and more important to me in my work. There are later-generation Equity Index Annuities available now with enhanced potential for annual gains. I have gained additional experience with the ProFunds, and will be a little more aggressive with them.

There are new Long-term Care (LTC) insurance products available which are less expensive and offer more features and benefits than ever before. There are other new insurance products I will evaluate which may have good potential for you. I may offer an additional timing service where I will receive a portion of the profits I make for you; that is legal now in most jurisdictions.

In other words, I will continue to do what I have always done; to provide state-of-the-art services and products at the lowest possible cost to the client.

I expect 2007 to be at least as good for my clients as 2006 was.

A stock you ought to buy right now

In the past few days I have begun buying "the next XSNX" for myself and some of my clients whose accounts I manage. The company is not particularly high-tech; its primary business is photochemical recycling. The stock was recommended by one of the newsletters I read. As is often the case, had I bought at their recommendation I would have lost as much as 95% to date. Instead, I used the RET software to determine an entry price, and so far the software has been reliable.

The stock is ITRO (or ITRO.BB, depending on your data provider). The company is Itronics, located in Reno, Nevada. The stock has been trading since the mid-1990s, and ignoring a brief spike above \$1.50 a share peaked at \$0.62 in

March 2002. The company is losing money, and its stock recently traded at a penny. I have been buying it at around \$0.0115 and selling it at \$0.0140, then buying it back again. It hit \$0.018 the other day, a 1-day gain of over 50%. The RET software says it can go to \$0.46 in the next several months. Would you be interested in a highly speculative situation with the potential for a 3000% gain in less than twelve months? Here's one.

I will continue to search for others and pass them on to you as they appear. Please note that the "Stocks at a Discount" Program holds very few of the dividend-paying closed-end funds we buy at a discount. The reason for this is that most of them are in Wave 5 up, a better time to sell than to buy. Wave 5 is the final wave of a trend, and once Wave 5 rises above the high of Wave 3 it can end at any time. We have taken profits in several closed-end funds including EDF, ESD, ADF, HIX, and ERC, and are holding on to SBW at present. SBW is also profitable and in its Wave 5 up, but I am hopeful it will continue to rise.

Recommended Investment Allocations

The "A" Strategy - income-producing and low -risk using bond funds and money market funds. All 'A' Strategy money should still be High Yield Bond Funds and the Fidelity New Markets Income Fund.

Type I accounts - moderate risk, seeking growth using combinations of all available funds. The recommendations I made in the 4th Quarter 2006 issue of *Wealth Creation and Preservation* turned out to be very profitable. There are no changes in this issue except that I have added Equity Index Annuities. Please note that I have reduced some of our exposure to Energy, Precious Metals, and Natural Resources, and added some primarily International growth or value funds.

Nationwide Best of America, Vision, Exclusive, Variable Life, etc.

- ★ 40% Fidelity High Income Fund
- ★ 35% Janus International Growth Fund
- ★ 25% Van Eck Hard Assets Fund

American Century Funds

- ★ 30% High Yield Bond Fund
- ★ 20% Utilities Fund
- ★ 25% International Growth Fund
- ★ 25% American Century Gold Fund

MFS Funds

- ★ 30% MFS Global Equity Fund
- ★ 50% MFS High Income Fund
- ★ 20% MFS Utilities Fund

John Hancock Funds

"Stocks at a Discount"

We currently own several closed-end bond funds, which we purchased at a discount to their NAV and which are producing a yield significantly better than that available from CDs. We also own several speculative stocks, most of which are doing reasonably well. Here is the short list. Those recommended for purchase now are shown in parentheses.

Closed-end funds:

MGF, (ADF, CMK)

Speculative stocks:

XSNX, PYTO, (WWAT, ITRO, EHNX)

Other stocks:

(AAV, SIL)

Closed Positions:

We bought Friedman Billings Ramsey (FBR) again when it fell below \$9.00. It is currently \$8.02, which puts it in the loss category, but it pays a nice dividend. I recommended a \$.35 trailing stop; you should be out at \$7.65 or so. With dividends, you may still have a loss on FBR.

We bought Salomon Bros Emerging Market Debt (ESD) at \$17.25 or less. You should have sold it at \$17.85 or better for a nice profit.

We bought Evergreen Managed Income (ERC) when it dipped to \$15.51 in December. With a trailing stop of \$.35 you should have gotten out at \$17.40 or so for a very nice profit.

We bought Phytomedical Technologies (PYTO) at \$.95 or better. PYTO got the change of trend I hoped for, and hit a high of \$.98 in November. You should have gotten out then. If you are still in the stock, hold and wait for it to pass \$.98, then sell it. Current price: \$.53.

We bought Ethanex (EHNX) at \$3.75 or better. If you used the trailing stop I recommended you took a loss of as little as \$.30 per share plus commissions. (TrSt \$.30). EHNX is getting close to being a buy at its current level of \$2.05.

Silver "Insurance" Program Update

Both the One Contract and Aggressive SIP programs are out of the market. This is a highly speculative program where, when we are in the market, we lose a little money each day (time value) by betting on an event whose likelihood, to my mind, is unquestioned. The analogy to the lottery cannot be overstated, with the sole difference being that this is a real thing, the opportunity to purchase a scarce resource before the rest of the world comprehends its real scarcity.

The charts have changed once again, as charts always do. With the Refined Elliott Trader (RET) software the user should always look for confirmation of a trend on at least three levels, daily, hourly, and 10 minutes. Silver's charts have changed, and today all three of those charts indicate something different. The Daily chart shows that silver can fall into the \$3.90-\$7.80 per ounce range in the next two or three years. That chart has a relatively low ranking. The Hourly chart shows a short-term rise to \$13.60 to \$14.70 per ounce, and that has a greater likelihood.

The 10-minute chart indicates nothing of value at present.

We will enter new positions in the Silver "Insurance" Program, but I can't tell you exactly when. The chart pictures will have to improve significantly.

Travel Schedule

I have not made any travel plans for 2007 just yet. I expect to be in California and Texas during the 1st Quarter, and will let you know when my plans are finalized. In the meantime I am trying to complete my book on personal money management and send it to a publisher.

Please call for an appointment if you would like to visit with me.

- ★ 15% Health Sciences Fund
- ★ 25% International Fund
- ★ 60% High Yield Bond Fund

FranklinTempleton Funds

- ★ 25% Franklin Gold Fund
- ★ 40% Franklin AGE High Income Fund
- ★ 25% Franklin Templeton World Fund
- ★ 10% Franklin Large Cap Value Fund

Fidelity Funds

PLEASE NOTE: As promised, Fidelity has implemented a plan to impose fees on all their funds if exchanges are made "too frequently". The regulators have mandated this typical "punish the innocent" regulation, and it is applicable to almost all mutual funds. If you have a Fidelity account you may have received their announcement.

- ★ 30% Fidelity High Income Fund
- ★ 20% Fidelity New Markets Income Fund
- ★ 15% Fidelity Select Utilities Growth Portfolio
- ★ 20% Fidelity Select Gold Fund
- ★ 15% Fidelity Diversified International Fund

ProFunds (added 1Q 2006)

- ★ 90% ProFunds Access High Yield Bond Fund
- ★ 10% ProFunds Large-Cap Value

Allianz and other Equity Index Annuities (EIAs)

- ★ 50% S&P 500 / 50% Interest-bearing or
- ★ 75% S&P 500 / 25% Interest-bearing

Please call me about other fund families and variable annuities not listed here.

Type 2 accounts - higher risk, seeking growth using combinations of all available funds. Type 2 accounts should continue to mimic Type 1 accounts in terms of the funds you will use, but you should put less into the High Yield Bond Fund or High Income Fund and more into equity funds.

Allianz and other Equity Index Annuities - Type 2 accounts:

- ★ 100% S&P 500 or
- ★ 75% S&P 500 / 25% NASDAQ 100

It is my privilege to serve you.

Charles W. Kraut
Wealth Creation and Preservation

The Charts

Data as of 3 Jan 2007

Top: Silver, Weekly Chart Middle: Euro, Monthly Chart Bottom: S&P 500, Monthly Chart
 Each bar shows one month's Open, High, Low, and Close prices



Note silver's tremendous volatility in 2006.



Notice that the Euro is very close to its all-time high. Will this be a double top, or will the final decline of the dollar begin in 2007?



It's hard to believe that this chart can appear to be so smooth when there has been so much volatility in the U.S. stock markets.

The "Behind the Charts" Market Update

Data as of 3 January 2007

The Elliottician software is proving itself to be quite reliable in predicting certain markets at certain times. Fortunately, unlike most analytical methods, this software tells you when it may not be quite as accurate.

Remember the Elliott wave fundamentals:

- ★ All trends, whether up or down, have five waves. Waves 1, 3, and 5 are in the direction of the primary trend; waves 2 and 4 move against the trend and are corrective.
- ★ Wave 3 is usually the longest and strongest of the five waves. Wave 4 cannot enter the territory of Wave 1. When five waves are complete a three-wave retracement, A-B-C, will follow.
- ★ All waves subdivide into lower level waves. Primary waves 1, 3, and 5 will each subdivide into five lower level waves, and waves 2 and 4 will subdivide into A-B-C, and so on.

U.S. Stock Markets

Dow Jones Industrial Average (DJIA). 12,473.72. There is a great deal of noise right now that the market is due to turn down and fall sharply; I have been hearing it for weeks as the Dow continues to hit one all-time high after another. The trend remains up, though I expect a Wave 4 correction at any time. It may have begun today.

S&P 500 (S&P). 1,416.65. The S&P is still 9% below its peak in 2000 of 1,552.87. I still believe we will see new all-time highs in 2007.

NASDAQ 100 (NASDAQ). \$NDX, 1,759.37. The NASDAQ is harder to predict and has been more volatile. The NASDAQ has been on a gently rising trend since late 2002. I continue to avoid the NASDAQ both in mutual funds and in our EIAs.

Bond Markets

US Treasury Bonds. 111 30/32, Continuation contract. Bonds have been flat for the past 90 days. Bond prices "ought to be" lower and yields higher, but the market is what it is. Money Market Funds are a better deal than long-term bonds right now.

High Yield or "junk" Bonds. We are still in High Yield bonds and are doing all right with them. Even the

ProFunds are doing better, now that I am using my analysis instead of BTS'!

Commodities

Oil \$58.32/barrel, Continuation contract.

The wild ride continues. Oil fell \$2.73 a barrel today to \$58.32, which may be very close to an important support level. If oil closes below \$56.00 I would be surprised and I would bail out of the energy funds.

Real Estate

I moved out of our Real Estate positions November 2005. The \$DWRT, a commercial property real estate index I watch, is at all-time highs. The housing market is in for tough times; the homebuilders' stocks have all collapsed in the past six months. It still looks like commercial real estate is unaffected by any problems with residential real estate. I am [still] rethinking my opinion about the REITS, though most do not pay a very good dividend any more.

Gold and silver. Gold \$629.80, Silver \$12.67.

Gold hit \$732.00 on May 12th and Silver hit \$15.20 on May 11th, both of them multi-year highs and much higher than in January. Gold hasn't been this expensive since 1981, the year after it hit \$850.00. The software is still giving uncertain readings on the metals, though it appears that both may resume their decline after the current rally ends. I am watching for bargains on ebay - and finding them in MS-64 \$20 Saint Gaudens gold coins.

Fundamentally, nothing has changed regarding silver. It remains in very short supply, and the regulators seem to be ignoring the massive manipulations going on all around them.

The Euro \$1.3211, Continuation contract.

The Euro is rising toward its previous all-time high of \$1.3678. Most people continue to call for the dollar to decline and the Euro to rise; the RET software now indicates the possibility of a strong increase.