

Correction in Commodity Stocks

There are times when you can never have too much cash laying around. The recent correction in commodity stocks has created some tantalizing entry points. It is unknowable whether the correction will last days, weeks or months but summer is traditionally sluggish and I'm leaning towards the "months" time frame. Some staged nibbling over the next few months could create some nice profits in 2007 but I wouldn't rush any new buys unless there's a move in an obscure sector of the market.

From a buyer's perspective the best pullbacks occur in the absence of negative news and on low volume. Another scenario that has been evident the last few weeks is positive news being met with indifference. For example UEX just announced a major discovery at Kianna (Shea Creek) on Tuesday:

The Areva-UEX pursuit of an economic uranium resource at our world-class Kianna discovery looks promising as Kianna continues to expand. We are encountering three distinct styles of high-grade mineralization, which in a future mining scenario could be mined simultaneously," said Stephen Sorensen, president and chief executive officer of UEX. "There is no doubt that the mineralizing and associated alteration system at the Kianna deposit is the largest and most powerful system ever encountered in the Athabasca basin."

Back during the peak of uranium mania this news would have led to a frenzy of buying with 20 companies or more jumping 10-20%. Instead, UEX was up 5% and there was no (zilch, nadda) follow through in the rest of the juniors. We have previously mentioned Titan Uranium (TUE.V) as a logical beneficiary of positive drilling news at Shea Creek.

A pullback in share price accompanied by negative news (i.e. recent developments in Venezuela, Bolivia, and Mongolia) carries substantially more risk.

Picking tops and bottoms can be a dangerous exercise because in a long term bull market it is possible to be sitting on a pile of cash just as the market takes off without you. However, some trading around core positions makes sense.

A couple of uranium stock charts from companies in the Big Picture Speculator Portfolio illustrate what potentially buyable pullbacks look like.

Pitchstone Resources



Ur-Energy, Inc.



Natural Gas Prices

Natural gas prices continue to drop and storage levels are above expectations so the market many not embrace the significance of positive developments in small cap explorers. Buying low is harder than it sounds because prices can always go lower. In fact, the Calgary Herald published a story this Saturday making reference to [\\$2 natural gas prices!!!](#)

The consequences of %100 full natural gas storage would be disastrous. While the price drop would be temporary, it would mean that many unconventional gas wells would be shut-in. Bringing a shut-in convention al well back on stream usually creates some "flush" production, that is the will produces at a higher rate because pressure in the reservoir increases when production ceases.

On the other hand, when reservoir pressure increases in a CBM well, production rates decrease (everything about CBM is backwards to conventional production, hence the "unconventional" moniker). Water influx would occur and it could take several months to get production rates back to normal. Nobody wants to shut-in CBM well production but in a full storage scenario there is no place for the gas to go. I think natural gas is cheap and its better to buy it when people are talking about \$2.00 prices as opposed to \$20.00.

Richards Petroleum News

Richards Petroleum (RIX.V) announced the test results from two of their Ardley CBM wells. So far so good as both wells produced "water free" gas. There are 5 other Ardley wells to be tested but this preliminary news is extremely positive. Most of the upside in Richards share price is predicated on the Ardley play being commercial. Ardely development is unlikely in areas where fresh water is present. Although the distribution of the coals is well understood, individual coal seams need to be tested as there is very little data available on Ardley coal hydrogeology. The Ardley will likely be developed using horizontal wells. **At any rate dry Ardley coals are what we are looking for here and that is what this announcement supports.** Once again the market re-

sponded with cruel indifference allowing Richards to make a date with its 200 day moving average.

Falcon Oil and Gas News

Falcon Oil and Gas (FO.V) provide an operational update to the market. Their announced that their Szekutas-1 well has reached total depth. Their logging program indicates that pervasive gas saturation is present in a 785m thickness of alternating sequence of shales and sandstones of the Szollnok Formation. That's a huge thickness of rock to play with. The underlying Endrod Formation was significantly overpressured and required 16lb/gallon mud to control the well.

The Mako 6 well is being drilled in the center of the Mako Trough to a projected depth of 6000m. Since they are looking for basin centered gas this is a pretty logical well location. So far the Szolnok formation yielded overpressured gas zones over a gross interval of at least 900 metres. The underlying Endrod formation has higher gas pressures requiring flaring and 16lb/gallon mud to control the well.

Rudyard Kipling once said "Medicine Hat was born lucky...You people in this district seem to have all Hell for a basement." The Medicine Hat version of Hell is Disneyland compared to the fire and brimstone of the Mako Trough. If you liked it near \$7.00 picking some up at \$4.00 in advance of test results might be prudent.

Exxel Energy News... Soon

No news from Exxel Energy (EXX.V) but their landholdings in the Columbia River Basin (CRB) are going to be revalued later this summer when Encana releases completion results from its *Anderville Farms 1-6* and *Ander-son 11-5* wells. The CRB is the hottest gas play in North America as the entire basin is up for grabs. Another company that would benefit from Encana success is **Delta Petroleum Corporation (DPTR)** as they have extensive CRB landholdings.

I have viewed Exxel as a natural gas play first and foremost but they have extensive landholdings in Nevada. Alan K. Chamberlain of [Cedar Strat](#) has promoted Exxel

into Nevada and he gave a great CSPG Luncheon Talk last month ([Click here to view the webcast](#)) on his reasoning. Somebody is going to hit it big in Nevada before this cycle ends.

Oil Sands Info

Steve Paget, an analyst with First Energy Securities gave a nice overview of **The history and future of investments in the Oil Sands** ([click here for webcast](#)) at a CSPG Luncheon Talk.

Oil sands goes Hollywood! Yes there is a new documentary out entitled [PAY DIRT: ALBERTA'S OIL SANDS - CENTURIES IN THE MAKING](#). I haven't seen it yet but I certainly plan to.

Uranium Info

Speaking of Hollywood, Al Gore's documentary, [An Inconvenient Truth](#) is bullish for uranium. Photoshopped images penguins walking on sand dunes, higher electricity prices and vanishing glaciers will galvanize public opinion away from "No Nukes" and towards "Nukes Now".

This theme was picked up by Sprott Asset Management in a recent research publication entitled [Investment Implications of an Abrupt Climate Change](#). Living in

Calgary is great training for [abrupt climate change](#). The report is somewhat self-serving as Sprott is a long time uranium bull.

I will be speaking about uranium next week at the [Hong Kong Commodity Investment World Conference](#).

While the last Snapshot painted a relatively bearish picture, I think precious metals could rally shortly as investors look for a safe haven.

While I cannot provide personalized investment advice or recommendations, I welcome feedback and observations by subscribers. You can email me at jim@thebigpictureguy.com

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THE BIG PICTURE SPECULATOR PORTFOLIO

ENTRY DATE	EXIT DATE	NAME	SYMBOL	PRICE	DAILY CHANGE	ENTRY PRICE	EXIT PRICE	GAIN	% CHANGE
19-Jan-06		PANTERRA RESOU	PAN.V	\$0.34	0.00	\$0.40		-\$0.06	-15.0%
12-Dec-05		ZED.I SOLUTION	ZED.V	\$1.40	0.00	\$1.45		-\$0.05	-3.4%
22-Mar-06		EXXEL ENERGY C	EXX.V	\$4.30	0.00	\$4.30		\$0.00	0.0%
6-Nov-05		MINES MGMT INC	MGN	\$7.35	0.14	\$6.90		\$0.45	6.5%
28-Feb-06		GOLDBELT RESOU	GLD.V	\$1.14	0.00	\$0.90		\$0.24	26.7%
15-Nov-05		STEALTH VENTUR	SLV.V	\$1.90	0.00	\$1.47		\$0.43	29.3%
6-Nov-05		ENDEAVOUR SILV	EDR.TO	\$3.10	0.00	\$2.29		\$0.81	35.4%
15-Nov-05		METALLIC VENTU	MVG.TO	\$2.23	0.00	\$1.59		\$0.64	40.3%
15-Nov-05		RICHARDS OIL &	RIX.V	\$1.80	0.00	\$1.17		\$0.63	53.8%
3-Nov-05		WAVEFRONT ENER	WEE.V	\$2.25	0.00	\$1.17		\$1.08	92.3%
15-Nov-05		PITCHSTONE EXP	PXP.V	\$1.48	0.00	\$0.69		\$0.79	114.5%
21-Dec-05		UR-ENERGY INC	URE.TO	\$2.12	0.00	\$0.95		\$1.17	123.2%
13-Feb-06		FALCON OIL & G	FO.V	\$4.00	0.00	\$1.44		\$2.56	177.8%