

Outlook 2007 - reduce expectations

Seasonal rally postponed?

2006 closed on a positive enough note for speculative small cap investors. Commodities and resource stocks had rallied sharply since early October. After a brief pause for tax loss selling, the TSX-Venture Index enjoyed a strong "Santa Claus rally" into the final days of the year. Microcaps in my portfolio, even dogs, were firming up. It felt as if we were heading for yet another strong seasonal swing like we often get in the first quarter.

By year end, I was getting apprehensive. Markets of all kinds, not just resource stocks, but also the broader North American and emerging global markets have all been exceptionally strong, not just since September, but ever since 2003. By December the TSX Composite was finishing its fourth consecutive double digit gain, hitting new successive all time highs and the Venture Index was back to the top of its five year trading channel. How much upside could there be left, and was this a good time to buy stocks?

Then January began and everything began to unravel. The question is - is this an inconsequential setback to be ignored?

CRB INDEX .. weekly OHLC plot



The pause that refreshes? Or something more than that, like some have suggested, the end of the commodity bull market? I believe, something in between.

Technically speaking

I hate to read too much into a week's trading. But some undeniably bearish signs have been flashed, the most ominous being the breakdown of the CRB Index to new lows (see above). The TSX Composite and the Venture Index have enjoyed a multi-year string of double digit annual gains as a direct result of a nonstop rising CRB Index. After rising almost nonstop since 2001, the Index has clearly broken its uptrend this

past September and after a retracement rally has resumed its bearish trend by breaking its September lows two weeks ago.

Seasonality

Seasonally, Gold and small caps often move higher until they peak sometime between February to as late as June. Unless it's just a pit stop, this correction comes at an inopportune time, running against the seasonal tide. Normally at this time of year we'd sit back and let the micro caps we bought at the seasonal lows ride for another month or three. Then we can use the seasonal high to sell into.

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This seasonal cycle may have just been cut off at the knees if the sell-off in crude oil continues and the US Dollar remains strong.

What's Don saying?

Don Coxe has never been a huge fan of gold like he has the base metals and energy. But he's putting a good word in for the precious metal now. Why? Because of a new concern he has about the proliferation of private debt financing taking over publicly held assets. He believes an inordinate amount of this has been created lately and with 70% of it classified as junk status - sounds like he's concerned about an disorderly unravelling of this debt down the road. To the point that this alone is a good reason to hold gold. That was encouraging.

Other indicators

The S&P 500 early warning indicator has flashed a weak negative signal for 07 when it closed down 6 points or less than one half a percent during the first week of the trading.

Corporate earnings are rolling over as economic growth slows. Especially for TSX listed resource-based companies, earnings comparisons are going to get tougher starting in the first fiscal quarter. One final concern that has just propped up as this is being written - the Chinese stock market stumbled hard this past week. Another global risk out there are the emerging markets. A whole host of Latin American and Asian emerging stock

markets were up in the order of high double digits and even many over 100% this past year? What happens when they all start moving down at the same time? Do the hedge and pension funds all try to exit at the same time? The door won't be big enough to accommodate them in an orderly fashion, if you know what I mean.

On the bright side, economic growth isn't collapsing - the housing slowdown in the U.S. remains orderly and employment and consumer spending remain brisk.

Conclusions

I still believe in Peak Oil theory and in a much longer term secular commodity bull market lasting up to two decades. For energy and for gold prices. For that reason alone, I never want to be completely out of the game. Not to mention, some event, like the flooding of a Cigar Lake or a well aimed missile into the side of an oil tanker, could send prices sky rocketing without notice overnight.

However, for the short to intermediate



term, for 2007, considering all of the above, I do believe that we need to scale down our expectations. I don't believe that the relatively easy gains of the past 4 consecutive years will necessarily continue this year. I believe there is a reasonable chance the TSX Composite will not have double digit gains again this year or could even have an off year.

Gold - Is still sitting roughly \$100 below previous highs. I'm concerned that the strong part of the seasonal cycle, from September to February is coming to an end and buyers will run out of gas before taking the price to new highs (the definition of any bull market). Anything can happen, but I'm a little sceptical that gold can achieve new highs this year. Until that is, we see a definitive break to the down side in the US Dollar.

As for Crude Oil, prices have moved a long way in a short time, it's getting oversold and ready for a bounce. But I can't see how high they go while record inventories exist. Prices can be counted on to recover only once these are taken down, watch the oil inventories.

For the CRB Index, I can envision a big A-B-C wave correction as indicated in the chart on page one.

The Venture Index has just bounced off resistance at 3,000, coincidentally right at the same point where it intersects the top of its long term trading channel. Whether the Index takes a run at 3,000 and last May's highs or not will depend entirely on the items discussed above.

Don't take any of this too seriously. Gold could also be setting up to burst out of the massive triangle on its long term chart to the upside, taking it well above May's high.

Or it could be like 2005. A relatively lousy start to the year - leading to a spectacular 2nd half and early 2006. Another reason not to panic and be out of everything. This could just be leading to a great buying opportunity.

There are simply a number of undenia-

able signals given lately that can't be ignored. I am less certain of the market's direction given the strong crosscurrents which have appeared since the New Year.

Hooked on energy

Just to contradict myself, both of two stock picks I have included are energy related. I'm not making any statements about loading up on one sector or another. These just happened to fit the criteria for companies I believe could be in break out mode. I find energy plays, the classic situation being drilling for oil and gas, provide the simplest most direct route to becoming cash flow positive almost overnight.

Gold Point Energy

GPE.TSX-V \$0.37
 OTC BB: GPEGF \$0.25
 Frankfurt WKN # A0HGQ1
 Price Jan 12/07: \$0.37
 52-Wk.H.-L.: \$1.40 - \$0.35
 Shares F.D.: 23M
 Market Cap: \$8.5M

Play it again, Sam.

The first experience with GPE was a pleasant one indeed. We featured this oil and gas company a year and a half ago in the May/June 2005 at \$0.50. It sat for three months allowing time for due diligence and accumulation. Then it promptly doubled and tripled. We were afforded the better part of a month to part with it for three times what we paid and for about a year at a double or more.

I certainly would never promise it, but this is ideally what I'm looking for - a strong seasonal trade with an opportunity to take profits at over a double. Do that and you own half a position for free and you have price protection on your original investment. Or dump it all and wait for the next seasonal low to completely reload your position in it or something else.

It might be worth looking at again now with the price back down below where we began last time around. They have projects in **South Dakota, Montana, Wyoming** and **Argentina** with some initial production getting underway as well as some high impact project drilling coming up. Contact: **Sean Hurd** (604) 687-1828 or Toll Free: 1-800-901-0058 www.goldpointenergy.com

RJK Exploration

RJX.A.TSX-V \$0.115
 OTC BB: RJKAF: \$0.08
 Price Jan 12/07: \$0.115
 52-Wk. H.-L.: \$0.13 - \$0.035
 Shares F.D.: 29M
 Market Cap: \$3.3M

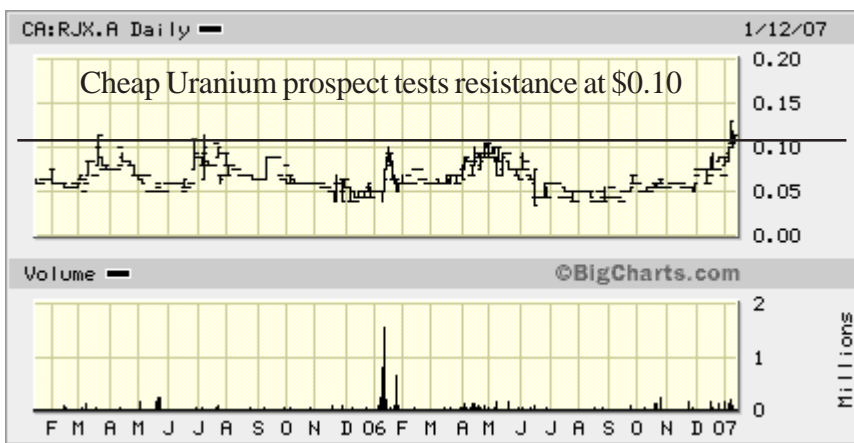
An 11 cent Uranium Stock

RJK Exploration has a suite of properties, but the one that interests me is their **Churchill Uranium Property**, see: www.rjkexplorations.com/update/Churchill.pdf

Sitting within 500 meters of the shores
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of Hudson Bay and only 6 kms from Churchill, the property was previously held and explored by RJK management and others in the 1970. (re-acquiring it in 2005 for RJK). In fact, legend has it that the geo who found uranium here was **Nelson Baker**, who today is of course the CEO of **Rainy River Resources, RR-\$4.84** a wonderful gold discovery success story in northeastern Ontario. Back then, Nelson found a half pound per tonne U3O8 in surface chip samples yet the property was never drilled. Drill ready targets are present and management promises exploration this year including drilling within the first half of the year. Who knows what they might find. I dare ya to find a better Uranium prospect at this price. Contact: **Glenn Kasner** (705) 567-5351 (Kirkland Lake) or www.rjkexplorations.com/update/home.html



Last Minute Reminder:

Cambridge House Vancouver Resource Conference, Sunday/Monday, January 21/22, "Under the Sails" at the Vancouver Trade and Convention Centre. Register on-line in advance to avoid a \$25 on-site entrance fee at www.goldshow.ca

A no cost EGS Workshop (W3) for subscribers and prospective subscribers will be held at 4:30 Sunday.

The Canadian Association of Income Trust Investors has launched its website: www.caiti.info. We have all been waiting for this type of advocacy group to emerge from the fog. BECOME A MEMBER TODAY!!!

This association is exclusively devoted to representing the interests of ALL income trust investors. The primary goal of the association is to defeat the Canadian government's Tax Fairness Plan (TFP)."

UPDATES

None of the three gold or silver exploration juniors picked in early **December 06 Issue** have moved or had enough time to produce any significant news, with any price momentum being cut short by gold price weakness.

Frontier Pacific Mining

FRP.TSX-V \$0.67

From: Nov-06 Issue @ \$0.40



Great interest in **Solex Res. SOX**, our favourite grassroots Uranium explorer, has likely spilled over to FRP. But the chart is at a crossroads now, facing resistance at the April 2006 highs around \$0.75. I'd hazard to guess, if the seasonal cycle falters, it won't get through. If the cycle continues, it will. The stock also has its own reasons to move forward as they approach and reach important permitting milestones this year. Hold if you like outlook for Gold. Fold if you don't.

Naikun Wind Development

NKW.TSX-V \$0.73

Nov-06 Issue @ \$0.60*



NKW got a nice boost that took the price to a new level after this appeared on the front page of StockHouse.com: **Resource Report: NaiKun Powering up Turbines in Haida Gwaii by Doug Hadfield** of the *Resource Investor*.

For all its water resources, B.C. is still unable to meet it's power needs, importing 15% of it. People are protesting new coal plants. The province needs this and I still think its a buy and hold. A secondary buying opportunity *may* arise after 2.4 Million flow-through shares priced at \$0.50 are released for trading near the end of January.

*The Closing or target price initially \$0.38 was later revised upwards to the low \$0.60's after the name changed.

Louis Paquette's Emerging Growth Stocks is an independent publication committed to providing an objective analysis of the markets, focusing on the TSX-Venture exchange and individual companies with substantial upside potential over the next six to twelve months. The information herein is believed to be accurate but this cannot be guaranteed. The analysis does not purport to be a complete study of securities mentioned herein, and readers are advised to discuss any related purchase or sale decisions with a registered securities broker. Companies featured in EGS are often at very early stages of development and can therefore be subject to business failure, and are to be considered speculative and high risk in nature. Reports herein are for information purposes and are not solicitations to buy or sell any of the securities mentioned. The author may or may not hold a position (long or short) in the securities mentioned herein. This publication may not be reproduced without the expressed prior consent of the author. The author is not a registered securities advisor, and opinions expressed should not be considered as investment advice to buy or sell securities, but rather the author's opinion only.