

CYCLICAL INVESTING COMMENT

David L. Smith, Editor

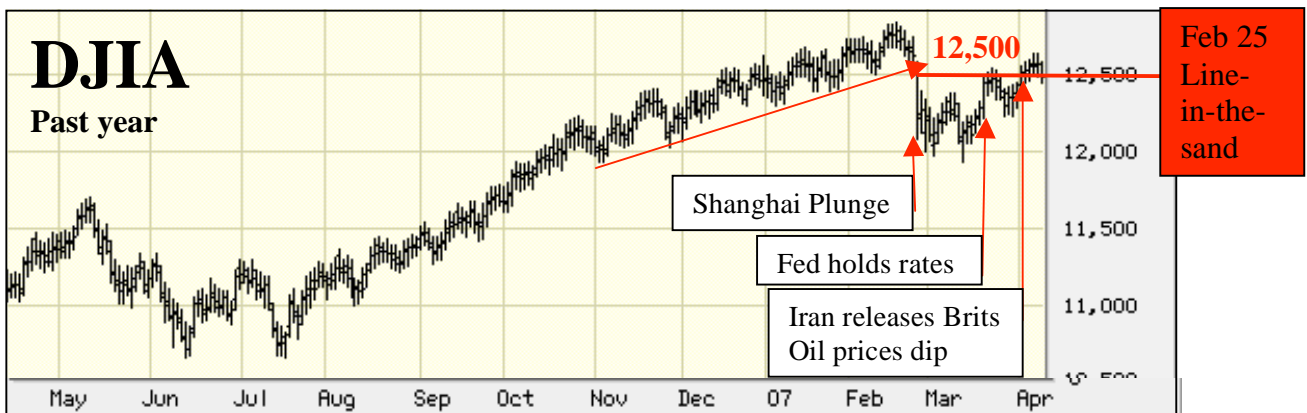
For the month of March, 2007 as of April 11, 2007

U.S. ACHILLES HEELS: IMPORTED OIL AND CAPITAL

As of the close on Wednesday, May 11, 2007

DJIA: 12,484	S&P 500: 1,438	NASDAQ: 2,459	
Treasury Yields	2-yr.: 4.71%	10-yr: 4.72 %	30-yr.: 4.92%
¥en: 119.33	€uro: \$ 1.343/€	British Pound: \$1.977/£	
Gold: \$681/oz.	StreetTRACKS Gold (GLD): \$67.08	Oil (Nymex): \$62.01	
PWE: \$29.66	CNE: \$13.11	FXB: \$197.85	FXE: \$134.51

The U.S. economy has two Achilles heels: imported oil and imported capital.¹ During the past six weeks since the last *Comment* we have seen how U.S. financial markets respond to threats and relief from both of these quarters. The first threat, related to imported capital, occurred on February 27, 2007: the high-flying Shanghai Composite Stock Index took an 8.8% hit (see graph on page 2), raising fears of a financial crisis in China that might choke off the flow of Chinese capital upon which the U.S. economy has come to depend. U.S. stocks plummeted immediately in response to the news of the plunge in Chinese stocks, with the Dow shedding 416 points (3.3%) to end the day at 12,216, while other major indices declined comparably, both in the U.S. and abroad. U.S. stock market investors were primed to be nervous about China by the Treasury Department's TIC report, released February 15, 2007, revealing an \$11 billion net international *outflow* from U.S. securities in December 2006, as I reported in my February 25, 2007 *Comment* (p. 7). Investors know that a sustained flight from the dollar by Asian lenders would drive up U.S. interest rates, sending the U.S. economy and stock and bond markets into a tailspin.

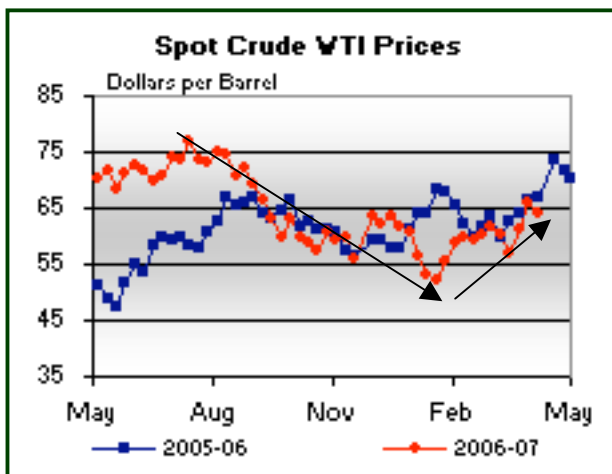


¹ For oil see "The Third Oil Shock: How to avoid loss and capture gains from the developing oil crisis" *Cassandra Chronicles*, April 2006. For imported capital see "The Asian Caper: Profit and peril from across the Pacific" *Cassandra Chronicles*, January 2006.

The Chinese threat blew over within a couple of weeks, but not before the Dow dipped briefly below the psychologically important 12,000 level on March 14, 2007, about the time Chinese stocks began a strong rally. Major Shanghai stock indices have since rebounded from their mid-March lows by about 22%, about 10% above where they were the day before the February 27 drop occurred. During that same interval, the Dow has rallied by about 4% from its mid-March lows to close as high as 12,574 yesterday, 58 points (about half a percent) below 12,632, where it closed the day before the plunge on February 27 (also the knife's edge of the 7-month uptrend initiated when oil prices began falling as Israel pulled out of Lebanon last July (see graph above). The stories for the NASDAQ and S&P 500 are virtually the same.



As the Chinese stock market threat waned, the threat from rising oil prices took center stage in U.S. financial markets. The reassuring drop in oil prices from around \$77 a barrel in July 2006 to nearly \$50 in January 2007 reversed abruptly, as oil prices bounced back to around the \$60 level in February. Higher oil prices prompted an uptick of 0.4% in the February overall consumer price index, reported in mid-March, about the time U.S. stocks hit their recent lows.



The concern at the time was that the Fed would raise rates to dampen inflation, despite troubling signs of weakness in the economy, notably in autos, housing and capital spending. However, on March 21, 2007, the Fed announced it would hold the fed funds rate at 5.25% and softened its bias toward firmer rates down the road. By replacing a reference to the possibility for "any additional firming" with the more ambiguous phrase "future policy adjustments" the Fed triggered an immediate sharp rally on Wall Street, (with the Dow rising 159 points the day of the announcement) driven by relief over expectations of no further immediate rate hikes.

Higher oil prices prompted an uptick of 0.4% in the February overall consumer price index, reported in mid-March, about the time U.S. stocks hit their recent lows.

However, that rally quickly faded as oil prices climbed above \$65 a barrel, fueled by fears of interrupted supplies from Iran following the capture in late March of 15 British sailors and marines in disputed waters at the northern tip of the Persian Gulf. Once again, rising oil prices engaged Wall Street's fears of further rate hikes in response to oil-related inflation. Higher rates, of course, raise the threat of a recession that would

undermine corporate earnings, to the detriment of stock prices, at a time when earnings already appear to be tapering off,

When Iran suddenly decided to release their British captives last week, oil prices plunged by nearly \$2 a barrel, sparking another “relief rally” on Wall Street that pushed the Dow up by 122 points last Tuesday, April 3. However, this rally also proved short-lived. The Fed’s minutes released today revealed a unanimous opinion that inflation (driven largely by oil) remained the principal concern, with key inflation gauges holding stubbornly above the Fed’s comfort level between 1%-2%. (The personal consumption expenditures (PCE) index and the core CPI averaged 2.4% and 2.7%, respectively over the past 12 months.) The release of the Fed’s minutes prompted an 89-point drop in the Dow today.

The climb in oil prices since has had a mixed effect on bond prices in recent months. While we observe a close correspondence between oil prices and the 10-year Treasury rate throughout most of 2006,



throughout most of 2006, the two diverged in December 2006. (See graph.) Rates climbed despite falling oil prices in December, doubtlessly because of the previously mentioned outflow of international capital from the U.S.. The opposite divergence occurred in February 2007 with rates falling despite rising oil prices, this time probably

because of an inflow of foreign capital; although we won’t have the Treasury’s confirming TIC data for February until mid-April. Most recently, however, oil prices and bond prices have been again moving upwards in tandem, as the 10-year Treasury yield bottomed at 4.50% in mid-March rising with oil prices since then. Last Friday’s strong employment report helped push up the 10-year yield to 4.757%. Strong employment implies economic strength with corresponding inflationary growth in demand for oil as well as inflationary tightness in the labor market.

Bottom line: The gyrations in the stock and bond markets, particularly since last December, clearly reveal the overpowering effects of oil prices and the flows of capital from Asia. The scary part of these interrelationships is that the fate of the U.S. economy and financial markets rests in the hands of often-hostile, unstable oil-exporting countries and ambitious Asian countries eager to displace the U.S. as the pre-eminent economic power. The other side of that coin is that the U.S. is no longer in control of its own economic and financial destiny, as was demonstrated by the response of U.S. financial markets to the recent plunge in the Shanghai stock market and the surge in oil prices following the Iranian capture of British military personnel. *For investors, this vulnerability to exogenous factors means we must pay close attention to what is happening in the international oil and capital markets and be ready to seek safe havens when oil prices rise significantly or foreign investment moves away from the dollar ambit.*

A major reason behind this cautious approach to downside risk is my often-stated concern about the U.S. economy's vulnerability to a major collapse because of the record debt borne American households. Both exogenous threats – high oil prices and foreign flight from the dollar – carry the ancillary threat of higher U.S. interest rates. A sudden, significant surge in U.S. interest rates induced by foreigners would produce a crushing drain on debt-laden Americans, inevitably resulting in cascading defaults comparable to those of the Great Depression (since debt as a percentage of gross domestic product is higher now than it was then), massive economic contraction and plunging stock and bond prices. Mindful of this inordinate lurking risk to financial assets, I have been quick to bail out of stocks whenever the major indices break down technically and have avoided the downtrend in the bond market at least as far back as 2003 when bonds peaked about the time the U.S. invaded Iraq. I have also recommended sovereign debt denominated in appreciating euros and British pounds as “safe havens” at a time when the dollar is vulnerable. In this environment the first principle of investing – above all, don't lose money – is critically important to financial wellbeing.

TECHNICAL STRATEGY: In accordance with this strategy, in my February 25, 2007 Comment I advised subscribers to be ready to bail out of stocks if the Dow, S&P 500 and NASDAQ fell below technical support at 12,500, 1,433 and 2,450 respectively. Those lines-in-the-sand were all crossed two days later, on February 27 in the wake of the Shanghai stock market plunge. Consequently, those subscribers who had placed corresponding stop-loss orders at \$125 for DIA, \$43.50 for QQQ and \$145 for SPY exited the market in a timely fashion, avoiding the subsequent swoon in stock prices.

However, since bottoming in mid-March all three indices clawed their way nearly to the point where they were before the Shanghai plunge and then fell back today after the minutes of the Fed's last FOMC meeting were released. In so doing they climbed back above the aforementioned lines-in-the-sand late last week. *In accordance with the line-in-the-sand principle (being in above and out below), you will have re-entered the stock market last week as the three indices rose above the lines-in-the-sand specified in the February 25, 2007 Comment at 12,500, 1,433 and 2,450 for the Dow, S&P 500 and NASDAQ, respectively.* However, with yesterday's decline, the Dow slipped below 12,500 and the S&P 500 at 1,438 and NASDAQ at 2,459 are very close to falling below their lines-in-the-sand. Whether you are in or out of stocks at this point doesn't really matter much, because stocks are in a technical limbo, awaiting resolution of the uncertainty exhibited over the past 6 weeks.

Presently it is virtually impossible to predict which way stocks will move, since the predominant determining factors – oil prices and international capital flows – depend largely on decisions made in foreign corridors of power. Even if there are no immediate perturbations from abroad, the effects on stocks from endogenous economic factors are ambiguous as the debate between the “hard landing” and “soft landing” camps remains unresolved. (See “Cyclical Strategy” below.) Consequently, we will have to take our technical cues from the markets.

Going forward:

- The rally begun in mid-March will tend to be technically confirmed if the major indices rise above the support levels in evidence the day before the February 27,

2007 plunge, namely: 12,632, 1,449 and 2,504. This confirmation will tend to be reinforced by an easing of long-term interest rates and oil prices.

- On the other hand, the peaks established between February 20-22, 2007 will tend to be technically confirmed as the beginning of a downtrend if stocks fail to surpass the aforementioned February 26 levels and instead break below the lower boundary of their present pennant formation and retreat below the most recent support demonstrated at 12,300, 1,410 and 2,400. (See graphs below.) Such a downtrend would tend to be reinforced by rising long-term interest rates and oil prices.

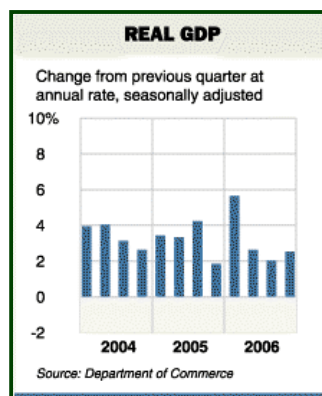


INDEX/ETF	PRESENT	IN ABOVE	OUT BELOW
DJIA	12.484	12,632	12,300
NASDAQ	2,459	2,504	2,400
S&P 500	1,438	1,449	1,410
DIA	124.90	126.34	123.00
SPY	144.03	145.17	141.82
QQQ	44.31	45.04	43.53

CYCLICAL STRATEGY: To the extent that oil prices and international capital flows remain fairly stable, so as not to perturb U.S. financial markets, these markets will tend to respond to U.S. economic developments in accordance with historical cyclical patterns. In this arena the debate rages between proponents of a “soft landing” (moderate, sustained economic growth and low inflation) and a “hard landing” (a recession which may be preceded by stagflation – weak or negative economic growth accompanied by unacceptable inflation prompted by high oil prices).

Recent economic data have tended to support the stagflation outcome:

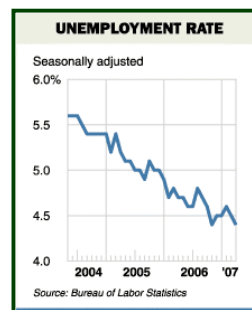
- **Inflation:** Both the headline and core rates of monthly consumer inflation rebounded to troubling levels between last December and the most recent report for February. On a trailing 12-month basis, the core CPI stood at 2.7%, the Personal Consumption Expenditures (PCE) index stood at 2.4% in February, uncomfortably above the upper boundary of the Fed’s 1% - 2% range of tolerable core inflation. The inflationary effects of recent oil price increases combined with residual effects of rising oil prices since 2003 account for much of the troubling current inflation data.
- **Economic growth:** Real gross domestic product (GDP) growth for the last three quarters of 2006 slowed to an average of about 2.36%, down from an average of 3.55% in 2004-2005. The slower rate of GDP growth could be consistent with the soft-landing scenario or could be the precursor to a hard landing. Ongoing weakness in autos, housing and, business capital expenditures (fixed investment) show no signs of abating. In fact, the decline in cap-ex is getting worse, accelerating to an annual rate of -9.1% in the 4th quarter of 2006 from -1.6% and 1.2%, respectively, in the 2nd and 3rd quarters. Consumer spending, which has held up remarkably well, considering climbing energy costs, rising interest rates, weak housing prices and negative personal savings, holds the key to future economic growth. I expect that consumers squeezed between rising adjustable mortgage rates and falling house prices will prove to be the leading edge of a consumer pullback. Eventually the pullback will be aggravated by consumers unable or unwilling to continue dipping into savings, borrowing and spending at current rates, dragging the economy into recession.



Presently, however, the economy is in a sort of no-man’s-land, with troubling inflation but moderate, uneven economic growth: neither a soft landing or a hard one. Recent data are mixed:

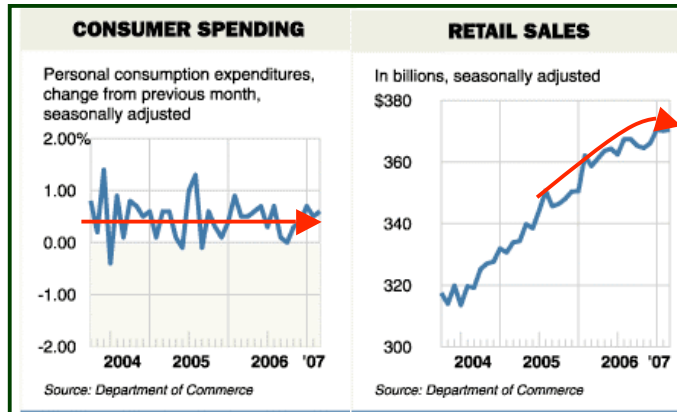
Positive factors:

- **Employment:** U.S. nonfarm payrolls rose by 180,000 in March, above almost all forecasts, and the unemployment rate slipped to 4.4% from 4.5% in February. This matches the jobless rate in October, which was the lowest in nearly six years. The employment numbers for January and February were each revised up by about 20,000. Strong employment growth in the face of weak economic growth,



particularly in capital expenditures by business, implies low productivity growth, with corresponding pressure on corporate earnings and stock prices. A strong, tight labor market also implies inflationary upward pressure on wages -- good for consumer spending, but bad for corporate profits and expectations of interest rate relief from the Fed.

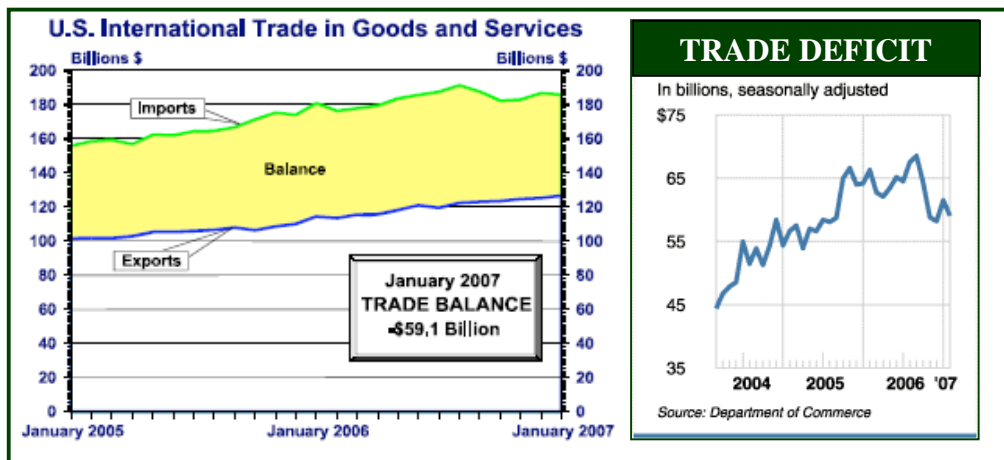
- Consumer spending still seems to be holding its own at an average monthly growth rate around 0.5%, despite sagging home prices, high energy and health care costs and negative savings. However, retail sales, a major component of consumer spending shows signs of a slowdown, particularly in autos (see below). Not surprisingly, therefore, the growth in consumer credit has been tapering off, particularly in February, when it slowed to a crawl: a 1.5% annual rate.



- Housing: Existing home sales surged in January and February, a surprise reversal many analysts attribute to exceptionally mild weather in December. February's cold snap could bode ill for March sales. Existing home sales don't add to GDP, however, unlike new home sales. Nevertheless, the uptick in existing home sales is virtually the only sign of light at the end of the tunnel for an otherwise dismal residential housing market.



- The trade deficit appears to have turned the corner in early or mid-2006, depending on how you interpret the adjoining graph. This reversal resulted largely from lower imported oil prices and continued steady growth in exports, both positive signs for the economy.

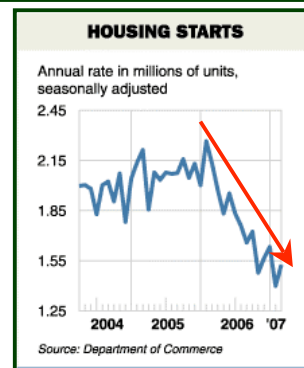
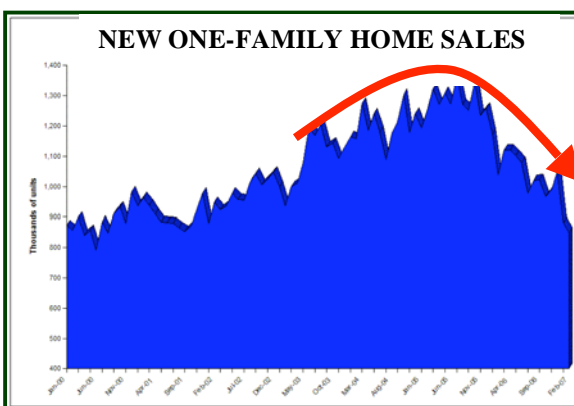


Neutral factors:

- Real gross domestic product (GDP) growth for the last three quarters of 2006 slowed to an average of about 2.36%, down from an average of 3.55% in 2004-2005.
- Construction: The ongoing drop in residential construction has been largely offset by recent gains in non-residential construction, notably office, commercial, hotels, factories, highways. While construction ticked up 0.2% in February to an annual rate of \$1.2 trillion, it remained down 6% for the past 12 months..
- The 30-year fixed-rate mortgage averaged 6.17% during the week ending April 5, up from last week's 6.16%. The mortgage also averaged 6.16% the week ending March 22. The 30-year averaged 6.43% a year ago. ar fixed-rate mortgage averaged 6.17% during the week ending April 5, up from last week's

Negative factors:

- Weak capital spending: Testifying before Congress, Fed Chairman Bernanke warned of the recessionary threat posed by weak capital spending. In the 4th quarter, business capital spending was down at an annual rate of about 9%.
- Slump in domestic auto sales and production: In March 2007, Ford's sales were off 9%, GM and Chrysler's off 4% from a year ago. At the same time, Mitsubishi's and Mazda's North American sales were up 22% and 47.9%, respectively while Toyota's sales surged by nearly 12%.
- Industrial production on the verge of recession:
 - The Institute of Supply Management (purchasing agents) national index fell to 50.9% from 52.3% in February (a reading below 50% indicates a recession in manufacturing).
- Housing:
 - New home sales continue to plunge, down 3.9% in February to an annual rate of 848,000. That's a decline of 18.3% over the past year. The inventory of new houses for sale climbed to 546,000, a supply of 8.1 months at the current sales rate, up substantially from year-ago ratio of 6.4 months.
 - Housing starts ticked up in February, yet remain in a well-defined slump initiated in early 2006
 - The National Association of Realtors' index for pending sales of existing homes increased at a seasonally adjusted annual rate of 0.7% to 109.3 in February from January's 108.5, the industry group said Tuesday. Its index, based on signed contracts for used homes, was 8.5% below the level of February 2006.
 - Housing inventories increased sharply last month, according to data compiled by ZipRealty Inc. The



firm reported that the number of homes for sale in 18 major U.S. metropolitan areas increased 6.5% compared with the month earlier/ And as we've been hearing, these larger inventories are leading to reduced prices in some markets. At the very least, the conditions are giving buyers the upper hand in many cases.

- Troubling uptick in inflation
 - The consumer price index (CPI): jumped 0.4% on a seasonally adjusted basis in February 2007, bringing the total increase over the past 12 months to 2.4%, within the Fed's range of tolerance between about 2%-3% for the headline number (excluding food and energy). The "core" rate increased by 0.2%, bringing the 12-month total to 2.7%, uncomfortably higher than the Fed's assumed target between 1%-2%. A 0.4% increase in the heavily weighted housing index, coupled with 0.5% increases in apparel and medical costs were major factors in the core rate's increase.
- Sagging consumer confidence: The Michigan survey for March showed a drop in consumer sentiment from 91.3 to 88.8, the lowest level since September.
- Employment and corporate earnings: While strong employment bodes well for consumer spending there is a downside to it as well in corporate earnings.
 - Strong employment growth in the face of weak economic growth, particularly in capital expenditures by business, implies low productivity growth, with corresponding pressure on corporate earnings and stock prices. Sure enough, non-farm business productivity declined 0.5% in the fourth quarter of 2006.
 - A strong, tight labor market also implies inflationary upward pressure on wages -- good for consumer spending, but bad for corporate profits and hopes of interest rate relief from the Fed. Unit labor costs jumped to a 6.6% annual rate in the 4th quarter, after rising only 1.1% in the 3rd.
 - We saw early signs of a corporate profit slowdown in the 4th quarter of 2006: Standard & Poor's said on Apr. 3 that fourth-quarter 2006 operating earnings for the index increased 8.9% over the fourth quarter of 2005, marking the first time that the index has failed to post double-digit earnings growth since the first quarter of 2002. For all of 2006, the index posted a 14.7% gain, compared to a 13.0% gain in 2005.
 - Overall profits from current production (corporate profits with inventory valuation and capital consumption adjustments) *decreased* \$4.9 billion in the fourth quarter, in contrast to an increase of \$61.5 billion in the third quarter. Current-production cash flow (net cash flow with inventory valuation and capital consumption adjustments) -- the internal funds available to corporations for investment -- *decreased* \$1.1 billion in the fourth quarter, in contrast to an increase of \$30.2 billion in the third.
- No relief from interest rates:
 - The benchmark 10-year Treasury note ended an abbreviated two-hour session last Friday down 18/32 at 99/32, sending its yield up to 4.75% from 4.678% before the data were released showing faster-than-expected growth in employment. Prices and yields move in opposite direction. Presently, the yield on the 10-year note stands at 4.72%

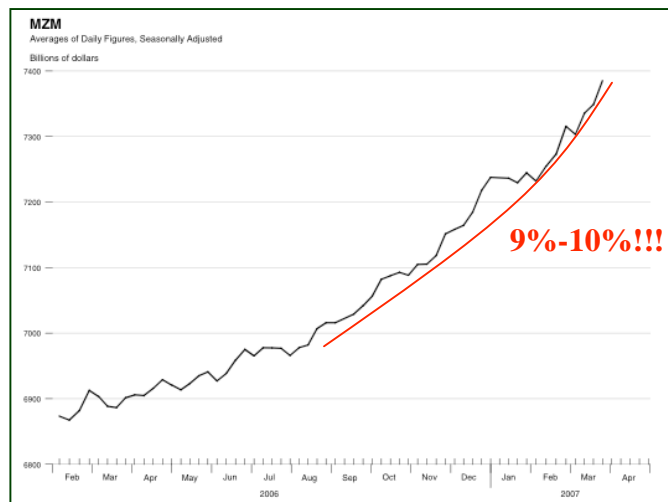
- The index of leading economic indicators declined 0.5% in February, following a 0.3% decrease in January, revised, previously reported as a 0.1% increase. Year-over-year, the index is down slightly. Consequently, while the index looks topy, it hasn't turned down convincingly, thereby sending an ambiguous message – not surprising, given similarly ambiguous economic data.



Bottom line: Whether the landing is soft or hard will have a major impact on the stock market. A soft landing allows for the probability of continuing gains in corporate profits, supporting stock prices. A hard landing would undermine corporate profits, depressing stock prices.

MONETARY POLICY:

Despite giving the impression of even-handedness by standing pat on fed funds, the Fed is nonetheless pursuing a surprisingly aggressive expansionary policy. Since last September, the annualized rate of expansion of the money zero maturity (MZM) aggregate has accelerated to a 9%, and more recently, 10% rate! No wonder the Fed is worried about inflation! Remember Milton Friedman's admonition: "Inflation is always and everywhere a monetary phenomenon."



This monetary largesse has doubtlessly provided fuel to the stock market's fire in the last 9 months. So while the Fed says it is holding the line on inflation, it is, in fact, flooring the accelerator to keep the economy from lapsing into recession.

However, as I have previously stated in these pages, sooner or later the Fed will have to slam on the brakes to avoid rekindling inflation. Deprived of fuel, any momentum in the stock and bond markets will likely come to a screeching halt. Stay tuned.

SUMMING UP: For the past 9 months, stock market investors have generally interpreted the economy's ambiguous cues as an indication of a soft landing. Every so often they worry about a hard landing, but as long as no clear evidence of a recession emerges, they are inclined to give the economic outlook the benefit of the doubt, Until the Shanghai plunge in late February 2007, investors continued to bid up stock prices, as long as there were no countervailing perturbations from the oil and capital markets. The Shanghai plunge and the recent rally in oil prices unsettled the market. Consequently, like

the Fed, stock investors are now “data dependent.” The Fed, meanwhile, does its part to keep the bull market in stocks rolling by providing fuel in the form of new money. However, they can’t keep up the blistering pace of monetary expansion for long without rekindling inflation. Accordingly, there will be trouble ahead when they eventually trim monetary growth. Meanwhile, both stocks and bonds remain vulnerable to the vagaries of global oil prices and capital flows.

GOLD: Investors in the yellow metal have enjoyed a strong rally since last October. The main drivers have been weakness in the dollar, fears of inflation and occasional geopolitical flare-ups. Technically gold has been able to sustain a convincing uptrend for over six months.

You will recall that back on January 5, 2007 I advised a precautionary exit from streetTRACKS Gold (GLD at \$61.50) as it fell below what appeared to be the trendline of support (blue line in graph below). However, you should have re-entered GLD when it recovered above resistance at my line-in-the-sand at \$63.30 shortly thereafter (green line). Gold has since re-established itself on a slightly shallower uptrend (red line) and is presently selling at \$67.08.



I don't see any evidence of changes in the uptrend in oil, downtrend in the dollar or in geopolitical tensions that would derail the current surge in gold prices, nor is there any indication of a technical breakdown in gold. *Consequently, I continue to recommend holding present allocations in aggressive, growth-oriented liquid portfolios: 5% non-numismatic coins and 10% GLD.*

OIL: The underlying fundamentals of the global market remain favorable to oil investors. Available surpluses are tight; global demand continues to grow; additions to supply are slow in coming, in part because of geopolitical tensions. Recently, oil prices appear to have bottomed out from the slump that occurred after the Israelis pulled out of Lebanon in July last year, squeezing out much of the sizeable risk premium built into the price of oil in the runup to Israel's invasion of Lebanon. Now the risk premium appears to be building again as tensions with Iran mount over the issue of nuclear weapons and Iranian involvement in Iraq. Accordingly, both fundamentals and “atmospherics” tend to favor higher oil prices.

The two recommended Canadian oil trusts, Penn West Energy Trust (PWE) and Canetics Resources trust appear to have bottomed in tandem with oil prices and are now showing convincing technical signs of a rebound. Accordingly, I continue to recommend holding a 5% allocation to each in both growth- and income-oriented accounts. (See “Asset Allocation” below.

ASSET ALLOCATION: Your personal asset allocation will depend on your particular risk tolerance and investment objectives. Here are some suggested guidelines, for a balanced asset allocation targets for both aggressive, growth-oriented and conservative, income-oriented liquid portfolios *based on current cyclical conditions.*

Aggressive, long-term, growth-oriented liquid portfolios:

- Hold 35% allocation to stocks **but be ready to exit to money market (pending further redeployment) if trendlines of support are broken (see table on page 5)**
 - Hold: 10% Diamonds Trust (DIA) recommended most recently on September 1, 2006 at \$114.70, now trading at \$124.90. Line-in-the sand at \$123.
 - Hold: 10% S&P Depository Receipts (SPY) recommended most recently on 9/1/06 at \$131.42, now trading at \$144.03. Line-in-the-sand at \$141.82.
 - Hold: 15% NASDAQ 100 Trust (QQQ or QQQQ) recommended at \$39.08 on 9/1/06, now trading at \$44.31. Line-in-the-sand at \$43.53.
- Hold 10% oil-related investments
 - Hold: up to 5% Penn West Energy Trust (PWE) most recently purchased October 30, 2006 \$37, current price \$29.66 yielding about 11.60%.
 - Hold: up to 5% Canetic Resources Trust (CNE) purchased October 30, 2006 at \$17.50, current price \$13.11 yielding about 14.7 %.
- Hold 20% position in short-term sovereign debt denominated in euros, Originally recommended April 28, 2006 at \$1.26/€, presently selling at \$1.343. Consider Euro Currency Trust (FXE) a NYSE exchange-traded fund as a market surrogate, presently trading at \$134.52 yielding 3.09%. Originally recommended July 24, 2006 at \$126.45 yielding 2.24% at the time. Line-in-the-sand: \$131
- Hold: 20% in short-term sovereign debt in British pounds, most recently recommended for growth-oriented portfolios at \$1.86/£, currently trading at \$1.977/£yielding around 5% for bills maturing in 7 months. Can use British Pound Sterling Trust(FXB) a NYSE exchange-traded fund as a market surrogate, presently trading at \$197.85 and yielding 4.60%, originally recommended on July 24, 2006 at \$185.50 with a yield of 3.9% around the time when it first began trading. Line-in-the-sand at \$193.
- Hold: 5% physical gold (non-numismatic gold coins) originally recommended around \$300/oz. after 9/11/01. Presently \$681.
- Hold 10% position in streetTRACKS Gold (GLD). Presently selling at \$67.08. Line-in-the-sand: \$63

Conservative, risk-averse, long-term, income-oriented liquid portfolios

- Hold: 40% in 90-day Treasurys currently yielding 5 % and/or investment grade corporate obligations of the similar maturities yielding 5.1% while awaiting higher long-term bond yields.
- Hold: 25% in short-term sovereign debt in British pounds, most recently recommended for growth-oriented portfolios at \$1.86/£, currently trading at \$1.977/£yielding around 5% for bills maturing in 7 months. Can use British Pound Sterling Trust(FXB) a NYSE exchange-traded fund as a market surrogate, presently trading at \$197.85 and yielding 4.60%, originally recommended on July 24, 2006 at \$185.50 with a yield of 3.9% around the time when it first began trading. Line-in-the-sand at \$193.
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Illiquid portfolios/Direct Investments/Commodities/Special Situations:

Direct ownership of oil and gas reserves. These are illiquid, and, therefore, long-term holdings, purchased back when oil was selling between \$20-\$30 a barrel.

That's a wrap.

I welcome your questions, suggestions or comments: davidlsmith@iname.com or call (713) 532-6090 during normal business hours. . I will be out of the country until May 5 with limited access to the Internet. Therefore, please be patient if there is a delay in responding to your communication.

Kind regards,



David L. Smith, Editor and Publisher
Cyclical Investing Reports/Cassandra Chronicles
5161 San Felipe Rd., Suite 320
Houston, TX 77056
(713) 532-6090
DavidLSmith@iname.com

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