January 3, 2005

# January 2005 Market Update

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Hi gang,

I had a 132% gain for 2003 and a bummer -38% loss last year. It was my first loss since 2000 where I finished down 10%. I attribute about 10% of the 2003 loss to my dumb trading mistakes and the rest to the mining stocks I have recommended. So, I have turned from Market Guru to Market Chump. Let's hope I can return to Guru for 2005.

**General Market Commentary**:
The markets were in a very bearish mood in October. The Dow trimmed off roughly 500 points over a period of three weeks. It was about to break down through support at 9750 one week before the US election. What do you know? The Dow rallied right up to and through the election finishing strongly around 10,800. Mutual fund managers, politicians and the media are all a buzz about what a great year it was. The only thing great about it was the last eight weeks. We should see the markets do well until the end of January. December and early January are where everyone is optimistic about a fresh new year. I find it really interesting the market was down and suddenly surged prior to the election.

Now for part of the reason you read my Market Update's: a contrarian opinion of what is going on. Beginning in October through to the end of the year, the US dollar has been getting creamed. The dollar index is approaching the critical point of 80. This number is significant as it represents a 30 year support level. Once broken to the downside, it could result in the dollar going into free fall. As I have mentioned before, many believe the market crash of 1987 was caused by a rapid dollar drop. A rapid dollar drop causes bond yields to jump and sends the stock market reeling.

The US government put in place what many refer to as the Plunge Protection Team (PPT) to prevent panic sell offs in the market such as the 24% drop in the Dow in October 1987. I believe having a PPT is, in general, a good thing to have to prevent panic from severely damaging the market. Unfortunately in government, what is used to prevent markets from plunging is being used for other means. It is fairly apparent to me that the gold market is manipulated by governments. What I know believe is our government also has had its hand in recent movements in our general markets. I have followed Mike Bolser who has a web site based on "Interventional Analysis". He follows debt instruments of the US Federal Reserve Bank. Mike as been able to call Dow rallies days or weeks ahead of their occurrence. He also uses his analysis to predict when the price of gold is going to be hit. Mike had warned for two full weeks that gold was going to get slammed on Election Day. Sure enough, no negative news or anything gold negative came out that day, but gold trimmed off $7.

It can be argued some of the recent gains in the general market have been in part due to government intervention, particularly during the week prior to the election. I have observed manipulation in the gold market recently as getting very aggressive. For the last three years whenever the dollar goes down, gold goes up. The correlation is roughly 95%. The USDX going down say 1 point would correspond to $4-6 price increase in gold, and vice versa. Today we are seeing the USDX going down 1 point and gold going up maybe $0.50. But, when the USDX goes up 1 point, gold drops $10. The "Gold Cartel" caps upward price movements until the dollar rallies, then they pound gold down. The Cartel makes sure gold does not rally more than $6 on any given day. I have followed this market for about 16 months. Gold has not closed up over $8 in a single day. It has closed down over $8 several times. In fact it has closed down in a single day over $14 twice. The primary reason our government manages the price of gold is prevent concern in our general markets. If gold were to soar, the dollar, bonds and the stock market would all get hit. A soaring gold price would also mean inflation is getting out of control.

I bring all of this up to express caution. Although the fundamentals for the gold market are very good, it appears the profit potential of the sector will be limited until things get out of control. March though July is a seasonally weak period for gold when demand for physical gold is soft. During this time we should be careful. I would also caution everyone about this recent general market rally as it has not been based upon glowing economic reports. January may be a good time to take profits out of the market.

**Investment Thoughts and Overview of Recommended Stocks:**

I believe commodity based stocks are the safest way to go forward. Many are still undervalued, particularly since Copper, Nickel and Molybdenum are trading at multi-year highs. Only the most profitable gold stocks I'm recommending with the aforementioned caution in force.

*Overview of Recommended Stocks:*

**Goldspring (GSPG):** Goldspring continues to disappoint as they have not met their plans. I recommend liquidating this stock if you still have it. They may be a buy late this year, but now it is best to put the money somewhere else.

**Golden Star Resources (GSS):** GSS was one of my biggest losers for 2004. Their management did not meet their production targets. A mine they were to have online in the first quarter had not produced in the third quarter. GSS said it would start in the fourth quarter. The mine is significant enough to really propel the stock forward, but the lack of confidence the market has in their management has left the stock hovering around 52 week lows. I have this stock as a hold. I am waiting to see if they can actually meet their guidance before investing heavily in the stock again.

**Northgate Exploration (NXG):** NXG met their guidance last quarter and should produce very good financial results for the fourth quarter. I recommend buying this stock.

**Wheaton River Minerals (WHT):** Wheaton River is my core holding and should be this year. Earnings, cash flow and production are very solid. This is recognized by many companies in their sector. Two companies have tried to buy Wheaton out and a third, Gold Corp is in the process of merging with Wheaton. In mid-January, you will be getting a notice asking you if you want to tender your Wheaton shares to Gold Corp. **I highly recommend tendering your shares to Gold Corp!** The combined company (WHT/GG) will be very financially strong with about $500 million in cash and no debt. Wheaton's CEO will be the CEO of Gold Corp. I expect the merger to reward us shareholders handsomely in the future.

**Indevous Pharmaceuticals (IDEV):** IDEV is a recommended hold. They are gaining market share with their new drug, but at a slow pace. I am anticipating by September of this year, IDEV should begin to run.

*New Stock Recommendations:*
I had mentioned investing in oil and gas in October. While it was a good recommendation then, there is probably little price appreciation potential for the coming months as oil prices are under pressure and natural gas reservoirs are full. I recommend selling any oil and gas stocks at this time.

Tanker stocks like FRO, OMM and TOPT were also on my recommendation list. Since OPEC cut production, all of these stocks have been falling. All three are very profitable, with FRO being the market leader. Sometime in January they will be a buy but not right now as shipping rates need to settle down. FRO is a strong buy at $38-$40, OMM is a buy at $14 and TOPT is a strong buy at $14.

**Taseko Mines (Amex – TGB):** This is the only new stock I am recommending at this time. Taseko mines copper and soon will mine Molybdenum (Moly). This company should be making tremendous amounts of money in 2005. They have projected mining 70 million pounds of copper and 1 million pounds of Moly.

Copper is trading at $1.50/lb. and Moly is trading at an all time high of $34/lb. A few years ago, Moly was trading at $4/lb. Taseko only has 90 million shares outstanding and trades at an undervalued price of $1.68. The risk to reward ratio looks very favorable.

**Final Thoughts:**
I believe the Dow and Nasdaq will do fine until late January. Once the elections fail and/or violence increases in Iraq, the markets should begin to take notice. My stance going forward is still bearish until some consistently good economic numbers come out. Our nation is burdened by a heavy debt load, a botched war in Iraq, record trade deficits and a falling dollar. These are all factors that can cause our markets to tank. Please be careful.

-Toby

P.S. My next update will be around the July (semi-annual) time frame. I will send out alerts on any critical information, as needed.