MARKET COMMENTARY

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LONG BONDS

Prices as of March 28, 2007 Close	
30 Year Treasury Bonds (CBT)	111-19/32 4.85% Yield
Dow Jones Industrial Average	12,300.36
S&P 500 Index	1,417.23
April Crude Oil Futures	$64.08
April Natural Gas Futures	$7.673
April Gold Futures	$666.80

If the U.S. were to have a serious stock market decline there would probably be a flight to quality and bonds would rally (causing interest rates to move down). If we were to have a recession bonds would no doubt rally (interest rates down substantially). Without a recession, bonds could have a cyclical rally for a short period of time; however, in general bonds do not appear to be a good long term secular bet. From a historical basis, long term interest rates are closer to all time lows ('high prices') and it would seem that at these low long term rates it would be better to be a borrower than a lender. Any meaningful price rally into the year end, if there were to be one, could be a good and perhaps final opportunity to lighten one's position in bonds at an attractive price.

STOCKS

At these high multiples I have not been a great fan of the stock market; however, continue to allow for a final burst of strength going into summer or fall. A price move that could take the S&P 500 to a double top with the 2000 high or slightly higher (say 1535-1550). This final post 9/11 rally is looking increasingly more worrisome. The issues to be concerned about are:

1. The unwinding of the yen carry-trade.
2. Iran.
3. Terrorism.
4. Higher taxes as inflation brings more people under the AMT tax "bomb".
5. The 25-year cycle: critical stock market lows occurred in 1907, 1932, 1957,1982;. Will 2007 experience a significant decline to satisfy the next 25-year cycle low?
6. Years ending in seven when years ending in six were strong have frequently experienced serious breaks.

Primary reasons to expect the rally to continue:

1. The trend is your friend (this is a big one).
2. Analysis of momentum, according to our good friend and advisor Mike Oliver, continues strong.
3. High employment and impressive economic growth.
4. Historically low interest rates.

One emerging picture is that the stock markets of France, Germany, Hong Kong, India, Japan, London, and the U.S. can all be Elliot Wave counted to complete upside moves. In fact, it would be a stretch to recount their moves of the last major up-cycle in hopes of higher highs. On the other hand, the stock markets of Dubai and Saudi Arabia look so depressed that one should be alert for a change in direction to the upside. The markets of Russia and Venezuela, the other major commodity suppliers, look like their market rallies may have further to go. China and Taiwan representing the new demand look strong as well. It's pure speculation on our part, but we must ask the question - Does this portend another commodity and oil move to new highs? When looking at our pricing scenarios from May 2006, it is clear that oil, natural gas, and gold have been in a corrective mode while stocks have been trading closer to their highs and towards the upper end of the pricing scenario. It would seem that in the coming year a stock correction may still be due.

Some thoughts:

1. The Chinese are on the move, but not just with their bicycles.
2. Iran and Iraq are still a supply worry.
3. Venezuela is run by an anti-business, anti-American, messianic who has the audacity to cross himself before he robs everyone's piggy bank. Eventually production of oil should suffer.
4. Russia, it seems, can't live for a full decade without pining for the good old days of central planning, poverty and hollow glory. As the government takes full control of their natural resources, production could suffer.
5. Energy demand is generally proportional to a country's GDP. If the third world GDP (China and India in particular) continues to grow, how likely is it that the Middle East and the likes of Venezuela and Russia can be relied upon to adequately keep up with demand?

In July of 2006 oil traded at $78/barrel and in January 2007 it traded as low as $50/barrel (see attached pricing scenario from May 2006). If oil can close a week at or above $68 it would be a significant technical indication that the oil price correction of the last year might have run its course.

NATURAL GAS

After a December 2005 Katrina high of $15.82 for NYMEX gas, it seems we may have successfully tested the lows at $4.20-$4.50 as outlined in our pricing scenario. Finally, after two extraordinarily warm winters we have reverted to the temperature mean (with this post-December weather) and normalized demand. Given the favorable fundamentals it seems we may stay on trend and maintain a $6 to $9 price range for awhile. Based on wave analysis it appears we have finished our first major up-down phase and may have entered the second up phase of a presumed 18 year cycle that we believe started in 1998. If we are correct about this, the next five years could have favorable upside pricing. Another spike like Katrina is not what the market needs. Just a steady simmer would be better for consumers and producers alike.

GOLD

Following a May 2006 price high of $773, gold traded as low as $554, successfully testing the $550 low as outlined in our pricing scenario of May 2006. Given the favorable fundamentals and the technical trend it seems only prudent to at least consider the purchase of some gold based investments. Sometimes simple is best. The text book definition of money is that it is a "medium of exchange" and a "store of value". Currencies today are paper represented by faith in government. There are no fiat currencies, that I am aware of, that have withstood the test of time. The U.S. dollar and Euro are efficient "mediums of exchange" but does anyone really believe they are a "store of value"? Gold has been a reliable "store of value" for 5000 years and someday may again be the currency of last resort. If gold can close a week above $668 it would be a significant technical indication that the gold price correction of the last year may have run its course.

REAL ESTATE

Residential home prices, commercial real estate, listed REITs, and unlisted REITs all represent real estate, but they are not the same. Intelligent investors must distinguish the significant differences. As with most investments there are many issues to consider, but some are more important than others. Commercial real estate is generally driven by wage growth. Wage growth has been on a steady uptrend since the recession of 2002. The listed REIT sector has been strong, but way ahead of itself in pricing. We still like the unlisted REIT sector. What we look for when we recommend unlisted REITs (and royalties) are the following features:

1. Consistent and dependable high return.
2. A real probability of some capital appreciation through a liquidity event within approximately 5 years.
3. Tax sheltered dividends.
4. Moderate to low risk with a favorable risk/return calculation.
5. Diversification and size within the specific investment.

These are lofty objectives and are not likely to be achieved without a cost. The cost is immediate liquidity. If an investor does not anticipate the need for liquidity, these investments should be seriously considered for the above mentioned reasons.

CONCLUSION

Based on the previous review, we still prefer the following investments among others:

DATED INFORMATION

Accreditation is an issue for some of the aforementioned investments. The pricing scenarios of May 2006 still appear to be relevant.