Louis Paquette's
EGS EMERGING GROWTH STOCKS

"Finding Extreme Value in Small Caps"

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Commodities rebound

But is the super bull almost over?

Short term correction was pause that refreshes

Almost immediately after our last Issue dated March 14th was released suggesting a correction was coming, it began. Short term trend lines of all the commodities were broken. But within two weeks most commodities had found support and started rebounding, with the CRB Index now all the way back up to 420 to test the recent highs. Intermediate trend lines were being tested before the rebound. However, no long term trend lines came even close to being tested. So on a purely technical basis, there are no grounds for saying the bull market for commodities is over.

You could sense that at least a short term setback was coming last month, because the market Sentiment was way too bullish, and the Technical picture (the charts) was way over bought.

I conveniently omitted discussion of the Fundamentals, since these are not nearly as clear cut. I can site you an extremely bearish or bullish fundamental case for commodities longer term.

The bear case is short and sweet - Commodities are cyclical by nature - we've got a credit contraction and recession brewing in the US which is bound to have a negative impact on the global economy, demand and hence, prices for commodities. I'd sure hate to look back a year or two from now, wishing we had recognized these obvious signs, taking our profits and saying good bye to this great 7-year run.

The multifaceted bullish case is at least as compelling. For starters, commodity bull markets tend to run for two decades at a time - conceivably giving this one another 13 years to go. Second, it's difficult to imagine anything but a weak U.S. Dollar longer term, given the country's deteriorating financial condition and its massive underfunded future liabilities. After that you have to take it commodity by commodity.

Intermediate outlook - Gold

For instance, GFMS (Gold Fields Mineral Services) estimates that supply will overwhelm demand for gold fabrication next year, sending prices down to $600 an ounce - Ouch! We may want to look twice at this report.

Intermediate outlook - Agriculture

Whereas even if the chart for wheat looks like a big blow off - fundamentals remain very bullish for the "AG's". Carry overs of grain inventories relative to production remain at decade lows. Poor weather conditions are impacting production. Meanwhile, the "Big-3" fertilizer companies just signed a contract with the Chinese that *tripled* the potash price from the previous one signed 14 months ago. The whole sector remains on fire.

Down with Ethanol?

If there's one thing that could stop the agriculture bull in its tracks - it would be the possibility of the repeal of **Ethanol**. I realize that sounds ridiculous, with so much invested in the "*biofuel*". But in the past two weeks or so, the rest of the world has suddenly come to the realization - that at these prices and with shortages, food for fuel just doesn't work. It's amazing how a global crisis can sharpen the senses. Leaders around the globe are demanding a re-examination to ethanol. Even a hint of follow through on this would likely cause a sharp retracement in all the grains and our fertilizer stocks too.

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Energy Oil outlook

Oil is right back to making new successive highs. Besides tightening supply, tensions and the possibility of larger scale armed conflict are raging between Israel and Syria, Lebanon and of course Iran. Troop movements near borders are causing some to speculate about conflict by the summer. No doubt this is catching the attention of the crude market as well.

Bottom line for commodities - I would suggest the evidence weighs in favour of the super bull remaining intact. Still, I wouldn't count on the trajectory remaining as it has the past seven years - and I think we need to be very selective and pick our spots more carefully than ever.

GOLD, HUI AND HGD Targets

A classic "A-B-C" correction seems to be taking shape. I'm visualizing a 50% retracement of the move down from $1,030 to just under $900 back to $950 or so and then the beginning of a wave "C" roughly the length of wave "A". Gold typically makes its seasonal lows at the 200-dma which currently sits at around $800. There's technical support from the Nov/Dec consolidation at $800 as well. If we use a Fibonacci 50% retracement of the roughly $350 move up since August, it gives us a target of $825, while a 62% retrace gives a $217 pull back to roughly $783. All these target measurements clustering around the big even number of $800, makes it a decent target.

Now the HUI, (456, down from its highs of almost 520) tends to bottom a dozen or so points below its 200-dma, currently sitting at 408. So let's give the HUI a seasonal low target of 380 or so. The 50% retracement is 400, and a 62% retrace comes to 376. Once again, the targets cluster around 380/400 making this a reasonable target.

Any time we reach or approach these targets we can divest of HGD and begin nibbling on HGU. Just eye-balling where it was during the last seasonal lows, I am guessing we might get anywhere from $16 to $24 for it, depending on the severity of the correction.

There are links to two articles at the EGS Blog posted April 9 & 10 you might want to read regarding the near to intermediate term prospect for gold. The one on seasonality mirrors our strategy. The other about the GFMS report with that forecast of $600 is also there, as well as many articles on the global food crisis, at: ***www.emerginggrowthstocks.blogspot.com***.

Long term global economic outlook/update

The immediate future doesn't look so bright

I last revised the long term forecast for the global stock markets in the February Issue, suggesting a secular bear market could very well be underway. I am not changing that forecast and if anything what I am writing now supports that outcome.

What needs to be updated is my position on <u>*The Great Bust Ahead*</u> by **Dan Arnold**. If you recall when I reviewed his book last summer, I was sold on the schedule Dan had laid in his book which begins with positive demographic trends until the year 2012, including a target of 26,000 for the DOW, but then turns decidedly negative, ushering in a long bear market beginning in 2013 and lasting until 2025. He acknowledges that some major event could overwhelm the demographics for 1 to 3 years at a time. Nothing I have seen since then has changed my views on the decline coming in 2013. But I do have a few concerns about the period between now and the then.

1. William Tharp - Dundee Capital analyst - *expecting propensity to spend to end sooner than later*

Bill was on **Money Talks** (Corus radio Network) one Saturday morning last month and he is also anticipating the same kind of secular decline that **Dan Arnold** is for the same kinds of reasons. Except that looking at the data slightly differently (in 5-year chunks instead of 10-year) has led him to believe that the propensity to spend - hence the economy, will start to turn down in the U.S. this year and in Canada by next year, about four years before Dan was forecasting.

2. The U.S. Housing/Credit bubble

The sheer enormity of the credit bubble, the extent to which the lending process was perverted, suggests a long recovery ahead. "U" shaped as opposed to a "V" shaped. Imagine - significantly falling average real estate prices for the first time since the 1930's - 11% so far, with many calling for another 20% decline, indicating we've only seen about a third of the damage so far. Real estate crashes by their nature have a bigger impact on the consumer than a stock market crash, since the home is the family's single largest asset. It took 15 years for Japan to bottom. By the time consumers can recover from this, the demographics will have turned negative for sure.

3. Long term cycles show major historic tops in place

Recent articles by two individuals indicate that major historic tops are in place and therefore long term bear markets are just getting underway. They are:

1. <u>***Is it a Bull, Bear or Cowardly Lion Market?***</u> by **John Mauldin,** April 11th: *www.frontlinethoughts.com/pdf/mwo041108.pdf* and,

2. <u>***Iceberg Ahead...SOS!***</u> By **Frank Barbera**, March 11th: found at *www.financialsense.com/Market/barbera/2008/0311.html*

On their own, I wouldn't take the charts so seriously. But these technical outlooks are right in line with the other more fundamental concerns about negative demographics and the imploding credit bubble. Together, they suggest that the major demographic trend up for another 3/4 years may be derailed. Which would mean we should reduce expectations way down from a Dow 26,000. Not a time to be buying the dips but more like a time for short selling, Inverse ETFs and put options.

It's not all negative. Manufacturer's inventories are low and balance sheets are strong (outside the banks, that is). Unemployment, interest rates and reported inflation all remain historically at the lower end. And GDP doesn't appear to be falling off a cliff. Yet.

Bottom line: I still take the bulk of Dan's forecast to heart. But I believe the positive demographics between now and 2013 may be muted or cancelled out by the items stated above and we should lower our expectations accordingly.

NEW PICKS

Expecting some further weakness in gold, I prefer to avoid making any new junior exploration picks since they could get even cheaper than they already are today. In recognition of the caution expressed in our market commentary this month, I went out of my way to find a company that actually makes money. It trades for obscenely low multiples and is another way to play the hot Agriculture theme.

Hodgins Auctioneers

HA.TSX-V $0.32

Trading for 5 X EPS

Shares: Approx. 8.6 Million F.D.

52-Wk. H.-L.: $0.42 - $0.11

- One of Canada's leading auction houses specializing in sale of agricultural equipment/real estate Based in **Melfort, Saskatchewan -** heart of Saskatchewan farm country.

- Recently enjoyed its best nine-month reporting period ever, with Q1-Q3 '07 bringing 31% revenue growth and EPS of $0.08

- Low multiples; at $0.35, trading for 5 times trailing EPS of $0.07

- 8.2 million shares issued and outstanding (FD: 8.6); management owns more than 50%

- Investors like the industry – Ritchie Brothers (RBA) trades on TSX & on TSX & NYSE; over $80/share and near its all-time high despite the weak overall market. I give it a target of $0.70 based on a valuation of 10XEPS.

Call Contact Financial at **604-689-7422 or 1-866-689-7422** for more information or visit **<u>www.hodginsauctioneers.com.</u>**

UPDATES - Renewables

Western Wind Energy
WND.TSX-V $2.26

Picked: Feb 7, 2007 @ $1.26

Finds new home for PH's 6M shares

Something that has always been an over-hang on the stock of WND was hostile past partner, Australian based Pacific Hydro which held 6M shares of WND. It found a new home on April 3rd and that blue the lid off the stock sending it to new highs. They just finished a road show which ended up with a well attended presentation in Vancouver on April 17. I think we can continue to trade this one on strength and hold or buy in weakness as the company has a lot happening in both the wind and solar areas.

Run of River
ROR.TSX-V $0.30

Picked: Feb/Mar 2007 Issue @ $0.45

Environmentalists block $350 Million Pitt River development - off the buy list

Special interests and NGO's filled a hall so full that an initial public meeting was called off by the fire marshal. The second meeting convinced the Provincial minister to cancel ROR's proposal to build 8 Run of River projects on 7 tributaries of the Upper Pitt River valley. *One of the big excuses used - that a transmission line would need to pass through land within a park boundary. OMG!*

I sure hope the "environmentalists" who mobbed these public meetings and blocked this 100% renewable, zero carbon emitting project, ideally located close to a major source of demand, are planing to pay more for their hydro in the future as the province imports even more power than it already does now from the U.S. Or maybe they'd welcome a shiny new coal generating facility in their back yards some day. There's plenty of coal in B.C..

I suppose the company plans to continue pushing the project forward, and who knows, maybe during the Olympics when demand completely outstrips supply, the powers that be will come to their senses.

Meanwhile, the company is also working on a smaller biomass deal using BC pine beetle wood and wood waste to generate energy. What can I say though - the reason we bought ROR, for now, has stopped going forward. No longer a buy until we hear something to the contrary.

Sonnen Energy Corp
PWR.TSX-V $0.255

Picked: Jan 2008 Issue @ $0.45

Going nowhere fast - off the buy list

Despite announcing the completion of Phase one of a 10-acre solar power park in Hausen, Germany ("Solar Park Hausen"), ahead of schedule, the stock is going nowhere. I over-estimated the generating capacity of PWR's solar parks. And given the number of shares out, there simply isn't enough revenue and cash flow to drive the stock higher. I suppose if the solar craze keeps going eventually this may even rise with the tide. But I'm not waiting and am removing it from out list.

Keewatin Windpower
KWPW.OTCBB $1.80

Picked: Mar 2008 Issue $1.55

Merger imminent, new contact

So far with the renewables, Wind seems to be working out best. We are 2 for 2 with wind farms, and this one is working out as well. Unlike the solar and Run of River stocks where the results have been mixed. This reflects the economics of these subgroups. Wind seem to have the best return on equity and less resistance from outside groups. Besides a quick dip during the Bear Stearns mini-crash which turned out to be a nice buy opportunity, KWPW remains firm and is trending up as the merger with **Sky Harvest Windpower** approaches (as soon as regulators give the final approval). My new contact for this one is **Terry Johnson at 604 267-3041.**

Hathor Exploration
HAT.TSX-V $2.29

Title challenge puts a lid on things

A couple weeks after mentioning this hot Uranium prospect, on April 3rd, **Fission Energy FIS.TSX-V** announced a possible claim boundary dispute with Hathor, immediately sending HAT price down. HAT has summarily dismissed FIS's challenge on two occasions since then. The market awaits assay results on 7 holes with highly radioactive core. HAT previously announced a hole with **11.9 meters of 5.29%+ U3O8**), the best results in recent memory for any Uranium explorer. I'm still holding some in spite of the irritating neighbour, on what I see as of the best Uranium prospect out there.