ChartWorks

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Technical observations of rossclark@shaw.ca

Energies are getting too frothy

The oil price is just exiting the sweet spot of the normal seasonal rally. Historically, oil prices bottom in December-early January and rally into April-May. However, in the past twenty years there has been a tendency for prices to accelerate on the upside from mid February and peak early in March before settling back and then making a secondary high in May. The excess readings in the market suggest that the initial high is now in place. (*The oil chart is on Page 5*)

The action of the oils in the past month exhibits all the characteristics seen in a bubble. Not only are the investment grade issues rallying to the point of generating upside exhaustion readings, but the juniors have also joined the parade. Almost everyone seems to have an energy story; whether it is oil, gas, coal or uranium. While not necessarily the end of the bull market, the sector is clearly into a euphoric state and in need of a very significant correction. **The 20-week exponential moving average is the mostly likely initial target for equities in the oil patch.**

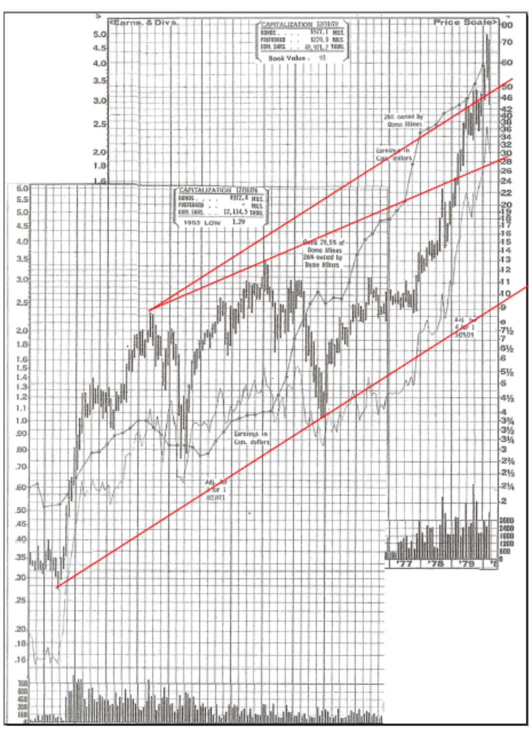
Bearish Scenario

The following page compares the weekly charts of Imperial Oil with both the end of the tech mania of 2000 (*as represented by Cisco*) and the final days of the oil boom in the late 1970's (*represented by Dome Petroleum*).

Under this scenario, **the oils will give up 10% to 20%, find support at the 20-week moving average (IMO: $77) and then stage a further rally to new highs**. This would allow for a "tested high" in crude oil into the seasonal high in May. However, the May high would likely be full of negative divergences. As such, we would have the makings of a rolling distribution style of top. The subsequent hard break into the seasonal low of July would coincide with a test of the 50-week moving average.

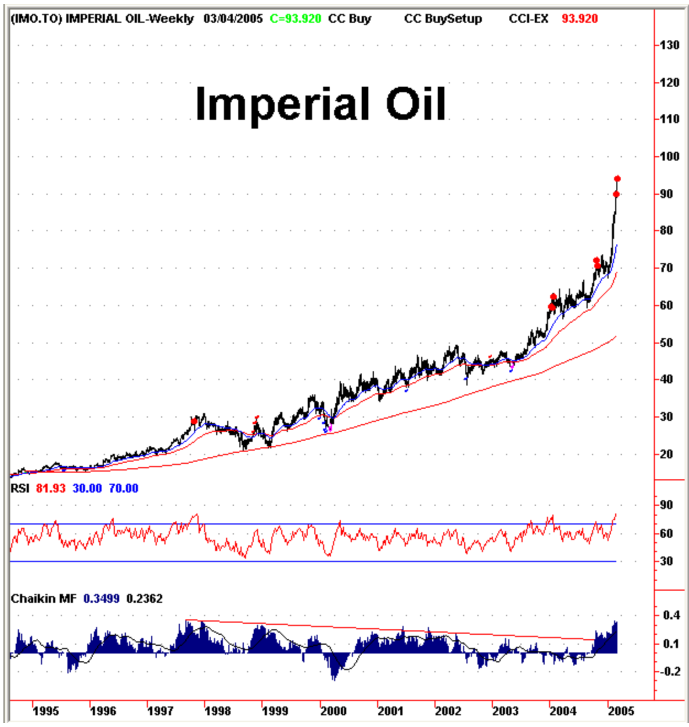
Imperial Oil – Example of the current bubble

Dome Petroleum- Oil Bubble of 70's



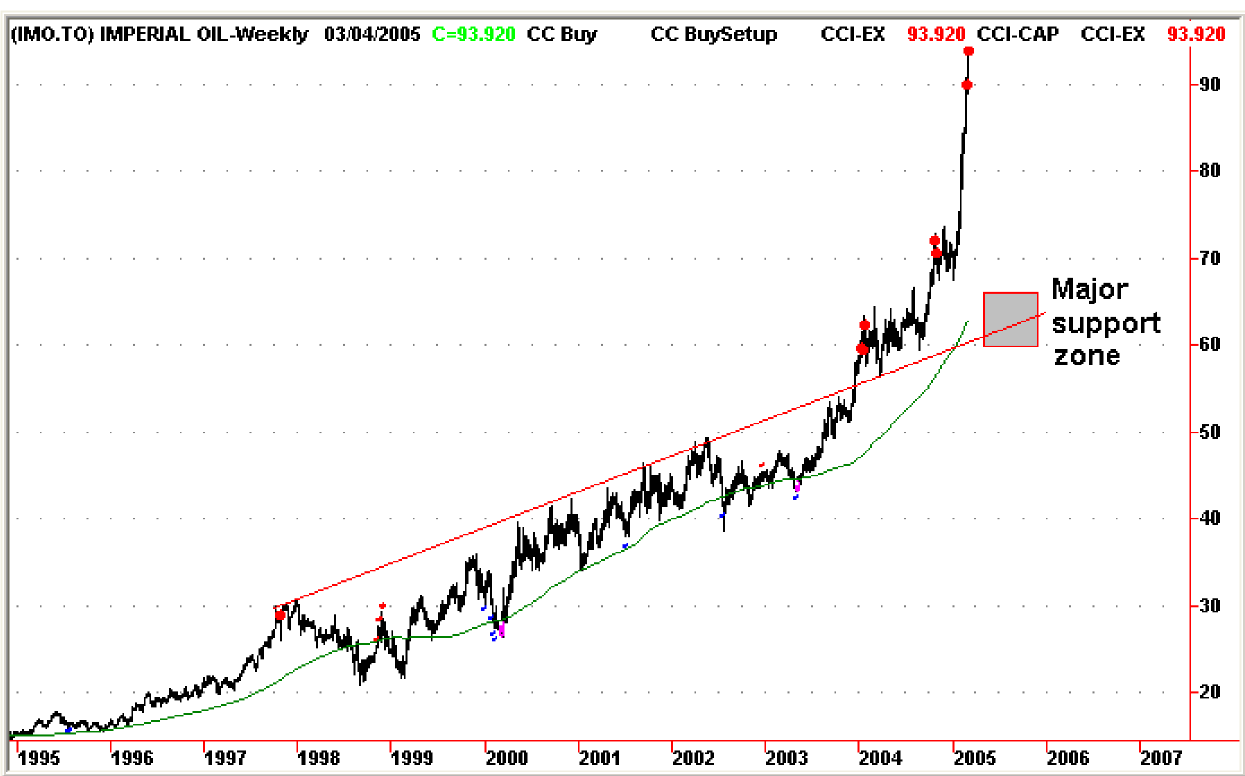
Cisco – Tech Bubble of 90's

Here is how IMO and CSCO line up using a linear scale



Long-term Bullish Scenario

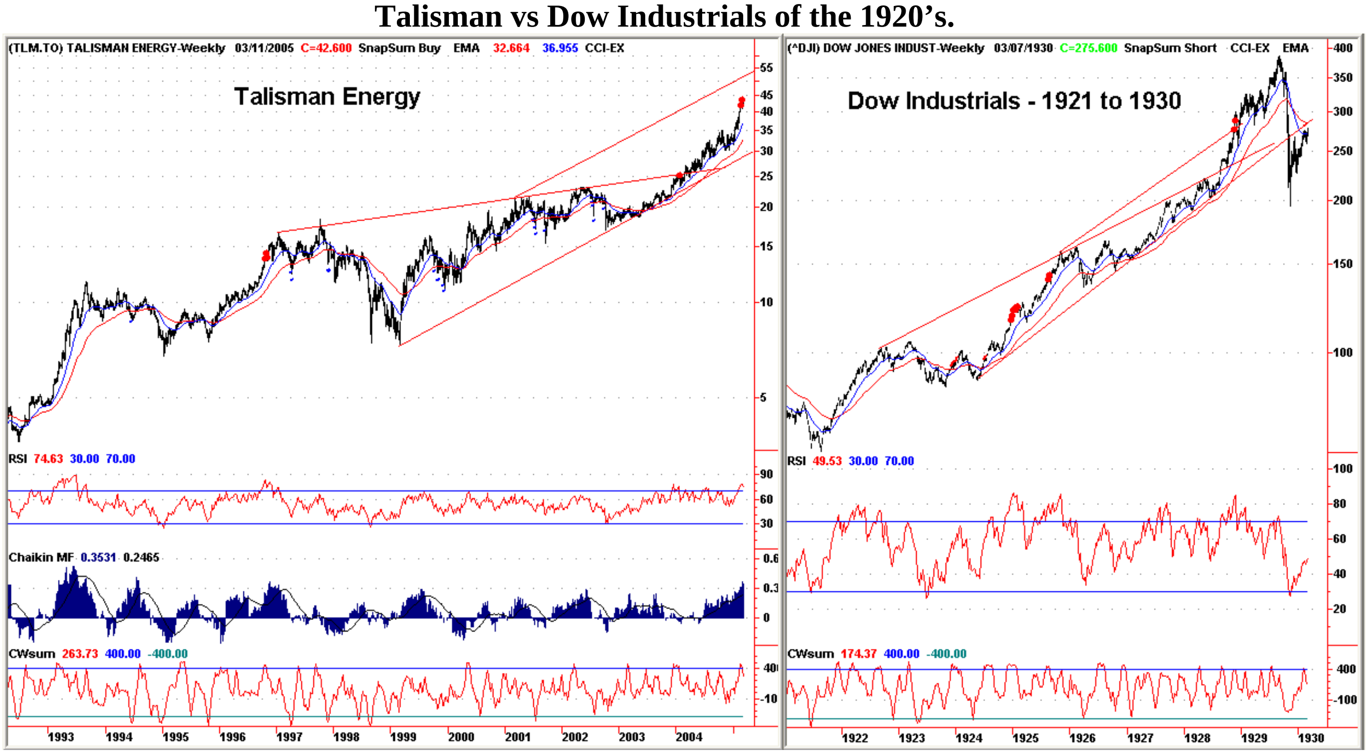
The bullish scenario would suggest that the current rally is merely one step along the way in a longer-term move. This would be similar to the highs preceding the 30% to 37% corrections seen in techs into 1994, April 1997 and October 1998. It would also be similar to the 35% correction that was seen in Dome Pete into October 1978. **Under this analysis we can look for IMO to drop by 30% to 37% in value (*targeted range $59-$65*)** before staging its next major advance. This would become a good test of the rising 377 day moving average and the internal support line dating back to 1997.



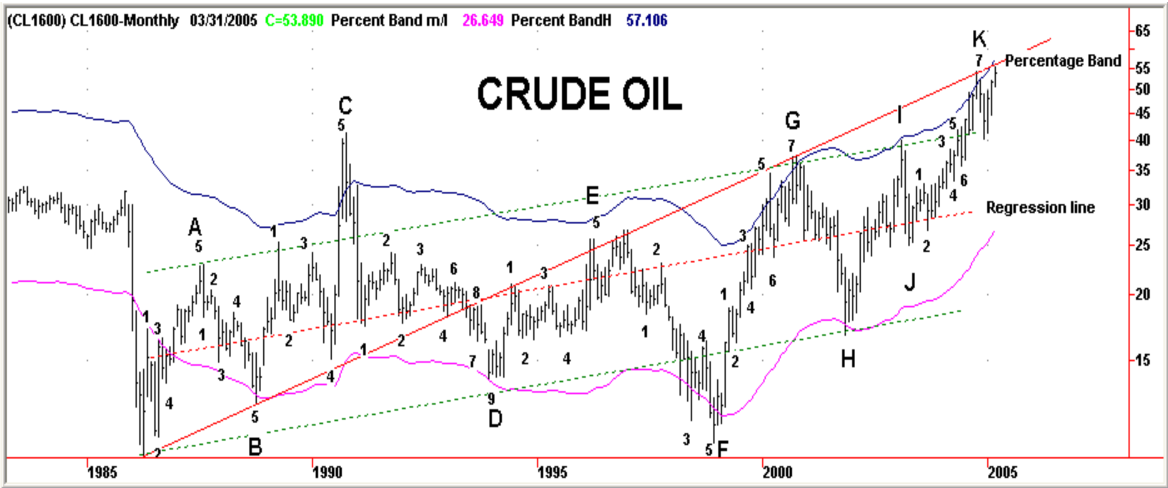
Here are some other examples of oils compared to bubbles

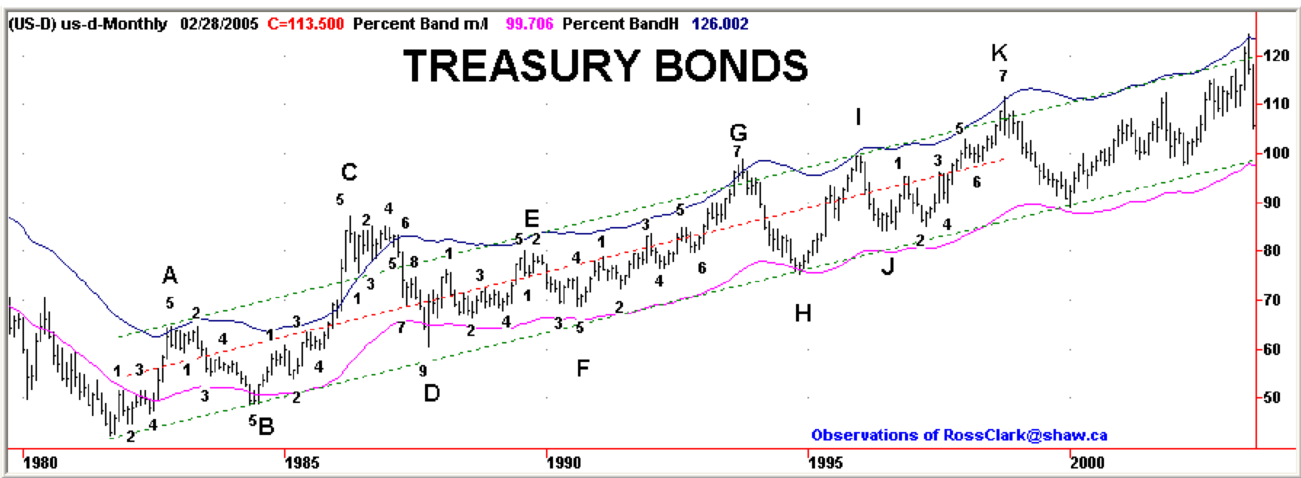
CNQ vs CSCO

Talisman vs Dow Industrials of the 1920's.



Last summer we presented the following analysis showing the similarities in the twenty-three year bull market in bonds with that of crude oil. Once prices reach the top of the percentage band (*currently $57*) they are vulnerable to a decline. We are also testing the internal resistance line (red) drawn from the 1986 bottom. Initial support should be evident around $42.



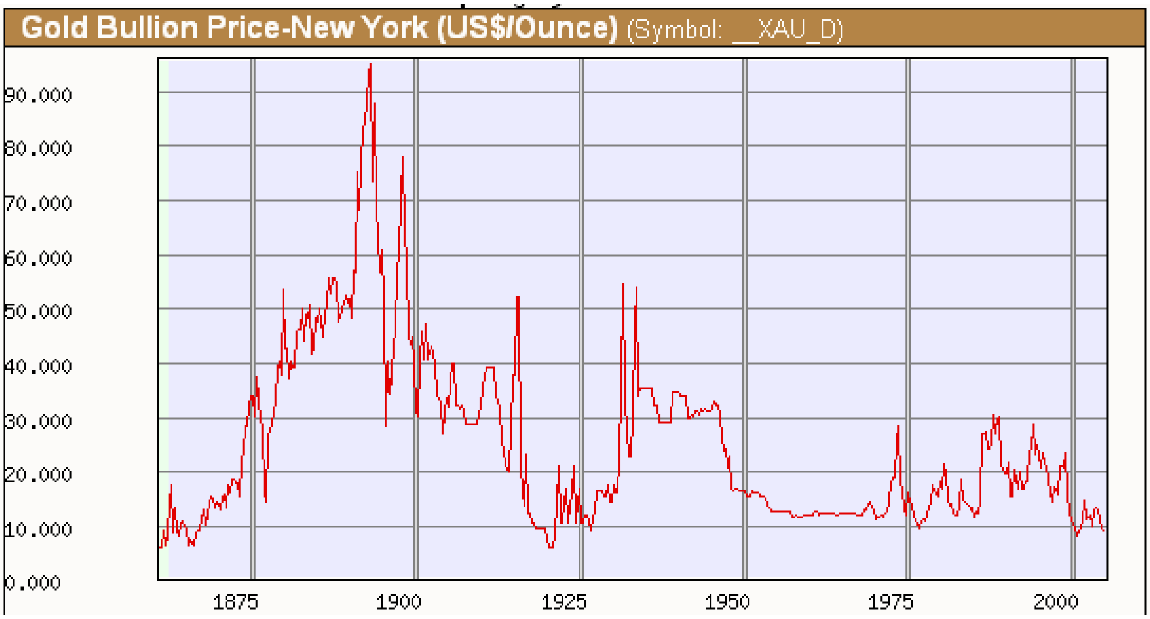


Of course, the Treasury chart is the model and, on the longer term, it provides an intriguing comparison.

In the meantime, an intermediate break is at hand. Both investors and traders should take some money off the table.

Some may be concerned about what a decline in crude could do to gold. The following page from last week's Pivotal Events points out that the ratio (gold/crude) could be the main thing to watch on the long term. The paramount conclusion from this edition of ChartWorks provides some guidance on the "more precise decision".

GOLD / CRUDE OIL



- As a new industrial commodity, crude's price was volatile until the late 1930s.
- Gold is at the very low side of its price history relative to crude oil.
- These exceptional lows have been set in association with the end of the "old" tangible asset inflation and/or the "new" era of the financial bubble.
Tangible Assets	1864	1920	1990	*
Stock Bubble	1873	1929	2000	

  Peak of last business cycle of the "old" era of inflation.
- Appropriately, the current low is associated with an era of great financial speculations. On the two earlier examples, this was the setup to a secular bull market for gold relative to crude oil.
- Let's consider the timing on this model to be in the order of a year or so and look to other measures for more precise decisions.

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