PIVOTAL EVENTS

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Today is the fifth anniversary of the climax of the tech bubble. The high for the Nasdaq was 5049 and for the S&P 1527. Our work in 1Q 2000 is reviewed in the website under "**What's Old?**".

Signs Of The Times:

"***No Slump Seen in* [base] *Metal Prices***" **FP, March 7**

"***Hedge Fund Sees Little Retreat For Crude Prices. Now is a Good Time To Invest in Energy***" **FP, March 7**

"***As Energy Booms, 'Landmen' of Texas Enjoy a Gusher***" **WSJ, March 7**

"***High Oil Prices to Stick Around***" **WSJ, March 8**

Stock Market: One of the mainstays of the bull market has been the old cyclicals as represented by the resource groups. Tuesday's edition of ChartWorks detailed the probability of a significant correction.

We are past the best gains and the action in the energies is a blowoff. The January 5 edition of Pivotal Events noted the technical action and concluded that an intermediate leg up was possible. On timing, the initial move could have run until around April, against the usual high in May.

As it turns out, the action has become rather impetuous and, as Ross outlined, this is technically similar to the conclusion of previous manias. Cisco in 2000 and the Dow in 1929 were two examples, as was the chart of Dome Petroleum in 1980.

This is being accomplished close to the initial timing target and, most likely, the speculative excess will be shed by a sharp decline. The usual rally for crude into May will likely be a test of this high, which also seems to be a test of the October high.

With crude, so far, matching its October high, it is natural to wonder if the hot stock action was signaling much higher prices for crude. Normally, stocks lead the turn in the commodity but, in this case, the chart is clearly indicating mania.

We'll stay with this conclusion and note that both investors and traders should be selling.

Although not as extreme, the action in base metal producers has been outstanding since February and BHP Billiton has zoomed 120+% since last May. On the same move, the energy stock CNQ has clocked the same gain.

The uraniums, such as Cameco and Denison, seem to be ahead of the spike in the oil stocks covered by Ross on Tuesday. This, along with today's comments on BHP, suggests that the resource game soared to a mania, formally recorded it, and is now looking for a plunge. (The initial target for Cameco is the high 30s CDN.)

The bull market that blew out in 2000 was driven by the "new" tech mania and this one has been mainly driven by "old" commodities so any reversal in this sector could have a profound effect on the general stock market and, as outlined below, upon credit spreads as well.

Technical Analysis: The February 25 edition of ChartWorks noted that the upper side of the standard deviation band could limit the rally going into the turn from February to March. This, with the S&P high of 1025 on Monday March 7, seems to have worked out.

Once the trend has changed, the ChartWorks can provide some initial downside targets.

Banks And Financials: Where the resource sectors have provided compelling inspiration, banks and financials have provided comfort and growth.

Both are dangerous – the former because of the dynamics of a blowoff and the latter because of its phenomenal weightings. In the U.S., banks reached a 23% weighting as the Canadians reached 34%. These compare with the only previous examples when the energies reached 29% in 1980 and the techs made 34% in 2000. Of more than passing interest, Toronto banks and financials made it to the fateful 34%.

Admittedly, this is a slow moving measure, but it provides long term perspective. On the near term, the Bank Trading Guide is still working on the sell signal and independent of this is the ChartWorks observation that if Citigroup slips below 47.30 it would mark the breakdown. This morning's price is 48.

For investors, our advice has been to lighten up and sell more aggressively when the Guide gives the "sell" signal. Traders could begin to sell as Citigroup falls through 47.30 and get more aggressive when the Guide comes in.

INTEREST RATES

Credit Spreads: On the corporate side, conditions remain benign. Since January, the yield ratio between treasury bills and commercial paper has come in from 111 to 104. After a setback, high-yield spreads narrowed from 251 bps on February 9 to 218 bps on February 22, where it has traded since.

This goes along with our Bank Trading Guide (relates to spreads), which has been trading around 167-169 for a couple of weeks.

Obviously, benign spread action has been associated with the boom and, as discussed above, the resource sectors are starting to roll over from mania conditions. If the gaming fails, it will widen spreads.

On the latter, emerging spreads have not had the brief setback that corporates recorded and have essentially been narrowing for a year. This shows up in the exchanged-traded fund which goes by its symbol MSD. With last year's Argentina concerns, this plunged from 10 in March to 7 ½ in May.

It is around 10.40 now and the full move has registered an upside "exhaustion" reading. We take this as a "sell" signal on all lower grade spread positions.

The Long Bond is like the gold market – there are always some ambitious traders who will take any move (up or down) to the limit.

The bond establishment has been fixed on inflation and missed the long decline in long rates from last May. As this page has often said "***it has been frustrating***", but we stayed with the trend. The 6-point zoom out of December must have really frustrated the establishment, who started to talk the market down. They were very short in duration and have made a big bet that "inflation" is going to keep running.

While it has been possible that base metals and energies would rise into March, it seemed that, with the big guys out, any setbacks would be modest.

This has not been the case as the bond future has plunged 5 points in 4 weeks.

This page's theme since February 24 has been that commodities would set a high in March and investors could then begin "***accumulating long governments in anticipation of a rally likely to arise out of March***".

The establishment is, of course, seeing strong commodities but, thanks to the ChartWorks, we see it as a blowoff, in which case the "buy" on the bonds will be outstanding. The challenge is that the reversal in commodities and long governments will be sudden.

Investors can accumulate longer maturities on the bad weeks and this was one of those.

COMMENTS FOR METAL AND ENERGY PRODUCERS

Energy Prices: This was thoroughly covered by Ross in Tuesday's edition of ChartWorks and reviewed above.

Investors and traders should be selling the energies – coal, crude, natgas, and uranium – ranked only as to alphabet.

Price targets can't be calculated until the play rolls over, but the timing could run long enough to do some damage.

Dollar Index: The recent slide directly relates to the euphoria in commodities. Again because of this fury, the dollar has slipped a little lower than our comfort level.

However, as with long treasuries, it is also part of the pending and, quite likely, dramatic reversal.

Canadian Dollar: Same comments, but with the opposite outlook

Gold and Gold Shares: Yesterday's ChartWorks updated our position on golds.

As exciting as these upticks in gold have been, it is not very significant until gold's price is increasing against other currencies and against most commodities.

From the high of 456 on December 3, gold declined 9.5% to 412.6 on February 8, from which it has recovered 7.1% to 442 yesterday. On the same moves, our gold/commodities index sold off 20% from 244 to 195 on March 3. This amounted to twice the percentage decline with the duration running four weeks longer. In so many words, commodities responded to the weakening dollar with gusto and gold didn't.

It is worth repeating what anyone would conclude upon reviewing financial history. In real terms and profitability, gold producers have recorded outstanding performance during the twenty years or so following a great financial bubble.

On the near-term outlook, each important advance was anticipated by a reversal in credit spreads to widening and the treasury yield curve to steepening. We have been watching for this and note that, while there was little change in spreads, the curve steepened (bonds to bills) from 188 bps on Monday to 207 bps.

To emphasize the longer term, we will soon review that typically the secular (post-bubble) real bull market culminated in a global gold rush. Two recent ones occurred with the depression bottoms in the late 1890s (Australia and "The Klondike") and the 1840s with "California or Bust".

Gold/Silver Ratio (GSR): Another indicator for the resumption of gold's real bull market would be a rise in the GSR as silver underperforms gold.

With the cyclical business recovery, the ratio declined from 82 in 2003 to 56.6 on December 1. It then increased to 66.7 in early January and, sympathetic to the mania in commodities, the ratio declined to 57.2 on February 18.

The next rise was to 60 on March 1, from which it declined to 58.1 yesterday. This could be a critical test of the February low as well as the peak of the commodities mania. This morning's drop in commodities and silver as gold has remained unchanged is a small step in a confirming direction. A few days of more significant decline would provide a serious alert.

Technically, the GSR rising above 67 would set the uptrend and this would signal the beginning of the next credit contraction.

As in any lengthy bull market, the advice is to buy the golds on the dips.

With gold so cheap relative to crude, business strategists could consider reducing exposure to energy and increasing positions in gold assets.

	FRI	**MON**	**TUES**	**WED**	**THUR NOON**
MARCH	**4**	**7**	**8**	**9**	**10**
High-Yield Spread	227	226	218	212	—
Treasury Curve	190	188	195	207	207
Base Metal Prices	1092	1084	1107	1094	1078
Dollar Index	82.53	82.75	82	81.7	81.7
Gold	434.2	435	440.3	442.1	442.3
S&P	1222	1225	1219	1207	1205

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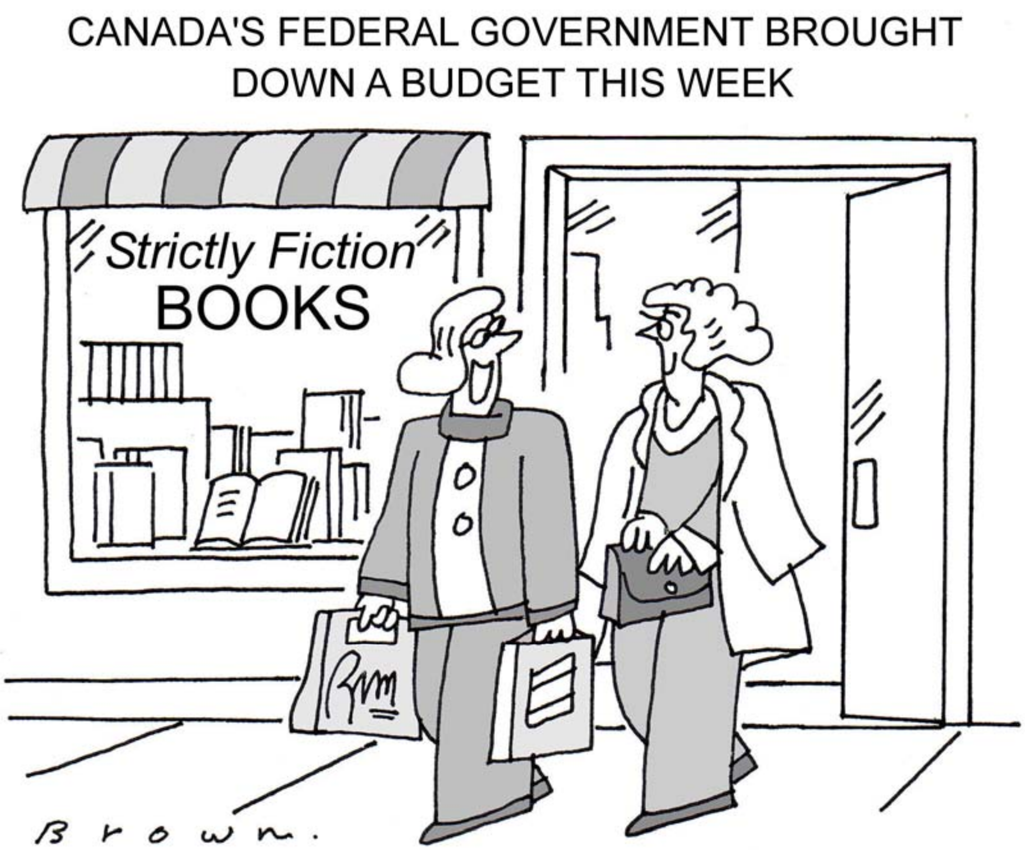

"I bought a copy of 'The Federal Budget'."