



# ZEAL SPECULATOR

**Brave When Others Are Afraid, Afraid When Others Are Brave**

## ZS Open Spec Positions

- ◆ **LNG** (11.15.05 @ \$34.98 • \$39.53 • +13% • Stop \$37.32 15%)
- ◆ **TGA** (11.29.05 @ \$5.11 • \$5.40 • +6% • Stop \$5.08 20%)
- ◆ **BWLR** (2.7.06 @ \$0.89 • \$1.10 • +24% • Stop ↑\$0.92 25%)
- ◆ **POMGF** (2.7.06 @ \$2.26 • \$2.57 • +14% • Stop ↑\$2.00 25%)
- ◆ **SYNM** (2.14.06 @ \$8.92 • \$8.36 • -6% • Stop \$7.50 25%)
- ◆ **URIX** (2.14.06 @ \$1.08 • \$1.87 • +73% • Stop ↑\$1.49 25%)
- ◆ **EZM** (2.22.06 @ \$1.42 • \$1.69 • +19% • Stop ↑\$1.36 25%)
- ◆ **EGY** (2.22.06 @ \$6.59 • \$6.99 • +6% • Stop \$5.39 25%)
- ◆ **SFY** (3.7.06 @ \$35.48 • \$38.07 • +7% • Stop ↑\$29.08 25%)
- ◆ **CUP** (3.14.06 @ \$2.73 • \$2.86 • +5% • Stop \$2.39 25%)
- ◆ **IVW.TO** (3.14.06 @ C\$2.00 • C\$2.15 • +8% • Stop ↑C\$1.69 25%)
- ◆ **TGB** (3.28.06 @ \$2.01 • \$2.01 • +0% • Stop \$1.51 25%)
- ◆ **CHK Apr 30 Calls** (11.15.05 @ \$3.00 • \$2.10 • -30%)
- ◆ **OXY May 80 Calls** (11.15.05 @ \$4.90 • \$15.00 • +206%)
- ◆ **FTO Jul 40 Calls** (11.22.05 @ \$5.60 • \$18.90 • +238%)
- ◆ **XOM Jul 60 Calls** (11.22.05 @ \$4.70 • \$3.30 • -30%)
- ◆ **VLO Jun 52.5 Calls** (12.6.05 @ \$6.55 • \$9.00 • +37%)
- ◆ **OXY Aug 80 Calls** (12.28.05 @ \$8.70 • \$16.80 • +93%)
- ◆ **PCU Jun 70 Calls** (1.10.06 @ \$7.60 • \$11.90 • +57%)
- ◆ **CCJ Sep 37.5 Calls** (2.22.06 @ \$4.90 • \$2.90 • -41%)
- ◆ **SFY Aug 40 Calls** (3.7.06 @ \$2.70 • \$2.95 • +9%)
- ◆ **COP Nov 60 Calls** (3.21.06 @ \$5.50 • \$7.90 • +44%)

## ZI Open Spec Positions

- ◆ **LNG, TGA, CUP, SCU, POMGF, SYNM, URIX, EGY**
- ◆ **CHK Apr 30 Calls** (12/05 @ \$3.30)
- ◆ **OXY May 80 Calls** (12/05 @ \$6.80)
- ◆ **VLO Jun 52.5 Calls** (1/06 @ \$5.50)
- ◆ **PCU Sep 85 Calls** (2/06 @ \$9.70)
- ◆ **CCJ Sep 37.5 Calls** (3/06 @ \$5.20)

Good evening fellow speculators! In the past week we've seen some strength in the commodities stocks, which is very welcome after all the sideways grinding over the past month. The precious metals have been particularly intriguing and I'm getting a lot of questions on them. In light of all the strength, especially in silver, some are wondering if the consolidation or correction that ought to come is not going to show up.



This silver chart looks fantastic. Silver continues to carve a gorgeous uptrend and its run since early November is very orderly and controlled. The metal is right at resistance again so within the context of this uptrend odds are silver ought to retreat back down to its 50dma and lower support sooner or later here. Silver's incredible strength in the last month, part of which derived from more roadblocks being removed from the very bullish silver ETF, drove silver stocks to new highs. Since the last of our silver stocks for this upleg were stopped out in early February, we've been on the sidelines for the latest part of this run. And, believe it or not, despite the surge from \$9.75 to \$10.85, sidelined is still where I want to be.

Why? Several reasons. Speculation is ever the ultimate probabilities game. Odds conspire against adding new positions late in an upleg, when it stretches far over its 200dma, and when most other folks are really ecstatic. While there is no doubt that silver *could* shoot still higher from here, based on its bull-to-date behavior this is a low-probability scenario. I want to risk my own precious capital only when it looks like the odds are wildly in my favor. Someone else can take the risks when they are not in my favor. Another problem is the

## Zeal Speculation Matrix

	Current		Bias	General Range		Latest Interim Extremes (6 mo)			
	Price	Level		Long	to Short	Low	Date	High	Date
rGold	\$566.60	<b>1.163</b>	neutral	<0.990	to >1.140	1.025	9.1.05	1.236	1.31.06
rSilver	\$10.84	<b>1.331</b>	neutral	<0.990	to >1.250	0.983	9.8.05	<b>1.337</b>	<b>3.27.06</b>
rHUI	317.06	<b>1.269</b>	neutral	<1.000	to >1.500	1.042	9.7.05	1.528	2.1.06
rOil	\$66.07	<b>1.066</b>	Long	<0.950	to >1.250	0.952	2.15.06	1.149	1.20.06
rXOI	1068.14	<b>1.064</b>	Long	<1.050	to >1.200	1.028	10.20.05	1.191	1.30.06
rDollar	90.28	<b>1.008</b>	Short	<0.920	to >1.000	0.992	1.23.06	1.061	11.16.05
rEuro	1.2001	<b>0.996</b>	Long	<1.000	to >1.100	0.936	11.10.05	1.011	3.17.06
rVIX	11.58	<b>0.939</b>	Short	>1.700	to <0.750	0.797	12.23.05	1.276	10.13.05
rVXN	16.30	<b>1.058</b>	Short	>1.250	to <0.700	0.818	11.17.05	1.246	1.20.06
PCR 21dma	0.847	<b>0.847</b>	Short	>1.150	to <0.850	0.768	1.11.06	1.025	10.19.05

**ZEAL SUBSCRIBER CHARTS**

[www.zeallc.com/s/subs.htm](http://www.zeallc.com/s/subs.htm)

User name: risk

Password: reward

gap between silver and its baseline 200dma is enormous. It would have to retreat by 25% to fully converge. And when it decides to correct, silver tends to plummet like a meteor. In April 2004 the metal fell 33% in 24 trading days, and half of this decline happened in the first 5 alone! After its next big upleg in December of 2004 silver plunged 20% in merely 23 trading days, of which five-sixths happened in just the first 7 trading days alone. Following each of these wickedly sharp corrections right off the tops of major uplegs, I was e-mailed multiple first-person accounts detailing how speculators had ripped themselves to shreds by leveraging silver at exactly the wrong time. Silver is the most volatile of the major commodities and should be treated with extreme caution when it pulls far away from its core 200dma. This metal leaves no room for exits once it starts correcting, slaughtering many.

Another reason I am short-term cautious on silver at the moment is gold. Gold is the primary driver of the precious-metals complex and usually leads the way for silver, not the other way around. Silver diverging from gold is not likely to be sustainable for a long time, and gold is consolidating.



So far gold is consolidating nicely, carving a tight series of lower highs and lower lows. This is totally normal after a major upleg and was expected. By grinding sideways gold is bleeding off speculative excess, establishing a new base at these higher price levels, and convincing traders globally that \$540+ gold is sustainable on fundamentals. But gold is still not out of the woods yet, at any time it could start falling and end up near its 200dma still under \$490. If this comes to pass, the odds are very high silver will crash in sympathy with a gold plunge. Since gold has not managed to power any higher since early February, the entire surge in silver of the last two months has to be considered questionable. It is just too risky to buy silver up high without gold confirming.

The last piece of the precious metals puzzle is the stocks of the HUI. Gold stocks have fared far worse than gold over the last couple months. This suggests that speculators are gradually girding themselves for a gold correction. Actually up until this week, the HUI downtrend was fairly steep.



The HUI is in a rather steep consolidation and it does not look very favorable technically. Its 50dma failed in March, a typical early warning sign in a correction. The index is now trying to claw back over its 50, but it will only be sustainable if gold continues higher and gold is now hitting strong overhead resistance of its own. And the HUI still remains a long ways above its 200dma. If you look at a bull-to-date chart, the HUI has never finished a correction/consolidation, not to mention launched a new upleg, before it came very close to or fell under its 200dma. While I have been a huge gold-stock bull since 2000 and remain so, it is not prudent to add new long positions before the HUI once again manages to converge with its 200dma via consolidation or correction.

So despite silver's standout performance of late, the HUI and gold are grinding sideways and lower and refusing any confirmation of silver's strength. Silver is a tiny market and it can be rapidly deserted when speculators lose faith. Gold remains the dominant factor in the precious-metals world so sooner or later silver is almost certain to follow its lead. And lest you think other commodities have stolen my love of the precious metals, I can't wait to redeploy into gold and silver in a big way. It is only prudent when the odds are favorable.

Thankfully oil and the base metals are doing well during this precious-metals consolidation. Copper has been hitting dazzling new highs and the profits for copper miners ought to be stupendous in Q1. Oil is also recovering and it should lead to record oil-stock profits in Q1 as well. I cannot wait to see the 10-Qs that arise out of this quarter in these sectors!

On Southern Copper and the upcoming elections in Peru I am watching the polls closely. Unfortunately the Marxist, Ollanta Humala, is in the lead. He is running 33% now with his main opponent back at 27%. I suspect he will pull off a win in the April 9th elections. His financial advisor is vowing heavy taxes on big mining groups, and PCU is the largest in the country. While I think our long-term PCU investment in ZI will be fine, it can afford to pay higher taxes on its record profits, I continue to debate on our PCU calls. I am tempted to sell these calls at times because a Humala win will proba-



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bly spook investors and roil the stock price even if the long-term damage is minimal. On the other hand PCU is going to report a record quarter and its already low P/E will fall off the planet. When Morales won in Bolivia some stocks took an initial hit but after a month or two investors were focused once again on rising commodities prices and not the vexing political scene. The case in point is SIL, which was stopped out shortly after the elections but rocketed in February along with silver prices. If copper keeps rising and copper profits soar will investors forget about Humala and love PCU anyway? I am torn and haven't yet decided if we should dump our PCU calls or hold and try and weather the Humala win.

Elsewhere on the trading front, I am adding a position in a company known as Taseko Mines (**TGB-AMEX**). It is an interesting copper and molybdenum producer with its main project located in British Columbia. This Gibraltar Mine was responsible for 13.4m lbs of copper production and 233k lbs of molybdenum production in Q4. This generated quarterly revenues of \$41.3m with averaged realized prices running just \$1.88 for copper and \$22.45 for molybdenum. This has helped this small \$216m company generate an unbelievably low P/E ratio of just 7.6x earnings! Today copper is about 28% higher and molybdenum 5% higher, so Taseko's earnings should continue to soar in this quarter. About 7/8ths of its revenues are from copper, which has probably averaged between \$2.15 and \$2.20 this quarter. If it manages to hit its forecast for 15.2m lbs of copper this quarter, its investors should be well rewarded with a rapidly rising share price.

Even though Gibraltar has been in production since 1972 it still has legs. The latest reserves estimates just released late last year increased this mine's projected life to run 15.5 years into the future. These estimates were very conservative too, modeling long-term copper prices of just \$1.10 and long-term molybdenum prices of \$6.00. This year Taseko is also starting work on a second project, Prosperity. It is also located in south-central British Columbia and hosts a large copper and gold deposit. The company plans to release a timeline for Prosperity's feasibility study soon. As FCX has proven in the big leagues, it is really beneficial to have both a copper and gold deposit. Not only does the soaring gold byproduct lead to cheaper copper and higher profits, but the companies that mine both copper and gold seem to get bid up during *both* copper and gold uplegs. Combining a base metal and precious metal provides the best of all worlds.



Technically TGB is not cheap today, but it has been able to consolidate nicely since its initial surge to these levels in February. As a small base metals company with a very low

valuation I suspect it will get bid up rapidly anyway as more and more investors realize that high copper prices are here to stay. It also just secured a Canadian listing which should help increase its visibility to all the resource investors up in the north. On a final note, TGB is engaged in a dispute with the company that buys its copper concentrates. The buyer says it should get a contractual discount on the copper, but Taseko says the contract provides for no such deduction. It has already been withheld by the buyer so TGB is operating now as if the discount is real. This dispute is scheduled for arbitration in London in June. If TGB loses, it is business as usual and its valuation remains low. If TGB wins though, it will be able to book the "discounts" as revenue which drives up its profits even higher. In Q4 this amounted to 4% of its total revenues so a win would be a nice and welcome boost.

On the oil-stock front, our saga of culling through the oil stocks continues. Scott and I have been looking for smaller oil plays in the range of \$100m to maybe \$3b in market cap. The things I have seen in the dozens of annual reports I've been through are pretty discouraging. So far the companies I have looked into all have at least one *major* flaw. And it is not like these flaws are inconsequential, they are showstoppers. On the small end of the scale, a lot of these oil plays in the \$100m range have changed their names one or more times in the past 6 years. And the names were not energy-related in the past. One energy company used to be China Broadband in 2000, another was called The Flower Valet in 2002. Recent name changes from a totally unrelated hyped industry demand caution since this is a modus operandi of habitual stock promoters who pump shell companies named after whatever the hot sector du jour happens to be. These companies also had no revenues, just blue-sky promises.

Moving up the food chain a bit to oil stocks in the \$1b or so market-cap range that actually produce oil, I encountered new issues. One I discussed last week, that gas stocks are far more common than oil stocks and even the oil stocks are generating a majority of their income from gas. Whenever I would find a company that earned more than half of its revenues from oil, other things like excessive hedging would hit it between the eyes. One promising company that had 80% of its revenues from oil was only able to sell at \$40 last year due to its enormous hedges. In other words its hedges cost it 20% to 25% of its potential revenue in 2005 and a ghastly amount of its potential profits. We speculators are forgiving though, so perhaps it learned its lesson. No such luck. The hedging program grew more extensive in the next few years despite its horrifying impact on this company's growth.

Still other oil companies had so much debt that even with oil near \$60 they still couldn't earn a profit after paying their huge interest expenses! Who would want to own an oil play like this especially in a rising-rate environment? Although it is necessary to accept that *every* company is flawed, these oil stocks had big huge issues. So I haven't found any more oil stocks that compelled me to buy them today, but I'll keep looking. Either good sound small oil companies exist somewhere or we'll have to settle for gas plays that only get 15% to 30% of their revenues from oil. With today's surge in oil it is probably not the best day to buy oil stocks anyway. On the bright side our various call options on larger primary oil stocks are doing quite well and thriving with higher crude.

**Godspeed and happy speculating!** ADAM HAMILTON ©