Candlight

Publisher: Marilyn Kinney

> Until he extends his circle of compassion to all living things, man will not find peace.
>
> Albert Schweitzer

Coffee Explodes!

After many months of moving lower crude oil prices finally made their lows when the vast majority was bearish. Now that prices have turned higher the public and professionals are turning bullish again. As you can see from the chart above and right, the market is still in a strong up trend. What's even more interesting is the fact that the ideal time frame for seasonal strength has not even arrived as yet.

We remain very bullish on the entire energy complex but in particular we believe, as stated in previous issues, that the natural gas market is likely to become one of the best performers in the complex due to a long term cyclical low.

S&P

Is this the Start of a New Bull Market?

Crude

****

Conclusion

The market has made a low. Technical indicators remain bullish. Seasonal strength is still coming. We do not have any indications as yet of a top other than perhaps what might develop into a short term correction to support.

Platinum Futures

Compared to the very strong behavior of gold prices, the rally in platinum futures appeared to be somewhat tame. We advised you that platinum had higher to go and that the rally should gain momentum. It did. We advised you that platinum should gain on gold for the longer term move. We are still very bullish on plantinum, expecting more new highs for this move. The bullish thrusting line shown on the chart was the last important signal. Re-

In This Issue

- Crude Oil Explodes!
- Charts, Commentary & Analyses
- This Newsletter is Available On-Line

member that platinum futures are thinly traded and we advise against the use of at the market orders.

Conclusion

The platinum and palladium markets are still very bullish for the long term. Now that gold (and silver) have bottomed, the odds favor a continued rise in all of the precious metals based not only on technical and cyclical factors and forces but also on changes in fundamentals.

Silver

The silver market has also rallied but retraced its gains and is now back in a bullish trend. We remain bullish on silver for the intermediate and long term.

Oats

The oats market may finally have topped The combination of signals in this market suggests that even though a short term low may have been made, all other indications that we follow indicate that an important top may be developing. Be careful if you are long and consider es-
tal
m

Cocoa

The cocoa market also remains in an up trend. As you can see from the chart at top right, the bullish engulfing line was a clear indication of strength. In the last few days prices have made new highs for the move. As in the case of gold and platinum, there are fundamental reasons for being bullish on cocoa as well as technical reasons. Problems with the cocoa crop continue and the possibility of increased cocoa consumption in an inflationary environment will likely keep demand high.

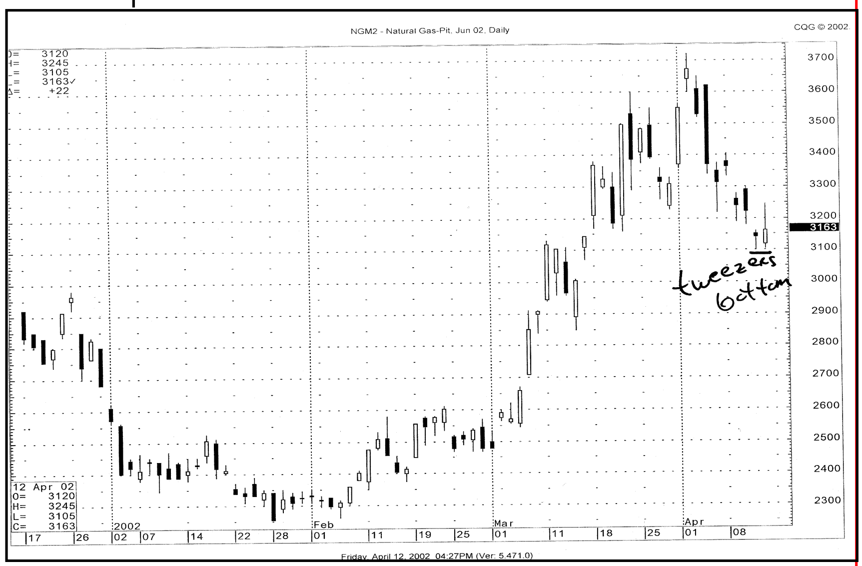
Conclusion

The cocoa market remains bullish, bolstered by a bullish configuration on the cocoa chart. The probability of rrally to the 1600 level is very real if one uses the weekly charts (not shown) to determine resistance and a possible upside target, The trend is strongly bullish.

Economic Trends and Candlesticks- Update

The use of candlestick charts is not limited to the mere analysis of specific trends in stocks and futures. We believe that any market which is not controlled by governments can be analyzed in terms of this methodology. The only requirement beyond free market status is the ability to chart the open, high, low and close of the market. Furthermore, we believe that the use of candle charts on market indices is also an effective tool. Such indices as the SPY (S&P Trust),QQQ (Nasdaq Trust) DIA (Dow Jones Trust) as well as the CRB Index of commodity prices are excellent candidates for candlestick analysis. We will continue to use this method to keep you informed of possible changes.

Gas



Gold

Copper

The copper market indicates that a low has likely been made. The market has reacted lower from its recent peak but a short term low developed with a rally likely based not only on chart patterns but on seasonal tendencies as well. We are not in favor of being short copper at this time of the year. Instead, we expect a seasonally based rally to continue and to grain strength.

Meats

The meats have continued to present a mixed picture. While cattle futures have been strong, pork futures have turned lower. This is no surprise given the fact that cattle were weak last year while pork futures remained strong. We expect cattle to continue higher while hogs and bellies give up some of their recent gains. Here are the specific analyses by market:

Cattle

The cattle market has made an low after selling off sharply for many days. The candlestick chart suggests that the market is about to stage a further rally after correcting lower from its recent rise. The seasonal factors are also bullish at this time of the year.

Hogs and Bellies

The trend is now turning bearish again. Both markets have made short term tops.

Conclusion

If the US (and world economies) are to enter an inflationary trend then the odds are that red meat consumption will rise along with inflation. If the forecast we have been giving you is correct then

cattle, hogs and bellies will all rally.

This possibility is a very real one and is in keeping with the long term cyclical patterns that are currently working in all of these markets. As we go to press cattle remain in a bull trend while hogs and bellies have turned short term bearish.

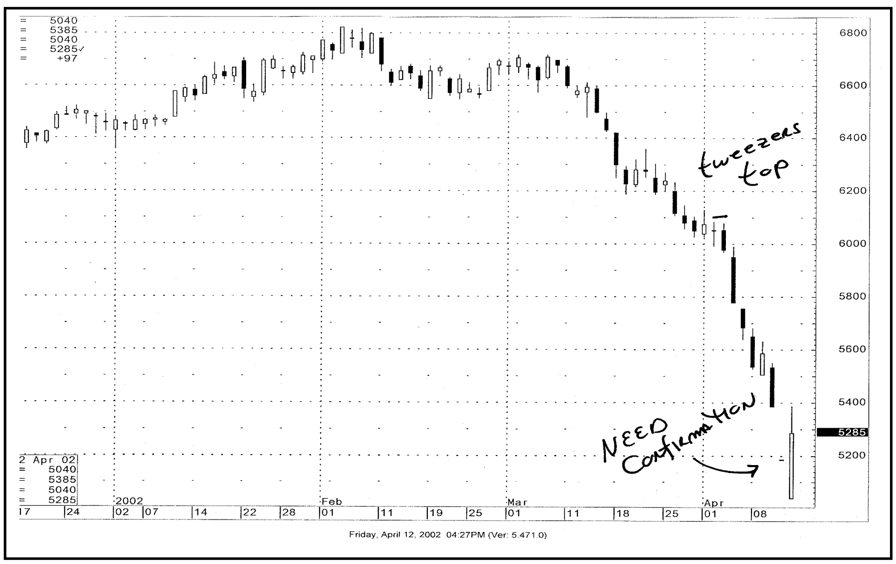
Coffee

The market has been down and out for many months. As you can see from the developing candlestick patterns, the market is attempting to make lows but there is no indication as yet that lows are in place. The hammer formation may indicate that a low is due but without additional timing we suggest standing aside for the time being. It is very possible that a low may develop over the next few days. If and when coffee bottoms the rally could be very strong. Coffee has a long standing reputation and history as a highly volatile market.

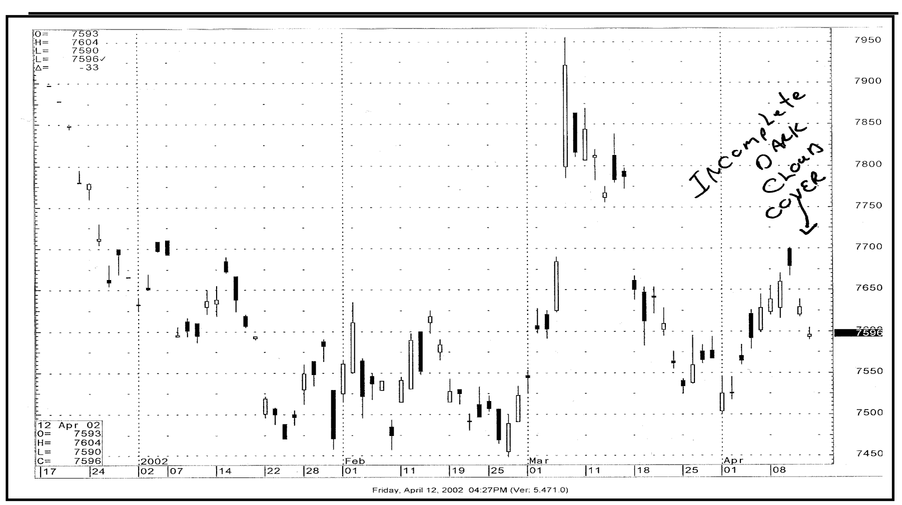
How to Use sing this Newsletter to its Maximum Benefit

We believe that in order to use this newsletter effectively you will need to know more about the way in

Lean Hogs



Japanese Yen



which we analyze markets.

Here is a synopsis of the factors we look at for every market in order to determine our forecasts and recommendations:

1. Candlestick patterns. This is the backbone of our work. We look at specific formations, patterns and the relationship between the current trend and candlestick formations that could be considered leading indications of a change in trend. If we see divergent patterns or warning signs developing then we report them to you accordingly.

2. Other chart formations such as the traditional use of support and resistance are combined with the candlestick analyzing order to yield a more definitive picture of what can be expected as well as a more solid determination of the existing trend.

3. Seasonal factors are also considered in the analysis. We prefer to see candles and seasonals working together in the same direction. Moves that occur when both aspects are in phase are often more reliable and longer lasting moves.

4. Cycles. The importance of cycles in stocks and futures cannot be overestimated. We believe that where an important cycle is about to bottom or top, or when a given cycle is clearly in a definitive trend, that the cycle and the candlestick analysis must go hand in hand in order to make a full determination of the existing trend as well as potential trend changes.

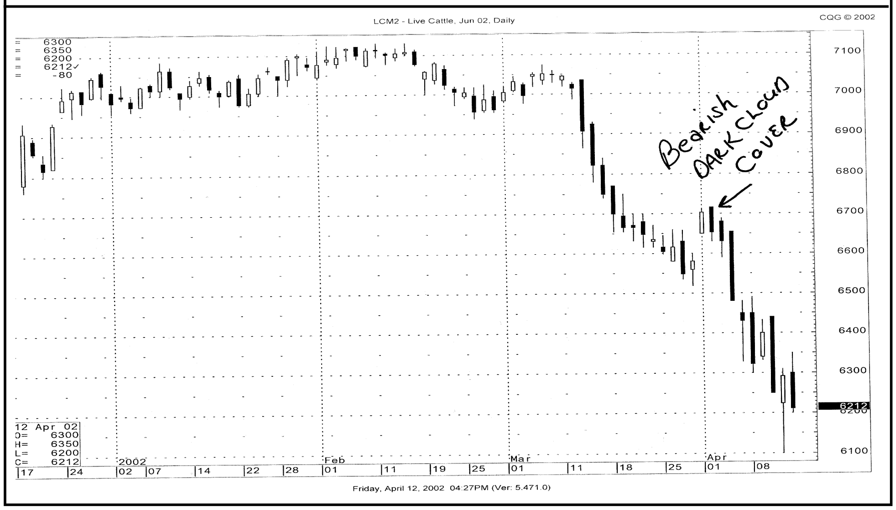
5. On occasion we will also take into consideration a variety of other factors including but not limited to the following: market sentiment, volume, open interest, secular economic trends and intermarket relationships.

In closing we want to stress the following aspects of candlestick analysis (which also apply to other forms of market analysis):

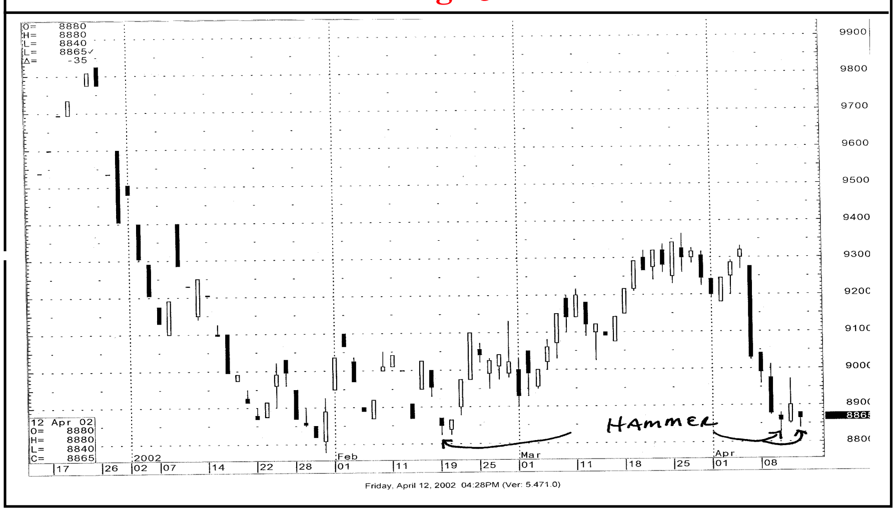
Candlestick analysis is not perfect. The goal is not to achieve perfections since it is unattainable. Rather the goal is to achieve a high degree of accuracy in our forecasts and specific recommendations.

Markets are dynamic, not static. Things

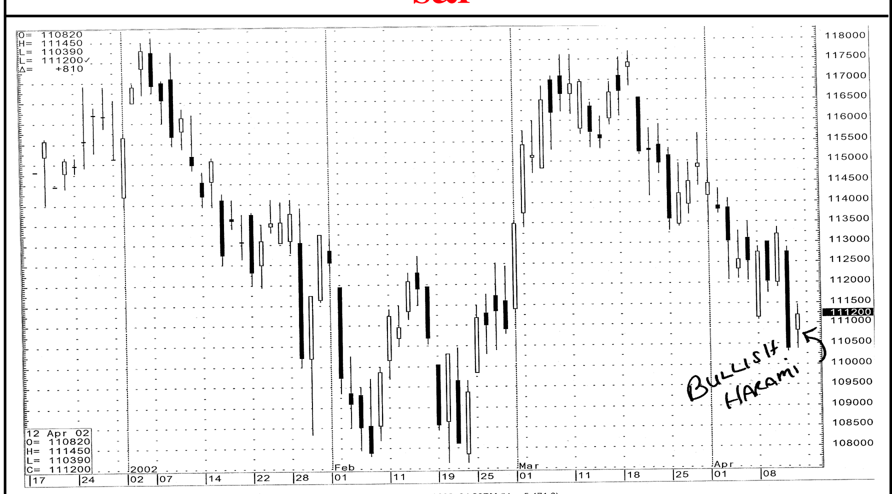
Live Cattle



Orange Juice



S&P



change every second. This is why it's important to evaluate and reevaluate patterns every day if not even more often than daily.

Felxibility is essential if you are going to be successful. Although a given conclusion may have been valid today, the conclusion could easily change tomorrow as a function of market generated information.

Risk management and forecasts go hand in hand. Unless you manage risk when your expectations are wrong, you will be a net loser in the trading game.

Summary and Conclusions

In summary, we feel that the best way for you to benefit from our research is to apply the forecasts and conclusions we have reached with your own specific analyses. We believe that we can give you the necessary perspective to improve your trading results but only you can "pull the trigger".

Finally, no commentary of this nature would be complete without the usual warnings about risk management. You've heard it all before but it does does bear repetition. No system, method, indicator, or trading system can function profitably if losses are not mamaged correctly.

This is why we urge you to employ risk management strategies as well as specific stop losses with every one of our recommendations and/or suggestions.

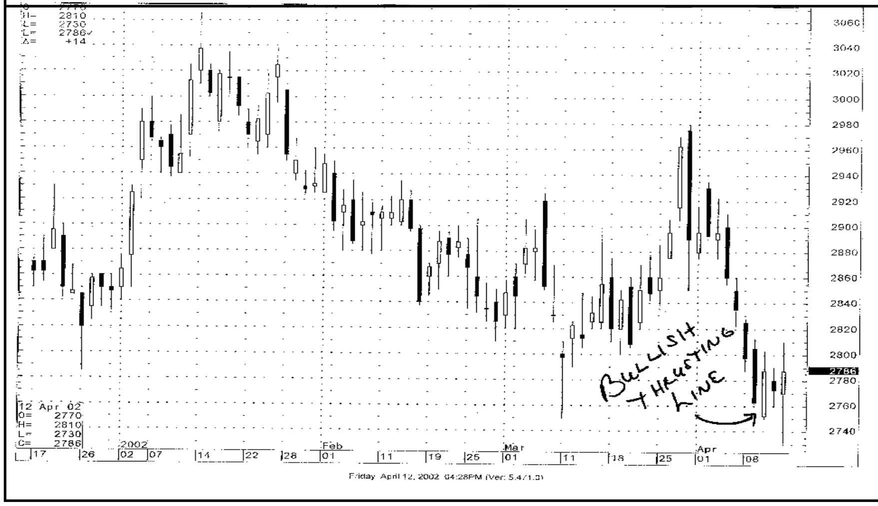
Inflation Update

In previous issues of this newsletter we have advised you that our expectations for the US economy were onflationary rather than disinflationary or deflationary. We cited a number of reasons for our expectations. To review, these reasons are as follows:

1) The US Federal Reserve has pumoed massive amounts of money into the economy. The effect has been an increase in liquidity and the ultimate effect will be to boost the ecomomy out of its post 9/11/02 slump. We are already beginning to see signs of this change in trend.

2) The US Federal Reserve has also lowered interest rates repeatedly in a further effort to bring the economy out of its declining trend. This has also had its effect and it will ultimately result in tremendous demand for low cost money. This has already happened. and the ultimate effect will be inflationary.

Wheat



In addition to the low cost of money and the massive amount of money that has been injected into the system, the cost of many raw commodities is cheaper than it has been in years. As a result you will see low cost money buying into low cost commodities as industry sees the double benefit and attempts to capitalize on the bonanza.

3) This will bring costs down to consumers who will most likely respond by going on a spending spree. The result will likely be tremendous demand for goods and services. And from this combination the next inflationary trend will emerge.

What to do?

As long time subscribers know, we have been recommending the accumulation of positions in the precious metals as well as precious metals equivalents such as coins and mutual funds. We believe that at least 15% of your investment portfolio should be held in inflation sensitive vehicles. As stated previously in this letter, we feel that the precious metals have explosive upside potential over the next few years.

We urge you to prepare now. By the time most investors realize that inflation is upon us it will be too late to take action or there will be news excuses to avoid taking protective measures.

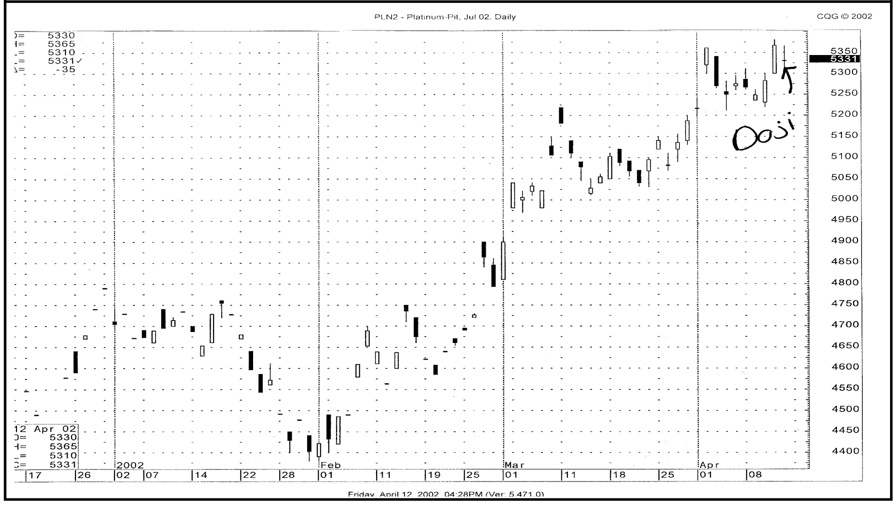
Stock Index Futures

Candlestick patterns in S&P futures suggested that that another rally coud develop. It did. The current rally is developing both from a test of support (see chart at right) as well as a seasonal tendency for stocks to stage rallies at this time of the year. The markets have been finding support at or neat the January lows. As long as these lows hold on a weekly closing basis the odds will favor another leg to the upside.

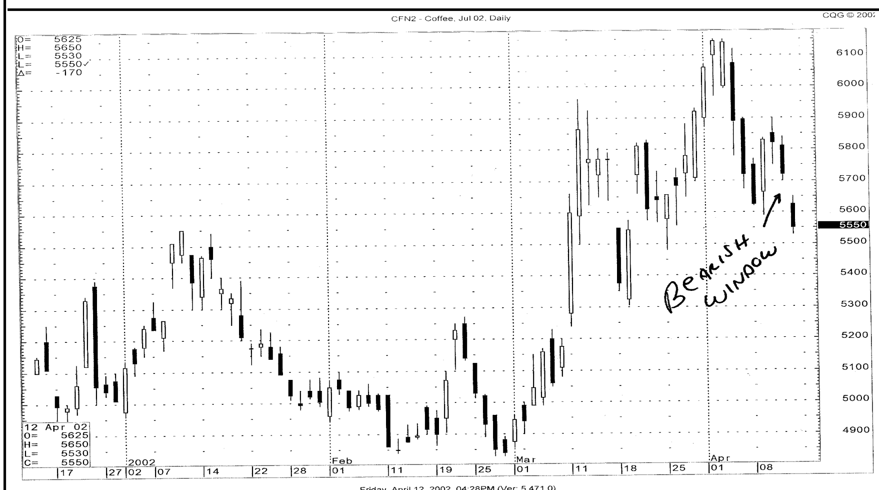
There are those who claim that stocks have topped and that a new bear trend is developing. We will not turn bearish until or unless there has been a weekly closing penetration of the January lows as stated above.

Finally, we would add here that many traders have turned bearish. Our primary short term trend indicator, the Daily Sentiment Index (DSI) was reading very lowprior to the current strong recovery rally. As a result we cannot turn bearish on stock index futures.

Platinum



Coffee



Corn

Abear market remains firmly entrenched in corn prices. What's especially interesting about the market at this juncture is the fact that a long term cycle low has been made. When combined with the historically low level of prices at this time and the pervasive negative sentiment on corn (and the other grains) we have many of the necessary ingredients in place for a long term low. The corn chat above and right shows initial indications of a low. While these initial signs of a low are preliminary, there is no reason to turn long term bullish as yet. From this point forward we suggest watching the weekly charts for signs of a turn.

We believe that major rallies are still likely in all of the grain soybean complex markets. We advise against being short!

Comments in the Letter are Subject to Change as a Function of Market Conditions.