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"Oil Swings Wildly As Famous Wall Street Firm Admits: Oil Is Going to $105!

"When oil was at $36, I told you it was going higher. Wall Street laughed and said it would sink. Now it's recently hit $58...and they're finally admitting I'm right.

"Now oil is thrashing wildly. Here's why $100 oil is inevitable—along with violent price swings along the way!"

- **Six reasons oil is going to $100 per barrel**
- **The GEA portfolio: up 58.15% in our first year!**
- **A new energy stock recommendation**

I've gone on record predicting oil at $100 per barrel. Wall Street laughed at me. But no more.

The famous brokerage firm Goldman Sachs just said we're in the early stages of a multi-year "super spike" in oil prices. Crude is going up to $105 per barrel, they said.

This is an unprecedented announcement. Wall Street makes its money from selling stocks, not commodities such as oil. When even Wall Street brokers recommend you buy oil instead of stocks… well, I half expected to see pigs flying past my window at the same time!

Why are they finally throwing in the towel and agreeing with me? Because the truth is finally becoming so obvious, they can't deny it any more!

Yes, oil has sagged in the last week or so. But this is expected. In fact, oil's price swings will get more violent from here (I'll explain why later). But the bigger trend is ***up***.

I talked about oil in several issues last year, but

(*continued on page 2*)

100% Profits Taken Last Week!

Last Friday was option expiration day. We had written options on Transocean (RIG), Noble Corp. (NE), Chicago Bridge and Iron (CBI), and Tailsman (TLM). These gave us a healthy income in addition to the profits we've made in the stocks themselves.

CBI closed above our option price, so its shares were called out from us. This closes out our position in the stock.

Including the options and CBI's stock split, **we made 97.71 % in less than one year**!

I haven't really given you a good overall summary of the new bull market in crude. So this month's issue is about…

6 Reasons Why Oil Is Going To $100

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Except for water, oil is the most important commodity in the world. Since its first commercial use in the mid-1800s, we've burned almost a trillion barrels of the stuff. And we burn another 82 *million* barrels each day.

We use oil in almost everything: fertilizer and pesticides to grow our food, synthetic fibers to make our clothing, plastic to create thousands of different products, and diesel and gasoline to get it all to the stores. That's why a rising oil price is so damaging to our economy—high oil makes everything else more expensive.

$100 oil is a scary thought—so scary, most analysts are in complete denial. But it's inevitable. Here's why…

Reason #1: We Have Less Oil Than We Think

The oil industry says we have about 1.2 trillion barrels of extractable oil in the ground. But this is almost certainly a gross exaggeration.

Petroleum reserves are self-reported by oil-producing countries. There's no way to verify these numbers, and there are lots of reasons to believe many countries are overestimating—or flat-out lying. In fact, we've already caught several countries, and at least one major oil company, doing it. Consider these facts…

Oil and gas in the ground are easy to overestimate. Reserve estimates are often wildly optimistic. For example, "undiscovered recoverable gas in Western Canada" was recently estimated at 122 tcf (trillions of cubic feet) by the Canadian Gas Potential Commission, while the U.S. Geological Survey (USGS) said 15.6 tcf—only one-eighth the amount.

Another example: in 1998, the USGS assessed Mexico's oil and gas reserves as 84 billion barrels. Five years later, the USGS's assessment had dropped to 18 billion. The total over-estimated amount was 66 billion barrels of oil!

Canada and Mexico are right across our own borders, in our own backyard. How can we be confident about Middle Eastern deposits on the other side of the world? Answer: we can't!

Oil companies have been caught lying. Just look at Royal Dutch/Shell, which in 2004 was forced to slash its reported reserves by 23 percent (4.47 billion barrels)—and another 10 percent or so again recently. Now it's come out that ChevronTexaco, ExxonMobil, Italy's ENI, and France's Total also appear to have exaggerated their reserves as well. No doubt we'll see similar scandals elsewhere in the world—and similar sudden plunges in "proven reserves."

Some of the oil is unobtainable. Two big examples are the Khurais and Manifa fields in Saudi Arabia. They have 41 billion barrels, but no operating wells. Khurais has been a problem field for 40 years now—over 90 wells have tried to get oil to flow properly, and all have failed. And Manifa is contaminated with hydrogen sulfide and vanadium (a heavy metal). That's 41 billion barrels of oil…all of it ***worthless***.

Oil countries have been caught lying. In 2002, Mexico dropped its reserves from 26.9 billion barrels to 12.6 billion when Petroleos Mexicanos (the state-owned oil company) was forced to comply with SEC rules. That's 14.3 billion barrels of oil... *poof*, gone with the stroke of a pen.

In 1987, when Iraq was bankrupt from its disastrous war with Iran, Saddam Hussein suddenly restated Iraq's reserves from 47 billion to 100 billion. This greatly strengthened his financial position. But where did he manage to find 53 billion barrels of oil overnight, especially in the middle of a war? Do you think Iraq's reserves just might be overstated?

Other OPEC countries are worse. OPEC members have to comply with quotas: they're only allowed to sell a certain amount. But the more reserves each member has, the bigger its quota.

To increase their quotas, members have apparently inflated their reserves. Throughout the 1980s, massive amounts of new oil were popping up everywhere in OPEC, or so they claimed. Look at their stated reserve numbers in the table below, and notice especially the amounts (in bold) where huge leaps took place.

In total, these OPEC reserve gains are 309 billion barrels. But only a handful of big oil fields were found in the world during this time. How do you get 300 billion barrels of oil without discovering new oil fields?

Industry insiders call this OPEC oil "political reserves"—paper barrels created for political purposes.

Reason #2: We're Finding Less and Less Oil

After more than 100 years of scouring the globe for oil, it seems we've found almost all of it.

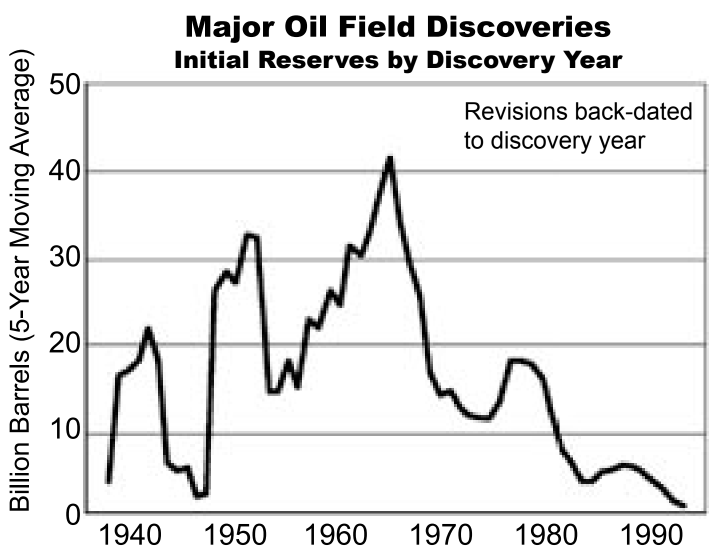
The world burns up 30 billion barrels of oil each year. That means the oil industry needs to find that amount in new discoveries, just to maintain the current supply vs. demand. But they're only finding a small fraction of that amount: 3-7 billion barrels a year.

It's not that they aren't looking. Just in 2003, the top 10 oil companies alone spent $8 billion on exploration. The oil and gas just isn't there to find.

Why? All the big oil fields were found decades ago! (See chart below.)

(Year)	Abu Dhabi	Dubai	Iran	Iraq	Kuwait	Saudi Arabia	Venez.
1980	28.0	1.4	58.0	31.0	65.4	163.3	17.9
1981	29.0	1.4	57.5	30.0	65.9	165.0	18.0
1982	30.6	1.3	57.0	29.7	64.5	164.6	20.3
1983	30.5	1.4	55.3	41.0	64.2	162.4	21.5
1984	30.4	1.4	51.0	43.0	63.9	166.0	24.9
1985	30.5	1.4	48.5	44.5	90.0	169.0	25.9
1986	31.0	1.4	47.9	44.1	89.8	168.8	25.6
1987	31.0	1.4	48.8	47.1	**91.9**	166.6	25.0
1988	**92.2**	**4.0**	**93.0**	**100.0**	91.9	167.0	**56.3**
1989	92.2	4.0	92.9	100.0	91.9	167.0	58.0
1990	92.2	4.0	92.9	100.0	94.5	**257.5**	59.0
1995	92.2	4.3	88.2	100.0	94.0	258.7	64.5

OPEC's claimed oil reserves *(in billions of barrels). Notice the huge jumps in each country's numbers.*



Major oil discoveries peaked 40 years ago, and have plummeted ever since.

Latest prices as GEA goes to press— April 18, 2005

Comex spot contract: silver $7.24, gold $433.15
Nymex spot platinum: $868.00, palladium $198.00
Nymex Light Sweet Crude Oil $52.25

Silver coins			Dealer will buy at this price	Dealer will sell at this price
100 1 oz. silver American Eagles			$830	$930
100 1 oz. common rounds			$730	$810
$1,000 face value US pre-1965 coin bag (circulated)			$4,850	$5,600
$1,000 face value US circulated silver dollar bag (VG or better)			$8,000	$8,900
US Morgan silver dollars	PCGS	MS64	$42	$55
	PCGS	MS65	$120	$160
	PCGS	MS66	$300	$360
Platinum coins				
U.S. Platinum Eagle:		1 oz.	$875	$970
		1/2 oz.	$450	$550
		1/4 oz.	$230	$300
		1/10 oz.	$95	$140
Gold coins				
Australian Kangaroo			$425	$470
British sovereign (Kings)			$98	$135
(Elizabeths)			$100	$135
Canadian Maple Leaf			$425	$480
Credit Suisse 1 oz. gold bar			$420	$480
Mexican 50 peso Centenario			$500	$560
South African Krugerrand			$420	$470
US Gold Eagle:		1 oz.	$433	$480
		1/2 oz.	$210	$250
		1/4 oz.	$108	$140
		1/10 oz.	$44	$57
US $20 double eagle:				
Liberty	Raw	MS60	$500	$570
	NGC	MS63	$750	$850
	NGC	MS64	$1,450	$1,850
	NGC	MS65	$4,150	$4,850
Saint Gaudens	Raw	MS60	$525	$600
	NGC	MS63	$640	$725
	NGC	MS64	$700	$800
	NGC	MS65	$1,100	$1,350

Prices courtesy of Finest Known, Boca Raton, FL. (800) 806-3468.

The world has been thoroughly explored. And all that's left today are small fields: a million barrels here, a million barrels there. This sounds like a lot, but realize the world burns 82 million barrels of oil *each day*.

Today, Oil Exploration Loses Money—*Lots* of Money!

I've already mentioned that in 2003, the top 10 oil companies spent $8 billion on exploration.

But they found less than $4 billion worth of oil and gas: **less than half** what they spent. (And even that number was inflated by a lucky gas find in Brazil: the equivalent of 6 billion barrels of oil.)

This wasn't a fluke: it's been this bad for years.

The consulting group IHS Energy recently reported that in 2003, global oil discoveries replaced only *half* of the oil that was produced. Annual discoveries have now failed to replace production every year since the early 1980s.

Of the top 20 non-OPEC oil producing countries, 17 have failed to replace their production over the last 10 years. The top two – Russia and Mexico, which together produced over 12 million barrels per day – replaced just 11 percent and 10 percent respectively, in the last ten years.

Even Alaskan Oil Won't Matter

Congress is arguing about allowing drilling in the ANWR (Arctic National Wildlife Refuge) in Alaska. But oil insiders know it really doesn't matter.

ANWR might produce a half-million barrels per day, if we're lucky. That's less than three percent of daily U.S. consumption. And it would take 10-15 years to drill and develop the oil fields anyway—far too little, and far too late, to solve the coming oil shortage.

We're using up our oil, and finding little to replace it. That means there's…

Reason #3: Depletion Is Eating Away Our Oil Supply

We still have billions of barrels of oil in the ground. But since we're not finding new fields, the ones we're using are getting old. And older fields suffer from "depletion"— meaning their production *decreases* each year.

Anybody who's ever worked an oil field knows about this. When you first drill a well, the oil is under a lot of pressure, and often even squirts out of the hole (creating a gusher). All you need to do is catch it. The oil comes out fast, easy, and cheap.

But after a while, the pressure decreases. Soon it won't come out by itself. That's when you have to start pumping. You still get lots of oil, but now it comes out slower, and costs you more.

Some time after that, even pumping isn't good enough. Now you have to drill more holes elsewhere in the field, and pump water *into* them to force more oil *out* of your extraction well. (Sometimes even this isn't enough—you might even have to pump in steam and detergents to break down the oil first.) At this stage, you're getting a lot less oil (and each barrel is *much* more expensive).

This gets worse every year until the oil comes so slowly that the field becomes unprofitable, and you abandon it.

Oil insiders call this "depletion." As each field depletes, you get less oil each year, and it costs you a lot more. And the world's biggest oil fields are all old, and starting to deplete rapidly…

According to *Petroleum Review*, the world is now losing more than a million barrels of oil per day to depletion—twice the rate of two years ago. And the decline rate is accelerating. The *Review*'s editor described this snowballing trend as "worrisome."

So ***depletion alone means crude will skyrocket***. Even though we have billions of barrels of oil left in the ground, fewer barrels each year can be brought to market. As the supply of oil to global markets sinks, prices will shoot up.

So we're not "running out of oil"—but that's the *wrong* crisis to be worried about. Oil prices are going to the moon ***even while there's plenty of oil left!***

Reason #4: Consumption Is A Runaway Train

At the same time our oil supply is depleting, consumption is skyrocketing.

In previous issues I've mentioned China and India: each with over a billion people, each starting to industrialize on a massive scale, and each putting massive strain on global oil markets. (These trends are still in their infancy—we can expect more turmoil from these sources.)

And we can't just blame these two countries. Consumption is surging worldwide. The International Energy Agency (IEA) issues regular reports on world oil markets. Oil usage is now accelerating so fast, the IEA can't even keep up with measuring it.

For example, the world's oil consumption for the second quarter of 2004 was 3.7 million barrels per day higher than the IEA had projected a year earlier. In the monthly report for October 2004, the IEA said world demand in the third quarter was 600,000 barrels/day higher than it had forecast *just one month earlier*.

The IEA recently warned that oil usage is a "looming crisis"!

Consumption is shooting up so fast, it's overwhelming supply. On January 30, OPEC suspended its price band. This means OPEC recognized it had to pump ***as much oil as it could*** just to meet demand.

In early March, Algeria's energy minister admitted OPEC lacks the capacity to raise its supply quotas. Oil isn't hitting its record prices just

(*continued on page 6*)

There's one field that *all by itself* could panic world markets. It's the biggest, most important oil field in the world: Ghawar, in Saudi Arabia.

Ghawar alone produces five percent of the world's oil. But now it's also producing a barrel of seawater with every three or four barrels of oil. When Ghawar was discovered 54 years ago, it was estimated to have 60 billion barrels of oil. We've already extracted 55 billion, so there's only 5 billion left. That sounds like a lot…but it's less than 60 days' worth of global consumption!

Ghawar is running dry…and when it goes, we'll lose 4.5 million barrels per day from world oil markets.

because OPEC is restricting it—just the opposite is true. OPEC is **maxed out**.

We saw this again on April 7, when Saudi Arabia said it would pump to maximum capacity. This has only happened twice before in recent history: before the 2003 American invasion of Iraq, and after hurricanes devastated US oil production in the Gulf of Mexico. A senior Saudi official said, "For OPEC and for Saudi Arabia, from now on, there are no constraints."

Think about this. Next time there's a terrorist strike on an oil facility in Saudi Arabia, or another Russian government takedown of an oil company, or another hurricane in the Gulf, or another flare-up of violence in Nigeria, or whatever….***there's no spare capacity left in the world***. Everybody is already pumping flat out. Oil will spasm and convulse upwards…with no way to stop it.

Oil's price will swing violently up and down from now on. There's no spare capacity left in the world to smooth out fluctuations!

This is why the International Monetary Fund's chief economist just warned of a "permanent oil shock." He said, "We should expect to live with high oil prices…The shock we see is a permanent shock that is going to continue…Oil prices will continue to present a serious risk to the global economy."

As the chief executive of Kuwait Petroleum Corp recently said: the era of cheap oil is gone forever.

Reason #5: Global Oil Supplies Are Unstable

We used to look to fields in Texas, the Gulf of Mexico, the North Sea, and other peaceful places for our oil. But no more: these fields are depleting rapidly.

Now we have to look to other places: for the most part, unstable countries run by thugs or maniacs. Look at the table to the right: note that 85% of the world's oil is in only 11 countries.

The "Political Risk" column contains a rating from global insurer AON Corporation. Note that 9 of the 11 top oil countries are rated as medium-risk, or worse. Overall, more than 75% of the world's oil is in countries rated as politically unstable.

Many of these places are political powder kegs, waiting to go off for one reason or another. And there are viciously anti-American forces waiting to take over most of them.

I've already discussed Saudi Arabia (see the May and June 2004 *GEA*s), and Russia (August 4, 2004 issue). Iran is also a time bomb about to go off (see the September 2004 *GEA*, and updates in subsequent issues). But others are just as bad.

World oil supply is so tight that *any* disruptions can cause price spikes. We saw this last year when unrest in Nigeria made oil shoot up—this in a place most Americans couldn't find on a map!

And now Venezuela is rattling its sword at the US too. Hugo Chavez is a raving Marxist lunatic, and unfortunately for that poor country, he's been its dictator for several years now. He recently threatened to shut off the flow of oil to the US, and even accused President Bush of trying to assassinate him.

As recently as a few years ago, this wouldn't have mattered. There was enough excess capacity around the world to fill in for any hissy fit thrown by a two-bit dictator in a banana republic. But world oil markets are stretched to the breaking point now…every barrel is desperately needed.

Petty tyrants like Chavez suddenly have lots of clout…and they're starting to realize it.

Country	Reserves (billions of barrels)	Percentage of world's reserves	Political Risk
S. Arabia	262.7	22.9	Medium
Iran	130.7	11.4	Med-High
Iraq	115.0	10.0	High
UAE	97.8	8.5	Low
Kuwait	96.5	8.4	Medium
Venezuela	78.0	6.8	High
Russia	69.1	6.0	Medium
Libya	36.0	3.1	Med-High
Nigeria	34.3	3.0	High
US	30.7	2.7	Low
China	23.7	2.1	Medium

85% of world oil reserves are in only 11 countries…and most of them are unstable!

Reason #6: Insider Actions Speak Louder Than Words

Oil executives and government officials make soothing noises about our oil supply, but their actions tell us something different. They know everything I've said so far is true.

Big Oil is spending $76 billion to mine tar sands in Canada (black hydrocarbon gunk frozen into the ground), and Liquified Natural Gas in the Middle East (making diesel from natural gas: a hugely inefficient and wasteful process). They're also spending money on "heavy oil" in Venezuela (underground sludge that needs to be melted with steam or chemicals before it can be extracted), and other big projects.

Crude oil is *much* cheaper than these energy sources: just drill a hole, and pump the liquid out of the ground. But as I said, Big Oil has learned there's little left to find. They wouldn't be spending billions on these other projects if they thought there was any crude available.

And they're also expecting higher oil prices. Chevron Texaco just announced a $16.8 billion merger with the smaller oil company Unocal. After a year of record oil prices, Unocal is more expensive now than it would be if oil were to come back down. So buying it now would be a breathtakingly stupid move for Chevron Texaco…*unless* oil executives knew oil was going higher yet.

Lee Raymond, the CEO of Exxon Mobil, made an interesting comment to the *Wall Street Journal* about the merger. He said:

"I can never remember an industry consolidating at high prices. But I can remember an industry consolidating at low prices."

So he's saying even with oil in the $50s, it's still at relatively "low prices"!

After the last year, Big Oil is sitting on a mountain of cash. Exxon Mobil alone finished 2004 with $23.1 *billion* cash in hand. Its quarterly profit

Why have oil prices been falling lately?

Despite everything I've said in this issue, oil prices recently tumbled. Here's why:

1. US inventories are rising, up over 20 million barrels just since February. The 12-month increase is 8.5%.
2. Early signs of a slowing economy mean a slowing demand for oil.
3. Declining oil demand from China.

But these aren't really good reasons at all:

1. The US uses about 20.5 million barrels a day. Dividing that into our inventory, we only have about 16 days' worth of oil. The historical average is 20 days' consumption, so we actually have less oil stockpiled than usual.
2. The "slowing economy" is based mostly on retail sales figures. But does this mean we'll be driving and flying less during the upcoming summer travel season? I'm not so sure. Plus, summer means hurricane season, and as we saw last year hurricanes in the Gulf can disrupt oil production and send prices shooting upward.
3. Predicting low Chinese demand is foolhardy. China's economy has been growing by 8-9% every year for the last twenty years, despite continual efforts to slow it down. There's no reason this year will be any different.

Plus, there are additional reasons to think oil will resume its upward climb soon. For example, the International Energy Agency is predicting rising demand and slightly shrinking supply later this year. And there are many political wildcards that could trigger a huge leap at any time.

If oil breaks the important psychological barrier of $50, it could sag as low as $47. As I write this, it's back up to $53, so this might not happen.

Even if it does, I expect this to be temporary, and a good chance to load up on oil stocks while they're temporarily weak.

for 4Q2004 was the highest ever for a publicly-traded company: $8.4 billion. That's $3.8 million of profit *per hour*.

But what is Exxon going to do with all that money? Is the company out searching for huge new oil strikes? No. Instead, Exxon Mobil is spending $9.95 billion to buy back its own stock.

Other oil companies are doing the same. Royal Dutch/Shell plans to give $10 billion in dividends. BP plans to give $23 billion in dividends over the next two years. And so on.

Oil companies are supposed to make profits for their shareholders by finding, extracting, and selling oil. They've got lots of money to spend doing it—and remember, oil is wildly profitable right now.

But instead, these companies are paying dividends and buying back their own stocks. This means…

Energy companies know it's a waste of money to look for oil!

Big Oil has learned oil exploration and exploitation produce dwindling returns. As Robert Anderson, the former head of Arco, has said, "Oil is a sunset industry—and the sun is low in the sky."

And now you know why.

Summary: we're burning 30 billion barrels of oil each year, and replacing only a small fraction of it. Oil companies have learned not to bother searching for more, because there's little left to find. And the oil we do have in the ground is starting to come out slower and slower.

We're seeing the reversal of a century-old trend. Instead of more and more oil being produced every year, we're about to see a ***shrinking*** amount of oil coming to market each year.

But even as supply is sinking, demand is shooting up. This means permanently higher prices.

We're at the beginning of an earth-moving shift in the markets. These shifts come along just once or twice a generation…and can be obscenely profitable for those who play it right.

Which is why it's so important you follow…

The GEA Portfolio

I recently sent out an email with an update on our *GEA* portfolio. In case you missed it, we're up over 58% in the last twelve months!

That's an average, of course. Some of our recommendations have done much better—like the Apache calls where we made 86.5% in three weeks!

By comparison, the Dow is up a measly 1.26% in the same period. The NASDAQ is down: –.78%.

We're outperforming the market so well because most people are in denial about oil, gold, and the dollar. My approach is to correctly recognize "reality," no matter how unpleasant that may seem—because if you know what's coming, you can profit from it. And I believe our 58.15% profit in the last twelve months is just the beginning.

By the way, I've been issuing most of my recommendations in e-mail updates. If you haven't been reading them…you should! (You can make sure we have your current e-mail address by updating your account on the website. Click on Member Login, then Update Account Information.)

This month, I'm issuing a new recommendation:

Cimarex Energy (symbol XEC)

Cimarex is an exploration and production company domiciled in Denver Colorado. The company has proved reserves of 364.6 billion cubic feet of natural gas and 14.1 million barrels of oil. All of their reserves are in the United States.

There's a lot to like about this company:

- Undervalued assets
- Pristine balance sheet
- No hedging
- No political risk with reserves
- Management is experienced and successful

Their key fundamentals: market cap is $1.63 billion, revenues $675 million, P/E 10.13, debt is 0, return on assets is 16.26%.

The stock is currently selling in the $36 area. I recommend it at this price.