



**The  
Obsidian  
Outlook  
Newsletter**  
*"Monitoring the Market's Pulse"*

**ENERGY IN THE DRIVER'S SEAT**

**The Obsidian Outlook Portfolio**

Energy's advance is really driving growth in the portfolio. We are up 7.7% in the month of March alone and since the beginning of the year we are up 8.9% versus the overall market (S&P 500) which is flat versus the beginning of the year. Last month's price action confirmed a strong buy signal on crude oil and we are taking measures in all portfolios to take full advantage of the anticipated move higher and to protect the rest of the portfolio to the downside. Three primary steps have been taken: high P/E and highly speculative positions like UT Starcom and AXO have been eliminated, stocks which benefit from a sharp and sustained rise in oil prices were added like RSTG and this month we will establish covered call positions on the high potential positions we want to keep (DV and ECLG.) PKG is in a corrective phase in our opinion. We see no significant technical reason to suggest that this position will not reach our objectives.

LONG POSITIONS						
Name	Symbol	Quantity	Buy Price	Current Price	Gain (Loss)%	12 month Target Price
Bp Prudhoe Bay Royalty	BPT	300	48.30	72.49	<b>50.0 %</b>	100.00
Devry Inc	DV	200	17.36	18.93	<b>9.0 %</b>	20.00
eCollege.com	ECLG	500	11.36	12.70	<b>11.8 %</b>	16.00
PetroKazakhstan	PKZ	200	41.71	40.87	<b>-2.0 %</b>	60.00
Charles Schwab Inc	SCH	400	11.96	10.45	<b>-12.6 %</b>	20.00
Raser Technologies	RSTG	200	26.81	33.40	<b>24.6 %</b>	50.00

SHORT POSITIONS					
Name	Quantity	Sale Price	Current Value	Gain (Loss) %	12 month Target

PORTFOLIO VALUATION	
Cash	9,335.54
Market Value of Securities	50,917.00
Portfolio Liquidation Value	60,252.55

In terms of stocks on our watch list, we've got a big change to report. Although we still like these stocks, given our view that we will see a significant pullback near term, we have put their consideration on hold until the dust has settled.

Name	Symbol
Intel	INTC
CE Franklin	CFK
Coca Cola	KO
Merck	MRK
Radio One	ROIAK
Weider Nutrition	WNI
Barr Labs	BRL
Storage Technology	STK
Novatel	NVTL
DXP Enterprises	DXPE

Note one stock that we commented on last month, **General Motors** (NYSE: GM), was *removed* from the watch list. On March 16, 2005 GM updated analysts on their earnings prospects for 2005, and the news was a shocker! GM cut their expected earnings to only \$1 to \$2 per share in 2005 versus previous expectations of \$4 to \$5 per share—a reduction of over 50%! That led to a quick drop in its stock and downgrades on its debt. Since the company won't generate the cash many analysts had expected, it was inevitable that its stock would trade lower.

Indeed, GM looks cheap,...but looks are deceiving. We'd be buyers near \$20 per share, about \$10 *lower* than its current price of about \$29. Based on the new earnings estimates, GM's currently trading at a p/e of around 15, with a dividend yield of almost 7%. We think it will get even cheaper, once they cut the dividend (which we view as inevitable). Right now the *company* is in about as much jeopardy as the dividend.

But perhaps even more important is the signal GM sends about the health of the US manufacturing and finance sectors. For a company that makes all of its profit on finance (through GMAC), and loses hundreds of millions on its manufacturing of autos, GM's news could be a signal that the robust cash flows generated through financial dealings is near an end. And without a robust manufacturing sector to fall back on, the overall US economy could be headed for rough times.

#### **Equities showing corrective bias near term**

CASH. That certainly feels like a good place for uncommitted money right now. As such, we've increased cash in select portfolios based on our view that US equities will decline through Q3 2005. The market has recovered a little over 50% of the decline from the peak in 2000 to the low of 2002. However, corrections happen in all trends and the correction we believe will occur between now and Q3 2005 is no different. In our opinion, lower equity prices will be a positive for the longer term direction of the market.

The first support for the market (as represented by the S&P 500) is in the 1100 area, with 950 providing support if that level is breached. High P/E small caps are particularly vulnerable in these scenarios.



**Options Trading Signals: The Put-Call Ratio remains on a “Sell” Signal**

The Put-Call Ratio on Equity Options remains a sell signal. (This is the same sell signal that has been in place since December 2004!) Unfortunately, the Put-Call Ratio is nowhere near the level needed for a meaningful buy signal. Given current trends, the buy signal could be 4 to 8 weeks away, though it could be longer. The persistence of this sell signal might mean the markets will grind even lower.

**Oil - the “NEW” hot sector!**

A strong foundation for higher crude prices was laid in the most recent pullback. \$60 is definitely a target level. Interestingly, only now, after missing the 2+ year rally in energy investments, have major Wall St. firms begun to tout oil as a great trading/investment opportunity. This is evidenced by Morgan Stanley’s recent research reporting a range for oil prices from \$50 to \$105.

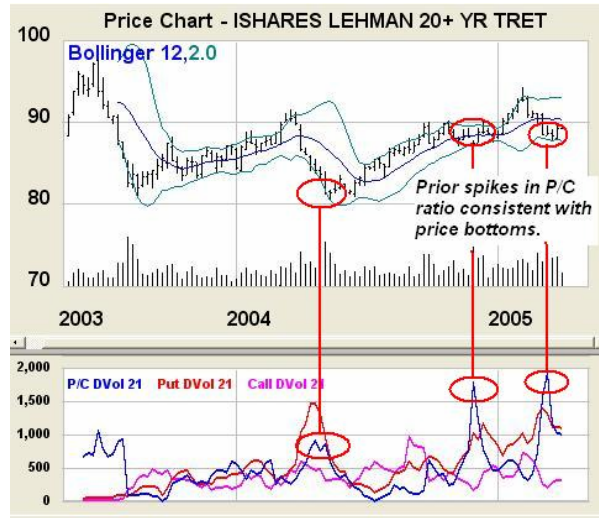
So a note of caution: prices of energy-related investments will become even more volatile in the weeks ahead. Call us skeptical, but whenever Wall St. firms begin touting something, we start looking around for the exits. Invariably, the goal of Wall St. firms is to distribute their shares at high (and often unsustainable) prices, which often occurs at the end of a price move. Watch for a downside break of the 52.00 level which would confirm a double top and take the market down below \$50.

You might ask, “Is the move over? Should all energy investments be liquidated?!?” No, not yet. There’s likely more upside ahead as China soaks up surplus oil supply over time. Besides, most clients hold positions at significantly lower prices. But clearly we’re in the early stages of the “Great Wall St. Energy Stock Distribution”. That’s how the game is played, but we don’t plan on being without a seat once the music stops.



### Whaddaya know,..Long Bond prices did bottom in March!

Our indicators that flagged the recent move in longer-term bonds did a great job. Bond prices hit their recent low the 3<sup>rd</sup> week of March—about a week later than we first suspected--and have begun to head higher. Taking another look at Put options trading on the iShrs for the 7-10 Yr Bond (sym: TLT), we see that a clearly defined “spike” has appeared in the Put/Call ratio. Such spikes often foretell a bottom, as has occurred several times during the last 3 years (see graph below).



We therefore expect higher bond prices (and therefore lower *yields*) on longer-dated bonds. Yields are unlikely to drop to the levels seen in February, but we do believe they could see 4.3% by mid-year.

Such an outcome is consistent with our view of US equities heading lower into Q3 2005. Indeed, what the bond market may be signaling is that investors are slowly but surely shifting to safer assets. Such a “flight to quality” would drive bond prices higher, and result in lower yields.

We also note that the yield curve continues to flatten after the Federal Reserve raised short term rates last month, and still believe a yield curve inversion will occur within the next 12-18 months at a interest rate between 4% - 4.5%.

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