

>: Return of the Big Banks?

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Anybody been looking at the money center banks lately?

Boy, we're seeing some exciting action taking place over there. Stocks in the group are starting to break out of massive multi-year bases to new all-time highs.

Some of you may remember that I started talking about the banks back on Feb 7th of this year, when I recommended the purchase of a call option (married with a put option for protection) on the Regional Bank Index, the BKX.

The BKX is an index of large regional banks. At the time, it was trading at 105 and I said "watch for a big break either to the upside or downside."

I recommended the purchase of the Sept 110 call at \$2.80, and the simultaneous purchase of a 100 put at \$2.50 for a total cost of \$5.30 (\$530 per spread). Since then, the BKX has broken out to the upside, and currently stands at 113. The puts have declined to 60 cents, but the calls are currently being offered at \$6.60.

That puts our current profits on the whole spread at over 30%.

If this breakout in the banking sector is for real (and with yesterday's 26 billion dollar buyout of Golden West Financial by Wachovia, it just might be), I wouldn't be surprised to see the BKX trade up another 10-20 points from here. For those of you that didn't pull the trigger on this one back in February, hold off for now, and if we see a pullback I may re-recommend it.

But now, on to other things ?

I want to talk to you today a little bit about what's behind the near parabolic move in gold and copper.

What we're seeing take place in gold is a buying panic. Not from the general public (they seem to be enamored only with silver), but rather it appears that the gold producers themselves are buying vast quantities of gold futures.

Why is that, you may be asking yourself. Let me explain:

The gold producers suffer from a terrifying lack of faith in the price stability of their own product. You can't blame them ? for 20 years gold did absolutely nothing. The only smart money play between 1982 and 2002 was to sell gold short into any halfway decent rally. And that's exactly what the producers did.

They would sell what are called "far" futures, meaning that they would strike deals where they were committed to sell gold at a set price on a fixed date in the future. If gold prices collapsed, they would have looked like geniuses, because the futures contract would have guaranteed higher prices.

But when gold started to skyrocket, these hedges started to cost the gold producers BILLIONS in lost profits, and under current SEC accounting rules these hedging losses get marked as charges against earnings.

This hedging program has turned into a nightmare for the gold majors. So, faced with this dilemma, they've have been rushing into the market to buy back their hedges ? creating a massive "short squeeze" effect in the price of gold.

This bodes well for the long-term viability of gold prices, because without the constant pressure of forward gold sales by the producers, gold has a real legitimate shot of going back to the old highs of \$850 an ounce.

What's going on with copper is a little more complex.

There is definitely a short squeeze taking place. (Shorts are people who bet on declining prices. They borrow stocks or commodities that they don't own, and sell them in the hope of buying them back cheaper.) I guarantee that some big name speculators are taking a spanking on copper.

The other factor affecting copper prices is the ongoing unrest in South America.

Our good friend Mr. Hugo Chavez seems intent on becoming a modern day Bolivar. As such, we are seeing some disturbing trends develop within the South American political leadership.

Bolivia's recent nationalization of their gas fields is just the most recent display of this nationalist trend. This is worrying because South America sits on vast quantities of natural resources. In fact, most of the world's copper comes from South America, and if this trend continues, we could

have serious shortages of this essential industrial metal.

Those of you who followed my advice on buying Phelps Dodge (PD, one of the world's largest copper producers) at \$59.70 are sitting quite pretty here. I'd continue to hold this one, and will let you know if any correction we see in the future is strong enough to buy more.

To all you current and future tycoons out there: The stage is set for massive wealth generation over the next decade.

Whether you have \$5,000 or \$5 million, the commodity train is fast leaving the station, and it promises riches to everyone who jumps on board and keeps their eyes open.

So get ready on your end, because Point and Profit will show you exactly what to buy, what to sell, and when to do both!



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