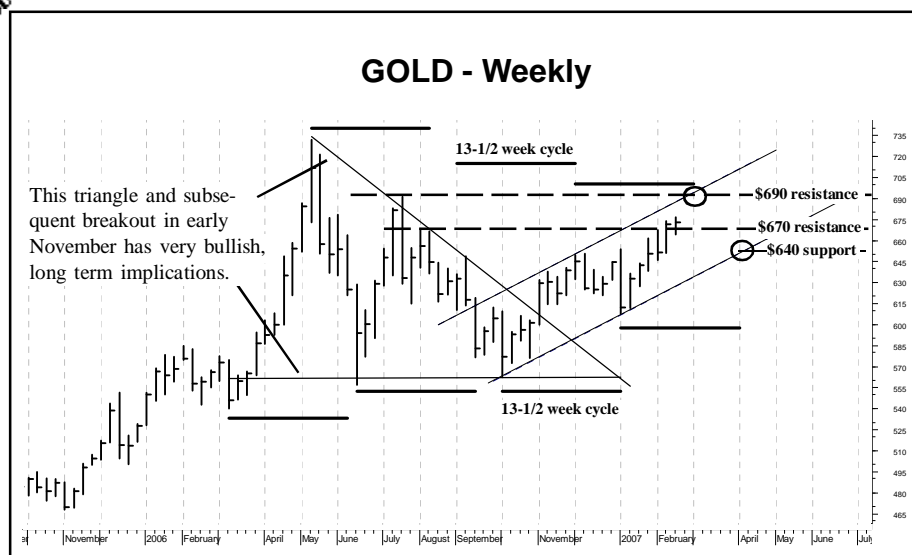


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A GOLDEN OPPORTUNITY



- Don't trade out of your long term positions with the intent of buying them back during March.

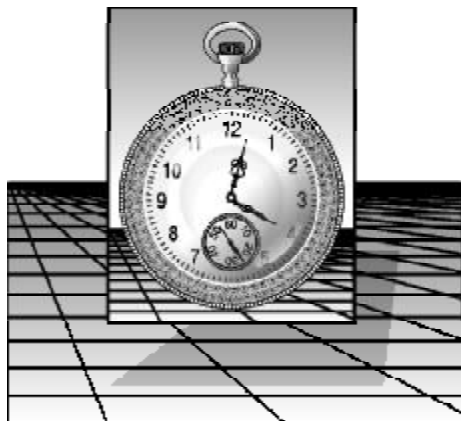
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There has been some talk lately about IMF gold sales. I have to agree with Doug Casey that this is a nonevent, even if it actually happens. He shared some interesting comments in a February 12 article posted on 321gold.com. You can take a look by searching it out at 321gold.com or directly at <http://www.321gold.com/editorials/casey/casey021207.html>.

It is more instructive to look at the technical side. Gold tends to conform to a 13-1/2 week cycle on average - between highs as well as between lows. The chart above is weekly, and I have indicated the 13-1/2 week cycles. Cycles between highs and between lows are not always well-behaved. Nevertheless, it is informative to plot where the next highs and lows are due. Doing that can steer you away from buying into highs and selling into lows.

The next high is due at the end of February, so this leg of the rally doesn't have too much longer to run. On the other hand, if you plot the next low, it is due near the end of March. Technically speaking, we will likely see an excellent buying opportunity develop a few weeks from now.

There is also some minor resistance to be expected at \$670. So far, prices have not had much trouble there. There is going to be more significant overhead resistance at the July 2006 high at \$690. I have drawn in a rising channel from the October 2006 low, and the top of that channel is also right at the \$690 level. We can conclude that gold prices will have to take a rest before moving higher than \$690 in the short term. We will see some profit-taking during March, and then the following rally should extend to the May 2006 highs at \$730. That is where the next significant level of resistance will be encountered.



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Don't trade out of your long term positions with the intent of buying them back during March. The study of cycles can give us an insight as to what to expect in the future, but they are not good enough to trade on. Most folks who sell out will be reluctant (scared) to buy back in. Hang on to your mining stocks. Add to your positions during weakness - which we expect during March. The bottom channel at the end of March is at about \$640, and this is a decent expectation on the down side. I will elaborate in the next monthly letter, but my longer term work is indicating that although 2007 looks very profitable, 2008 and 2009 promise to be a rocket ride in the metals.

The mining stocks, of course, do not always move in lockstep with gold, but the technical picture in the XAU looks very similar at this point. Weakness in March should bring the XAU back to its support at about 135.00. The most significant overhead resistance level is 150.00. This is a very important barrier; but once through 150.00, the sky will be the limit for the XAU. However, I expect some short term selling before 150.00 is breached. Simplicity is very comfortable here at about 4.60, which indicates the mining shares are fairly valued versus gold.

The dollar plays into this also. Events only reinforce my bearish outlook for the U.S. dollar, but most important is its ever-weakening technical picture. The Dollar Index keeps hitting a brick wall at 85.00, and it finds it easier to fall than rise. I expect to see the Dollar Index work its way back down to its December 2005 low at 82.00 and then for all hell to break loose as it plunges below that level of support. Eventually, the dollar will hit 60.00; and as the dollar falls, gold rises. Bottomline, don't let anyone talk you out of your gold, even for the short term.

The war for energy continues, and most of it is in the Middle East. The idea of petro-fascism is becoming more of a reality every day. I was told that a third naval task force is being sent to the Gulf. I suspect this is to relieve the first one (which has been there the longest), but there is a second task force there as well. Anyway you look at it, the war is escalating, and that will push energy prices higher.

The real problem for consumers is availability. If tensions suddenly flare and the Middle East erupts, energy prices will double very quickly. However, \$100 crude oil does not guarantee that you won't be sitting in long lines at the gas pump, ala the 1970's.

We are going to do very well with our energy investments - even the Canadian trusts that have been so problematic since the Canadian Finance Minister kicked the stilts out from under us. According to recent testimony by the Canadian Finance Minister himself, corporations in Canada pay on average 6.6% in taxes. Dang, that sounds like a pretty good deal! I think the Conservatives' arguments for the taxing of trusts is getting weaker by the day.

That doesn't mean the Canadian government will not proceed and make some stupid mistakes, but this may work out much better than most expect. The trusts are paying great dividends, and they must continue to do so to attract the capital they need in the future. Trusts that convert to corporations will continue to pay generous dividends, and perhaps the corporate tax thing will not hurt that much.

The market, however, has factored in the worst case scenario - the trusts get taxed at 46%, and crude oil sells for \$30. I don't think either of these events will come to pass. The trusts are great buys. It will take some time for them to recover, but I think they will be selling for more in the future than they are now. To manage risk, buy the trusts at our recommended buy prices, and resolve to be patient. This will take time to work out.

Crude oil hit \$61.00 basis March, which is in line with our overhead resistance target. Since then, it has settled back a bit, but it is finding near term support at \$57.00. There are no negatives in my short term technical work. More important for the longer term outlook - crude did, indeed, trigger a second MACD buy signal on Friday February 9. This signal is strong evidence that we should be looking for crude to work higher over the next several months. If there is a surprise event in the Middle East, we could see new highs sooner than anyone currently expects. Natural gas is encountering some problems getting through 8.00; but once it breaks through, I look for a quick move to \$10.00.