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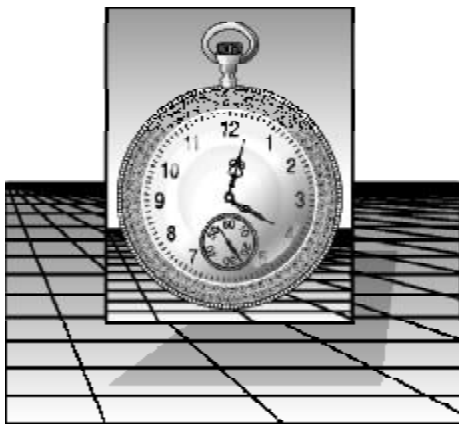
**PROFESSIONAL TIMING SERVICE**

*Chris Hester*

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The next issue will be published January 18.

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## DEFLATION?

*Not while the Fed is still in charge.*

The Fed will continue to keep liquidity high, and they will do everything in their power to inflate asset values. Inflation is a dandy solution to bad real estate loans. Nevertheless, I see more forced selling in real estate on the way this year. There will be more foreclosures and further adjustments in the industry as the politicians work to sweep the problems away and the banks work to acquire the best out of the rubble for their own.

It seems that every banking crisis gives the banking industry an opportunity to consolidate the best markets while they let the undesirable aspects flounder on the taxpayer's dime. Retail lending will be much more conservative. Gone will be the liar loans, gone will be the easy money, and gone will be the majority of the pop-up mortgage companies we saw appear, as if by magic, over the last 10 years. We will see a wider spread between what banks are willing to pay and what they will charge.

We see Fed funds at 4.25% and mortgages still a bit over 6% - if you qualify. Thus far, the Fed's rate cuts have not trickled down to the consumer, and that is how the banks will manage to work their way out of this mess.

Although bankers have been attracting sizable investments from foreign sovereign wealth funds lately, I am not suggesting buying banking stocks - mainly because our work says we should stick to tangible assets. As individual investors, we will make more money investing in the assets that are being inflated than in the financial institutions behind the inflation.

There will be a superior investment opportunity in real estate. Real estate will catch up to the rest of the bull market in real assets, but the adjustable rate mess will cause some severe pain first. There is more selling ahead.

Currently, there is a supply problem due to over building and over speculation. The inventory of homes for sale is going to continue to grow. Looking at the demand side, the cheaper dollar is already attracting foreign interest. Real estate activity in northern Montana is seeing a surge of Canadian interest. With the loonie at par with the U.S. dollar (after being only worth 60 cents five years ago), real estate looks ... well, dirt cheap.

There was the case of a Canadian fellow recently making an offer in Phoenix where the real estate market has been downright dismal. The rest of this story is interesting. He offered about \$350,000 for a property that had been listed at \$450,000. The seller turned him down, but he may have regrets.

The moral is that prices have to come off a bit more before the deals will begin closing, but it is time to start twisting your thinking away from the bear in real estate and start getting up to speed with your local market. Foreign interest in buying U.S. real estate will be increasing this year. Of course, we will be relinquishing our assets to foreign ownership, but that is what happens when you run up hundreds of billions of dollars in deficits with your trading partners while devaluing your currency.

Population numbers will help with the demand side of this as well. The U.S. population grows at the rate of three million persons a year. That's roughly one more Chicago each year. This doesn't account for immigration, and a likely answer to the oversupply of housing will be to increase demand by loosening immigration standards.

I am not going to be able to give you advice on local real estate markets. That's why you need to start doing your homework and come up to speed on your local market. I learned the key to buying real estate in depressed markets from a friend who is an old hat at the real estate investment game. He is one of the best and most successful people I know. I remember some 30 years ago when he purchased a strip mall for \$5,000. Tom calls it "vulture investing" where you buy at ridiculously low prices during the very worst of times.

The key to success in this approach is to have deep enough pockets to see the asset through. There will, perhaps, be a few years before you can have it at full occupancy and making money, and this "baby through phase" can be expensive. Another mentor of mine tells of buying real estate in Missoula during the depression for back taxes. That is as "vulture" as it gets. The only flaw in his plan was that he didn't think the depression would last as long as it did. Nevertheless, having deep pockets allowed him to keep the property. He eventually sold it and reaped generous profits, but it wasn't easy. By the way, Tom sold the strip mall three years ago for a multi-million dollar profit. It is good to be ahead of the curve - but, hopefully, not too far ahead.

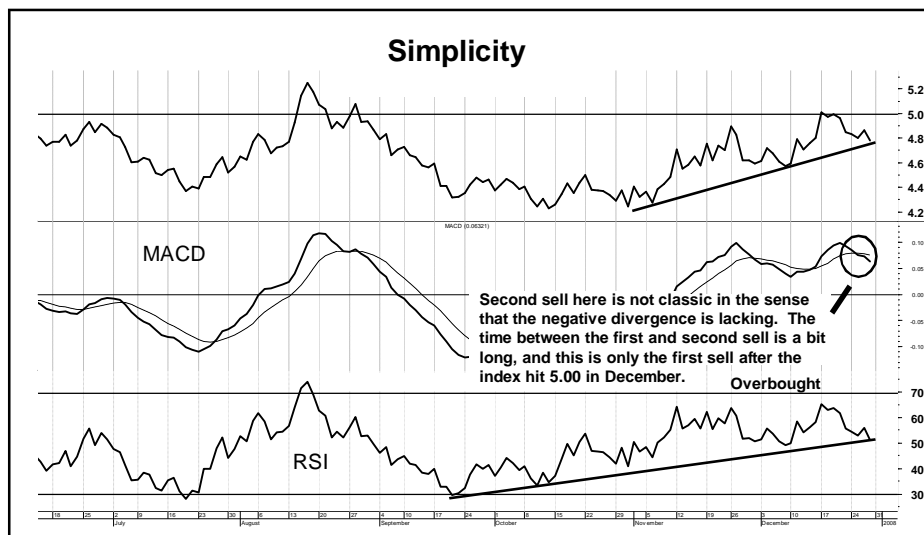
The Fed fears deflation more than anything. Deflation is a consequence of not enough money. That makes cash valuable. I don't see anything technical or fundamental to support the idea that the dollar is going to regain its former splendor or increase in value. Believe me, the Fed will see to it that there will be plenty of money. The separation between haves and have nots in our society may well expand as a consequence, but the money will be there, and real asset (commodity) prices will rise.

I believe we will see a recession this year, but it will be milder than the "doomers" are forecasting. One interesting consequence of a U.S. recession is that business will be compelled to outsource more in order to reduce costs. This will stimulate Asian and Indian demand for raw materials.

The secret to solving the subprime problem and real estate glut is to devalue the dollar. Some folks are locked into dollars. Some are not. To the extent that foreign entities can exchange their excess dollars for things of value; i.e., raw materials, energy, military might, technological knowledge, and real estate, they will.

So, what is all this bullish dollar talk lately? The dollar bounced off oversold lows in November, and everyone got all excited, forecasting a huge dollar rally in 2008. This was merely a technical bounce during a down trend. The Dollar Index, basis March, hit our upside objective at 77.50 outlined in the December letter. It has since collapsed, leaving large trading gaps on the way down. Those gaps are negative longer term; but often, prices will make one last ditch attempt to rally and "fill the gaps" before assuming the major trend in earnest. Consequently, one more attempt to assault the 77.50 resistance level is possible near term. Just remember, whatever happens in the short term is but a short term phenomenon. It, too, shall pass. Long term, our foreign friends have too many dollars, and they are anxious to exchange them for something of lasting value. I don't think you will see the Dollar Index back to 80.00 ever again.

I have been getting a number of panic e-mails lately from folks wanting to jump into gold with both feet near all-time highs. That always makes me nervous. The prospects of seeing gold throttle back to the \$740 - \$720 level does not look as likely as it did last month. Gold held up very well as the dollar bounced, and we may be nearing a new paradigm where gold begins to separate its close tie to the dollar. I expect to see gold accelerate when the dollar is weak, but consolidate when the dollar is strong - like it has over the last two months.



Should we give into emotion and take the plunge? Let's take a look at what Simplicity is up to. It is disappointing that Simplicity barely broke over 5.00 last month. However, there has been a second sell in MACD, although, as I have noted, I am suspicious and suspect that there is another true second sell coming. The RSI Oscillator did not get overbought either, although the model is close to breaking trend lines in the RSI and Simplicity.

Another thing that makes me a bit nervous about pulling out all the stops this soon is that gold is again reaching for its old highs at \$850. Old highs always offer some overhead resistance. I think we will see another brief selloff in both gold and the stocks, but \$780-\$800 is the worst I envision on the down side. It is time to raise some of the downside buy prices for the majors. You will note that I have changed the buy prices on several of the issues on our buy-and-hold list on Page 6.



My favorite major gold producer on our list is **Kinross** (KGC-NYSE-\$18.77). It did drop back some, but it didn't threaten our old buy price at \$15.00. We can raise the buy price to \$17.00 at this point. Kinross has grown to be #8 in world production and #5 in world reserves. They have three very juicy new projects in the works, and I think their future growth prospects are excellent. Put your open orders in and be patient.

When looking for investment opportunities, I am always attracted to what I like to call "low-hanging fruit." Even when stocks are in up trends, they can correct temporarily and can become low-hanging fruit - hence our downside buy prices. Real estate definitely qualifies, although it is a bit early yet. Buying low-hanging fruit is a strategy that has played very well for PTS readers in the past. So, keeping our focus on tangible assets - as suggested by the Dow/gold ratio and our Annual Asset Allocation Model - where is the low-hanging fruit?

Perhaps the most obvious is the lower tier mining stocks. These smaller and, admittedly, more speculative exploration companies did not follow the mining sector during the August-November rally. This is not unprecedented. This failure "to join the party" reminds one of what happened in 2005 when the lower tier gold miners failed to participate (some crashed severely) while the majors were strong. Most of them more than made up for it during 2006 when the mining stocks surged again.

I like to have some bets on the little guys, but they are certainly not the majority of my holdings. Everyone has a different financial circumstance, so you will have to decide what a prudent wager on these will be for you individually. There is risk here, but the juniors certainly do beat buying call options, and they do appear to be poised for superior performance in 2008.

Currently, I favor **Taseko** (TGB-AMEX-\$4.96) and **Great Basin Gold** (GBN-AMEX-\$2.71). They are our most recent lower tier recommendations. They are buys at \$4.50 and \$2.45, respectively, and both hit their prices since our last letter. Be sure to diversify. Don't fall in love with any one stock; but when the mainstream finally discovers commodities, the mining shares will all explode. The small ones will not be left behind.

The fundamentals are looking stronger for gold, which is one reason I do not expect to see gold adversely affected much by periods of dollar strength this year. There are supply shortages developing in gold (mentioned in the last mid-month letter). We could well see a situation of "peak" gold develop in the next couple of years. In the meantime, as standards of living in Asia, India, Russia, and other emerging economies improve, individual gold ownership will increase. Gold ownership is something most non-Westerners are attracted to culturally.



There are also new technologies emerging that use gold and silver in unique ways. Medicine is finding silver a long forgotten antibiotic. There is a new technology using gold, along with other precious metals, in the catalytic converters on diesels. Meanwhile, gold, like oil, is becoming more difficult to find.



There is no doubt in my mind that global crude oil production has peaked, and I see forecasts by conservative institutions looking at demand increasing to something in the neighborhood of 88 million barrels a day in 2008. That is going to be one big trick to pull off. Nearly all new production - even in Saudi Arabia - is sour crude. Tar sand is the sourest in some cases. It boils down to the fact that there are not many folks that can process low grade crude - in the U.S. especially.

**Valero** (VLO-NYSE-\$70.55) and **Frontier Oil** (FTO-NYSE-\$41.10) are the exceptions. Valero dipped down under our \$65.00 buy price last month; and, hopefully, you were able to grab some. Frontier has not reached our price, but both of these could easily dip this month.

These companies will tend to rise and fall somewhat with the price of crude, and crude should remain calm until at least February. Minding the principals of balance and diversification, keep your orders in at \$65.00 for Valero and \$36.00 for Frontier.

Another stock on our list that is involved with various mineral projects as well as a huge new, modern refinery to be built in Newfoundland is **Altius Minerals** (ALS-TSX-C\$28.90). I am raising the buy price to C\$24.00. It wouldn't take much to dip to that level. Keep in mind to not get overly aggressive with them because, although the paperwork is progressing well on this project, they have not broken ground as yet. The refinery will not come on line for several years, but adding a few shares at C\$24.00 if given the chance looks prudent.

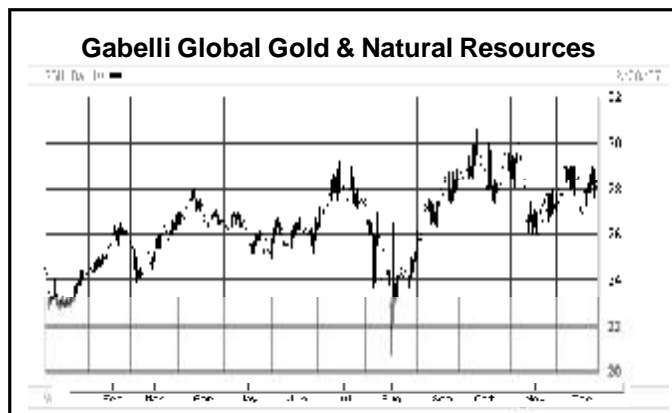
The refiners are not low-hanging fruit, but **Headwaters** (HW-NYSE-\$12.04) is. Price weakness during 2007 was disturbing, but Headwaters is at the forefront in coal liquefaction. This is something our country absolutely must embrace. There are problems to be solved, but they are solvable, and Headwaters is offering real time solutions. This is not on the lab bench. There are physical plants going up right now, and peak oil is a “right now” problem that needs to be addressed. Hold your Headwaters, and buy more if it dips to \$10.00.

Peak oil will also have to be addressed by embracing nuclear power. The nuclear solution will take longer to implement than clean coal, but the rest of the world is not so hesitant. The price of uranium is off its lows, and so are the uranium miners. **Laramide** (LAM-TSX-C\$6.48) is my favorite on our list. Don't pay over C\$8.00.

Commodities are going higher this year, and there are a couple of items on our list that will give you a diversified position as well as some income. First, there is the **Pimco Commodity Real Return Strategy Fund** (PCRAX-\$16.02). They had an unfavorable IRS ruling in 2006 that caused them to alter the “strategy” part of their approach. The strategy is to essentially buy commodity futures, but pay for them in full. You don't actually buy a commodity contract. You promise to buy when the contract expires. You then put up what amounts to earnest money called the “margin” to be sure you can cover your promise. If the price falls, you will have to put up more money. Pimco puts up the full amount of the contract, so there is no leverage involved, and no margin calls.

The second step in the strategy is that one can put up government paper like T-bills instead of cash, thus earning the interest on the paper while waiting for the commodity to rise in price. Pimco had previously been using paper such as swaps, etc., but the IRS ruled against them employing such sophisticated collateral. It seems that everything has been straightened out, and the fund has been doing better. It is designed to follow the Dow Jones AIG Commodity Index (<http://finance.yahoo.com/q?s=^DJC&d=t>), and it paid about 5% last year. I am raising the buy price, so look to buy some shares at \$15.00 or better on a pull back.

Another diversified approach on our list is **Black Rock Global and Energy Resources** (BGR-NYSE-\$31.04). It paid a big year-end distribution of about \$2.28 last month, so the yield is not really as large as it seems if you look them up. When a distribution is paid, the price will fall by the same amount. That means you don't really gain anything but a possible tax liability - as I have discussed in some of the past online updates. I am raising the buy price to \$29.00, which should give you a 5% dividend and good upside potential. If you own Blackrock, I would reinvest the distribution if you haven't already.



**Gabelli Global Gold & Natural Resources** (GGN-AMEX-\$28.75) also gives you a diversified shot at rising commodity prices with a tilt toward precious metals. They have been paying 14 cents monthly; and if you purchase it at \$26.00 or better, it will provide a 6.5% yield. Put your orders in and be patient. GGN swooned from \$29.00 to \$21.00 last summer, allowing readers plenty of opportunity to accumulate. I think buying at \$26.00 is well within the realm of possibility.

There will be no deflation in the overall economy in 2008. With the exception of real estate, there will be a good deal of inflation. The economy will be soft. Nevertheless, prices for raw materials, energy, food, insurance, education, and medicine will all be higher at this time next year. The banks will survive - quite well actually - but the big money will be in commodities and investments advantaged by higher commodity prices.

## Recommended Stocks For Buy And Hold

**Note: You can get quotes on Canadian stocks in Canadian dollars by using the symbols we have listed at [www.bigcharts.com](http://www.bigcharts.com). Thus, if you want a quote for Peyto Energy, go to [www.bigcharts.com](http://www.bigcharts.com) and type in CA:PEYUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by 1.02. You should buy at or below the posted downside buy price. The downside buy price does not imply that this level will necessarily be reached, but that this is the maximum price we recommend that you pay for the issue. Changes since our last posting are in bold letters.**

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 12/28/07	Downside Buy Price	Div 12/28/07	Target-T Stop-S	Web Site
<b>U.S. \$</b>									
<b>Agnico-Eagle</b>	<b>AEM</b>	<b>NYSE</b>	1/10/2007	36.00	54.50	<b>50.00</b>	0.33%		<a href="http://agnico-eagle.com">agnico-eagle.com</a>
<b>Alliance Res</b>	<b>ARLP</b>	<b>OTC</b>	9/29/2004	27.98	34.94	<b>34.00</b>	6.41%		<a href="http://arlp.com">arlp.com</a>
<b>Apache Corp</b>	<b>APA</b>	<b>NYSE</b>	3/5/2007	68.00	108.45	<b>90.00</b>	0.55%		<a href="http://apachecorp.com">apachecorp.com</a>
<b>ASA (1)</b>	<b>ASA</b>	<b>NYSE</b>	11/19/2002	31.00	76.25	<b>70.00</b>	.525		<a href="http://asalt.com">asalt.com</a>
<b>Barrick Gold</b>	<b>ABX</b>	<b>NYSE</b>	1/5/2003	22.85	42.88	<b>38.00</b>	0.70%		<a href="http://barrick.com">barrick.com</a>
Baytex Energy	BTE	NYSE	5/18/2004	9.00	19.18	HOLD	11.18%		<a href="http://www.baytex.ab.ca">www.baytex.ab.ca</a>
<b>Black Rock</b>	<b>BGR</b>	<b>NYSE</b>	8/3/2005	25.99	31.04	<b>29.00</b>	4.83%		<a href="http://blackrock.com">blackrock.com</a>
Canetic Energy	CNE	NYSE	4/19/2006	22.25	13.49	HOLD	16.80%	S = 12.00	<a href="http://canetictrust.com">canetictrust.com</a>
Fording Coal	FDG	NYSE	11/16/2004	22.74	38.71	HOLD	5.40%		<a href="http://fording.ca">fording.ca</a>
Frontline Ltd. (2)	FRO	NYSE	1/4/2007	31.00	48.54	40.00	5.15%	S = 27.70	<a href="http://frontline.bm">frontline.bm</a>
Frontier Oil	FTO	NYSE	8/3/2005	14.38	41.10	36.00	0.49%		<a href="http://frontieroil.com">frontieroil.com</a>
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005	22.10	28.75	26.00	5.84%		<a href="http://gabelli.com">gabelli.com</a>
Headwaters	HW	NYSE	3/10/2006	36.30	12.04	10.00	n/a		<a href="http://headwaters.com">headwaters.com</a>
Kinder Morgan LP	KMP	NYSE	6/8/2007	52.50	54.52	HOLD	6.46%	S = 48.40	<a href="http://kindermorgan.com">kindermorgan.com</a>
Kinross Gold (3)	KGC	NYSE	6/6/2002	2.39	18.77	17.00	n/a		<a href="http://kinross.com">kinross.com</a>
<b>Kinross Gold</b>	<b>KGC</b>	<b>NYSE</b>	1/4/2007	11.00	18.77	<b>17.00</b>	n/a		<a href="http://kinross.com">kinross.com</a>
Mkt. Vectors, ETF	GDx	AMEX	9/11/2006	37.00	46.63	42.10	1.59%		n/a
Nordic American	NAT	NYSE	7/26/2007	38.50	33.68	30.00	11.31%	S = 28.80	<a href="http://nat.bm">nat.bm</a>
<b>Pimco Comod Fund</b>	<b>PCRAX</b>		3/2/2005	13.97	16.02	<b>15.00</b>	5.58%		<a href="http://pimcofunds.com">pimcofunds.com</a>
Schlumberger	SLB	NYSE	Buy at	75.00	98.80	75.00	7.10%		<a href="http://nat.bm">nat.bm</a>
Ship Finance (4)	SFL	NYSE	3/6/2007	0.00##	28.38	HOLD	7.75%		<a href="http://www.shipfinance.org">www.shipfinance.org</a>
Silver Standard	SSRI	OTC	1/4/2007	30.00	37.40	34.00	n/a		<a href="http://silverstandard.com">silverstandard.com</a>
<b>Silver Wheaton</b>	<b>SLW</b>	<b>NYSE</b>	3/10/2006	8.40	17.51	<b>15.00</b>	n/a		<a href="http://silverwheaton.com">silverwheaton.com</a>
<b>St. Trs. Gold, ETF</b>	<b>GLD</b>	<b>NYSE</b>	9/11/2006	58.85	83.00	<b>78.00</b>	n/a		n/a
<b>Transocean (5)</b>	<b>RIG</b>	<b>NYSE</b>	1/4/2007	75.00	146.02	<b>120.00</b>	n/a	S = 64.50	<a href="http://deepwater.com">deepwater.com</a>
Yamana	AUY	NYSE	4/14/2005	2.90	12.98	11.50	0.31%		<a href="http://yamana.com">yamana.com</a>
Valero	VLO	NYSE	4/26/2005	36.63	70.55	65.00	0.68%		<a href="http://valero.com">valero.com</a>
<b>Canadian Dollars</b>									
<b>Altius Minerals</b>	<b>CA:ALS</b>	<b>TSX</b>	8/9/2007	17.88	28.90	<b>24.00</b>	n/a		<a href="http://altiusminerals.com">altiusminerals.com</a>
Energy Split II	CA:EN	TSX	9/11/2006	17.00	9.74	HOLD			<a href="http://scotiamanagedcompanies.com">scotiamanagedcompanies.com</a>
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	16.88	HOLD	9.95%		<a href="http://peyto.com">peyto.com</a>
<b>Silvercorp Minerals</b>	<b>CA:SVM</b>	<b>TSX</b>	<b>Buy at</b>	<b>8.00</b>	9.33	<b>8.00</b>	1.61%		<a href="http://silvercorp.ca">silvercorp.ca</a>

(1) ASA dividend includes year end distribution.

(2) Frontline dividend based on regular payment of \$0.625 per quarter. Extras have been paid bringing the dividend on past 12 months payments to 13.38%.

(3) On 2/27/07 Kinross acquired by exchange for Bema originally purchased at \$1.06 on 6/6/02

(4) Ship Finance Intl. was acquired as a spinoff from Frontline 3/6/07

### Buy And Hold Junior Gold & Silver Stocks - The Option Alternative

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 12/28/07	Downside Buy Price	Div 12/28/07	Target-T/ Stop-S	Web Site
<b>U.S. \$</b>									
<b>Coeur d'Alene</b>	<b>CDE</b>	<b>NYSE</b>	9/2/2003	3.19	4.73	<b>3.80</b>	n/a		<a href="http://coeur.com">coeur.com</a>
Endeavor Silver	EXK	AMEX	7/26/2007	4.60	3.86	4.00	n/a		<a href="http://edrsilver.com">edrsilver.com</a>
Great Basin Gold	GBN	AMEX	12/21/2007	2.45	2.71	2.45	n/a		<a href="http://greatbasingold.com">greatbasingold.com</a>
Taseko Mines	TGB	AMEX	7/24/2006	2.40	4.96	4.50	n/a		<a href="http://tasekomines.com">tasekomines.com</a>
<b>US Gold Corp</b>	<b>UXG</b>	<b>AMEX</b>	9/9/2005	1.70	3.32	<b>3.00</b>	n/a		<a href="http://usgold.com">usgold.com</a>
<b>Canadian Dollars</b>									
Everton Res.	CA:EVR	TSX	1/4/2007	1.30	0.70	0.80	n/a		<a href="http://evertonresources.com">evertonresources.com</a>
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.37	0.50	n/a		<a href="http://goldenvalleymines.com">goldenvalleymines.com</a>
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	6.48	8.00	n/a		<a href="http://laramide.com">laramide.com</a>
<b>Mega Uranium</b>	<b>CA:MGA</b>	<b>TSX</b>	5/1/2007	6.75	3.55	<b>3.00</b>	n/a		<a href="http://megauranium.com">megauranium.com</a>
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	5.36	Hold	n/a		<a href="http://uts.ca">uts.ca</a>
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	1.53	1.60	n/a		<a href="http://minandes.com">minandes.com</a>

C\$ Denotes Canadian dollar. Quotes for Canadian stocks can be obtained on the U.S. OTC Bulletin Board (pink sheets) with the following symbols. I want to caution you, however, that OTCBB quotes are not always current. They can be a day or more old at times. You should take the quote in Canadian dollars (as described above) times 1.02 to see if the OTC quote looks correct. You can access these OTCBB quotes by using [www.barchart.com](http://www.barchart.com).  
Peyto Energy-PEYUF Laramide-LMRXF UTS Energy-UEYCF Minera Andes - MNEAF

**Target-T** A price in this column preceded by "T" represents the price at which you should liquidate the position and take profits. **Stop-S** A price in this column preceded by "S" represents the price at which you should place a sell/stop. Do not short on the target price or the stop price. There will not always be a target or stop price listed. For a further definition of a sell/stop, see the Welcome Letter.