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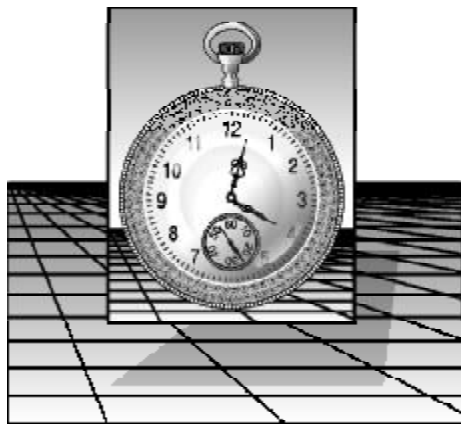
PROFESSIONAL TIMING SERVICE

Wally Foster

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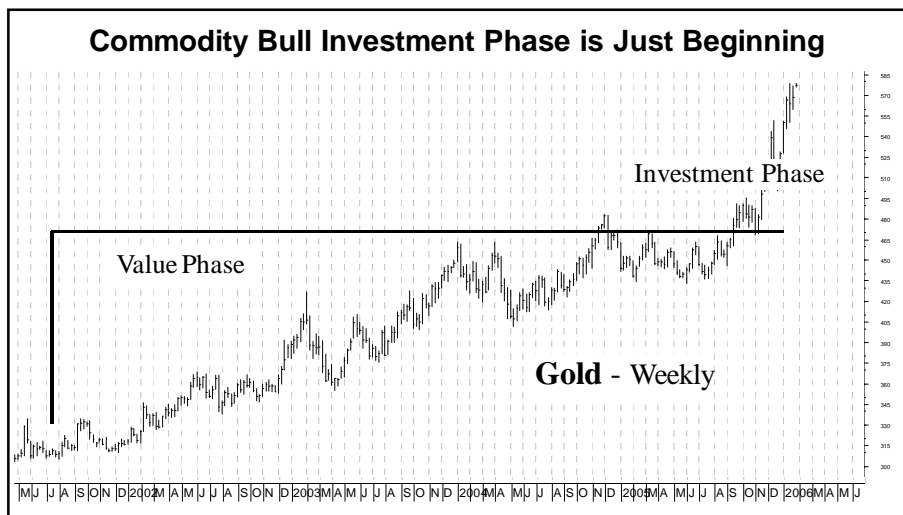
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Terrible Little Secret



There is a terrible little secret that the pros don't want you to know about ... not just yet. They have been keeping this under wraps for the last four years while they have been quietly accumulating their investment positions. However, the cat is now being let out of the bag.

Our longer term readers have been in on this, however, and there is still time to benefit. The secret is that there is a new commodity bull market under way, and it is about to get a lot more exciting. The value phase is over, and the investment phase is beginning.

That means the low hanging fruit - the big bargains - are all but gone. The good news is that as the commodity market becomes accepted as a mainstream investment once again (as it was in the 70's), commodity prices and those stocks that benefit from higher commodity prices will be moving much higher through the decade.

It is interesting that periodic shifts from financial assets to tangible assets (shifts from the stock and bond markets to commodities) occur about every 20 years. I discussed this in my study entitled "The Great Asset Shift To Tangibles." We could be in store for another 15 years of higher commodity prices before the current bull is over ... but that is really getting the cart before the horse. Suffice to say, the commodity bull is still a youngster.

Gold, of course, is the quintessential commodity or tangible asset. It has done very well for the first five years of the decade; and if it does that well for the next five years, we will all be pleased.

Frankly, I expect it to do much better. As 2006 opened, gold was able to break over old, long standing highs at the \$500 level, and it looks poised to easily surpass its \$800 peak set in 1980.

It should not be assumed that the recommendations made in the future will be profitable or will equal past performance. A list of all recommendations made by this advisor within the past 17 months will be furnished upon request. Professional Timing Service and/or associated individuals will from time to time have positions in the investments mentioned and recommended in this newsletter. All rights reserved - copyright © 2006 by Professional Timing Service.

The fundamental reasons behind gold's strength are slowly coming to light as the "terrible little secret" gets out. It all boils down to a basic matter of supply versus demand. Supply has been stalled because the 20-year bear market in commodities from 1980 to 2000 severely curtailed exploration, development, and production.

Profitable producers are now busy acquiring less profitable companies for their reserves. It is still cheaper to buy someone else's reserves than find new ones. New properties are only now beginning to be exploited. Meanwhile, demand is increasing at a surprising pace.

One factor is that Asia's middle class is growing, both relatively and absolutely. From an absolute point of view, there are some 600 million Asian consumers in China and India alone, and that number will more than double by the end of this decade.

From a relative point of view, 600 million consumers is a lot compared to the U.S. with a total population of less than 300 million. Asians are buying all sorts of things, of course; but with a tradition steeped in precious metals, they are buying a lot of gold as well.

The world's central banks were net sellers of gold for the last 15 years or more, but they have now become interested in buying their gold back. Even with the past years of selling, central banks still hold a sizable amount of gold. China - in becoming a credible world economic force - has found themselves woefully shy in gold reserves. Estimates are that they need to acquire up to 3,000 tons of gold to get on par with the West.

This fits well with their desire to diversify away from their enormous dollar holdings. China is going to use their dollars to buy raw materials and gold, regardless of whether their economy cools from white hot to red hot or simply keeps plodding along at an annual growth rate just shy of 10%. They also don't seem too concerned about price; but with dollars decaying in the bank, why should they?

Now, don't get me wrong. I don't expect to see China or those countries choking on petro-dollars dump their dollars. The reality is that they need dollars to participate in the world economy. The question is, how many dollars are enough?

I look for countries with trade surpluses to level out their stash and to aggressively relocate dollars into other investments, including precious metals, energy, other raw materials, and non-U.S. dollar foreign currencies. I am not a currency trader, but Asian currencies look enticing versus the dollar.

U.S. Treasury sales will suffer from this process.

I don't expect our foreign trading partners to ignore the U.S. Treasury market, but their appetite for our debt will not be keeping up our desire to deficit spend. Consequently, I look for long term interest rates to rise this year.

The U.S. money supply is accelerating. According to [The Daily Reckoning, www.dailyreckoning.com](http://www.dailyreckoning.com), if the current torrid pace continues, more new dollars will be added over the next 18 months than the value of all the gold ever mined. I am sure this is not lost on our foreign friends.

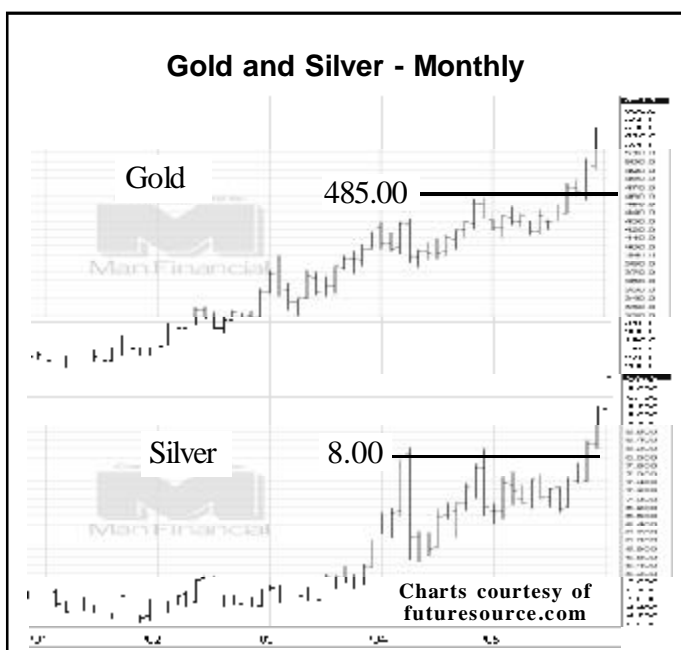
In fact, there are about 5 billion ounces of gold in the world, including junk jewelry and all. That is a value of \$2.75 trillion, which is a small fraction of world currency. Periodic bouts of profit-taking aside, gold is going much higher.

It appears that Middle Eastern interests are also acquiring gold by using some of those petro-dollars they have piled up. The Middle East is beginning to become more destabilized. The Hamas victory in Palestine is a galvanizing event. Americans may not worry, but Middle Easterners are worried; and when they worry, they buy gold.

Something is going to be done about Iran's nuclear program. This is a very sticky situation since all the great powers seem to have a stake in Iran. The Russians are playing games in Iran, and China is a major investor in Iranian energy. The U.S. probably thinks it would make a nice addition to their colonies of Afghanistan and Iraq.

Aside from Iran's obvious terrorist sympathies, growing nuclear proficiency, and important crude reserves, Iran controls the Strait of Hormuz. If you are not familiar with this interesting spot on the globe, get out a map and take a look. Iran could easily close that important shipping lane and cause serious damage to the world's ability to ship oil supplies.

This March, Iran is planning to start an international oil exchange that will trade crude in euros. As you know, oil is currently traded in U.S. dollars. That's nice for us since we can simply print as many dollars as we need. However, a crude oil exchange trading in euros will throw an interesting twist into the world oil markets, and I am sure the U.S. big



Gold needs a rest.

The metals may, indeed, run some higher before the profit-taking sets in, but prices are getting ahead of the curve in the near term.

Gold also tends to put in tops in the winter and tends to adjust until spring. Couple this with gold's

technical problem is that there really isn't any overhead resistance at this point that would indicate where the current rally will run into trouble.

Silver is still lagging gold in some respects, and it will encounter old highs at the \$12.00 level. On the other hand, \$8.00 is a decent downside expectation for silver.

It is important to keep your long term perspective.

There are much higher prices for gold and silver coming up by year's end, but all markets cycle up and down in their bull or bear market quests. Hang on to your metals and wait for a correction before adding to positions.

The XAU is doing well (as one would expect), but we need to stay alert as to the relationship between the XAU and the price of gold. The current reading on the gold/XAU ratio is 3.70.

I have updated the report I did last spring "Timing Gold With Simplicity," and I have posted copies that you can download in the Subscriber Services section of our Web site for direct subscribers. It is in the Special Reports folder at the Forbes newsletters Web site for Forbes subscribers. I invite you to take a look.

Bottom line on this is that a ratio below 3.75 is a caution signal. Hence, the warning against aggressively buying gold shares at this time. Since the ratio has dropped below 3.75, it is a good time to review your holdings and weed out the week ones. Specifically, in our buy-and-hold portfolio, I am going to advise selling **White Knight Resources** (WKR-TSX-\$1.80).

wigs are not pleased. The last country to decide to trade oil in euros was Iraq. Look where that got them!

volatility and we likely will have better buying opportunities in the next month or two than we have today.

The investment environment makes buying gold attractive, especially to cultures that have a tradition of owning gold as ultimate wealth. As the investment phase of the commodity bull market continues to awaken, the demand for gold and silver will increase dramatically.

It is not a good time to buy, but it is not necessarily the time to sell out wholesale either. You should hang on to your precious metal investments and wait for some profit-taking before adding to your positions. Remember, our buy-and-hold recommendations are not intended for trading.

Silver is my favorite precious metal.

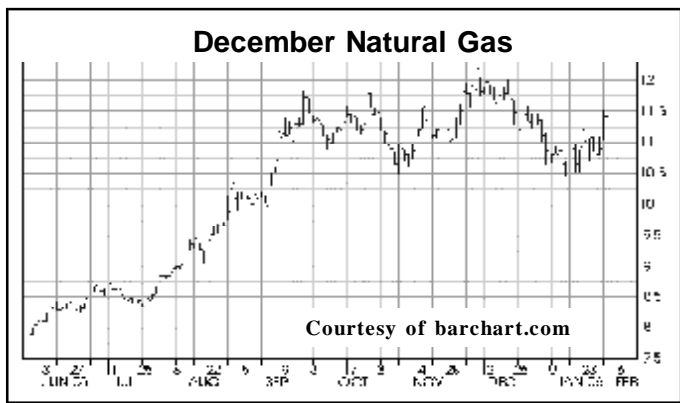
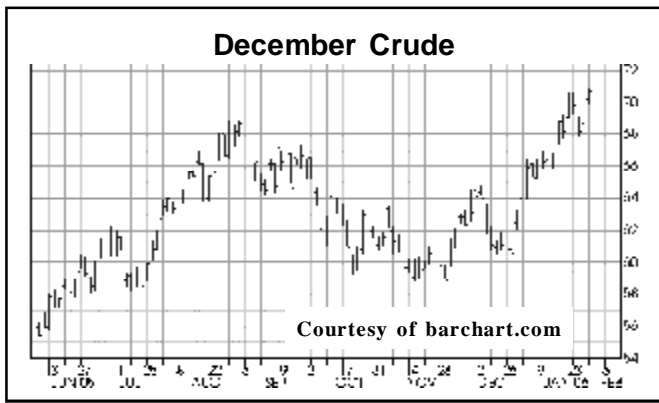
That is because it is consummable. It gets used up, and it has an important role in all sorts of manufacturing and technology. I have no doubt that we could see \$25 silver this year as well as further highs in gold, but the biggest percentage gains will be in silver.

If you want to trade the metals and/or the mining stocks, you should follow the Hyperion trading program. You will do very well with that if you are into trading, but I think the really big money will be in our long term investment positions.

Long term investing means you will have to be willing to sit through some drops; and again, the metals are volatile. Nevertheless, if you exercise discipline and keep your long term focus, there is a lot more money to be made.

The next five years look great for the metals, but let's take a look at the short term. The chart on Page 1 should give you an intuitive sense of where we are. The recent thrust over the \$500 level should give you pause for concern.

In the near term, gold really needs to settle back and test the \$485 level. That is where long term support is now. The



White Knight is simply stuck and not changing, and it should be moving. Take your profits on White Knight. All of our other mining stocks are doing quite well and should be held. If the gold/XAU ratio makes it to 3.20 or lower, we will advise stops and targets for these positions.

I am keeping my eye on **Ivanhoe Mines** (IVN-NYSE-\$8.28) also. It really isn't performing as well as I had expected. For now, we will hang on to it, but this is a sell candidate if the ratio falls to 3.20. In the meantime, if it reaches \$9.00, you should take your profit.

Pro Funds

ProFunds has just launched a short gold fund. Why should a bull be excited about a short gold fund? It will give us a hedging vehicle if the gold/XAU ratio dives under 3.20. The **ProFunds Short Precious Metal Investment Fund** (SPPIX-\$27.32) was just launched on January 10, so there is not much to track on its chart, but you might want to become familiar with it as it is truly revolutionary.

You should think about gold in three ways.

There is insurance gold, which is what bullion coins are all about. There is

investment gold, and that is what we are buying with our buy-and-hold positions. There also can be trading gold if that is what you are interested in. My preference in a bull market this young and this strong is to buy a little insurance and invest seriously.

As I mentioned earlier, Iran is troubling me. It is truly a powder keg. There are so many potential problems in that country that affect the world energy equation, it is really uncomfortable to think about it. The press seems to have calmed down some about the spike in energy prices this fall, but take a look at December 2006 crude futures. They are pushing on \$70 again.

The media focus has been on natural gas lately, which has been soft due to mild winter weather. It won't take much of a change in the weather to send natural gas prices flying. If we look at December 2006 futures, the picture is not as weak as the nearby contracts indicate.

The correction in the December contract is milder than in April, and December prices are consolidating at the \$10.50 level. Natural gas looks like it is warming up for a move to new highs to me, at least in the winter month contracts. Natural gas looks like low hanging fruit.

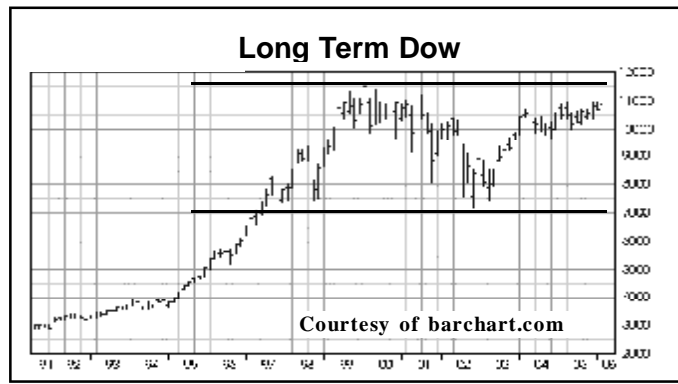
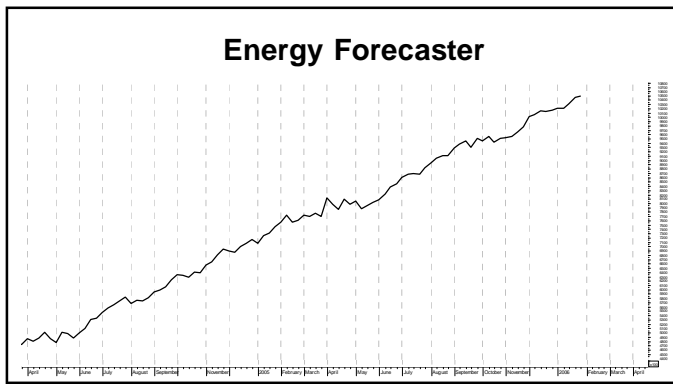
I continue to recommend investments in **Paramount Energy** (PMTUN-TSX-C\$22.00). I have been frustrated with my downside price at C\$21.50. Paramount is a teaser. It fell to C\$21.52 the other day. I was sure we were going to be able to buy some, but it recovered to the \$22.00 level first. Such is the cost of patience and discipline sometimes.

My advice is that if you are not invested in energy or you feel you are underinvested, buy a little Paramount here. Reserve some cash to spend if it finally dips to our downside buy price, which remains at C\$21.50 Canadian.

Another attractive play is **Shiningbank** (SHNUN-TSX-C\$28.39). It has consolidated nicely, and the current downside buy price is C\$26.90 Canadian.

I have adjusted the downside buy prices on Page 6 for several of the issues since the last monthly letter. These are kept up to date on the hotlines. If you don't keep up with the hotlines, you should note that there are changes since last month's letter.

Keep in mind that I don't necessarily expect the stocks to fall to their respective downside buy prices. If a stock does fall to its downside price,



that is where I recommend you buy. In limiting the price you pay, you will better manage risk and maximize your profit. You have to buy right to win in the long run.

One problem our country faces is that global energy reserves are being used at the rate of \$5.5 billion a day, and Dr. Ken Deffeyes of Princeton says 94% of all the fields have been found. The occasional new fields being discovered are in distant places like Kazakhstan. The fringe is not being overlooked by the Chinese with their purchases of the likes of PetroKazakhstan last year.

Such new discoveries and production are referred to as marginal, but not in the context of small. They are marginal in the context of being out of the mainstream and often out of the way. This all boils down to the fact that in our country, energy resources are going to get more expensive and more difficult to attain.

Exxon was recently reported to have made more money than any other corporation ever has. I am sure that will bring out the politicians, but Exxon plans to reinvest all of that money into finding new reserves. And well they should. New reserves are going to be difficult to find ... and EXPENSIVE.

Our problem may be more the case of availability than price. Folks complain about the high prices, but just wait until they are sitting in gas lines again. Let's hope Exxon does well with their profits.

I think about the day when we will need to sell our energy stocks. Eventually, the trusts will all run out of oil and gas reserves. I addressed just this situation in the case of **Provident Energy** (PVX-NYSE-\$10.82) in the January 24 hotline. Essentially, their 2006 production is projected to be less than 2005, and they are scrambling to make up for the depletion. Hence, we have PVX on hold for now.

Shown above is the energy forecaster, and it is plodding to new highs. As long as the forecaster keeps plodding to new highs, the overall energy sector will be in good shape.

At this time, I expect the new Bernanke Fed to raise rates one more time at the March meeting, but that will be dependent on what economic numbers evolve between now and then. I am not optimistic for the economy, but the Fed has a habit of changing their course too late, and they may continue raising rates longer than they should. A flat yield curve is bearish for the economy.

The stock market is having some problems at its old highs, although small cap stocks as represented in the Russell 2000 are quite strong. I cannot be optimistic about the stock market overall in 2006.

I look for the stock market to spend the next 10 to 15 years much like it did from the mid-60's until it finally broke out in 1981. From 1965 to 1981, the Dow Jones Industrials gained less than a point, but there were some wild, multi-year swings that destroyed portfolios. The 1973-1974 market, which topped out at 1,050 in 1973 and fell to 570 in 1974, was a case in point.

This is the type of stock market we should be expecting over the next several years. In Dow Industrial Average terms, 11,700 is not going to be exceeded by much, if at all. The ultimate limit on the up side looks to be 12,000. On the down side of this huge trading range, bottoms should register at 7,000.

We are a lot closer to 11,700 (about 7%) than we are the bottom of the trading range (about 35%). It's something to keep in mind, but perhaps it is a potentially decent trading environment if you are patient, wait for opportunities to form, and don't buy into the highs.

Recommended Stocks For Buy And Hold - Updated 1/31/06

Note: If you go to www.bigcharts.com, you can get quotes on Canadian stocks in Canadian dollars by using the symbols we have listed, preceded by CA: For example, if you want a quote for Shiningbank, go to www.bigcharts.com and type in CA:SHNUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .875. 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.

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 01/31/06	Downside Buy Price	Div	Target	Web Site
U.S. \$								
Alliance Res	ARLP	OTC	10/1/2004 28.00	38.00	35.10	8.00%*		arlp.com
Anglogold	AU	NYSE	12/23/2003 43.80	61.18	44.00	n/a		anglogold.com
ASA	ASA	NYSE	10/1/2003 36.00	68.66	49.50	2.04%		asald.com
Barrick Gold	ABX	NYSE	1/5/2004 23.40	31.46	27.00	0.70%		barrick.com
Black Rock	BGR	NYSE	8/8/2005 25.99	27.55	25.10	5.44%		blackrock.com
Enerplus	ERF	NYSE	10/1/2003 24.00	53.08	45.05	8.23%		enerplus.com
Fording Coal	FDG	NYSE	11/17/2004 42.84	40.82	35.20	8.00%*		fording.ca
Frontier Oil	FTO	NYSE	8/8/2005 29.70	47.39	34.95	0.33%		frontieroil.com
Gabelli Glb Gld, etal	GGN	AMEX	1/3/2005 22.10	23.80	20.50	7.06%		gabelli.com
Goldcorp	GG	NYSE	12/16/2003 15.90	27.36	19.50	0.66%		goldcorp.com
Newmont	NEM	NYSE	1/4/2005 41.69	61.80	48.80	0.65%		newmont.com
Pimco Comod Fund	PCRAX		3/2/2005 14.01*	14.99	HOLD	11.07%		pimcofunds.com
Primewest	PWI	NYSE	10/1/2003 18.25	32.49	30.05	11.44%		primewestenergy.com
Provident Energy	PVX	AMEX	11/11/2003 8.10	10.82	HOLD	11.44%		providentenergy.com
Suncor	SU	NYSE	5/7/2003 17.20	80.01	60.25	0.26%		suncor.com
Valero	VLO	NYSE	5/2/2005 36.63	62.43	54.85	0.38%		valero.com
Canadian\$								
Baytex Energy	CA:BTE.UN	TSX	12/8/2004 12.88	19.79	17.00	10.91%		www.baytex.ab.ca
Paramount En. Tr	CA:PMT.UN	TSX	12/20/2004 16.31	22.00	21.50	13.09%		paramountenergy.com
Peyto Energy	CA:PEY.UN	TSX	10/1/2003 18.00	23.00	Hold	6.26%		peyto.com
Shiningbank	CA:SHN.UN	TSX	10/1/2003 16.65	28.39	26.90	12.68%		shiningbank.com

*Pimco adjusted for \$1.94 distribution 12/29/05 **The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. I have listed these with a dividend of 8% since I feel that that is a likely minimum you might expect. For further details on their past dividend histories, you should visit www.fording.ca, and www.arlp.com.

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

Company	Symbol	Exchange	Initial Recom. Date and Price	Price. 01/31/06	Downside Buy Price	Div	Target	Web Site
U.S. \$								
Bema Gold	BGO	AMEX	10/1/2003 1.06	4.12	2.70	n/a		bema.com
Coeur d' Alene	CDE	NYSE	10/1/2003 3.19	5.18	3.60	n/a		coeur.com
Ivanhoe Mines	IVN	NYSE	10/1/2003 6.00	8.28	6.90	n/a	\$9.00	ivanhoe-mines.com
Mines Mgmt	MGN	AMEX	2/1/2005 5.54	8.05	6.50	n/a		minesmanagement.com
Novagold	NG	AMEX	10/1/2003 6.40	12.26	8.45	n/a		novagold.net
US Gold Corp	USGL	OTCBB	9/9/2005 1.70	5.25	3.50	n/a		usgoldmining.com
Western Silver	WTZ	AMEX	10/1/2003 3.50	15.77	11.05	n/a		westernsilvercorp.com
Yamana	AUY	AMEX	2/1/2005 3.12	8.05	4.50	n/a		yamana.com
Canadian\$								
White Knight	CA:WKR	TSX	7/20/2005 1.25	1.80	SELL	n/a		whiteknightres.com

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 .875 to see if the OTC quote looks correct. You can access these OTCBB quotes by using www.barchart.com. I don't have OTCBB symbols for American Bonanza or International Wayside.

Shiningbank SBKEF Peyto Energy PEYUF Baytex Energy BAYXF Paramount Energy PMGYF

Target The "Target" column represents the price at which you should liquidate the position and take profits. Do not reverse on the target price. There will not always be a target price. You should only reverse on the reversal stop price, even if there is no current open position.

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