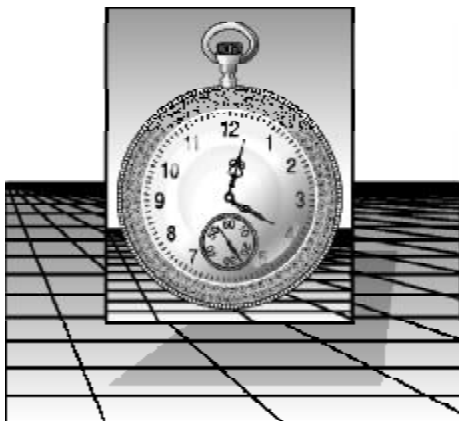


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The next issue will be published August 18.

- **I am very pleased with our investment in Valero.** Page 2
- **Hang on to your coal stocks. New downside buy points.** Page 3
- **Gold.** Pages 3-4



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TANGIBLES

Still the best asset class for this decade.

I recalculate my Annual Asset Allocation Model (AAAM) the end of October each year. The model is designed to direct our investment attention to one of three areas that will offer the best risk-to-reward potential in the following year. It can tell us the easy money will be in stocks, or it can direct us to bonds.

Note that both of these alternatives are financial (paper) assets. The AAAM can also recommend that we concentrate our investments in tangible or non-paper assets. This essentially includes commodities, and the only paper assets allowed would be those that are advantaged by a rise in the price of tangible assets – like energy trusts, precious metal mining companies, etc.

In October 2001, the model shifted from bonds to tangibles. This is an important change since it not only left the relative conservative investment haven that bonds offer, but it left paper assets in deference to real assets. This phenomenon occurs about every 20 years.

You can read more about this in my booklet “The Great Asset Shift.” Direct subscribers can access the booklet in the Subscriber Services section of our Web site. Forbes subscribers can access a copy by logging into the Forbes newsletter

site and looking in the file entitled “Special Reports.” You can also send me an e-mail, and I will attach a copy to a reply.

The upstart is that tangible assets are the best place for your investment money.

Unless the AAAM shifts gears this October, there is plenty more to come from the commodity bull market that got underway in 2001. The official reading will be done at the end of October. However, if I were to run the model on today’s figures, the result would still be to invest in tangibles.

Once the AAAM flashed its tangible recommendation, we intensified our interest in energy and precious metals. The reason for energy is that the fundamentals in 2001 were developing a very bullish bias in oil and gas. Furthermore, there were investments in this sector that paid large dividends ... and they still do.

The reason for our interest in precious metals is that gold and silver always appreciate during bull markets in tangible assets. There will be the usual rallies and corrections, but the overall trend in the commodity sector is up. That looks like it will continue.

Crude Oil and Natural Gas

Aren't you all glad you held on to your energy stocks through the decline earlier this year? I know the dip this spring was a bit breathtaking, but there was the opportunity to use that weakness to accumulate shares. We are now off and running again; but just as the future looked dark, only to brighten after the May lows, we should perhaps be expecting another fit of profit-taking in these stocks.

Crude oil has performed right up to our expectations. I have been forecasting a high at \$65.00 basis the December futures, to be followed by a correction - which would, in turn, be followed by another rally, taking crude to \$76.00 by early next year.

December crude futures hit \$64.50 in early July and then backed off some. I was targeting the correction to take crude down to \$57.00 basis December; but so far, the low has only been \$58.30. Nevertheless, December crude is still going to encounter resistance at \$65.00.

Here is my take at this point. Crude will eventually run to \$76.00 over the next several months. However, near term, there are problems. I still expect to see further consolidation before crude can sustain strength on the up side. The technical picture in natural gas is similar, although the future profit potential in natural gas is greater than in crude.

The energy stocks have outdone themselves over the last two months. However, they are getting ahead of themselves now, and they are due for a spate of profit-taking.

We bought our energy stocks at the right place, and we are enjoying the fruits of those investments ... but the lowest fruit has been picked. You wouldn't believe the whining I heard from folks when the energy stocks were

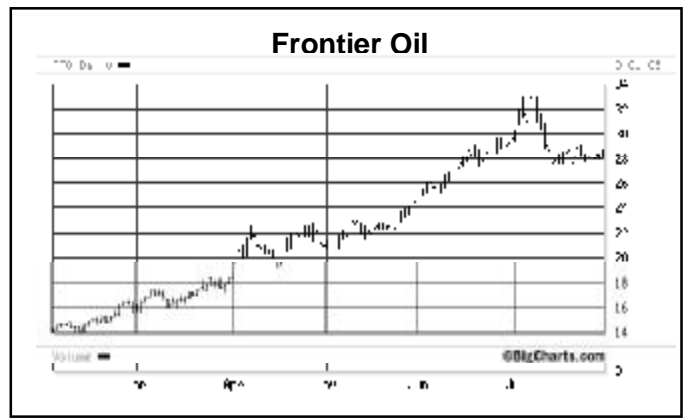
falling! That was the time to buy. Now that the energy issues which we bought in the spring are hitting new highs, one would be ill advised to chase them with buy orders.

What should you do next?

It is definitely not the time to sell, and it is also not a good time to buy. There will be another correction, and we will add to our positions then. For now, hold your positions and enjoy the dividends. I have updated the buy-and-hold list on Page 6. Mind the recommended buy prices.

I am very pleased with our investment in **Valero (VLO-NYSE-\$83.25)**. We were able to buy some at \$76.50 in April, and we added to that later when it dropped under our downside buy price of \$66.50. This is an excellent company destined for much bigger and better things. I have raised the buy price now to \$72.50, and I recommend you buy more if it drops down there.

Here is another refiner that handles sour crude, and it has promise. In May, they posted their best quarter ever - **Frontier Oil (FTO-NYSE-\$29.32)**. Note that it corrected lately, and that opens an opportunity to begin accumulating some shares. I suggest



you buy a few shares under \$30.00, and then target more if the stock happens to drop to \$26.00. FTO will complement your VLO.

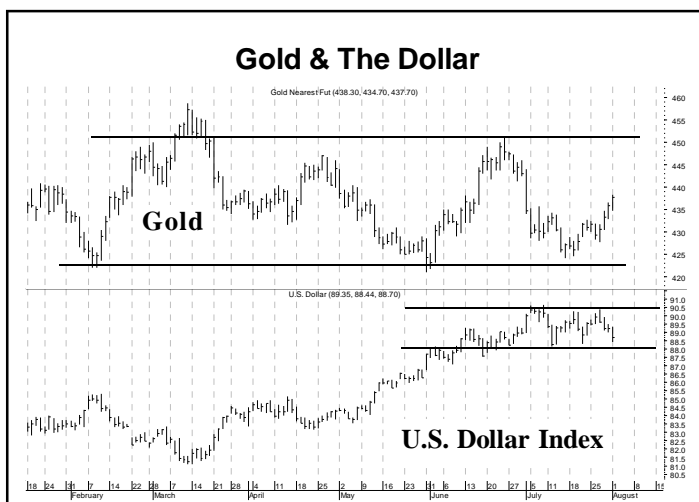
If you have missed the energy market entirely and need a conservative way to get invested, here is what to do. First, keep your powder dry. Then wait for a bad day in Black Rock.

Black Rock Global Energy and Resources Trust (BGR-NYSE-\$25.99)

This is a closed-end fund (trading on the NYSE) that holds various energy and resource trusts as well as limited partnership shares. The dividend is just shy of 6%. A few shares of BGR will add some diversification to your portfolios.

I would like to buy this on weakness at \$24.50; but if you have no energy exposure, you could nibble at \$25.50 or less and then accumulate more during weakness. They have a Web site at www.blackrock.com/funds/cefunds/BGR.pdf. Frankly, the site is difficult to navigate and leaves a lot to be desired.

I previously recommended the **Pimco Commodity Real Return Strategy Fund (PCRBX)** at \$15.95 in March.



compare themselves with the Golden Sachs Commodity Index (GIY).

The fund has only been out since May 25, so it is hard to make any prognostications about them yet. However, some

sell triggers, I expect the next decline will come to full force.

GOLD

Gold over the long term moves counter to the dollar; but of late, the dollar and gold have been basically in sideways trading ranges. Gold will accelerate on the up side when the dollar finally reverses. Once the dollar breaks, you will end up chasing the precious metals stocks if you have not bought by then.

Since then, it has been higher and lower, but it can still be bought close to our original price of \$15.95. This one also pays a decent dividend, but the dividend will be more unpredictable than the Black Rock Fund.

If you go to www.bigcharts.com and plug in the symbol, you will see an indicated dividend of 4.19% for the Pimco Fund. You will also see that the dividend varies widely from quarter to quarter.

The difference between the BGR and Pimco Fund is that BGR is invested in various energy-related limited partnerships and trusts while the Pimco Fund is actually an index fund designed to track the Dow AIG Commodity Index (AIGY). The Pimco Fund is tied more directly to the commodity market itself than to companies that profit from rising commodity prices.

Another fund I need to mention is the new **Rydex Commodity Fund (RYMBX-\$28.31)**. Their stated goal is to seek long term appreciation through investments in commodity-linked instruments. They don't seem to make an explicit claim in any of the materials I have, but they like to

of you might find some value in using this fund. There is no indicated yield, though. I am watching it and would like to add it to our Rydex programs eventually.

Hang on to your coal stocks. They are doing very well. I have new downside buy points for both **Alliance Resources (ARLP-OTC-\$88.53)** and **Fording Coal (FDG-NYSE-\$104.45)**. Buy Alliance at \$75.55 or less and Forging at \$90.10 or less.

Coal is going to be in bigger demand as the energy crisis grows. Put your orders in at the downside buy prices on a "good 'til cancelled" basis and sit back. These stocks are volatile enough that they could easily dip to those levels. If not, so be it. There is no reason to increase your risk level by paying too much, even if prices continue higher.

The rally in the U.S. dollar has been persistent and a bit unbelievable. Our trading model is still long, but it will sell if the December U.S. dollar contract falls to 88.10. So far, the dollar still has the green light, but we should see it heading back south by year's end. Once the next Hyperion

Although gold has held its own during this year's dollar rally, I still see evidence pointing to slightly lower prices near term. My cyclical work points to mid to late August for the next low, and the next two weeks could be interesting. If gold breaks here, the mining stocks should follow suit, although they have been much stronger than bullion recently. That is a bullish sign in and of itself.

I have been looking for the XAU to pull down to about 85, but that may be too generous. Nevertheless, I see the XAU basing somewhere below 90 during the next several weeks, and we will add to our Rydex positions in that event.

As I review my models each day looking for a good place to put some money, the most enticing area right now is gold and silver - hands down. Again, I have adjusted the downside buy prices on Page 6, and you should put open orders in for gold stocks at those prices.

Of particular interest to me right now is **Goldcorp (GG-NYSE-\$16.27)**. Of those on a list of majors, GG is what I would most like to own. Our

new downside buy price is \$15.05, but everyone should have a few shares of Goldcorp in his portfolio.

I often get questions about put and call options. I spent a lot of time trading put and call options in the 70's - both before listed options were instituted and after. I learned one thing that you can take to Vegas. The house wins and the option sellers win.

Option *buyers* have everything stacked against them - time, premiums, and momentum. You pay dearly for the time an option has to run to expiration. You pay dearly for the difference between the exercise price and the price of the stock. You pay dearly for momentum. If the stock doesn't move, the options are cheap; but once the move begins and momentum heats up, the premium expands. Yes, I know you can get lucky now and then - like hitting a jackpot at the slot machine - but long term option buyers lose.

Here is a better approach. Buy some T-bills and then put the interest in something on our buy-and-hold list of junior mining companies. If I were buying one today, it would be White Knight Resources. This is a gamble, but a good one.

White Knight Resources (WKR-TSX-C\$1.30)

White Knight Resources is a Canadian company - thus our investment is really in Canadian dollars, which are appreciating against the U.S. dollar - and the

gold property is in Nevada. You cannot be certain, but the action in the stock sure looks like there is something interesting going on. The trick is, don't chase it.

Pay no more than \$1.25 Canadian for it, which will be about \$1.00 U.S. Then consider this a long term shot. If it pans out, this company will likely be acquired. That is not necessarily the best of news, but I think we can make some money here anyway.

If you are only spending the income from your T-bills, the worst you can do is break even. If you are not that conservative and are up for a good speculation, buy a little at C\$1.25 or less. Accumulate more if it drops under C\$1.00.

Don't invest the kid's college money in WKR, but a few shares should be rewarding. As Kennedy Gammage would say, "it is not for 'widders and orphans.'" It is an excellent speculation, though, and a much better gamble than buying a call option on gold.

I read an interesting piece the other day about the "gold/oil ratio." I am not necessarily convinced that there needs to be a set ratio, but this article claimed that 10 to 1 has been the norm over the years. That is, 1 ounce of gold usually buys 10 barrels of oil.

The problem is that oil is disappearing from the face of the earth, and yet there exists nearly all of the gold that was ever mined. So, how much gold would you trade for the last 10 barrels of oil?

Perhaps more than 1 ounce of gold. Perhaps the 10 to 1 ratio is a bit low for the future norm. If so, then the current ratio of 7 (\$430/\$62) may be way low.

This can be adjusted in more than one way, of course. Perhaps the price of oil falls - but I wouldn't count on it, for the many reasons espoused in these letters. I think that, indeed, gold is underpriced in relation to crude oil - and likely all the other commodities as well. Gold and silver look like more exciting buys than energy at current prices.

Pick up a little Goldcorp in investment accounts at \$15.05 or better and White Knight for speculation at C\$1.25 or less, if you haven't already. You likely have a little time, as long as some surprise event doesn't occur to set the next commodity bull market stampeding suddenly.

The interest rate picture continues to befuddle many.

The Fed keeps raising short term rates, and I don't see them stopping yet. As long as the economic numbers continue to reflect resilience, the Fed will feel free to make their "measured" quarter point moves. The next hike should be at the August 9 meeting. That will have T-bills paying about 3.5% again.

There has been a little bounce in long term rates. Since bottoming out at 3.80% in early June, they have risen to 4.3%. I think there are several forces at play here.

First, there is this supply/demand imbalance between flooding our trading partners with dollars and a stagnant supply of treasuries due to better than expected federal tax revenues halting the growth in the federal deficit.

However, we have to understand that those foreign holders of too many U.S. dollars do not have to use them to buy U.S. treasuries. There are other currencies to be considered - as China will be doing (along with their recent "floating" of the yuan). There are raw materials to be purchased and stockpiled as well.

I still see higher long term rates coming. Our trading model sold the long bond on July 18. Our Rydex bond program is in the Juno Fund, which is short the 30-year government bond. The technical indications are calling for higher long term rates, and I think the fundamentals are too.

The yield curve is not going to invert (as so many have alluded to). The fear has been aroused because as the Fed has moved short rates higher, long rates have actually been falling. Once short rates move over the long end and the yield curve becomes inverted, a recession is all but assured.

We may still see a recession, but not due to the cost of money - at least not yet. First, we will see rates on the long end move up and readjust the yield curve to an upward slope to the right, which is normal. The entire curve, however, will be at higher levels.

The pinch is coming for the consumer, and thus the economy. Mortgage rates will be edging higher now, and that will modify consumer spending habits. It may not be a very merry Christmas this year for retailers.

The average American is being squeezed by escalating health care costs, unaffordable insurance bills, mounting property and income taxes, expensive energy outlays, and exorbitant education expenses. I am bullish on commodities, and I expect that the next accelerated price move is going to be in the grocery store.

The Stock Market

I have been complaining in the hotlines about how terrible my technical work looks on the stock market ... but the averages refuse to break down. I think investors are getting lulled into a false sense of security.

I was looking for a cyclical high in July and another in August. As for the July high, all we can say is that the rally paused for several days. My take is that the bear will be under way by the end of August, but it might not be as evident then as it will be by the end of October. September and October are stacking up to be quite dangerous, especially in the Nasdaq.

I mentioned that I am working on a new timing model for the averages. I need more time to test this, but I am calling it Palio and it is biased more to weekly data than daily data - like the Fast Tracker is. It is too

early to write this up and produce hypothetical track records, but I will announce the next sell on the hotline when it occurs.

I saw a study the other day that said of the last 100 years, the S&P 500 had a PE multiple over 20 in 20 of those years. The combined return during those 20 years was 0. The current PE on the S&P 500 is a bit over 29.

Rising crude prices will eventually break the stock market. Wall Street desperately wants to believe that crude oil, gasoline, coal, and natural gas are going to fall. They want so badly to believe that this is as high as energy prices will ever get that they are working overtime to jawbone the stock market into submission. The press is rife with dribble to this effect because the Street has a lot at stake in at least making it seem that the bull market is still intact. The jawbone worked for Samson, but it won't work for Wall Street.

Every rally that is sustained for any period of time is now hauled out as a "bubble," especially if takes prices to new highs. Don't mistake the energy price rally with a bubble. It is likely to become one before this is over, but it "ain't" here yet. The difference between economic claptrap and reality is a little like the difference between earnings and dividends. One is just a fabrication and the other is cold hard cash.

Incidentally, if you are not receiving the hotlines in your e-mail and would like to, let me know and I will set you up.

Recommended Stocks For Buy And Hold

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 .820. 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 & Price	Last Updated 8/01/05		Downside Buy Price	Target	Web Site
			Price 8/01/05	Div.			
Enerplus Resources	ERF-NYSE	4/20/01 @\$18.00	\$40.68	8.96%	HOLD		www.enerplus.com
Peyto Energy	PEYUN-TSX	7/18/03 @\$C8.75	C\$33.85	4.25%	\$C29.00		www.peyto.com
Primewest Energy	PWI-NYSE	2/07/03 @\$17.00	\$28.88	10.03%	\$25.50		www.primewestenergy.com
Provident Energy	PVX-AMEX	6/16/03 @\$7.50	\$11.48	10.09%	\$10.60		www.providentenergy.com
Shiningbank	SHNUN-TSX	1/02/03 @C\$15.15	C\$24.50	11.27%	C\$22.00		www.shiningbank.com
Suncor Energy	SU-NYSE	2/07/03 @\$16.8	\$50.43	0.39%	\$42.50		www.suncor.com
Anglogold	AU-NYSE	2/25/03 @\$32.00	\$34.46	n/a	\$32.50		www.anglogold.com
ASA Ltd.	ASA-NYSE	11/19/02 @\$31.00	\$37.81	1.06%	\$35.50		www.asaltd.com
Goldcorp	GG-NYSE	8/15/03 @\$13.00	\$16.27	1.11%	\$15.05		www.goldcorp.com
Newmont Mining	NEM-NYSE	9/05/03 @\$39.10	\$37.59	1.06%	\$36.00		www.newmont.com
Barrick Gold	ABX-NYSE	1/05/03 @\$22.85	\$24.60	0.89%	\$23.00		www.barrick.com
Baytex Energy	BTEUN-TSX	05/18/04 @C\$11.90	C\$15.35	11.73%	C\$14.00		www.baytex.ab.ca
Alliance Res. Part.	ARLP-OTC	9/29/04 @55.96	\$88.53	3.73%	\$75.55		www.arlp.com
Fording Cdn. Coal	FDG-NYSE	11/16/04 @68.20	\$104.45	5.16%	\$90.10		www.fording.ca
Paramount En. Tr.	PMTUN-TSX	12/20/04 @C\$16.44	C\$19.04	13.87%	C\$17.55		www.paramountenergy.com
Pimco Comod RR Str Fnd	PCRBX	3/2/05 @\$15.95	\$15.78	4.19%	\$15.05.		www.pimcofunds.com
Valero Energy	VLO-NYSE	4/26/05 @\$73.25	\$83.25	0.48%	\$72.50		www.valero.com
Blk Rk Glb En & Res	BGR-NYSE	New Reco. Buy pilot position under \$26.10	\$26.10		\$24.50		www.blackrock.com
Frontier Oil	FTO-NYSE	New Reco. Buy pilot position under \$30.00	\$30.00		\$26.00		www.frontieroil.com

****Peyto had a 2 for 1 split on 5/27.

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

Company	Symbol/Exchange	Intnl. Recom. Date & Price	Last Updated 8/01/05		Downside Buy Price	Target	Web Site
			Price 8/01/05				
Kinross Gold Corp	KGC-AMEX	10/2/02 @\$6.30	\$5.68		HOLD	\$6.60	www.kinross.com
Bema Gold Corp.	BGO-AMEX	6/6/02 @\$1.06	\$2.22		\$2.10		www.bema.com
Coeur d'Alene	CDE-NYSE	9/2/03 @\$3.19	\$3.56		\$3.20		www.coeur.com
Western Silver	WTZ-AMEX	9/2/03 @\$3.50	\$9.18		\$8.10		www.westernsilvercorp.com
American Bonanza	BZA-TSX	10/2/02 @C\$0.60*	C\$0.42		HOLD		www.americanbonanza.com
Ivanhoe Mines	IVN-NYSE	6/4/04 @\$6.00	\$7.33		\$6.75		www.ivanhoe-mines.com
International Wayside	IWA-TSX	4/26/04 @C\$0.14	C\$0.04		HOLD		www.wayside-gold.com
Novagold Resources	NG-AMEX	12/8/04 @6.50	\$7.35		\$7.00		www.novagold.net
Yamana Gold	AUY-AMEX	4/14/05 @2.90	\$3.62		\$3.20		www.yamana.com
Mines Management	MGN-AMEX	5/13/05 @\$4.50	\$5.39		\$4.50		www.minesmanagement.com
White Knight Res.	WKR-TSX	7/20/05 @C\$1.25	C\$1.30		C\$1.25		www.whiteknightres.com

*** American Bonanza had a 4 for 1 reverse split on 3/31/05

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 .820 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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