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THE WAITING GAME

At some point, the stock market will wake up to reality. That prospect reminds me of Woody Allen's comment about death. "I am not afraid of death," he once quipped. "I just don't want to be there when it happens." I feel the same way about the next stock market correction, at least in terms of paper, non-tangible assets. I just want to be in the right asset class when it happens.

The warnings are there – big time insider selling, weakening consumer economics, mounting public debt, a fragile bond market, negative technical divergences, and a long-extended rally based on media spin and little else. With the technicals and fundamentals this bad, one should be looking for a correction, even in a bull market ... which this definitely is not.

The next correction promises to be a doozy. I think it will be more than a correction, unless you are willing to accept a drop to new lows a "correction." If your portfolio isn't properly aligned, it will be a disaster. I have been writing about the warning signs in the letters and updates for several months. Some might find those warnings a mistake and meaningless since the averages have continued to plod higher, but I don't think so. If you are trading, you can follow the market; but if you are an investor, you have to lead the market. This drives folks crazy, of course. Most investors want to see the market immediately drop after they sell; and when they buy something, they want that to happen at the absolute low.

Those are nice concepts, but they will rarely, if ever, happen. You will invariably be early or late, never perfect. The good news is that you needn't be perfect to be profitable. There is a timing aspect to investment, of course. It is one thing to buy and sell ahead of the market. Selling into strength and buying into weakness is good, and it will improve your returns, reduce risk, and keep your psyche healthy. It is another thing entirely to buy the highs and sell the lows.

Where to invest in 2010. First, invest in assets that promise to increase in price as the dollar falls over the long term. This will insulate your portfolio from the damage that the ongoing deleveraging process will bring to the stock market and to other paper assets. Commodity-advantaged investments will reign supreme until the Dow/gold ratio falls under 5. Preferably, you should stick to the heart of the matter and focus on crude oil and gold. These two sectors are all you will need to find income and capital gains over the next several years.

Bearish omens abound for paper assets, none the least of which is the yield on 10-year Treasuries. I earlier reported that I expected the Fed to intervene and try to bring the yields back down, as they have in the past. It is instructive that although the 10-year yield is rolling over somewhat, having moved down from

over 3.80% a few weeks ago to about 3.70% now, it is not breaking sharply lower as it has after past peaks. Consider also that the 10-year yield is up from 2.20% over the last 12 months. There is an emerging trend here.

There is a gamble for you if you have fixed income/liquid assets to invest. The bet is that we will see yields on the 10-year and the shorter maturities much higher by year's end. The way to play this is to do what may seem like pure folly - sit tight in short term paper. Don't go overboard trying to maximize yield. I would stick to as short a term as possible - no more than one year - so that you will have the flexibility to move into T-bills once short term rates begin to run.

I know you don't get much for liquidity these days. Don't fret it. It makes no sense to augment risk just to get another one percent. It is best to stay safe. I prefer bank CD's, keeping in mind your FDIC insurance coverage. I am a little nervous about money market funds. A little money in money market funds may be unavoidable, but be careful. Bide your time. You will be glad you did. When the time comes to jump on T-bills, I will show you how to buy T-bills in the world's safest account and pay no commissions or fees. For now, stay short term and park your liquidity as safely as possible.

The best capital gain bet this year will be in gold. Silver is also a possibility; but again, you should stick with the heart of the matter and keep the bulk of your precious metal money in gold. While the Street was overly enthusiastic about gold last December, we took some money off the table, anticipating a temporary upside correction in the U.S. dollar and some consequential selling in gold and the mining shares.

This is where the timing aspect comes into play. We have listed downside buy prices for the recommended stocks on our list. Stick with those recommendations. They may "seem" too low, but time will prove this out. At this point, they are not too low. If I see any adjustments to be made before the next letter, I will report those changes in the online updates.

Gold has support at \$1,050-\$1,000 basis April. If it overshoots to \$950, I recommend buying bullion gold coins. The gold/XAU ratio (Simplicity) has been moving up a little lately, and it currently stands at 6.50. I continue to look for it to move to the 7.00 to 7.25 level during this correction. That will indicate that the mining stocks are a better value compared to gold than they are presently. The best bet is to wait for it.

Goldcorp (GG-NYSE-\$39.65) and **Royal Gold** (RGLD-NYSE-\$47.21) are my top choices in the majors. Put your buy orders in to buy Goldcorp at \$34.50 and Royal Gold at \$43.50. I want to put **Rubicon Minerals** (RBY-AMEX-\$4.88) back on the list as a buy at \$4.00 or better. There is not much income to be found in the metals, but there is income to be had in energy stocks and in some of the commodity-related, closed-end funds.

Crude oil is coming off as expected ... finally! As mentioned in the monthly letter – "It will be difficult for crude to break over \$83.50, and a trip back to \$70.00 is likely." This outlook is on track.

If you missed buying **Prospect Capital** (PSEC-OTC-\$12.55) under \$12.00, you will likely get another chance as crude backs off. Review the "scale in" instructions given in the January monthly letter. I think there is a great buying opportunity unfolding as we move into spring, and I will review the other energy issues on our list in the next monthly letter. In the meantime, stick with the published downside buy prices.

Blackrock Energy and Resources (BGR-NYSE-\$26.05) has been performing very well. Our downside buy price on this is \$23.00, and that is well within the realm of possibility as crude corrects. Blackrock gives you a nice diversified approach to energy along with a decent dividend. At \$23.00, it has an indicated yield of 7.00%.

Sometimes the best investment strategy requires a little sitting and waiting. This is one of those times. We have stops on a few of our open positions – listed on Page 6 of the monthly letter and Page 3 of the online updates. Mind those stops, but hold the rest of your energy and precious metals positions. Stash your cash and wait for the coming correction to unfold. We are going to see some great buying opportunities this spring. If you have paper asset positions, be sure you have protective stops in place. Be alert for the next Palio sell signal, which I will announce via e-mail when it triggers.