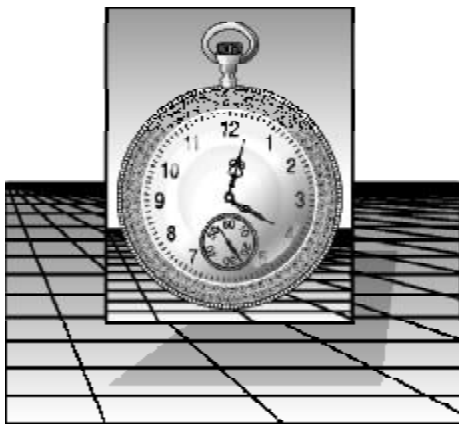


### PLEASE NOTE !!

The next issue will be published on March 9.

- There are three reasons to own gold.

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## CRISIS OR OPPORTUNITY?

It is amazing how, after a commodity has been correcting, the bears show up. As the energy bears strut their stuff, consider these facts. First of all, global oil production is running flat out. I don't believe the Saudis have any excess capacity left, and I expect their output to officially peak this year.

According to the International Energy Agency (IEA), world production in 2005 exceeded supply by 1%. This is likely why crude has not moved to new highs ... but don't lose sight of the fact that it is still trading over \$60.

Consider that in 2006, American consumption is forecast to increase 1.8%, and we are a quarter of the world market. China is expected to increase their oil consumption by 15% in 2006, matching their 2005 demand increase. India is going to increase their usage by about 6% this year. The rest of Asia is on a similar rise. The IEA officially is calling for global demand to increase 2.1%; but considering the above figures, their forecast could be way short.

The math is not difficult. Last year's production was maxed out and ran 1% over demand. The world's oil is being produced from a handful of wells that are being aggressively accelerated by water injection because they are peaking. Demand in 2006 will easily increase 2.1% or more. It may be the first year where supply will not be able to meet demand, and that assumes that there will be no surprise disruptions.

So far, the world is not out of crude oil, but it is out of cheap, readily available crude oil. Prices will go to new highs again this year. The current correction could take December crude back under \$60.00, but I doubt it would stay there long. Natural gas has reached our downside objective at \$7.50 basis the April contract.

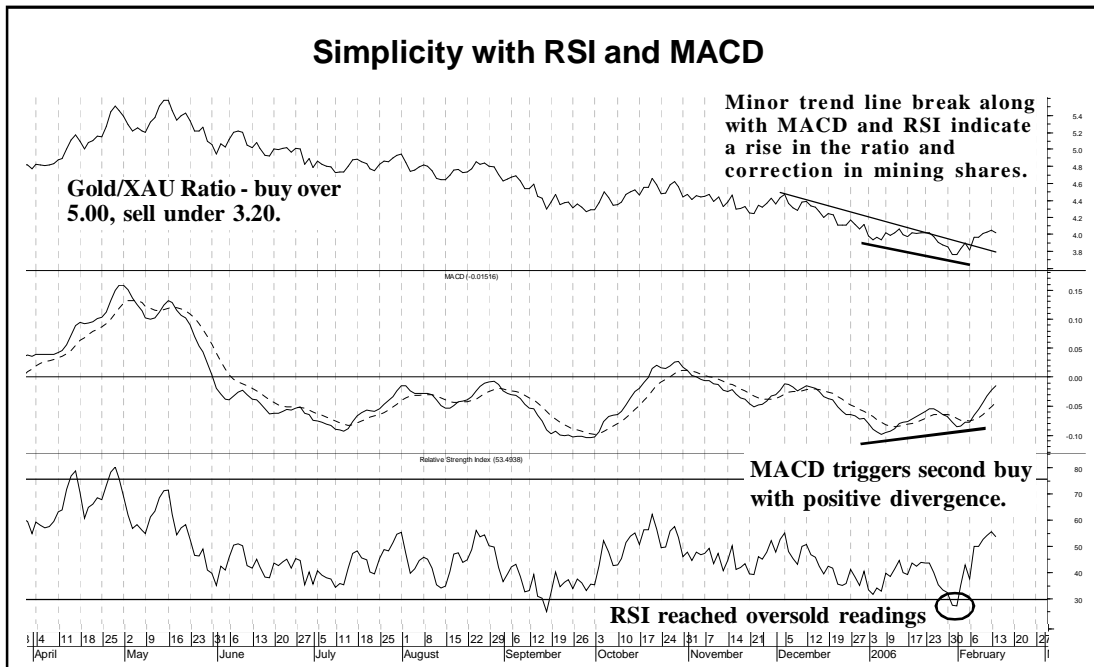
Your job is to cut through the fog that is being blown from the bearish camp and see the opportunity. It is time to be accumulating positions for the next bull leg in energy. Don't let emotions rule your investments or you will be doing your buying when crude is hitting \$76 and natural gas is pushing \$15.

I bought some **Paramount** (PMTUN-TSX-C\$18.90) the other day. I have the same fears that you do buying into weakness. Nevertheless, they are paying a nice dividend of C\$0.24 Canadian, which at the current exchange rate, is just shy of \$0.21 U.S. The indicated yield is 15.2%. That will help me wait.

**Shiningbank** (SHNUN-TSX-C\$24.23) is another purchase candidate here. Buy Shiningbank under C\$26.90. At today's price, the indicated yield is 14.8%.

Both of these companies raised their dividends last year. They are not guaranteed, but companies like to declare dividends that they feel they will be able to comfortably maintain.

## Simplicity with RSI and MACD



The precious metals are also selling off. We were warned that such was going to be the case when the gold/XAU ratio hit 3.70 and then turned higher. For those of you who have read the Simplicity piece, above is an updated chart replete with RSI and MACD.

How far might we expect this adjustment in the metals to go? Look for the ratio to rise to at least 4.20. I wouldn't be surprised if it runs to 4.50. I would be very surprised to see it move to the 5.00 buying level. This is a bull market; and although gold and the mining shares are due for this correction, I don't think we will be lucky enough to be able to buy them as cheaply as we did last spring.

We sold **White Knight Resources** and advised you to cull your portfolios of weak sisters in the February monthly letter. The weakness is not over, but it is time to sharpen your pencils and consider where you will buy more precious metals shares.

I like **Western Silver** (WTZ-AMEX-\$14.72). My buy price is perhaps a bit low at \$11.05. but there is no basis to adjust it at this time. If something changes, I will put it on the hotline.

**Mines Management** (MGN-AMEX-\$6.38) is at our price. You can accumulate under \$6.50. It may go some lower simply because the correction has more room on the down side. You also need to realize this is a long term hold. It will be a couple of years yet before they are able to get production in full swing.

I have some new stocks to present in the March letter, and we will be able to refine the downside buy prices on our list of metals stocks. By then, this profit-taking phase will be closer to an end.

The Rydex gold program is 100% in money market funds. This is a trading program, and it's moving along just fine. It intrigues me that when we are not 100% invested in a rally, participants are disappointed. They fail to realize that gold shares are extremely volatile.

It is not unusual to see 3% to 8% daily moves in the XAU. That is fine if you are on the right side, but it's not so fine if you aren't. It is also erratic from day to day at times, and the fund can only be traded at the close of the day. The program is not designed to be a crapshoot. If you are looking for something more spicy and yet sane in the

trading mode, trade the issues on the Hyperion list as per the Hyperion instructions.

There are three reasons to own gold. One is for insurance. You should own some bullion coins, but buy during weakness. If gold corrects back to the \$500 level, that would be a good place to purchase some. The premium you pay will be less when the mood is bearish.

The second reason for you to own gold is for investment. Long term investment is the objective of the recom-

mendations on our buy-and-hold list.

There is also trading gold, and that is what the Rydex and Hyperion programs are designed for. Don't jump from one to the other, and don't convert your long term hold investments to trading vehicles.

## Are we facing an opportunity or a crisis?

I believe a little of both. There is a lot of liquidating going on - pushing prices lower - and that has presented an opportunity to accumulate some energy shares. Energy investors should buy into the current spate of weakness. Some further liquidation is likely in metals. That will improve the value of the mining shares in relation to gold, and it will give us an opportunity to increase our long term stake in the metals - probably by the end of March.

The stock market looks vulnerable. This is where the crisis may well come to full bloom. I thought we would have seen a top by now in the popular averages, but that doesn't mean the danger has passed. I still recommend that investors use strength in the popular averages to liquidate non-commodity driven stocks.