

**The next issue will be published March 3.**

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## APPROACH WITH CAUTION

I follow a number of technical indicators with regard to the popular averages - RSI, MACD, and proprietary ones I have developed through the years. Over the last couple of months, these indicators have, one by one, become more bearish. Negative divergences have formed, and successive highs have not been confirmed. Bottom line, the stock market rally is running into trouble.

Warning signs can continue for some time, and one can be lulled into a false sense of security because although the numbers look progressively worse, the market continues to march higher. Such situations will eventually separate the crowd from their money and from the pros. The pros recognize that the butcher will show up by-and-by, regardless of how secure the turkey feels at the moment.

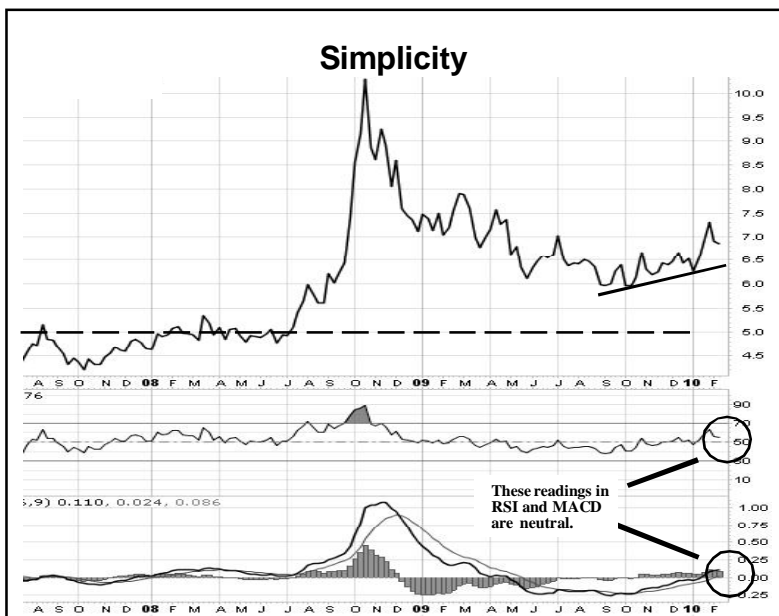
This can all be condensed to a single, objective signal by monitoring Palio. Palio will suffer whipsaws from time to time (as all mechanical models will), and it will not sell the exact high since it is designed to follow the market rather than lead. However, its signals are cut and dried, with no interpretation involved. Palio is still positive, but it is getting easier for a sell to occur.

We have another timing model that is specifically tuned to the Nasdaq – the Nasdaq Slow Tracker. The Nasdaq Slow Tracker issued a sell on February 5; and since then, the Nasdaq has struggled, at best. I rate this as yet another sign that the foundations under this rally are eroding.

I am concerned that due to the prolonged time this rally has spent accumulating sub-rosa negatives, we should gird for the possibility of another liquidity panic similar to 2008. I expect a couple of important differences, however, because of the way the last collapse played out. Investors are quick to learn from prior battles. I look for the averages to begin an accelerating decline, which will initially encompass all asset classes (as was the case in 2008). Commodities will later decouple from the weakness as tangibles become recognized as true safe havens.

The U.S. dollar will be pushed higher initially as the dollar carry trade unwinds. This time, look for the strength in the dollar to be muted and short-lived. Carry traders will have to take a quick trip into the dollar, as I explained in the December monthly letter. However, this go-around, they will be more anxious to move this money into tangible asset classes immune to global currency problems.

U.S. Treasury bonds may see some initial firming as the market rolls over, but they will not be the safe haven option of choice. The fundamentals underlying the U.S. bond market are worsening by the week, and savvy traders and investors understand this. Our technical bond model is also negative.



Crude oil has done quite well this year due to optimistic propaganda regarding the U.S. economy as well as bullish fundamental supply and demand issues. As the economy begins to worsen this spring and as public perception turns more bearish, crude oil prices will retreat. We had forecast a drop back to the \$70.00 level basis March, and that has occurred. This has been followed by a sharp rebound to the \$76.00 level, but I am concerned about what will follow the next high in the overall stock market. I think crude oil could take one more hit, pushing prices back toward to \$65.00. If that occurs, it would offer an ultimate buying opportunity in energy.

Some of our listed recommendations have come back to buying levels, although a couple have not as yet. I

want to keep the current buy prices in place, with the exception of **Kinder Morgan** (KMP-NYSE-\$61.49). I am raising the buy price from \$54.00 to \$56.00. It will yield 7.5% at that price. Further weakness in crude is not as important as using weakness to accumulate positions.

**Simplicity revisited.** Above is a chart of the gold/XAU ratio, which I like to call Simplicity because it is so easy to calculate and provides a wealth of guidance when evaluating good times to buy mining shares. You can bring this chart up at [StockCharts.com](http://StockCharts.com) with the symbol \$GOLD:\$XAU. You may then have to tweak the "chart attributes" to your liking.

In the old days before the great crash of 2008, the model was more straightforward. One could buy when the ratio was over 5.00 as that reflected when the mining shares were historically undervalued in relation to gold. One could sell when the ratio fell to 3.75 or lower, a reading that reflected that on a historical basis, the mining shares were too expensive in relation to bullion. As you can see on the chart, the great liquidity panic of 2008 changed all of that, at least for the time being. The ratio astonishingly moved over 10, which was the greatest buying opportunity in mining shares ... ever. Incidentally, I will introduce a gold timing indicator to you in the March monthly letter which enhances Simplicity.

I believe the old standard will return before the bull market in commodities is over. The ratio will fall under 4.00 in the future. That means that at some point, the XAU will sell for at least 25% of the price of gold. At today's price, that is about 275, or 83% higher than it is today. If gold moves to \$1,500 - which is very possible this year - the XAU would go for 375, or 150% higher than it is today. The point is that there is a lot of capital gain potential left in the mining shares.

Most of our recommendations fell to our buy prices, commensurate with the last high in the ratio. You should watch for a trend break in the ratio, which will indicate that the bargains are gone. However, since the RSI and MACD are not overbought on the ratio as yet, I look for a test of the high set last month. That will likely be the last best buying opportunity left to us. The best plan of action for you is to put your open orders in at our recommended buy prices, and be patient.

The **Spyder Gold Trust ETF** (GLD-NYSE-\$107.04) and **Jaguar** (JAG-NYSE-\$10.02) have not hit our buy prices as yet. Keep their buy prices at \$100.50 and \$8.50, respectively. I want to buy them right or not at all. The odds favor another shot at 81.50 in the Dollar Index - and likely, gold will break back somewhat in that event. Gold at \$1,000/oz. is still an outside possibility, but there is very good support at \$1,025 to \$1,050 now. Have your orders in and stand by.

If you didn't take advantage of the last dip in the mining shares, stick with the posted buy prices. If you miss a buying opportunity, it doesn't make sense to ignore appropriate money management through proper timing by jumping into strength. Open GTC orders can add an element of discipline to your buying and selling. Emotions run high at the lows and at the highs, but you must embrace fear at the lows and shun greed at the highs.