

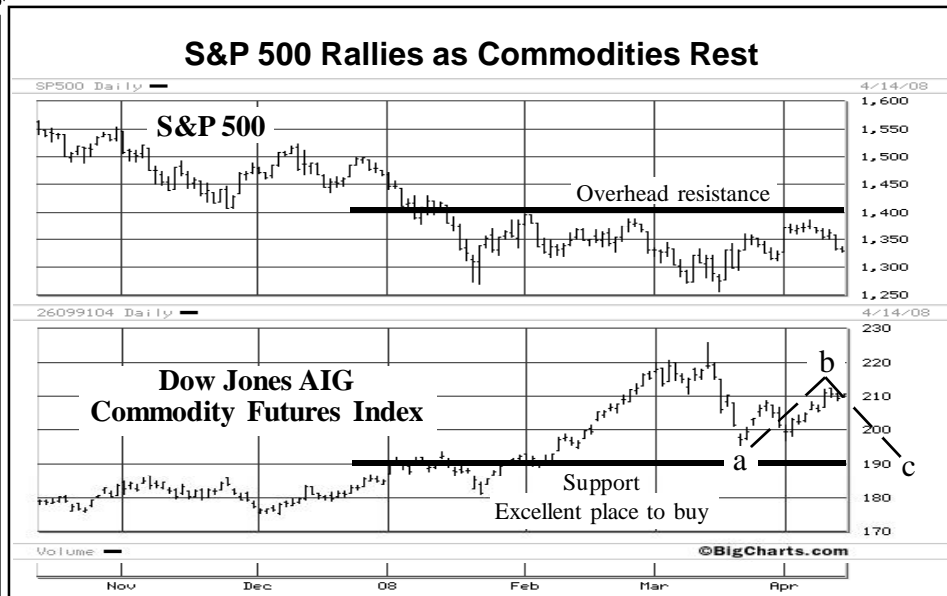
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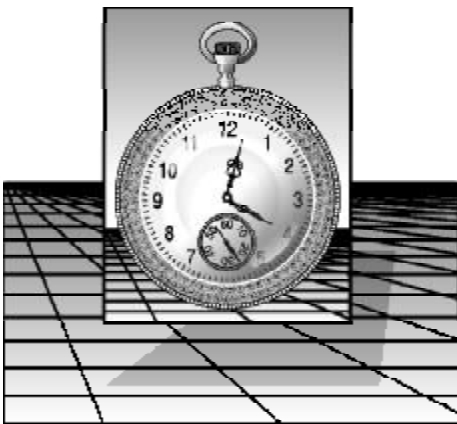
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ADJUSTMENTS IN PROGRESS



The next issue will be published May 1.

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One month ago in the March mid-month letter, I advised that the markets were headed for some adjustments. The S&P 500 was poised for a rally. My advice was to use strength “to liquidate any financial/paper assets you may still hold that are not advantaged by higher commodity prices.” That rally has evolved, and my opinion is unchanged. If we see the S&P hit 1,400, we will consider recommending some short ETFs. Those recommendations will be specified on the Tuesday/Thursday updates.

Commensurate with the upside adjustment in the stock market, the commodity market began a downside correction in mid-March, and I look for another leg down in the Dow Jones AIG Commodity Index to point “c” on the chart. There is very nice technical support at 190.00. Gold has finally begun to correct and is following the index lower. The dollar has been throttling around since mid-March with little real direction. About all we can say is that it has stopped falling. The key point now for the dollar is 73.68 basis the June futures. We have to see that level or better to call for any sustained strength in the dollar. In the meantime, it will wander sideways.

Gold began its correction late, but that is the problem with cycles and seasonal tendencies. Cycles tend to be early or tardy, and seasonals are but average tendencies. Both techniques are useful, but they are not pinpoint accurate. Nevertheless, the correction in gold is finally under way, and I think there is more time (perhaps several more weeks) and lower prices ahead before it is over. The best strategy at this point is to hold your positions and gamble on a final break in gold to \$825-\$840.

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 © 2008 by Professional Timing Service.

Concentrate on the major producers on our list. My favorites are **Agnico-Eagle** (AEM-NYSE-\$70.09), **Yamana** (AUY-NYSE-\$14.15), and **Kinross** (KGC-NYSE-\$22.80), but any on the list are purchase candidates at the respective downside buy prices listed on Page 6 of the monthly letter and Page 3 of the Tuesday and Thursday online updates. At this point, I see no reason to adjust any of those prices. Once gold breaks again below \$880.80 August basis, we will take a look at whether any of these need to be raised. For income, **Gabelli Global Gold** (GGN-AMEX-\$28.04) looks great at \$28.00 or better - \$26.00 if you already have some and want to go deep.

Crude oil is also correcting, but in a less dynamic manner than gold. Since mid-March, crude has essentially been trading between \$110.00 on the up side and \$99.00 on the low side, give or take a few dimes, basis May. Recently, prices managed to push a little higher, making a new, all-time high of \$112.20. However, there are strong negative divergences present at this high, and odds are we will see prices come back into the trading range again. It is typical for crude to consolidate in the spring before moving higher through the summer and into fall. I suggest waiting for weakness in crude and then accumulating energy shares on our list.

There is something suspicious happening in the oil patch, and it may be political. Although up from \$2.00 wholesale last summer and peeking at new highs currently, gasoline prices have woefully lagged behind the price of crude oil. This may be similar to when the big kids manipulated gasoline prices prior to the last election in 2006. Something is not right here. There is a ratio between the price of gasoline and the price of crude that normally runs about 1.25. This means that the price of a gallon of gasoline is 1.25 times the price of the crude oil that it took to make that gallon of gas. It reflects a 25% profit to the refiner. The ratio today is less than 1.00 - at about .95. It has been below 1.00 for the last six months.

Bottom line, the refiners are losing money on gasoline, which is one reason that their stock prices are down. The ratio has not remained under 1.00 this long since 1999. With the summer driving season coming on, it is due to recover. When it does, it will take refining profits back up with it. I will dig into this with more detail in the May letter, but purchasing **Valero** (VLO-NYSE-\$48.00) at current prices looks like an excellent long term play for \$160.00 oil. If you are looking for a deeper price, shoot for \$40.00, but the chances of getting that are not great. I like **Frontier** (FTO-NYSE-\$25.87) at \$25.00 or less; but technically, Valero is the better acting of the two.

Real estate looks like it has completed half of its price adjustment, at the very best. The ideal time to begin looking for some vulture real estate deals will be this time next year. I don't think the market will have bottomed by then, but that will be the time to begin dusting off your checkbooks if you are interested in buying real estate.

The consumer's wallet is getting squeezed dry while politicians are making promises. Wall Street keeps its head in the sand and mumbles positive twaddle that sounds like deep denial to me. Everywhere I look - financial assassins. Heaven forbid \$4.00 gasoline this summer, but there is likely no way to avoid it. Rhetoric aside, rising commodity prices and weak consumer demand will continue to squeeze corporate profits, and the stock market's drop from its October highs has not adequately discounted future earnings declines. The stock market is in for further adjustment, and it is vulnerable - more so today than before the March-April rally began. I encourage you to use strength to clean out financial stocks from your portfolios. Further correction in energy and precious metals will give you an opportunity to reinvest this money into commodity-advantaged holdings.

The S&P 500 can fall to 1,200, with little effort. I think we will see 800 before the commodity bull is over. On the up side from here, 1,400 is stiff overhead resistance. On the other hand, gold will certainly see \$1,600, at the very least. Crude oil will hit \$160.00 if there is no exogenous event from the geopolitical arena that restricts world supply and propels it further. You needn't worry about the end of the commodity bull until the Dow/gold ratio drops under 5. That will be the time to begin working out of commodities while the ratio finds its final low - likely at 2 to 3. There is a lot of room between here and then - both in time and price. Commodities will double while stocks will lose big over the next five years. Invest accordingly ... and remember, 85% of investment success is being in the right asset class. Until the Dow/gold ratio tells us otherwise, the right asset class is commodities.