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Commodity Opportunities Ahead

- **Real estate, in particular, is still a big problem.** **Page 1**
- **My favorite buys (as outlined in the last letter) are still Kinross, Goldcorp, and Royal Gold.** **Page 2**

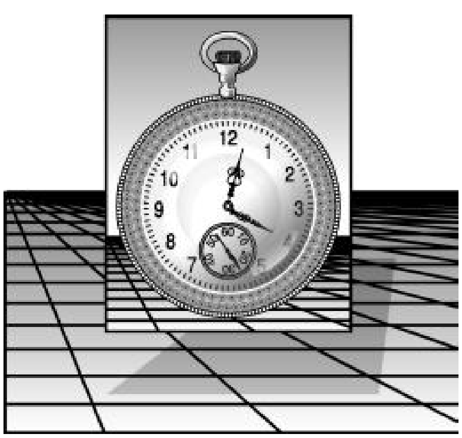
I warned you that you would be seeing better numbers from the government as the "Obama rally" got under way. The housing numbers were better in February than in January - as they always are because January is always terrible, even in good years. You are going to hear more "good news" on the economy this summer; but to paraphrase Eric Fry, the economy is bottoming out like a skydiver whose shoot didn't open - and the emergency shoot is not likely to be of any use at a lower elevation.

The powers that be have to justify that all this spending - which some are estimating at $24 trillion in direct spending, guarantees, and loans - is working. What politician can go to his constituents, perplexed and unemployed as they are, and say, "gee, it's not working"? The actual proof of the government's success will be in the proverbial pudding of course, but we may need to take a Clintonesk approach and tweak the definition of success in the process. Perhaps, the economy can be put into a temporary remission, but at what price and for how long? These are weighty questions that investors need to ponder.

Real estate, in particular, is still a big problem. There is a huge inventory overhang in real estate, and I am now reading about a "shadow inventory" that doesn't show up in the numbers. These are homes that are not on the market because although the owner wants to sell, he doesn't see any hope in finding a buyer. Another source of shadow inventory is bank repos that are not being put on the block because they are afraid of flooding an already weak market. A Trac Reality survey recently found that only 30% of foreclosures have been listed for sale. This is interesting considering that while normally you will see 160,000 homes a year in foreclosure, the number is now 80,000 a month. This doesn't even consider commercial real estate, which I believe is yet to really crash.

Meanwhile, Asia hums along. China is still showing positive economic growth. The last I saw, it was at a rate of 8%. That seems a bit high; but if their GDP is growing at even half of that, they are doing better than we do in good times. There is a factor of 0.9 that is important to global energy demand. If their growth is 8%, the growth in their crude demand will be 8%x0.9=7.2%. At a GDP growth of 4%, their crude demand will grow at 3.6%. The exact percentages are not as important as realizing that energy demand in China (and the rest of Asia) continues to grow in the face of slower demand in the West.

I suppose if you believe the economy is, indeed, bottoming out, you would infer that energy demand would be increasing. Due to the comfort this rally is giving the man on the street, the energy sector is responding as it should. From a



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technical perspective, crude is positive. Our CPP model is long crude with a sell stop at $42.75 June basis. I see very good support at $45.00. Crude is going to be choppy day to day, but it seems to be carving out a nice, traditional saucer bottom. Seasonally, crude will typically show some profit taking in May and June before resuming its advance to highs in September-October. This all fits well with my outlook for the stock market overall.

What to do? Hang on to your energy investments, and heed our downside buy prices. Be sure to diversify and balance your portfolios. Look to add to energy positions beginning next month if you are underinvested in the sector. Do not chase strength here. Many of the energy issues I watch are approaching some overhead resistance areas. I expect better buying prices next month.

Review the last letter for comments on **Enerplus** (ERF-NYSE-$18.70) and **Apache Corp.** (APA-NYSE-$69.48). I still have my orders in on Enerplus at $15.00, although the market has moved away from me temporarily. Stick with our published downside buy prices for now, and I will make adjustments in the May monthly letter if warranted.

There is one thing about the energy sector - and crude oil in particular - that I feel very confident about. I think we will see a minimum of $70.00/barrel by year's end. That assumes we do not experience some exogenous event that spikes prices suddenly higher before that. This would include a surprise development in the Middle East or a sudden crash in the U.S. dollar due to unexpected failures at the Treasury auctions.

I have been a "gold guy" since 1999. That is when the Dow/gold ratio began to tip over. I will remain a "gold guy" until the ratio falls under 5. The U.S. dollar is not going to be replaced as the world's reserve currency overnight. It will be replaced, however, and the process will not be pretty. I remember when the British pound crashed in the 1970's as it lost international favor. It fell for weeks on end, day after day, straight down. The dollar will suffer a similar fate at some point.

Currently, the U.S. Dollar Index is negative in my technical work. We have a position in the Rydex Weakening Dollar Fund (Page 2 of the online updates). The index is nudging 86.00 basis June where it is encountering minor overhead resistance. It may well work through this and push to 88.00 where more formidable sellers lay in wait. This should all coincide with the completion of the gold correction that began in February.

In a time sense, gold should bottom near the end of April, and seasonal tendencies support this view. I still expect to see prices approach support at $850.00 basis June. All in all, bullion is getting close to its next low, and the mining stocks are coming off toward our buy prices as well. I will post any changes I see in the online updates; but for now, stick with our published buy prices.

My favorite buys (as outlined in the last letter) are still **Kinross** (KGC-NYSE-$14.78), **Goldcorp** (GG-NYSE-$29.98), and **Royal Gold** (RGLD-OTC-$37.20) at $12.50, $22.50, and $32.50, respectively.

Stocks are trudging along as anticipated, with one exception. I expected to see the S&P 500 correct back to 750-775. Maybe I am nitpicking as it did dip to 780 late in March. Nevertheless, the 800 level (which was overhead resistance) should now offer some support as the market progresses to its next problem level at 900. There is an old adage to sell in May and walk away. I do expect to see some consolidation in May, but not the typical weakness one normally sees following the completion of the best six-month period of the year for stocks (November-April). I see bigger problems this July when I expect to a more serious drop before a final recovery to the ultimate highs in this rally.

There is an important omen in the best six-month period. Edison Gould found that when the best six months failed to be profitable, the following "worst six" months were disastrous. The S&P 500 will have to close out April above 968.75 for the best six months to show a gain. I see more strength this month, but not that much. The S&P is going to have difficulty making it over 900 – and, yes, I expect the following six months will be disastrous. Once the Obama rally is over in August, the ride is going to be reminiscent of the latter half of 2008. We will see new lows in financial/paper assets in 2010.