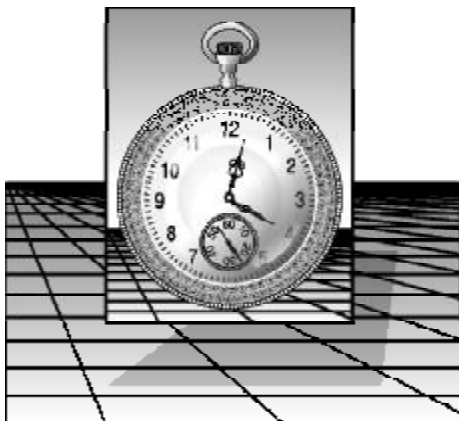


**The next issue will be
published June 3.**

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The Obama Rally Is Not Over

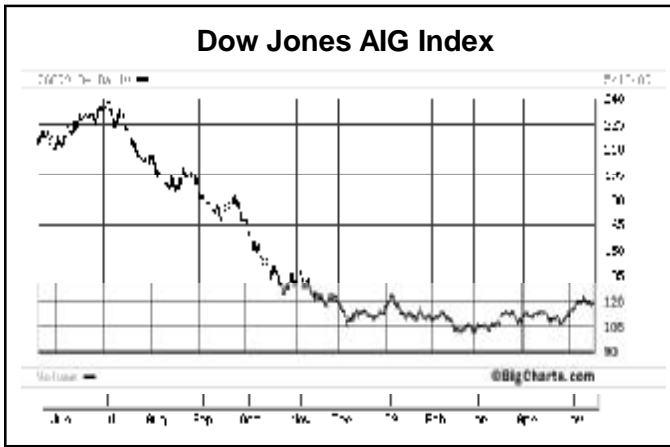
The Obama rally is taking a breather (as expected); but so far at least, I don't have any sell signals to report from my timing models. Palio is still positive, and the Nasdaq Slow Tracker will not turn negative unless the Nasdaq Composite falls to 1,598.90 or lower. The Palio model tracks day-to-day data, and I cannot give you a forward sell parameter for Palio like I can with the Slow Tracker. However, as time progresses, the Slow Tracker sell point can change, and that is a distinct possibility soon. If there is a change in either of these models, I will alert you in the Tuesday and Thursday updates, or by a special online report if needed.

As we progress toward the end of the month, I expect to see more of a consolidation than a crash. I continue to look for 800 in the S&P 500 to offer solid support, but prices will probably thrash around the 900 level until late May-early June when the next phase of the rally should begin.

The longer term outlook continues to look bleak. Expect a high in July and a test of that high in August after a brief, but sharp, retreat. The economy is going to get worse. There is another storm brewing in the mortgage market. I talked about the long bond in the last letter and how long term bonds have fallen all this year with a commensurate rise in long term interest rates. The yield on the 10-year is also moving higher. That means that mortgage rates are going to start moving higher as well. There is a swell in the number of adjustable rate mortgages down the road that will be affected by higher rates. There are a lot more folks that are going to be under water on their home loans over the next 12 months. This is going to be accompanied by a serious increase in credit card defaults and commercial loan problems. The consumer is going to hunker down further, and the economy will feel the pinch.

Obama has an answer ... save the banks. The problem is that credit card defaults will likely equal twice the total capitalization of Citi, American Express, Discover, and Capital One combined. Obama's other solution is to raise taxes on the "rich." Seventy-five percent of the "rich" are small business owners and small businesses that are responsible for the majority of new job creation in this country. As I said above, borrowing and spending by consumers are going to fall, and saving is going to rise dramatically. Can you begin to connect the dots?

More evidence of problems ahead? First quarter corporate profits were down 50%, and they were 18% under estimates. The latest PE for the S&P 500 is officially 122.45 as of the week of May 15, and earnings are going to get worse. Where does that put the S&P with a, say, 10 times earnings multiple on future earnings? It is time to begin thinking like a bear rather than a bull. Remember, I warned you the mood would turn optimistic when the "spin doctors" got into



full force during this rally. The fact is that until something changes for the good, the market is destined for new lows. I expect one more good shot on the up side, so use it wisely. Liquidate any financials/paper assets. Hold only investments that are advantaged by higher commodity prices

The commodity market as a whole is perking up. The Dow Jones AIG Commodity Futures Index has recently turned up from 101.00 to 120.00. I expect it may settle back to about 110.00 where there is good technical support. You can pull this chart up at BigCharts.com with the arcane symbol 26099104.

The Pimco Real Return Strategy Fund (PCRAX) is on our recommended list, and I think it is time to add to this position or make a new commitment if you don't hold any. Check out the prospectus and decide which share class fits your individual situation the best. I will go into the fund in more depth in the June monthly letter; but for now, buy PCRAX if it falls to \$6.15 or lower.

The gold and silver mining shares have come more into line with the price of gold, but the gold/XAU ratio is still over 6.00. This would normally indicate that the miners are super buys, but the index got as high as 11.60 last year. That means that mining shares were selling at ridiculously low prices in comparison to bullion. Frankly, at 6.00 in the ratio, they are still reasonably priced in comparison to bullion.

The ratio will cycle like everything else. It looks like it may well move higher over the next few weeks - to 7.00-7.50. If it does, many of the precious metal stocks on our list will hopefully fall back to our buy prices. You do need to think about the ratio for a moment. Gold does not have to fall for the ratio to rise. In fact, last year when the ratio moved to over 11.00, gold sold off, but nowhere near as far as other assets. Gold held up very well.

On the other hand, the mining stocks were tossed out the window like everything else. The result was some juicy bargains ... but that is water under the bridge. We have to invest going forward. My opinion is to watch for weakness as the general market consolidates, and buy any gold and/or silver issue that falls back to our downside buy price. Hold what you have and be patient. Don't buy unless the price is right. Diversify and keep a good balance in your portfolios.

Crude oil is bumping \$60.00, and that is a little over where I expected overhead resistance would be. I was looking for a lid at \$58.00, but the outlook is the same nonetheless. Crude is overdue to correct short term. It could fall back as far as \$50.00 without causing any of my technical work to become bearish. Like gold, be sure to mind the downside buy prices on our list in the energy issues. Most of the issues are currently above the buy prices or they are on hold. I will be making some adjustments in the June letter; but for now, stick with what we have.

There are some who are looking for a dollar rally. I agree that the 82.00 level offers some support, and we could see a bounce near term. If the stock market sells off over the next couple of weeks, the process may involve foreign investors selling stocks and using the money to pay down debt. That means they have to buy dollars to settle dollar-denominated debt obligations. This can then boost the dollar short term. However, there is an iron ceiling at 88.00 from a technical standpoint. It is interesting that after the dollar broke hard on May 8, it found support out of thin air. It sure looked like the Fed stepped in to hold it up and avoid a rout. I have often said the Fed would welcome a lower dollar, but they prefer a decent, orderly lynching and not a collapse.

Many of you have sent e-mails congratulating me on my retirement on March 31, 2010, but you have also asked me to pass on some ideas regarding alternative letters. I am working on a list for you and will have some details later in the year. I realize that everyone writes about and approaches the markets differently, but I will have some sources to pass on that I respect and find personally helpful.