

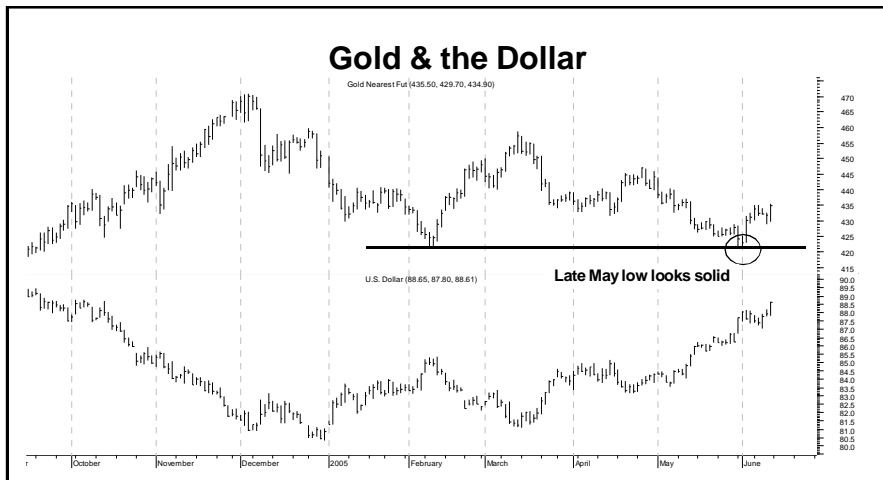
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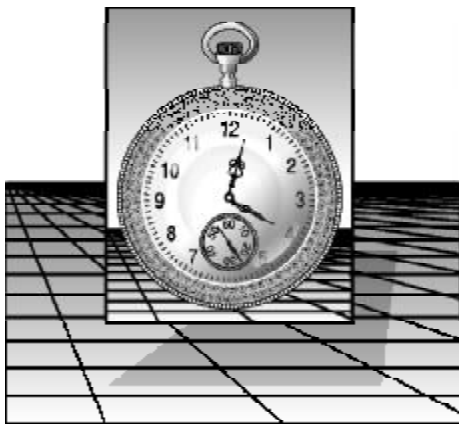
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HOLD ON TO YOUR GOLD SHARES



The next issue will be published July 1.

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There has been an important change in gold's behavior and that of the mining shares. For example, on June 10, the Dollar Index surged to a new rally high of 88.69. Gold was up over \$4.00.

This is a significant departure from the past, and I believe it indicates that the late May low will turn out to be very important. This opinion is supported by the extreme reading we saw in the gold/XAU ratio presented in the June letter.

The reason for this new behavior is the rejection of the ECU constitution by France and the Netherlands. Now Italy is grouching about the Euro being "inadequate." The Euro is in crisis, and currency traders are not moving into dollars with the enthusiasm one would expect. What do they want? They want the good old days of marks, guilders, francs, etc. Without these alternatives, they are buying gold.

Over the last couple of months, you should have been able to buy the

mining stocks on our list rather easily at their listed downside buy prices. I believe they all hit them.

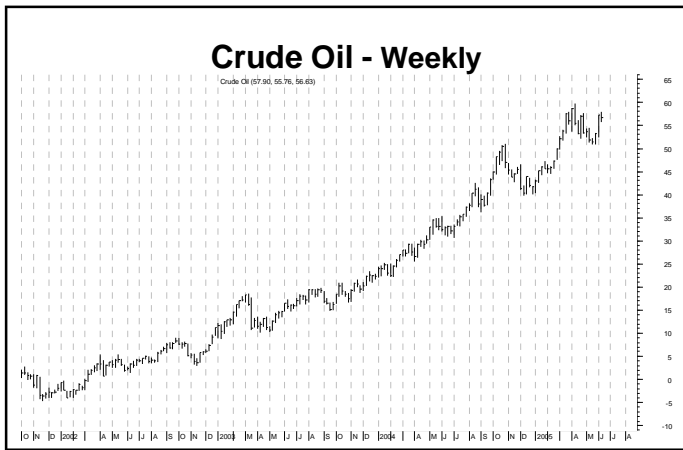
My advice now is to hang on. These are long term investment positions, not trading positions. In the long run, you are going to be happy you have them.

What's next for gold? The next upside objective for gold is \$450, and then it will be off to \$500.

It is interesting that our trading models have not kicked in yet. With the exception of Gold Fields, the mining stocks on our Hyperion list have yet to trigger buy signals. The Hyperion model is long the silver futures, but it has not triggered a buy in gold. Finally, our Rydex gold program has not called for an increase in its 25% position.

The reason is that our trading models tend to be momentum models. Although the precious metal sector is looking very much like it established

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energy issues on our buy-and-hold list at their recommended buy prices (Page 6 of the monthly letter), and then sit back and count your dividends.

Most of these hit their downside buy prices over the last two months, and you

a major low at the end of May, so far the market lacks the punch to trigger trading buys.

Gold traders, be alert.

I believe we will see trading buys click in over the next few weeks. Gold investors, hang on to your positions. Near term volatility aside, gold is going higher, and so are the mining stocks.

Crude oil has overhead resistance at the April high, which was 59.70 basis December futures. It is not the end of the world or necessarily the end of the rally. It simply means you need to expect some softness in the market as that high is reached.

Barring some outside event that would spike crude prices (not an impossibility in today's world), look for some selling as crude approaches the \$60.00 level. Don't sell out your investment positions with the idea you will buy back in. That strategy is destined to fail. Most of you will not have the discipline to buy back in, and you will eventually regret leaving those positions.

Hang on to your gold and energy shares. There is more to come in \$500 gold and \$76 crude oil. Eventually, I expect to see both of these move even higher.

If you want to trade energy stocks, there are several on the Hyperion list. The easy money in this market is to invest in the

should have had plenty of opportunity to add to your positions. I will say it again. Hang on to them.

What looks good right now? The energy stocks have not jumped like the gold shares have done. I like **Baytex** (CA:BTEUN-TSE-\$13.40), which is still just under our buy price. Respect the buy prices. These are the maximum you should pay, and it is important that you adhere to them in managing risk and maximizing returns.

The stock market looks like it is heading for big trouble this summer. I don't expect to see a crash, but you shouldn't look for anything spectacular on the up side from here. The averages will likely fall into a choppy, churning period - typical of professional distribution. By the end of August, I expect the market will be back into full bear mode. The only stocks that will beat the bear will be those that benefit from higher commodity prices.

The only argument supporting a commodity bear market that has a thread of believability is that China's economy is going to "slow down." Indeed, it might "slow," but relativity comes to the fore here. They are clicking along at a 9.5% growth rate. If they slowed to 8%, they would still be on a tear, and they would still be acquiring enormous amounts of natural resources. Much of their demand for

commodities is directed at their future. The only way China would negatively impact global demand would be if their economy went totally belly up, 1930's style. Friends, that just isn't going to happen any time soon.

The Chinese middle class is estimated to be upwards of 300 million souls. That is larger than the population of the United States. It is further estimated that their middle class will double by the end of the decade. That is an enormous increase in the demand for stuff as well as the stuff you make stuff out of. This doesn't even factor in the rest of Asia.

Bonds have been amazing. Our bond trading models (futures and Rydex) are both on the sidelines, which is prudent. There is talk that the 10-year Treasury could go to 3%. Who knows? It is currently at 3.95%, and 3-month T-bills are paying 3%. I don't think that is enough premium for the 10-year risk.

The current account deficit is now 6.5% of GDP. In the 80's, the shortfall was 3.5% of GDP, and the dollar fell 30%. So far, with the current dollar rally acknowledged, the dollar is off only about 15% from its high. So, the trade deficit is twice as bad as it was in the 80's, and the dollar has adjusted by half of what it did then. Currently, the deficit is not improving, and it may well get to 7.5%.

The conclusion is that the dollar is going to have to fall much further than it has in order to have any positive impact on adjusting the current account deficit. I believe the Dollar Index will fall at least to 60 from its current level of 89. That is going to boost the value of our Canadian trusts and gold positions, but the dollar can't adjust a deficit this extreme on its own. It will need help. That help will be higher interest rates which will, of course, equate to higher commodity prices in U.S. dollars.