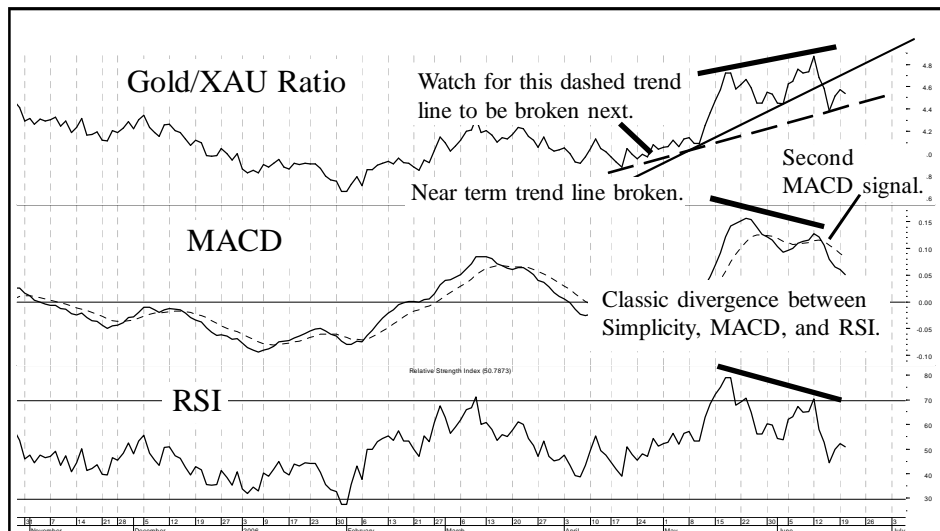


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## Simplicity Buy Signal

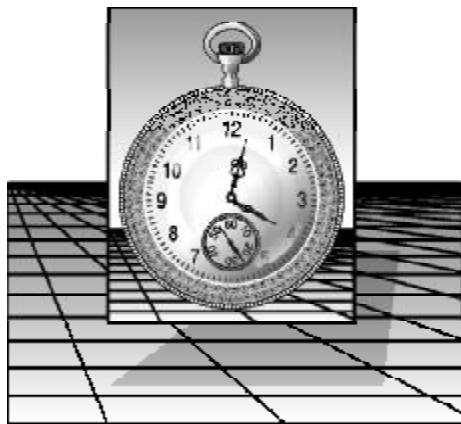
*The most important event since our last letter was the completion of a buy signal from Simplicity.*



**Due to the 4th of July holiday, the next issue will be published July 13.**

- **What looks good right now?**

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Here is where Simplicity stands now. The chart speaks for itself. Simplicity finds points when the mining stocks, as represented by the XAU, are selling relatively cheap (or expensive) in comparison to gold. In April, the model warned us of an impending correction - a correction that has come to pass - and warned us mining shares were expensive. The recent signal, however, indicates that the worst of the correction has ended. It is time to expect the resumption of the gold bull market.

I thoroughly anticipate gold will reach \$1,600 ... eventually. I look for the next leg in the bull to move gold to the old 1980 highs, which were at the \$800 level. We could see \$800 by year's end, but most likely within the next 12 months. It isn't all that important when we see \$800 or \$1,600 gold. What is important is

that you took advantage of the recent correction to add to your precious metal positions.

The Rydex precious metal trading program moved to a 25% long position on the Simplicity signal. That may seem too conservative, but the fund is very volatile and we are only allowed to trade in or out on the *close* of the day. This makes risk management a bit more difficult than normal.

This is a trading program - not a long term, buy-and-hold approach. Nevertheless, we intend to add to the position as other tools we follow so indicate. The adjustments will be announced on the hotlines.

There are those who do not believe in recession and inflation occurring at the same time. The 1970's proved

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that this can, indeed, occur - especially if energy is a stimulous for higher prices. The basis for stagflation is rooted in a weaker dollar. As the dollar falls, commodity prices rise in dollar terms, regardless of the domestic economy. More important are the economies in China, India, and the rest of Asia. (I will address this in the next monthly letter in more detail.) Suffice to say, the U.S. is only #3.

Globalization is energy intensive, and globalization is going to continue, regardless of a U.S. recession. It is simply arrogant to believe otherwise. On a global basis, energy use will outstrip supply, likely by the end of this year. Use will certainly outstrip supply by the end of next year.

Consider that the bulk of the world's oil is being produced by tyrants and soldiers rather than business managers and oil engineers. Production is based on politics, power, and greed - not good management or sound economics. Efficiency is going to drop like a rock, and so is production.

### **Recession or not, supply is going to fall behind demand in the next 18 months.**

Technical analysis trumps fundamental analysis hands down. My core technical model, the Annual Asset Allocation Model, is still pointing to tangibles as the investment avenue with the lowest risk and highest reward potential. Forget the talking heads and media hype. Their incentive is to sell ads - not to make you money. The model shifted to tangibles (commodities) in October 2001, and it is still set in that mode.

There are many years of commodity bull market ahead. In fact, Jimmy Rodgers said the other day he believes

that commodities are 80% to 90% below their all-time highs when adjusted for inflation ... and this only considers past inflation, not future.

Don't neglect natural gas. Last year's mild winter left the market with ample supplies in storage, but this will be temporary. The U.S. and Canada will virtually be out of natural gas in 8 to 9 years. My technical natural gas models are getting more bullish, and June-July is typically when we see seasonal lows in the energy complex.

### **What looks good right now?**

First, as the metals form a base, use any further weakness we see to make final buys in the precious metal stocks on our list. My favorites are **Goldcorp** (GG-NYSE-\$26.51) under \$30.00 and **U.S. Gold Corporation** (USGL-OTCBB-\$8.35) under \$8.05. If you already have positions and are only looking for a steal, put orders in at \$25.00 for Goldcorp and \$6.00 for U.S. Gold Corporation. **Silver Wheaton** (SLW-NYSE-\$7.74) under \$9.00 looks good; and if you are in a mood to steal it, try for some at \$6.00.

On the energy list, **Paramount**, (PMTUN-TSX-C\$17.89) under C\$18.00 and **Canetic** (CNE-NYSE-\$18.89) under \$20.00 look good. If you want larceny level prices to shoot for, try Paramount at C\$16.00 and Canetic at \$17.00. Pick some up, sit back, and enjoy the dividends.

I still like **Headwaters** (HW-NYSE-\$24.43) - a lot. Buy under \$25.00. I doubt it will fall to \$20.00, but I am all over it there if it does. This one has been deep-sixed by the talking heads over the loss of Section 29 tax benefits. I don't think this is going to be that big of a problem.

There are two alternative energy sources that can be practically and profitably exploited right now. These are not pie in the sky visions of windmills on every breezy landscape. They are alternative fuel sources that are being developed rather quickly, and they do not require a change for the energy user. We don't all have to go out and buy electric cars.

One is coal gasification. Headwaters holds proprietary technology which they license for the efficient conversion of coal to clean burning liquid fuel. This is the real deal, and it is being done profitably with or without Congressional subsidies.

Tar sands is the other viable "today alternative." If you are in a speculative mood, buy some **UTS Energy** (UTS-TSX-C\$5.33) at C\$6.50 or less. This one will take some time to develop, but they have a bright future in tar sands. Larceny in your heart? Try an open order at C\$4.75.

I can't say whether these deep "burglar level" prices will be reached or not, but you might give them a shot. Don't fret about further weakness; and don't pay over the listed downside buy prices.

You must get used to buying weakness and selling strength. The first step is to be in the right asset class. The AAAM tells us what that is. Then you need to be in the right stocks. I don't list every energy and precious metal stock on the recommended list, and there are others that qualify as being in the right asset class. I just list the ones that I am comfortable with.

Finally, you have to pay the right price. That is what the downside buy prices are all about ... you have to accumulate in weakness to succeed.