

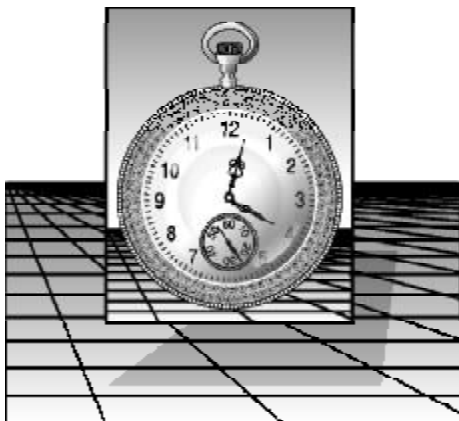
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- **Taking advantage of the current correction in precious metals is the best bet at this time.**



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Fighting Inflation Gold Is The Summer's Best Bet

Times are getting tougher, whether you believe we are officially in a recession or not. Frankly, I think we are; and furthermore, I sense it is just getting started. For several years, I have been warning that you will see inflation raise its ugly head, regardless of a recession.

The 1970's term for this economic phenomenon was "stagflation," meaning a stagnant economy accompanied by inflation. It was previously taught to students paying big tuition bucks at high-end universities that such a thing was impossible. Recession supposedly would decrease demand, and prices would fall as a consequence. The 1970's taught us that the PhD's didn't know as much as they thought they did. Bottom line, stagflation is back, but it is still embryonic. The economy is going to get worse, and prices are going to go higher.

The most noticeable thing you will witness over the next five years is the remarkable ways folks will adjust to this. Energy conservation will become popular, much as smoking has become unpopular. You will finally see people begin to carpool to work and take advantage of those now mostly vacant diamond lanes.

I recently participated in a conference sponsored by Forbes. You can check it out if you wish at www.forbes.com/iconference. The unique thing about the "iConference" was that it was the first ever virtual investor conference. It was all done online, and there were 12,000 folks that registered to attend. That is as many investors that register for normal conferences held in Las Vegas, San Francisco, or Orlando. In short, the iConference was a huge success for all involved. However, in the process, there were 12,000 fewer airline tickets sold, 12,000 fewer outrageously priced hotel rooms rented, and likely 90,000 fewer restaurant meals served. This was an ingenious conservation of energy and resources. You will see other innovative ways of doing things become as normal as sending an e-mail or logging online.

Our society and culture will adjust to higher commodity costs and their impacts on our lives, but this will not necessarily bring commodity prices down all that much. The world population is growing, and, in many cases, their standards of living are rising rapidly - especially in Asia. This puts pressure on limited natural resources, forcing prices higher. Toss in a generally weak dollar that is destined to weaken further in the long run and you have the formula for further increases in commodity prices in terms of U.S. dollars, regardless of a weak domestic economy.

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.

The precious metals are behaving as anticipated, for the most part. There has been more choppy volatility than expected; but in general, gold and silver look to be in the late stages of the correction that began at the March highs. If I were to tag a time frame on when the next lows will finally be in, I would say early August - perhaps as early as the first week of August. The potential is still there for gold to break through the \$860.00-\$850.00 base it has been bouncing off of and dip quickly to \$840.00-\$825.00. Silver has a shot at \$15.50-\$15.00. Without getting overly precise, it is time to be focusing on the downside buy prices on Page 3 of the Tuesday and Thursday updates and Page 6 of the monthly letter. Those prices are the maximum you should pay. If you have the chance to accumulate under those prices, so much the better. You have about six weeks left to do so.

Again, I would focus on the majors. The juniors are going to come into their own, but I think it could take another year for that to happen. First, gold has to make it to new highs over \$1,000 - which I have no doubt it will accomplish next year. There is great potential in the juniors, but the most immediate profits will be in the bigger concerns that have cash flow and production.

I am working on a report on ETF's that will detail my concerns about these vehicles. Most investors do not understand how ETF's operate, but the biggest concern I have is the combination of overly concentrated control and the use of derivatives. Serious problems aside, you are going to see increased volatility in areas that have strong, non-diversified ETF interest. This includes crude oil, gold, and silver. Nevertheless, I am still recommending **Street Tracks Gold** (GLD-NYSE-\$87.25) at our price of \$83.00. You should just be sure to go easy on this. I am more excited to grab some **Central Fund of Canada** (CEF-AMEX-\$12.16) at our buy price of \$11.05 or better. I discussed both of these in the last letter.

Taking advantage of the current correction in precious metals is the best bet at this time. Remember, don't buy stocks when they are expensive. Buy when they are cheap and underbelieved. The energy complex needs to back off before most of our issues (and some others I have my eye on) will be in range of purchase. As it is, with the exception of the refiners, the energy sector is too hyped right now.

I don't think this is the time to think of selling since I see crude going to at least \$160.00. I will review the downside buy prices for our energy issues in the next letter. At this point, we need to wait for better buying opportunities. In the meantime, hold your positions and don't - for any reason - short energy. The surprises will be on the up side.

Corrections come and go. It is the way of the markets. Keep your long term perspective during corrections. Just think, during the last four years, the world consumed 10% of all of the oil ever consumed. Global consumption is about 25 billion barrels a year. Keep this in mind as you see reserve estimates for so-called "huge" discoveries like Bakken or the ANWR in Alaska. Alternatives - and even new production - simply cannot come to the rescue in time. We will see \$160.00 crude.

The U.S. dollar is key to all of this (as I have written in the past). Currently, our Rydex dollar program is long the U.S. Dollar Index with a stop at 72.32 September basis. Nevertheless, I think the dollar is still locked in a wide trading range. That stop is very important in timing the next break to new lows in the dollar, along with the next rally phases in precious metals and energy.

The stock market is supposed to be a leading indicator. We might ask, "What is the stock market saying about the future of our economy?" The averages seem to be resilient ... but what was the Nasdaq saying about the dot-coms as it was probing 5,000 in early 2000? I think it was saying only that the dot-coms were overpriced - as the popular averages are today. The economy has a painful correction to make that is just beginning. Avoid financial assets. Expect higher interest rates. They are at the lowest level we will be seeing. German bonds pay 200-plus basis points over ours of equivalent duration. The dollar will fall further as a consequence, and U.S. interest rates will rise. TIPS will give you some defense if you are looking for income, but your best bet this month is gold.