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## NOTHING TO WORRY ABOUT?

Hyperion traders should keep in touch for changes. We have some nice long positions, but the sell stops are now being moved up. Incidentally, one of our subscribers reports that by his calculations, the Hyperion model is up in total about 25% for the first half of the year.

It's interesting how fierce the bond decline was following our sell signal on June 17. The resulting pop in long term rates has pushed real estate mortgage rates up a bit as well. The industry is spinning this as "nothing to worry about."

If rates work higher over the next year or so, you will be seeing more property on the market - and certainly more foreclosures. The Mortgage Bankers' Association reported an 18% drop in applications last week, and a 27% drop from the peak in May. I think there is a lot to worry about, unless you are waiting in the wings planning to buy into a distressed real estate market.

*Have bonds peaked?*

*Have interest rates made the turn from multi-year lows?*

*What about the Fed buying bonds?*

The Rydex bond program moved into the Juno fund (short Treasuries) on June 17. On July 15, our downside target was hit and we exchanged back to the money market fund. I look now for a brief upside reaction and then another sell signal.

As for the top in bonds, there is a distinct possibility we have seen the best we will see in this cycle. Bonds are still coupled to a degree with stocks in that investors have been shifting out of bonds - forcing them down - and putting the money into stocks. However, this effect seems to be abating, and I expect to see bonds and stocks significantly lower in October.

Will the Fed step in and buy the long bond to hold down long term interest rates? That is a wild card. They may not actually have the power to pull that off if foreign investors use the liquidity the Fed would create as an opportunity to dump their Treasuries.

Foreigners have to be getting tired of seeing bond prices move higher, only to see the value of the dollar decline. All in all, this could be a break-even proposition at best.

I believe that bonds have peaked, and long term interest rates will be rising. There will be the occasional technical adjustment rallies, but we likely have seen the best we will see from interest rates. The powers that be will try and spin this as a sign that the economy - and thus, demand for money - is improving ... but my advice is not to buy into that. The economy is in tough shape, and it's not likely to show real improvement in the second half.

## The dollar has rallied, much as expected

It is currently over 97.00 September basis. This follows our Hyperion buy at 94.60. I'd be very surprised to see the dollar manage to get as high as 98.50, but we will stick with the long position until the model sells.

I realize most of you are not interested in trading the U.S. dollar futures. However, what goes on in this market has a lot to do with what one should expect in gold, stocks, crude oil, natural gas, and other tangible assets. The dollar is in a long term bear market, and it will end up falling much further once the current correction is over.

You can take advantage of the dollar rally in several ways. This is a good time to buy foreign currency CD's or bonds. I prefer countries with plentiful natural resources, like Australia and Canada.

Gold is a dollar thing, but there are short term anomalies from time to time. We are witnessing such a period right now. Gold topped out in May, and it has been correcting since. It would not be out of the question to see gold futures hit 330-335 basis September futures. That would not trigger a Hyperion sell in gold. On the other hand, silver has been on a tear. As gold has probed lower, silver has mounted a strong rally.

Silver will do better than gold in the longer run. From 1971 to 1980, silver went from \$1.30 to \$50.00 an ounce. That is an increase of 3,746%. During the same period, gold went from \$35.00 to \$800.00, or 2,186%.

The XAU has also come off from its highs, and it's close to our downside

expectation of 73.00. We should be getting close to a bottom and the next buy in our Rydex gold program. Gold traders should stay close to the hotline.

## The Hyperion model is long both gold and silver.

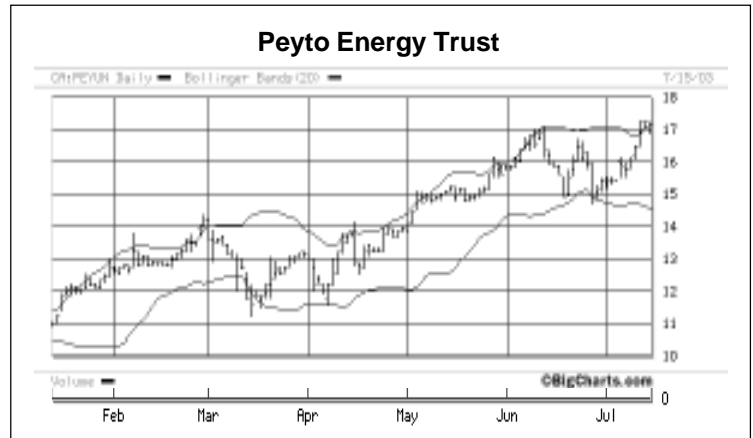
The Hyperion model is also long some of the silver and gold mining stocks on the list, but we are seeing sells triggering here. The key is to let the correction run its course. I feel that by August, we will be long again.

Technically, crude oil is at the top of its trading range and may well correct back to \$26.00, in line with the correction we have been seeing in natural gas. As crude and gas fall back, you will have the opportunity to add to your positions in the Canadian energy trusts we have been recommending.

*Here is the root of the matter. Regardless of short term market wiggles, crude oil and natural gas are going to get more expensive.*

I still like our Canadian energy producers; and, of course, Enerplus is my favorite. If you want to buy more, wait for weakness and jump in.

Provident Energy was the one with the Canadian ownership problems. This is being resolved; and I will have more for you on this in the next monthly letter. If you can snag some at \$7.50, I think it would be a good gamble.



Here are new downside buy points for our Canadian energy trusts:

Enerplus	\$22.50
Primewest Energy	\$18.25
Provident	\$7.50
Shiningbank	C\$16.10
Peyto Energy	C\$15.50

Knightsbridge and Nordic American have stabilized. I will have some specific recommendations on these in the next monthly report.

If you are looking for a little diversification, take a look at **Peyto Energy Trust**. The BigCharts symbol is CA:PEYUN. The stock is ahead of itself, but picking up some at C\$15.50 would be appropriate.

I will have more details on Peyto for you in the August monthly letter; but suffice to say now, this one has an element of exploration involved with it. That makes it a little less predictable than Enerplus, but it has the potential to significantly increase production in the future through exploration efforts.

I believe we will eventually see crude prices at \$50.00 and natural gas at \$10.00. Couple higher energy prices with Peyto's excellent exploration and development record and nice dividend, and you have an interesting speculation. Visit their Web site at [www.peyto.com](http://www.peyto.com).