

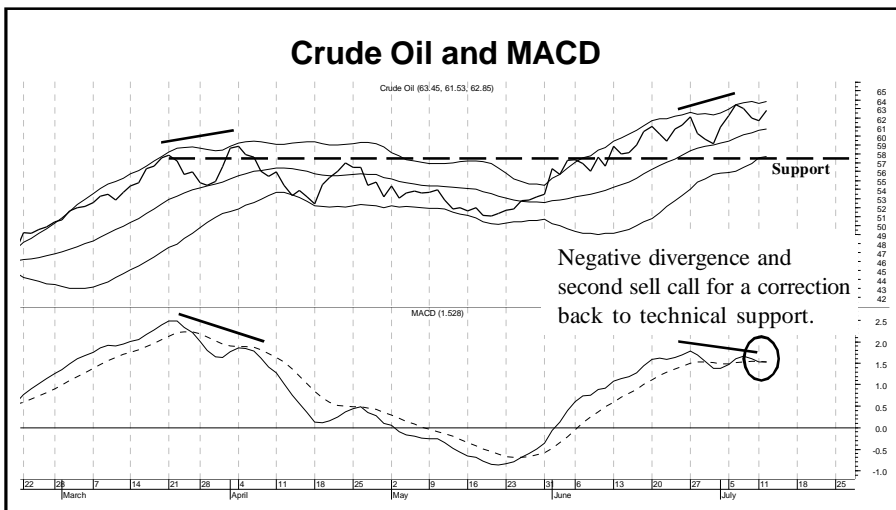
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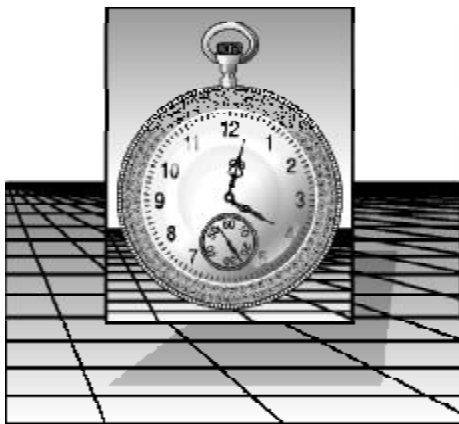
Searching For The "Under Believed"



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I was calling for crude oil to drop back to \$55 basis December, but with the caveat that exogenous events could sidetrack that forecast. The recent storms in the gulf, for example, stirred some fears, and crude jumped for a day. Then the bombings in London triggered a surprising \$3.70 a barrel drop in the December contract.

Just as amazing, the buyers immediately climbed all over the weakness. By day's end, the price was only off by 30 cents. The next day, crude was marching to new highs. The big surprises will be on the up side in crude.

What is next for oil and gas?

The price action over the last couple of weeks has caused me to revise my expectations a little. I still look for a more sustained period of profit-taking to set in - for several technical

reasons. Prices are hitting the upper Bollinger band, and the MACD patterns look topy here. On July 8, crude hit \$64, which is very close to my summer objective of \$65. There should now be nice support at \$57.50 in the December futures.

As investors, you should continue to hold your energy stocks. None of the issues on our buy-and-hold list are that close to their buy prices, so my recommendation is to hold what you have and wait for crude to give us a better buying opportunity as it corrects. Patience is a key ingredient to investment success and risk management.

Natural gas demand will be increasing. December 2005 futures are selling above \$8.70 now, but they should throttle back to about \$8.00 with a pullback in crude. Don't fret about a drop in energy prices here. It will be temporary.

Yes, a correction will set off the energy bears in the press. Your job will be to see through the fog. Weakness will be temporary and will provide an opportunity to accumulate. For now, sit back and enjoy your dividends.

Keep this in mind as you ponder the future of energy and our energy investments. As I pointed out in the July monthly letter, the Coxe triple waterfall indicates that the rest of this decade will mirror the first half. The best asset classes will continue to be the best, and the worst performers will continue to be the worst. This is a simple and important concept.

In looking at the markets for attractive investment opportunities, one in particular keeps bobbing to the surface – gold. There has been a lot of volatility; and this year, the strong dollar has held our gold investments back - at least until recently. Energy has been discovered, and that means energy is entering its “silly season.”

The silly season will be replete with plenty of hype, but prices will also go much higher as the move in energy gathers momentum and recruits more believers. However, precious metals and the rest of the commodity markets have yet to be discovered. They remain “under believed,” but that is going to change soon.

Commodities, in general, rank as one of the best-performing asset classes for the first half of the decade. Yet commodities (perhaps with the exception of energy) have not caught the attention and confidence of investors. When the crowd finally comes around, the entire commodity market will explode.

There has been a plethora of buyouts and mergers in the mining industry

lately - like the Wheaton merger at Goldcorp. This is indicative that there are a lot of folks in the raw material production business who are disappointed and beaten down by 20 years of falling commodity prices. They now see the recovery in commodity prices over the last few years as an excuse to sell out.

This is a boon for the savvy and profitable firms to buy additional resources in the ground now while those resources are still cheap. You should follow their lead.

White Knight Resources

Robert McEwen, no longer the CEO at Goldcorp, but still the non-executive Chairman of the Board, is an interesting guy. His timing in the past has been acute. He recently purchased about 10.5% of **White Knight Resources** (CA:WKR-TSX-C\$1.15) “as an investment.”

White Knight has a property in Nevada that they are excited about; and apparently, Mr. McEwen agrees - to the extent of about \$5 million in Canadian dollars. You can check them out at www.whiteknightres.com.

This recent interest has spiked the stock from C\$0.80 to C\$1.15, which is about 95 cents in U.S. dollars. I believe that gold has a little more work to do in its current correction, so WKR may well cool off a bit here.

My advice is to buy some under \$1.00 U.S. (C\$1.20 Canadian). This will be added to our list of junior stocks. This is not a conservative recommendation, but a few shares should prove profitable as well as entertaining - which all profitable investments are. Just look at this as a perpetual option, and don't get too carried away.

You can find White Knight with the symbol CA:WKR at bigcharts.com. There is a direct site for the Toronto Exchange at www.tsx.com. You can create a list of your stocks, plug in the number of shares you have, etc. You can also get U.S. dollar equivalents. The site has a lot to offer if you are willing to spend some time with it and learn its benefits.

Gold has a little more work to do, and I expect to see it pull back to \$420 basis December futures. That is not too far from where we are now, so the current correction should be over soon.

I am pleasantly surprised that the mining stocks have not fallen back further in concert with the correction in gold and the dollar index move to 90.00. I looked for the XAU to come off to 85, and I was looking to do some more buying. Time will tell. Once we see December gold at \$420, I will get more aggressive with precious metal purchases and I will ramp up our exposure in the Rydex gold program.

A closing note on the stock averages.

I have a cyclical high due in July, and I believe the secular bear market will be back in force by the end of August. Cyclical turning points are notoriously tardy or early, but this one looks like it should hit on or about July 15. I have second MACD sell signals setting up, and other arcane precursors of a change in trend are turning up in my work.

I am also working on an exciting new market trading program using the Rydex Nova and OTC funds. My preliminary tests look good, and I will have more for you on this in the next few letters. At this point, the program would be on a buy signal. For your reference, I will announce the sell when the time comes.