

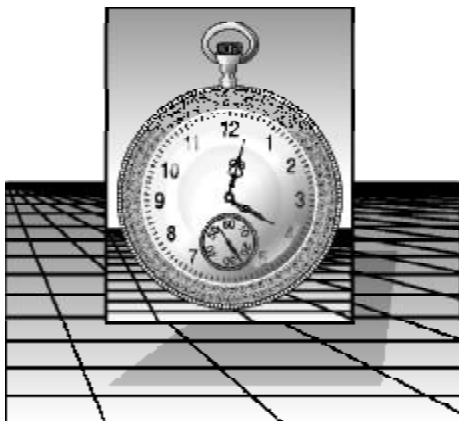
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Overcoming Decision Regret

The stock market does not always behave in a rational manner. Psychologist David Bell may have coined the term in the 1980's - *decision regret*. This drives investors crazy, and it leads to all sorts of irrational behavior. *Decision regret* is an investment plan killer.

Our investor decides, for whatever reason, to sell one of his stocks. Let's say Enerplus. He sells it for \$55.00 and pockets a nice profit since he only paid \$17.00 for it. However, the next day, the stock jumps \$2.00. Maybe several weeks later, Enerplus is \$65.00. I assure you, this guy will have *decision regret* - especially if the stock he bought with the proceeds is down a little. (Don't sell Enerplus.)

Bell poses the decision of either entering a lottery that pays \$10,000 if you win and nothing if you lose, or getting \$4,000 for certain. You take the \$4,000, only to learn later that your ticket would have won the \$10,000. How would you feel about that? Sometimes it might be better not to know the final outcome.

This head game gets worse with the "woul'da, shoul'da, coul'da" stock that he was going to buy, but didn't. Now it has doubled. At this point, patience runs out and our investor - who tells himself that he missed the boat - jumps in. Where? Yes, right at the top, and it is *déjà vu*, *decision regret* all over again.

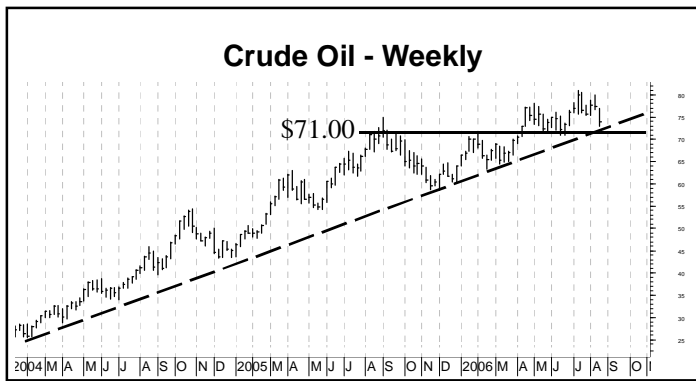
Basically, unless you buy at the very low on the very low day and sell at the very high on the very high day, you will get a case of *decision regret*. The difference between the novice and seasoned, successful investor is that the seasoned investor has learned to get over *decision regret*.

He knows he will never buy the low and sell the high. He knows that he seldom picks the fastest checkout line at the grocery store, but he gets through anyway. He knows that investing successfully is not a game of perfect and that he doesn't have to be perfect to win.

Decision regret does explain why rallies tend to run too far and declines tend to fall further than they should. It is something for you to contemplate while you wait for those downside buy prices.

Selling is another opportunity for *decision regret*, of course; but I caution you against letting that deter you. We sold Nova Gold at \$17.00, which gave us a nice 160% profit on our original buy at \$6.50. I would like to continue owning Nova, but with the offer from Barrick, I feel we need to take the money and run. I won't regret it for a moment.

In the last letter, I also recommended that you sell your positions in Suncor at \$87.50. No sooner had I



Our best energy ally is Canada. Buying crude and natural gas in the ground and getting paid each month in appreciating Canadian dollars is about as good as it gets.

What to buy if you missed out? My opinion expressed in the August monthly letter is unchanged regarding **Goldcorp** (GG-NYSE-\$30.55) and **U.S. Gold Corporation** (USGL-OTCBB-\$7.43). Buy Goldcorp under \$28.50 and USGL at \$8.05 or less. Thieves can try and buy these for \$26.00 and \$6.50 respectively, as per the last letter, but I wouldn't hold my breath.

said that and the stock fell back to \$77.00. I also recommended a sell/stop at \$74.50, which has not been hit yet. If we are stopped out, so be it. I may regret it a little bit, but that's all.

On the energy front, it is time to think about winter. I discussed the crude oil supply/demand situation in the last letter, but we are soon going to be moving into colder weather and the height of the hurricane season.

The so-called cease-fire in Lebanon looks like the proverbial calm before the storm. I think Hezbollah needs time to regroup and rearm. Bush will drag Lebanon, Syria, and Iran into the axis of evil soon in his ongoing fight against terrorism.

We haven't used up all the crude on the planet yet, but it is going to get more expensive to discover, to produce, and to buy. Perhaps the biggest problem we face is availability. The Prudhoe Bay problem highlights this sensitive link. If there is none to buy, what does the cost matter?

Our salvation is not in alternatives. They are simply too far away. If 85% of our corn acreage were dedicated to ethanol production, it would replace 10% of current gasoline demand. The corn acreage is fixed, and gasoline demand keeps increasing. What about all those other important corn uses, like feeding cattle for those McBurgers that we like so well?

December crude pulled back to \$73.00 lately, which is closing in on its technical support level at \$71.00 that I showed you in the July letter. Crude looks exciting here. It is oversold, it is nearing support, and the next surprise will be on the up side.

Keep your eye on **Primewest** (PWI-NYSE-\$30.72). Our downside buy price for Primewest is \$29.50, which would be an ideal price at which to add to your positions.

The refiners on our list - **Valero** (VLO-NYSE-\$63.45) and **Frontier** (FTO-NYSE-\$36.60) - are both nearing their respective downside buy prices of \$59.00 for Valero and \$30.00 for Frontier. These stocks are volatile; and if you have your "good 'til cancelled" orders in, you will have a decent shot at getting a fill. If I had to pick between the two, I would go for Frontier because their operations are outside the hurricane areas. Both of these can process heavy (sour) crude, which is a big plus.

Gold is slipping back. It did reach \$616.50 basis December futures - within our \$615.00-\$620.00 forecast.

The key is to be invested in the metals and hang on. Most of our favorites dipped to their respective downside buy prices over the last month, so you should be set. If you aren't, I think you will be suffering a serious bout of *decision regret* next February.

I might point out that **Streettracks Gold ETF** (GLD-NYSE-\$62.05) is also close to our buy price of \$60.00. This looks right on target with our outlook for gold bullion.

I will do a more extensive review of our positions in the next letter. I am looking into an interesting cheapie speculation for you as well. For now, if you are invested in precious metals and energy, I don't think you will regret it come this winter.

A word on the stock market. We had a nice rally during the third week of August, which flies in the face of the tendency to be down the third week of August. Nevertheless, the averages are now about to run into solid overhead resistance.

I expect the Nasdaq - currently at 2,150 - to balk at moving over 2,200, and for the S&P 500 - currently at 1,298 - to have trouble at 1,320. MACD patterns are overbought and vulnerable, the McClellan Oscillator is very overbought, and other technical work I do indicates that this strength has about played out.

We are also heading into September and October, which are months when you rarely see any progress in the market. If you are playing this rally, I suggest that you place close stops under long side trading positions.