

INVESTING FOR \$100.00 OIL

Most of the insanity in the market this month was brought on by overleveraged hedge fund managers blindly liquidating positions in a fit of emotion to meet margin calls. As the margin liquidation process starts, one margin call ignites another and the selling spirals out of control. Too much leverage in the stock market provides the fuel for meltdowns. You simply have to remain rational and let the fire burn out. Watch the online updates for the next Palio buy as a signal that the carnage is over.

The Fed stepped in and provided a drizzle to quench the fire storm in the form of a Discount Rate cut of 50 basis points. The market has responded favorably so far. The Discount Rate cut was welcome, but it's not enough. They will certainly cut the Fed Funds rate at the October FOMC meeting, if not before. The timing will be controlled by future circumstances. I would not rule out the possibility that they could cut the Fed Funds rate in a surprise announcement between meetings. It is rare, but it has happened in the past - especially if they see an immediate need to avert further calamity.

I think we are already in a recession. I expect it to be powerful, but I don't see it affecting the global demand for raw materials. Domestic demand for energy will continue to increase, regardless of a recession.

The EIA reported global oil consumption increased 1.4 mbd during the second quarter of 2007 compared to levels a year ago. Meanwhile, production is falling in Venezuela, Iraq, Iran, Indonesia, Libya, Nigeria, Kuwait, Mexico, and Russia. Saudi Arabia is pushing on a string to maintain production at current levels. Also, new production that is brought on line to replace mature light crude is predominantly "difficult to refine" sour crude.

Prices do not run linearly. They zigzag. Crude moved to \$78.00 recently - which was essentially the old 2006 high - and everyone turned bullish. We forecast a technical correction back to \$69.00 to \$70.00; and of late, the low for the September contract was \$70.05. I believe we will still see that \$69.00 level; but due to the opportunity handed to us by the mindless liquidation over the last couple of weeks, it really doesn't matter at this point. You need to be investing now for \$100.00 oil in the future.

How do you invest for \$100.00 oil? The best avenue is to seek those situations that make money as a consequence of \$100.00 oil - not necessarily those that produce it. The exception is **Apache** (APA-NYSE-\$76.04). It fell as low as \$72.65 lately, and purchases up to \$78.00 are recommended. Apache is the one major that should be in your portfolio.

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 © 2007 by Professional Timing Service.

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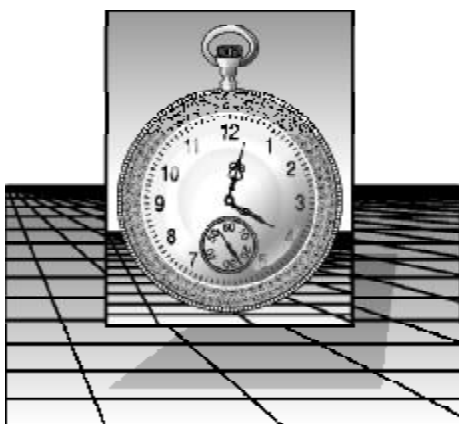
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Balance your portfolio with **Frontier Oil** (FTO-NYSE-\$36.31) and **Valero** (VLO-NYSE-\$64.03). These refiners are unique in that they can process sour crude, and they are selling close to our downside buy prices. Both deserve a place in a diversified energy portfolio.

If you are hungry for yield, **Blackrock Global Energy** (BGR-NYSE-\$27.73) is still selling just below our downside buy price. Buy BGR up to \$28.00 for a yield of about 5.4%. You can get nearly 6.8% with **KinderMorgan** (KMP-NYSE-\$50.08), but go easy with this one. I am still a little nervous about where Congress might go in their desire to tax partnerships. There is also a bit of extra accounting you will have to do on your tax forms due to the fact that this is a partnership and not a corporation. You will see some of your dividends sheltered from taxes, however.

Perhaps the best returns are in shipping crude, and the two shippers on our list look great here. **Nordic American** (NAT-NYSE-\$36.50) yields about 12.8% at this price, and **Frontline** (FRO-NYSE-\$41.93) yields about 14.3%. The caveat is that these dividends are not consistent quarter to quarter. They fluctuate. Frontline has promised \$0.625 as a regular quarterly dividend, which is what the dividend on the buy-and-hold list is based on. They have been paying an extra dividend as well (reflected in the 14.3%). The board has left the decision up to the board members on a quarter-to-quarter basis as to whether to use excess cash for an extra dividend or use it for another purpose like stock buy backs. Nevertheless, you should have a few shares of each of these in your energy portfolio.

Transocean (RIG-NYSE-\$99.98) also deserves a central place in your positioning for \$100.00 oil. I have raised our buy price to \$100.00 for RIG. Don't be put off by the \$100.00 per share price. Investing is a matter of percentages. If you buy 100 shares of a \$25.00 stock or 25 shares of a \$100.00 stock, the investment is the same. If either double, you will have doubled your money, regardless of how many shares you buy.

Don't forget **Altius Minerals** (ALS-TSX-C\$16.62). This is a great speculation on natural resource production and oil refining (see the August monthly letter). Buy Altius up to C\$18.00.

I still have Canadian energy trusts on our list, but with the exception of **Peyto Energy** (PEYUN-TSX-C\$16.64) and the following recommendation, they are on a hold basis (as I believe they should be). I realize the dividends are seductive; but for reasons espoused in previous letters, I don't think most of the Conroys will be able to sell at their value, and they will lag the sector as crude breaks \$100.00. The problem is finding trusts that can stand on their own as independent corporations and still grow their business and dividends. I think Peyto looks good in that regard, but most of the trusts will find it difficult to continue buying mature production from E&P companies or to come up with available capital to do so. The game has changed; and to some degree, we must also.

A second trust that looks good as a corporation is **Pembina Pipeline** (PIFUN-TSX-C\$16.47). We have had this on our trading list, and I like the technical picture it displayed during the August debacle. Go easy on this, but I think Pembina is a decent speculation if you can buy it at C\$15.50 or better. That will give you about an 8.5% yield.

I have spent most of this letter on energy stocks, but the recent fire storm in the market has produced some excellent opportunities in our recommended precious metals issues as well. I have discussed the gold issue extensively in recent letters and on the Tuesday and Thursday online updates. All in all, gold dropped to our expected support level of \$660 basis December, and the mining shares were weaker relative to gold, as expected. This has given us a reading over 5.00 from our Simplicity model, which is a welcome green light for the mining shares. You might want to review our discussion of Simplicity in the last letter.

The August panic has offered us some true bargains in the metals. You need to keep your focus on 2008 and beyond. I will do a little forecasting concerning 2008 in the September monthly letter, but I truly believe there will eventually be a blowoff in the precious metals that will rival the dot-com insanity of the 1990's. Stocks selling for \$2.00 to \$5.00 now have the potential to sell for \$100.00 or more when the gold bull explodes. You might not want to put the kids' college money on this idea, but you do need to have some stake in the unfolding gold bull.