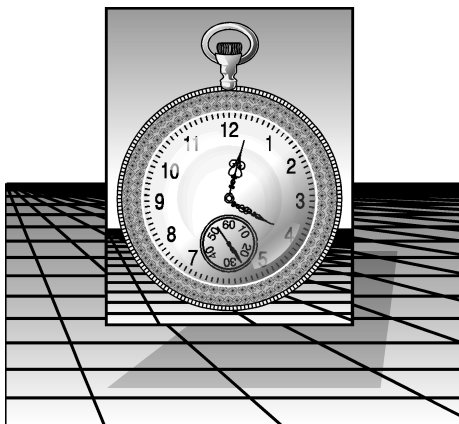


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The next issue will be published October 6.

- The world is using some 3.5 million barrels ... an hour.

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## DESPERATION

Wall Street desperately wants you to believe that we are in a bull market. In fact, the cyclical bull that interrupted the secular bear market which began in March 2000 is all but over.

Why go to all the trouble of perpetuating an illusion? Because the illusions keep the powerful in power, and Wall Street is not profitable during bear markets.

**As for the balance of 2005, we are now in the worst two months of the year.**

My advice is for you to put your stocks in two piles. In one pile, put those stocks that benefit from higher commodity prices - holdings like our Canadian energy trusts, coal mining companies, refining companies, and other energy-related issues. This pile should include the precious metal stocks and commodity funds on our buy-and-hold list. In the second pile, put your stocks that have no relationship to higher commodity prices. Put the Tasers, Amazons, Googles, and the like in this pile.

If your stocks in the second pile are on our Hyperion list and you are a trader, follow the signals from the model. If you are not into trading, I would at least put protective stops under these stocks and/or take advantage of any strength left in the market and get out of them.

Hang on to the stocks in the first pile. Don't try and sell these with the idea you will buy them back later. You just won't buy them back, and you will find yourself frozen out during the best of the commodity bull market.

Commodities will have their ups and downs as the market traverses the next several months, but energy and precious metals have a long ways to go on the up side before this is all over. Bottom line, hold your commodity investments and buy more during weakness.

Wall Street desperately wants you to believe that crude oil, gasoline, coal, and natural gas are going to fall. High energy prices lead to bear markets, and they are working overtime to jawbone the stock market to the up side.

**On the idea of a coming glut of oil.**

Folks, it just isn't going to happen. There is a bit of a panic developing over oil, and the big kids are trying to talk you out of your investments. Buy into their spurious arguments if you like, but I, for one, am fiercely hanging on to my oil investments. If there were anything to the idea that crude is about to fall to \$50, the December 2007 futures wouldn't be over \$63.

The market is a better forecaster of the future than opinion. The classic in

all of this falderal was the recommendation by a major brokerage firm in 2002 to sell all oil stocks when oil was just beginning to recover. You can read anything you like, but stories about significantly lower crude prices are born of desperate fantasy.

The prospect of \$50 crude is not why the Chinese are so anxious to buy oil companies like Unocal. Although the Unocal deal failed, they just bought PetroKazakhstan, a Canadian company with oil fields in Central Asia.

The question as to crude's future in 2007 is not one of price, but of availability. Watch the market and take naysay opinion with a heavy dose of skepticism. The rats are after your nest egg.

Crude selling for \$65 and on its way to \$76 is a threat to the economy and stock market. Nevertheless, the world is going to have to adjust to living with high-priced energy, and the stock market will have to adjust as well.

Even when tar sands (likely our best alternative energy source) finally come on stream in a big way, only one problem will be solved – that of availability. Fuel will still be expensive. You must realize that although profitable, it will take years for tar sand production to increase to the point of making any significant impact on the crude supply/demand balance.

The world is using some 3.5 million barrels ... an hour! Consider that we need to see 6 million barrels a day (MBD) added to production every year to make up for depletion in current production. Consider as an example that during the first six months of 2005, production figures for Chevron were -6%, Shell -6%, and Exxon -4%. Consider that the Saudis pump about 10 MBD. That 6 MBD increase every year is going to be impossible to come by.

There is a world energy situation and a domestic energy situation. It is the domestic situation that will affect your lifestyle. It is the world situation that should shape your investment outlook. If you are invested properly with a global view, you will be able to better absorb rising domestic energy expenses.

I think we have maintained a global energy focus in our investment strategy. However, as portfolios grow, I sense a degree of nervousness. I see investors with wonderful positions in the Canadian trusts, for example, enjoying huge dividends, yet all upset when they sell off. Some also get upset when they go up, and they can't wait to rush out and sell.

### **Remember, everything is cyclical in this business.**

Prices move up and down. There will come a time to sell all commodity-related investments, but that time is well down the road from here. I am beginning to read sources that claim we are in an energy "bubble." That is a desperate attempt to talk this market down. We will likely see an energy bubble before it is over, but not until things get truly ridiculous.

When you hear no more about lower prices and crude is breaking the \$100 a barrel mark, we may be able to call it a bubble. Keep in mind that every rally that is sustained for any period of time is not necessarily a bubble, even if prices move to new highs.

Post Katrina, you should consider the refiners on our list. Both **Valero Energy (VLO-NYSE-\$111.10)** and **Frontier Oil (FTO-NYSE-\$39.78)** are up nicely since we first recommended them. I believe they both have the potential to double from current levels over the next

couple of years. Watch for some profit-taking and add to both of these in weakness.

Both of these companies process sour crude, which most refiners cannot. So-called excess capacity from OPEC and Saudi Arabia is poor quality crude which VLO and FTO can handle. Another nice advantage in being able to refine sour crude is that it is cheaper than light sweet crude by a fair margin, yet the products like gasoline and heating oil sell for the same price no matter what type of crude they are made from. Consequently, the sour crude refiners will be making a ton of money in the future.

Frontier has refineries in Wyoming and Kansas, and it was thus spared the devastation in Louisiana. I wouldn't be surprised if they aren't the target of a takeover bid sometime in the future. FTO is up 38% since our recommendation in early August, so you might want to wait for a little profit-taking before adding to those positions. Buy more Frontier at \$31.50 or better, and buy more Valero at \$85.50 or better.

Crude has pulled back from highs set earlier this month, but it should hold its \$62 to \$64 support zone basis December futures. It may take a little time to consolidate here, but all it takes is some surprise event to set this market off again. Natural gas looks stronger than crude oil - perhaps due to our heading into the winter season - but it should settle back to about \$11.00 basis December.

The key is that if these markets back off some here and digest the overbought conditions acquired during the Katrina rally, don't be alarmed. Don't send me "end of the world" e-mails. Hold your positions and buy more. I have updated the buy-and-hold list on Page 6 of this special expanded mid-month letter. Heed the downside buy prices.

## Why crude over \$50 means \$800 gold.

I have been talking about the gold/oil ratio and have been delving deeper into this interesting relationship. Recently, the ratio was as low as 6 times. That is, if you divide the price of gold by the price of a barrel of oil, the result was 6. As far as I can tell, that was an all-time low. The ratio has improved to about 7 ( $\$450/\$65=6.9$ ). The average for this ratio has been 16 over the last 40 years.

One of the studies I read stated that buying gold when the ratio was under 10 was always profitable. Well, “always” is a strong claim ... but consider this.

Let's assume the oil bears are partly right and crude sells off to \$50 while the ratio improves to 10. Gold would be \$500 in that case. That would be a mere 11% higher, but higher. If the ratio improved to 12, gold would be selling for \$600. However, if the ratio were to revert to its average of 16, gold would be selling for \$800. That is 77% higher than it is now!

Perhaps crude has found its “forever level” right here at \$65. If the ratio were to move to 12 times, gold would be \$780. If the ratio were to recover to 16, the price of gold would be \$1,040.

Both of these examples assume relatively worst case prices for oil. I don't think you will ever see \$50 oil again. A more realistic outlook is for crude to move to \$76 before moving even higher in the longer term.

Let's consider, then, \$76 oil and a ratio of 7 (as it is today). That puts gold at \$532. It's no big deal, but it would be an 18% improvement over today's gold price. If the ratio were to rise to

12 times in this case, gold would be selling for \$912. At the mean of 16 times, gold would be selling for \$1,216 for a nice 170% increase.

This doesn't address the likely possibility that the ratio moves well over its average. In the past, the ratio has been as high as 25. Assuming crude at \$76 and a gold/oil ratio of 25 ... well, you do the math. Or, good heavens, what if crude does go to \$100 a barrel?

The point in this exercise is not to forecast the future price of gold, but to point out the tremendous potential there is from current levels in the precious metals. Gold and silver - unlike crude and natural gas - are underbelieved, but that will change. There is little doubt that there is some serious upside potential with little downside risk here; and down the road, the metals markets are going to look just like the energy market looks today.

I wrote about the gold/XAU ratio in May when it was just over 5.00. Here are some interesting insights I found recently from a study done by Myles Zyblock, director of research at RBC Capital Markets.

He found that buying when the gold/XAU ratio is over 5.00 (as it was last May) only occurred 12% of the time over the last 22 years. It resulted in an average gain of 38.4% in the following 12 months. He goes on to state that buying when the ratio is 4.5 gives you an 84% chance of making 20.8% over the next 12 months. The ratio is currently 4.5.

Until the energy sector cools off a bit, the best opportunity I see is gold. Start with some **White Knight Resources (WKR-TSX-C\$1.35)** at C\$1.35 or better. That's about \$1.15 in U.S. dollars.

Buy some **U.S. Gold Corporation (USGL-OTCBB-\$1.85)**, but be sure you don't pay over \$1.95. This one is new to our list, but its story is compelling. Rob McEwen took Goldcorp (GG) from a \$50 million investment company to a \$3.5 billion mining operation without equal. He has now purchased 33% of U.S. Gold Corp. (USGL) and he is about to take over the helm as CEO. This stock is a perpetual option on gold.

Both WKR and USGL are excellent junior mining stocks. If you are interested in adding to other positions listed on the buy-and-hold list, put your orders in at the downside buy prices listed.

If you want to buy a truly great gold mining company, buy some **Goldcorp (GG-NYSE-\$19.10)**. It is not cheap here, so take it easy. Buy a little if you don't have any, and then accumulate more if it falls back to \$16.50.

The times are, indeed, desperate. The White House desperately needs you to believe that the economy is doing well, and the Treasury desperately needs you to believe that the dollar is as good as gold.

The truth is, the economy is weak and is vulnerable to high energy prices, and the dollar is in a bear market. The administration desperately needs you to believe in the war in Iraq. The FED desperately needs you to believe that there is no inflation. The BLS desperately needs you to believe that job growth is strong and that the CPI accurately reflects increases in your cost of living.

The problem is, there are too many lies ... but the truth is soon to be more evident. You must guide your investments accordingly. Continue to concentrate your investment dollars in commodity-related sectors.

## Recommended Stocks For Buy And Hold

**Note: If you go to [www.bigcharts.com](http://www.bigcharts.com), you can get quotes on Canadian stocks in Canadian dollars by using the symbols we have listed, preceded by CA: For example, if you want a quote for Shiningbank, go to [www.bigcharts.com](http://www.bigcharts.com) and type in CA:SHNUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .84. You should buy at or below the posted downside buy price. The downside buy price does not imply that this level will necessarily be reached, but that this is the maximum price we recommend that you pay for the issue. Changes since our last posting are in bold letters.**

Company	Symbol/ Exchange	Initial Recom. Date & Price	Last Updated 9/13/05		Downside Buy Price	Target	Web Site
			Price 9/13/05	Div.			
Enerplus Resources	ERF-NYSE	4/20/01@\$18.00	\$42.34	8.84%	<b>\$36.00</b>		<a href="http://www.enerplus.com">www.enerplus.com</a>
Peyto Energy	PEYUN-TSX	7/18/03@\$C8.75	C\$31.00	4.65%	<b>\$C29.50</b>		<a href="http://www.peyto.com">www.peyto.com</a>
Primewest Energy	PWI-NYSE	2/07/03@\$17.00	\$29.01	10.50%	<b>\$26.00</b>		<a href="http://www.primewestenergy.com">www.primewestenergy.com</a>
Provident Energy	PVX-AMEX	6/16/03@\$7.50	\$11.88	10.25%	\$10.60		<a href="http://www.providentenergy.com">www.providentenergy.com</a>
Shiningbank	SHNUN-TSX	1/02/03@C\$15.15	C\$24.39	11.32%	C\$22.10		<a href="http://www.shiningbank.com">www.shiningbank.com</a>
Suncor Energy	SU-NYSE	2/07/03@\$16.8	\$58.11	0.34%	<b>\$49.90</b>		<a href="http://www.suncor.com">www.suncor.com</a>
Anglogold	AU-NYSE	2/25/03@\$32.00	\$38.69	n/a	<b>\$34.10</b>		<a href="http://www.anglogold.com">www.anglogold.com</a>
ASA Ltd.	ASA-NYSE	11/19/02@\$31.00	\$41.22	0.97%	<b>\$37.20</b>		<a href="http://www.asaltd.com">www.asaltd.com</a>
Goldcorp	GG-NYSE	8/15/03@\$13.00	\$19.10	0.94%	<b>\$16.50</b>		<a href="http://www.goldcorp.com">www.goldcorp.com</a>
Newmont Mining	NEM-NYSE	9/05/03@\$39.10	\$41.74	1.03%	\$36.25		<a href="http://www.newmont.com">www.newmont.com</a>
Barrick Gold	ABX-NYSE	1/05/03@\$22.85	\$27.09	0.81%	<b>\$24.80</b>		<a href="http://www.barrick.com">www.barrick.com</a>
Baytex Energy	BTEUN-TSX	05/18/04@C\$11.90	C\$16.55	10.88%	C\$14.50		<a href="http://www.baytex.ab.ca">www.baytex.ab.ca</a>
Alliance Res. Part.	ARLP-OTC	9/29/04@55.96	\$88.01	3.75%	\$75.55		<a href="http://www.arlp.com">www.arlp.com</a>
****Fording Coal	FDG-NYSE	11/16/04@68.20	\$42.84	4.11%	<b>\$32.90</b>		<a href="http://www.fording.ca">www.fording.ca</a>
Paramount En. Tr.	PMTUN-TSX	12/20/04@C\$16.44	C\$21.75	12.14%	<b>C\$19.10</b>		<a href="http://www.paramountenergy.com">www.paramountenergy.com</a>
Pimco Comod RR Str Fnd	PCRBX	3/02/05@\$15.95	\$16.78	4.00%	<b>\$16.05</b>		<a href="http://www.pimcofunds.com">www.pimcofunds.com</a>
Valero Energy	VLO-NYSE	4/26/05@\$73.25	\$111.10	0.36%	<b>\$85.50</b>		<a href="http://www.valero.com">www.valero.com</a>
Blk Rk Glb En & Res	BGR-NYSE	8/03/05@\$25.99	\$26.20	5.75%	\$24.50		<a href="http://www.blackrock.com">www.blackrock.com</a>
Frontier Oil	FTO-NYSE	8/03/05@28.75	\$39.78	0.40%	<b>\$31.50</b>		<a href="http://www.frontieroil.com">www.frontieroil.com</a>

\*\*\*\*Fording had a 3 for 1 split on 9/13.

## Buy And Hold Junior Gold & Silver Stocks - The Option Alternative

Company	Symbol/Exchange	Initl. Recom. Date & Price	Last Updated 9/13/05		Downside Buy Price	Target	Web Site
			Price 9/13/05	Div.			
Bema Gold Corp.	BGO-AMEX	6/6/02@\$1.06	\$2.51		<b>\$2.20</b>		<a href="http://www.bema.com">www.bema.com</a>
Coeur d' Alene	CDE-NYSE	9/2/03@\$3.19	\$3.70		<b>\$3.40</b>		<a href="http://www.coeur.com">www.coeur.com</a>
Western Silver	WTZ-AMEX	9/2/03@\$3.50	\$8.12		\$8.10		<a href="http://www.westernsilvercorp.com">www.westernsilvercorp.com</a>
American Bonanza	BZA-TSX	10/2/02@C\$0.60	C\$0.51		HOLD		<a href="http://www.americanbonanza.com">www.americanbonanza.com</a>
Ivanhoe Mines	IVN-NYSE	6/4/04@\$6.00	\$7.77		<b>\$6.80</b>		<a href="http://www.ivanhoe-mines.com">www.ivanhoe-mines.com</a>
International Wayside	WGM-TSX	4/26/04@C\$1.40	C\$0.29		HOLD		<a href="http://www.wayside-gold.com">www.wayside-gold.com</a>
Novagold Resources	NG-AMEX	12/8/04@6.50	\$7.70		\$7.00		<a href="http://www.novagold.net">www.novagold.net</a>
Yamana Gold	AUY-AMEX	4/14/05@2.90	\$4.04		<b>\$3.60</b>		<a href="http://www.yamana.com">www.yamana.com</a>
Mines Management	MGN-AMEX	5/13/05@\$4.50	\$4.86		\$4.50		<a href="http://www.minesmanagement.com">www.minesmanagement.com</a>
White Knight Res.	WKR-TSX	7/20/05@C\$1.25	C\$1.55		<b>C\$1.25</b>		<a href="http://www.whiteknightres.com">www.whiteknightres.com</a>
<b>US Gold Corp.</b>	<b>USGL-OTCBB</b>	<b>9/9/05@C\$1.70</b>	<b>C\$1.85</b>		<b>C\$1.70</b>		<b><a href="http://www.usgoldmining.com">www.usgoldmining.com</a></b>

C\$ Denotes Canadian dollar

Quotes for Canadian stocks can be obtained on the U.S. OTC Bulletin Board (pink sheets) with the following symbols. I want to caution you, however, that OTCBB quotes are not always current. They can be a day or more old at times. You should take the quote in Canadian dollars (as described above) times .84 to see if the OTC quote looks correct. You can access these OTCBB quotes by using [www.barchart.com](http://www.barchart.com). I don't have OTCBB symbols for American Bonanza or International Wayside.

Shiningbank SBKEF    Peyto Energy PEYUF    Baytex Energy BAYXF    Paramount Energy PMGYF

**Target** The "Target" column represents the price at which you should liquidate the position and take profits. Do not reverse on the target price. There will not always be a target price. You should only reverse on the reversal stop price, even if there is no current open position.

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