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- **Recommended energy stocks.**

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- **I truly think we are looking at the best buying opportunity in the metals since the late 1990's.**

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MY SIX FAVORITE STOCKS IN A "TORN UP" MARKET

It's coming to light that the recent drop in commodity prices was due to an overconcentration of positions held by hedge funds and similar money pools. I have talked about this in recent online updates. Such concentrations combined with the elimination of long held trading standards like "the uptick rule" are a sure formula for volatility and mischief. Donald Coxe is someone you should pay attention to. Check out this link to a recent article on the matter - <http://www.mineweb.com/mineweb/view/mineweb/en/page67?oid=62319&sn=Detail>. Mr. Coxe's recent musings are worth your time, and he says it well.

There is certainly some monkey business afoot. I have no doubt that we will see more bear (and bull) raids in the future, but artificial manipulation - be that in currencies, stocks, or commodities - have always had a temporary effect on price. If you can exploit the fear, you can take advantage of these events.

As for the dollar, on a long term basis, 80.00 should offer stiff overhead resistance. More important is that a record *post-bailout* bill sale by Fannie Mae saw Asian participation reduced by over two-thirds and Central Bank participation by over half. Is this an early indication that our foreign friends are not going to finance our lifestyle any longer and seek better havens for their U.S. dollar reserves?

Crude oil has dropped lower than the \$108.00 I expected, but I like all of the energy issues on our list. Three come to the forefront at this point in time. The first is **Apache** (APA-NYSE-\$108.84). Apache operates in relatively "safe" areas, and they are masters at revitalizing old fields and maintaining reserves. They held up better than I expected as crude broke through \$100.00, but I am dropping the APA target to \$90.00 where there is significant technical support.

Second, income investors should consider **Blackrock Global Energy** (BGR-NYSE-\$24.87). I am dropping the downside buy price to \$26.00; and since it is trading below that price, you should now look at \$26.00 as a maximum price to pay. If you would like a deeper price, shoot for something under \$24.00 - but don't pay over \$26.00. The indicated yield is about 6.7% at the current price.

My third choice in the energy sector is for those willing to take a longer term stand on a more speculative issue with great growth promise. It is **Headwaters** (HW-NYSE-\$14.74). They are forging ahead with their clean coal and coal to fuel technologies - not just in the lab, but in the field as well.

From a technical perspective, Headwaters has avoided the weakness suffered over the last couple of months in the energy stocks. Headwaters is actually about 25% higher than it was when the commodity market began its correction

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this summer. I am reinstating the “downside buy price” at \$15.00, which is the maximum you should pay. Don’t chase it further than that. If you want to go for this one on the cheap, there should be strong support at \$12.00.

Again, I like all of the energy stocks on our list, and I have adjusted some of the buy prices down. You can see the changes on Page 3 of the Tuesday and Thursday updates. If the current price is under the listed downside buy price, look at it as a maximum that you should pay. We were able to buy **ARC Energy** (AETUN-TSX-C\$22.33) at our price of C\$25.85 recently. Along with Baytex, this is an excellent Canadian energy trust. **Crescent Point** (CPGUN-TSX-C\$30.86), which is a speculative play on the Bakken Field, hit our buy price of C\$30.20 on September 16.

As for gold - the dollar index will be coming back off, and I look for it to revisit its lows during the first quarter of next year. That assumes we cruise along as we have been and there are no surprises on the political or military front to accelerate the decline once it begins. I truly think we are looking at the best buying opportunity in the metals since the late 1990’s.

I have been updating and commenting on Simplicity on the Tuesday and Thursday updates (which I hope you all access regularly). Simplicity hit 7.03 on September 9. As far as I know, this is the highest reading ever. That means that mining shares were selling cheaper in relation to bullion than they ever have. They are still screaming values. Don’t sell gold.

If you have extra investment cash, don’t hesitate to buy gold and energy here. This would be a buying opportunity, even in a bear market. If you are already loaded up on gold, hang on. The worst is behind us, and there are brighter skies ahead. Concentrate on the majors. I will discuss the juniors in the October monthly letter. The following are my current favorites in the precious metals sector, but those on the list that are not on a hold rating are purchase candidates.

My top gold favorite today is **Goldcorp** (GG-NYSE-\$27.56). Technically, it has acted far better than the sector at large. I am dropping the downside buy price to \$30.00. There is some resistance at \$25.00, but I expect Goldcorp to be exceptionally strong on the up side when the next rally springs to life.

My second income pick is **Gabelli Global Gold** (GGN-NYSE-\$19.90). I am dropping the downside buy price to \$21.00. On the down side, anything under \$19.00 is a raging buy ... but limit new purchases to \$21.00 or less.

My third gold favorite is **Kinross** (KGC-NYSE-\$13.34). I am dropping the downside price (maximum you should pay) to \$14.00; but if you can buy Kinross at \$12.00 or better, I think you will be very pleased come next year.

Yamana (AUY-NYSE-\$8.56) is a tough alternate for third choice, and it bears special mention. I have dropped the downside buy price to \$9.00, but there is a good chance you can pick this up under \$8.00 before the next move begins.

You will be seeing more financial institutions succumbing to debt problems; and as the onion gets peeled back, more “rot” will be exposed. There is a \$50-\$60 billion bill in the works that Congress will no doubt pass soon. The money will be directed at restoring the nation’s infrastructure. This is a better way to stimulate than fighting wars; and if administered well, this may be the beginning of some programs that will truly soften the blow of the current recession. Interestingly enough, if the government begins to focus on infrastructure spending, the U.S. will step in as a major world competitor for essential raw materials like steel and concrete, plus the energy needs which go along with all of that. If this move abates the recession, improved domestic economic activity will put further pressures on commodities already in short supply globally.

The popular averages look weak until mid to late October where we might see some basing in preparation for a year-end rally. This is a cyclical outlook, though, and it does not address price levels. The averages will sooner see their 2002 lows before their 2007 highs. The Fed held rates steady this month, but they may well drop interest rates at the October 28-29 FOMC meeting as the recent decline in commodity prices filters through to the PPI. The Fed will point to this and claim that inflation is under control. However, as long as interest rates remain lower than the true rate of inflation (11% +), inflationary pressures will only increase. On a longer term basis, low interest rates are bullish for commodities. You should invest accordingly.