



The next issue will be published October 1.

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\$1,000 GOLD!

There are 5 billion ounces of gold, and that includes the gold in your great Aunt Mimi's jewelry. Globally, that works out to something like three-quarters of an ounce per capita. Yes, the miners keep digging it up, but supply only grows at about 2% a year, and that amount will diminish over time as mines "peak." In the future, annual supply will flatten out while the population will continue to grow. Regardless of that 5 billion ounces sitting on the surface, of that, only some 0.25 ounces per capita are available to purchase at any one time.

The price of gold does well during times of crisis - especially financial crisis. For this reason, it tends to appreciate during both inflationary and deflationary periods. I believe \$1,000 gold is warning us that there is a new change in global philosophy toward a focus on the "real money" aspects of gold. In an ever more risk adverse and uncertain global economy, wealth is beginning to seek quality and safety. I realize that most "professional" economists will tell you gold is a barbarous relic in the financial world. However, \$1,000 gold is telling us that just as atheists tend to pray in foxholes, the disbelievers are coming back into the hard asset fold as the current financial crisis persists.

Gold at the \$1,000 level is telling us that, indeed, 24 months from now, the value of the U.S. dollar will be lower in relation to other currencies ... but remember, all currencies are fiat now. Everyone - including Europeans, Russians, Asians - wants to find an alternative to their local currency. A mass movement to a very limited quantity of real money is getting under way - so says \$1,000 gold.

Nevertheless, as the dollar falls, the price of commodities will rise in dollar terms. This is inflation, pure and simple. As energy prices rise, the prices of goods and services will also rise since they are all dependent on energy in some fashion - or profit margins will disappear and the economy will contract. We will suffer both deflation and inflation into the next decade. As the economy continues to contract, the consumer will be squeezed for cash.

Gold at \$1,000 is telling us that confidence in global financial institutions is waning. When confidence fades, liquidity comes to a halt and financial crisis intensifies. Gold at \$1,000 is telling us that the economic recovery is an illusion - or very temporary at best. It is also telling us that the economy is going to fall off this ski jump "recovery" that the media and government statisticians have cooked up, and it will be back in crash mode again by next summer.

Gold at \$1,000 is telling us that the next leg of the commodity bull that started in 1999 is about to heat up. It is telling us that the next leg of the bear market in stocks is about to get under way as well.

So, what should you do with \$1,000 gold? Should you buy gold now? Yes, and no. You need to get a perspective. I agree that for the long term, gold is a store of wealth, but it's not necessarily the best place for one's investment dollars at all times. Over the long term, we are all dead (as Keynes told us); and although gold is superb as an investment vehicle right now, there are times when gold is not the best investment. Gold investors did not do well during the 1980-1999 period.

Although gold is money, one still has to square its relative value to other asset classes. Fortunately, this is a simple conundrum to solve. We need only compare the price of the Dow Jones Industrial Average as the quintessential paper asset to gold as the ultimate hard asset. When this ratio is high - as it was at the turn of the millenium - it is best to move into gold and other tangible assets and out of paper assets. The ratio will then fall until the balance between gold and the Dow overshoots. At that point, paper assets will be truly undervalued with respect to tangibles. At that point, it will be time to sell your gold. At that point, the Dow /gold ratio will likely be close to 2. I consider 5 as the point to begin making plans to change asset classes. Although the ratio is about 9.5 now (down from 43 in 1999) and the hard asset move is well along, it is not over quite yet. Sit on your gold until the ratio indicates we should make some changes.

Near term, this assault on \$1,000 may set off buy stops and produce a rush, but be careful. Stiff overhead resistance is still at \$1,000. If we see a convincing breakthrough once the shorts are flushed, prices will fall back briefly to the breakout level or a bit lower. I still do not see gold as a buying opportunity here. I have often said that if you were to pay too much for something, gold would be my choice, but my approach has always been to buy during weakness. Wait for it and it will come. Hang on to your precious metals.

There is a strong downside, seasonal tendency in the stock market here. The averages may struggle a bit higher, but the warning signs are not obscure. There is an extraordinary third MACD sell developing in the S&P 500, RSI negative divergence is persisting, and we are approaching a very ugly seasonal time in October. The definitive key comes from Palió and the Nasdaq Slow Tracker. They are hanging on to their buy signals; and although the sells will come after the top, because of MACD, RSI, and other red flags in my work, the next sells promise to be exceptionally important. Incidentally, another problematic sign is that bank stocks are dead in the water. The whole scene reminds me of that old T.V. program "Lost in Space." My technical robot is saying "Danger, Will Robinson."

Note that **Great Lakes Hydro** has completed a transaction by acquiring 15 hydroelectric properties and a "soon to be started" wind farm project. This has resulted in a name change. The company is now known as **Brookfield Renewable Power Fund** with the symbol CA:BRCUN at BigCharts.com.

I am making some adjustments to our recommendation to buy **Rubicon** (RBY-NYSE-\$3.99). It did not hit our buy price of \$2.00, and it has since run up with the price of gold. Here is what to do. Decide on what you want to invest (keeping in mind portfolio diversification and balance, of course) and put in an order to buy a pilot position at \$3.00. I would suggest a third to a half of your total contemplated position. Then put another order to buy the rest at \$2.50. Rubicon is doing very well, and their properties are proving out very well.

There is a down side to this one. I believe they will end up being bought out by someone, and we will make some money when that time comes. Therefore, we will not be able to enjoy the full potential of this little gem as a consequence, but Rubicon looks like a profitable investment if we can buy it right.

Take a look at **Eldorado Gold** (EGO-NYSE-\$11.49). They look very good, especially on a comparative strength/weakness basis. I am not going to advise you to buy strength; but at some point - and I think soon - we will see a correction in the market. The chances are good that it will bring out the profit-takers in the metals as well. There is nothing lost in putting in an open buy order at \$9.00 on this gem and seeing what comes of it. It would be nice to be able to snag a few shares there. I will take up the case for the other juniors on our list in the next monthly letter.

Finally, keep the order in on **American Superconductor** (AMSC-OTC-\$33.91) to buy at \$23.00. That price may be a long shot, but with the potential for the down side in the market, let's be conservative.