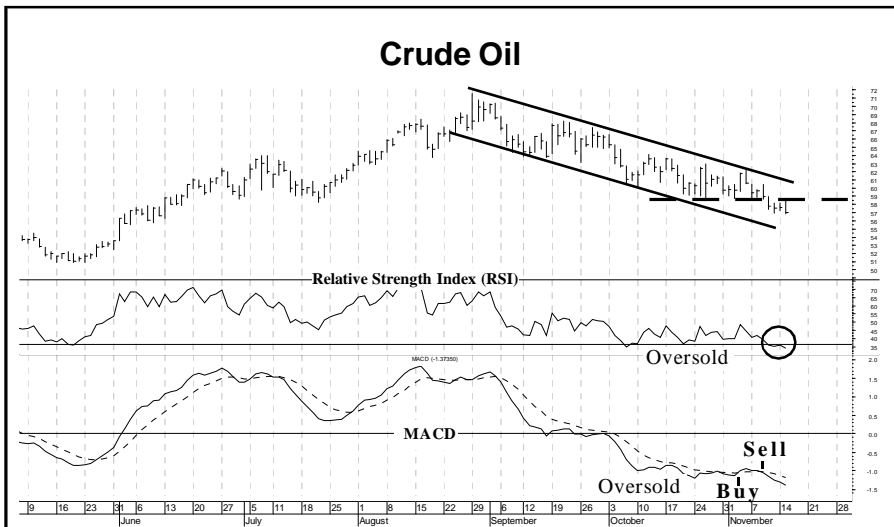


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Energy Correction Nearing Its End



- **There are two things that could dampen the demand for energy.**

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- **Stock pick: Paramount Energy (PMTUN-TSX).**

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The core of our investment strategy is centered on the current commodity bull market. As we pointed out in the November monthly letter, all past commodity bull markets have lasted for over 15 years. This one is barely an infant. The best rewards will be found in commodity-based investments well beyond the end of this decade.

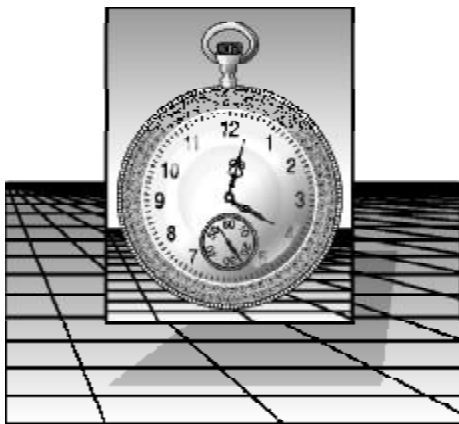
Crude found some support at \$60 (as we expected), but it broke through that level - as you can see on the chart above. Prices have been following a downward sloping channel since the highs, and that channel will hold prices at approximately the \$55 level, if crude drops that far.

Your main focal point should be on 2006. I will provide a more detailed comment in the December letter on what lies in store next year; but suffice to say, the AAAM will have it right. Financial assets will suffer and tangible, real assets will do very well.

Indeed, it might just do that since the energy bears are out in force. Expensive energy is unavoidably bearish for the stock market in general. Wall Street does not do well in bear markets, and they will try to jawbone energy lower as long as they can.

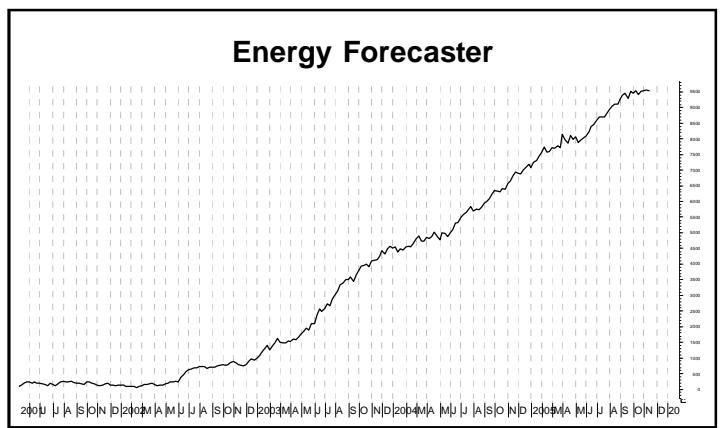
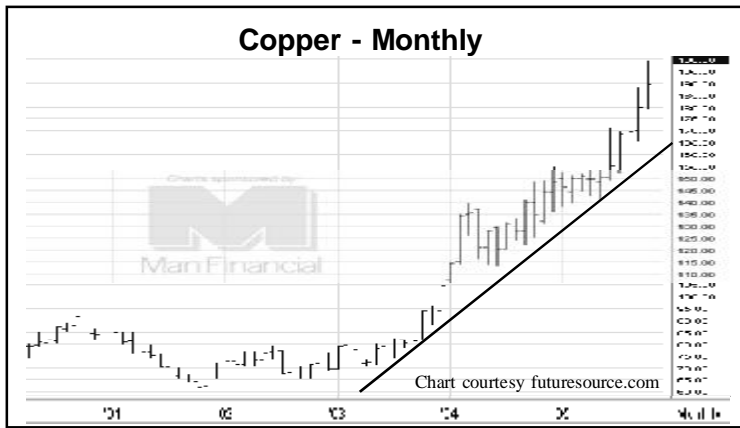
A more pressing matter for us right now is the current situation in the energy sector. It has suffered through a correction during the last two months, and the correction has carried on longer and taken crude down lower than I expected. Nevertheless, the correction is coming to an end, and you should be invested for the next run by now.

The important technical developments now are: 1) oversold readings in crude's RSI oscillator; and, 2) oversold levels as well as a first buy and intervening sell in MACD. Often at lows, you will see a first buy followed by an intervening sell followed by a second buy signal, all while MACD is oversold - as it is now. There may be some panic selling here as the pros



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scare the novices out of their positions, but long term prospects for crude, natural gas, and coal remain bullish.

Nothing fundamental has changed in the energy picture.

The Middle East is still in turmoil, as it will be for the foreseeable future. Once we pull out of Iraq, the country will explode into civil war - perhaps sooner. Militant Muslim fundamentalism is spreading, even to Europe. Saudi Arabia is at the peak of their production, and they really do not have any significant excess capacity left.

Earlier this month, Farouk Al Zanki, Chairman of the Kuwait Oil Company, revealed that production from their Bergan field (the world's second largest oil field) has peaked. Meanwhile, Asia - fueled by economic powerhouses China and India - will continue to grow, and so will their appetite for energy.

Global energy demand has never declined year over year, and I don't think it ever will. The situation is still one of rising demand and depleting supplies.

There are only two things that could dampen the demand for energy. One would be a worldwide flu pandemic. That is a possibility, for sure; but I am encouraged that the potential catastrophe has gained broad attention. Ignored, the flu threat could be a big worry.

The second event would be a severe recession in Asia. Many have espoused this possibility, but I don't buy it.

If you need a "handle," watch the price of copper. There will be no recession in Asia until the price of copper breaks its long term trend line.

Considering the correction in the energy stocks over the last two months, the Energy Forecaster looks fine here. The only effect has been to see its relentless climb pause temporarily, as it does from time to time. The price of crude is important to us as well as the timing of the next energy rally, but I think the energy stocks will lead crude in the next rally.

Since it bottomed out in 2001 under \$17.00, the bull market in crude oil has been impressive. The bull in natural gas has been phenomenal, and there is a reason for that. The planet, while pressing on limited supplies of crude oil, is flat running out of natural gas. In fact, by the end of the decade, U.S. domestic supplies will be all but completely depleted.

If I were to pick one energy stock on our list to buy here, it would be **Paramount Energy (PMTUN-TSX-C\$20.75)**. Our downside buy price is C\$20.10 (Canadian dollars); and hopefully, you will be able to buy there. At C\$20.10, Paramount has an indicated dividend of 14.3% after recently increasing the dividend by 9%.

Peyto (PEYUN-TSX-C\$21.69) has been weaker than most. The reason is probably because they cut their latest dividend from 15 cents to 12 cents.

I announced on the November 3 hotline that I was putting Peyto on hold, and that is the best approach at this time. If you recently bought Peyto, that is fine. Hold what you have, but let's see what develops here before putting more into this one.

The U.S. dollar has found some footing over the last few weeks. This is due to the unrest in France and Belgium. If you want to diversify out of the euro, a large part of the move will be into the U.S. dollar. The dollar does have a better yield than other currencies and, therefore, the dollar index has managed to hit 92.00 this month.

Normally, you would expect gold to be taking a shellacking with the dollar moving higher. Apparently, those exiting the euro find gold an attractive alternative, as well they should. Unlike the dollar, gold has long term appeal. It is money, and it is tangible. Regardless of the reasoning, gold is finding its way aside from a strong dollar.

My favorite junior gold companies remain **U.S. Gold Corp (USGL-OTCBB-\$2.10)** and **White Knight (WKR-TSX-C\$1.50)**. You may be tired of hearing about them, but what can I say. They are both very exciting.