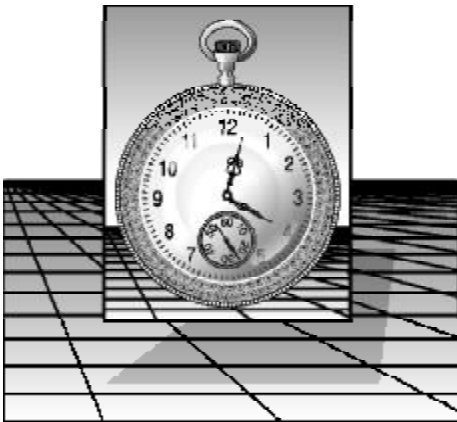


The next issue will be published December 1.

- **What should you do?**
Page 2
- **Baytex, Primewest, and Vermilion.**
Page 2



www.protiming.com
e-mail: info@protiming.com

WHOM CAN YOU TRUST?

Well, you should now all be aware of the surprise announcement on Halloween day from Canadian Finance Minister Flaherty. His problem is real, but his problem is now greater due to his solution.

The income trust form of organization was being abused because the law allowed it to be. Under existing rules - which do not discriminate as to what types of businesses are allowed to form income trusts - converting from a corporation to a trust was all but mandated in order to maximize stockholder value. When two Canadian telecoms, BCE and Tellus, filed to convert to trusts, Flaherty and the conservatives panicked and issued the Halloween proposal to tax the trusts.

This is a bit of a sledgehammer approach to the problem. It would have made more sense to simply put a moratorium on any new trusts, leave those in existence alone, and then revamp the law as to what sorts of businesses should qualify for trust status in the future. The liberals took a shot at the trusts last year, and the conservatives took over the government - promising to leave the trusts alone.

The same conservatives have now proposed this ill-conceived reversal of policy. We have just finished a "long haul" campaign season in the U.S., and we have heard lots of promises. I expect that most of them will be forgotten or abandoned. Just whom can you trust?

You can trust economic forces. The existing Canadian energy trusts have not changed. They are still sitting on valuable assets which will be more valuable by the time the four-year tax hiatus expires for current trusts. Distributions will not be taxed until 2011. The trusts may also wish to maximize their production and distributions during the next four years before the law affects them. Management tends to hold large equity positions in the trusts.

The vultures are circling. I have mentioned in the Tuesday and Thursday Web site hotline updates that one interesting result of this tax will be to put to rest the 50% ownership requirement. As it is, technically, if a trust has more than 50% foreign ownership, it loses its tax exempt status. If they will be taxed, then it matters not how many foreign owners you have.

Consider 100% foreign owners. If you have the cash flow to pay your expenses plus, say, an 18% distribution (as is the case with Paramount), a leveraged buyout looks enticing. Why not borrow money at 6% or create a pool of private equity and buy these little asset gems at a sizable discount of what the assets are worth?

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 © 2006 by Professional Timing Service.

The Canadian energy trusts have a market value of only \$60 to \$80 billion. The entire economy of western Canada is equal to about half the economy of California. The global economy is awash with cash. China alone has nearly \$1 trillion in U.S. dollars sitting around. So, should they hold depreciating dollars or buy oil and gas in the ground and ship it home? It is a no-brainer. **Fording Canadian Coal** (FDG-NYSE-\$\$19.80), with their interest in perhaps the world's richest load of metallurgical coal, has to be an attractive buyout target at these prices.

Bottom line, the sector is oversold, regardless of whether the tax proposal becomes law or not. The law has not been passed yet, but let's just assume that it will be. The news is as bad as it can get - surprises at this point should be positive.

What should you do? First, I have officially put the energy trusts on hold. If your trusts are in taxable accounts, you might do a little tax planning. See if you can use any losses to offset other gains. Talk this over with your tax man. Then, if you can use losses, you might sell trusts you are holding and buy others.

Switching from weaker-acting trusts like **Canetic** (CNE-NYSE-\$13.30), **Shiningbank** (SHNUN-TSX-\$\$14.60), or **Paramount** (PMTUN-TSX-C\$13.11) into those that have held up better like **Baytex** (BTE-NYSE-\$\$18.67) and **Primewest** (PWI-NYSE-\$21.44) will leave you with the same relative investment position, but with some tax savings as well. Baytex and Primewest do pay less than the other two, however. You might also swap among the weaker trusts during the recent selloff to retain their higher payouts.

Bottom line, I don't see that it makes too much difference where you make changes at this point. Just be sure you are well diversified. Distributions will be cut eventually if the tax law is enacted, but it is difficult at this point to determine how distributions will be changed on a trust-to-trust basis. I am reluctant to make new purchases in the trusts here. I am not one to try and catch falling daggers. I am planning on putting a couple of them on our trading list - including **Vermilion** (VETUN-TSX-C\$32.16) - once we can see evidence that an identifiable low is being formed.

Remember this. If enacted, this new tax law will severely curtail future Canadian oil and gas exploitation, but the assets held by the trusts we own are still there, and the cash flow is still there. Nothing has changed except the possible change in the tax law and a resulting impact on distributions in 2011.

Crude and gas prices are more important than the tax law from this point on. Crude oil looks to be setting up for its next advance, and natural gas has already recovered from under \$6.00 to over \$8.00. The next move in crude will take it, first, to \$68.00 and then beyond its former \$80.00 high. I would not be surprised to see crude nudge \$100.00 by the end of 2007. The outlook for the underlying commodities - the trust's assets - looks quite bullish here.

Where is that November correction in gold that I was talking about? I think it is still coming, but the October low at \$580 basis December futures looks solid. After all the whining during the correction from the \$700 plus highs, there is nothing like a \$18 up day on November 9 to get everyone bullish. Gold basis December is now up against some overhead resistance, and it should pull back. I am looking for \$600 in December gold - no big deal. The XAU should settle back to about 125.00. Be patient. Buy gold during weakness. Let the cycles and seasonal tendencies work for you. The markets zig and zag, and precious metals do so more than most.

The stock market and the six-month strategy. I keep monitoring the market indicators, and all I see are non-confirmations and overbought extremes. An old mentor told me once in my youth that if I was not going to follow my numbers, I shouldn't keep them. The numbers are bearish for the popular averages, regardless of the surprising resilience they have had. When the trigger is to be pulled and the best/worst strategy is to be shifted, the announcement will be on the hotline.

You should be sure to keep up with the Tuesday and Thursday online hotline reports as the Canadian situation develops further. If you don't have a computer, you can use one at your local library (they will help you). Perhaps you have a friend that will let you logon with his or her computer. If you need your access codes, send me an e-mail at info@protiming.com. There is no faster or more efficient way than the Internet to inform subscribers when conditions change quickly.