

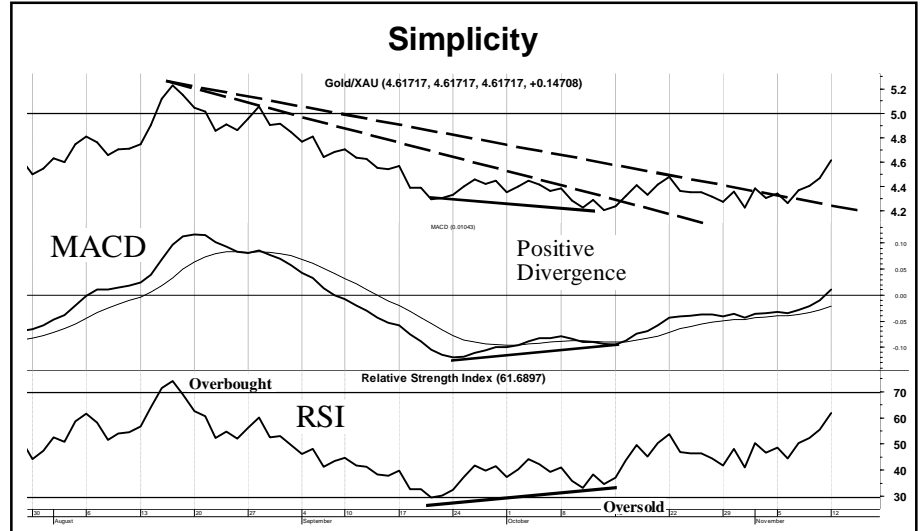
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*Curtis Hester*

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## Time To Review Our Gold Positions



The next issue will be published December 5.

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I have to wonder if there has been a time quake. The markets are behaving like they should have in October. The popular averages have been taking a hit this month, and gold is finally turning down from what should have been a seasonal high last month. With gold tapping its all-time highs way earlier than I expected, it is time to take a look at where we are, where gold should go from here, and what action we should take in our accounts.

Simplicity is a little over 4.60 as I write this, and it looks like it has finally completed a double bottom. Its next move should be to the up side, which will coincide with a correction in the gold shares. I expect to see the ratio move above 4.80 before the next low is in. It is tough to guess at how long this might take since the seasonal time clock has been disrupted, but the key will be to rely on Simplicity to give us the green light.

As for the extent of a correction, gold should back off to \$720.00 to \$740.00 basis December futures. I look for silver to throttle back to \$13.00 to \$13.50 December basis and for the XAU to find support at 155.00 to 160.00. Regardless of when the next low forms, based on the strength we have seen this fall, it will be a better opportunity to buy precious metals and mining stocks than we had last August.

**Gammon Gold** (GRS-AMEX-\$8.36) has not participated, and its comparative weakness necessitates that we liquidate this one and find a better place for the money. Sell GRS and put the proceeds into **Street Tracks Gold ETF** (GLD-NYSE-\$78.30), **Silver Standard** (SSRI-NYSE-\$39.76), and/or **Silvercorp Minerals** (SVM-TSX-C\$8.50).

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The choice should be determined by your existing portfolio and the alternatives hitting their respective downside buy prices. I'm raising the buy price on Street Tracks Gold to \$73.00 where we should be able to pick some up on the ensuing correction. Keep the buy on Silvercorp at C\$6.80 or less. That may seem a bit deep, but the mining stocks are volatile, and that is a reasonable price. The buy price on Silver Standard is being moved to \$36.00.

**Yamana** (AUY-NYSE-\$12.62) made a new high in this rally, but I am dropping my buy price for this correction to \$11.50. Yamana is recovering from its Meridian merger uncertainties, and it is exhibiting comparative strength (see last letter on comparative strength and weakness). The trick is to let the "spinless profit-takers" - as an old trader friend of mind would say - provide you with a bargain. All it takes is a little patience.

Like most of you, I have been disappointed with the performance of some of the junior mining companies on our list. **Everton Resources** (EVR-TSX-C\$0.80), **Golden Valley** (GZZ-TSX-C\$0.45), **Minera Andes** (MAI-TSX-C\$1.76), and **U.S. Gold** (UXG-AMEX-\$4.17) have all been stagnant. I will have some followup comments on U.S. Gold and the others next month; but from a technical aspect, U.S. Gold should find major support at \$3.50 to \$4.00. It is beginning to set up some positive divergences in its RSI and MACD patterns as well.

Hang on to these four Canadians if you own them, but don't overload yourself with smaller mining issues. Diversification and balance are imperative to investment success. Don't overlook the more proven companies on our list of majors. With this in mind, if you have new speculative money to invest, I suggest you direct it to **Taseko Mines** (TGB-AMEX-\$5.03). Taseko has been acting nothing like the typical lower tier mining stock (most of those did not do much in the last gold rally). Taseko moved from about \$3.70 in August to a high of \$6.20 recently. That is more to my liking. In the last issue, I moved the buy price on Taseko to \$4.50; and with the stock trading down to \$5.00 of late, that is well within the range of possibility during this correction.

Most of the problem with these junior stocks lies in the fact that the lower tier group of junior mining shares has yet to adhere to the recent strength in gold. There has been a conservative attitude in the markets lately, and I think investors are a bit risk averse at this point. They are currently putting their money on proven assets over those with a more speculative future. This will change as the gold bull progresses into new, high territory. Once the retail public discovers the metals, I expect to see them enter a phase not unlike the dot com phase we saw in the late 1990's. When the public comes around, they will be buying anything remotely related to precious metals. Consider that the capitalization of all these mining concerns likely doesn't equal that of one major corporation, like CocaCola.

Don't exclude Silver Standard or **Silver Wheaton** (SLW-NYSE-\$15.22) from your metals' portfolio. I am raising Silver Wheaton's buy price to \$13.00. The more risky junior silver issues on our list have been doing better as silver has finally decided to join the gold rally, although late. **Endeavor Silver** (EXK-AMEX-\$4.51) has moved from a low of \$3.20 to a recent high at \$5.50, and it's backing off with this correction. **Coeur d'Alene** (CDE-NYSE-\$4.13) has finally shown some life, moving from \$3.30 last month to a recent high at \$4.50. I am adjusting the buy prices on these two. If you have positions, hold them. Only add or buy new positions at \$4.00 or better for Endeavor and \$3.40 or less for Coeur d'Alene. Silver should do much better in the next rally.

As gold sells off, I will review the downside buy prices for the other majors on our list. In the meantime, do keep up with the Tuesday and Thursday online updates for interim changes. Crude oil has come tantalizingly close to our \$100 a barrel expectation, and we will review our energy positions in the December issue.

I have to say that, so far, our Palio model has been doing a good job timing the overall market since we introduced it earlier this year (the signals are reported on the online updates). It jumped in for only one day this month - buying on November 1 and selling on November 2. I don't like that sort of thing, but the model seems to handle risk well, and it was able to eke out a 0.45% gain on the trade. The stock market typically forms a low in October prior to entering its best six-month time frame, but it appears that the seasonals are off a little this fall. The key will be in the models. The next buy signals from Simplicity and Palio will be interesting indeed.