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- It is time to consider the Canadian energy trusts once again.

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Commodity Market Turn Coming

As explained in the last letter, “unwinding the carry trade” and other facets of deleveraging foreign investment positions have put a push on the U.S. dollar. This has left money managers earning a miniscule 1% or less, and they are facing a difficult reporting period to their clients come year’s end. They have to be anxious to invest this money in something with more promise.

Commensurate with the U.S. dollar’s climb has been a decline in the Canadian dollar - or loonie as it is affectionately called. Meanwhile, crude oil has not been exempt from the global liquidation panic. It has been pushed back from highs over \$140.00 a barrel just last July to less than \$60.00 of late.

However, the fundamentals don’t jibe with sub-\$60.00 crude. Global production is in decline. In a recent study of 800 of the world’s largest fields, the IEA reported that depletion is running at a rate in excess of 9% per year. This is up from a depletion rate of just under 7% in a study done a year earlier. There is a trend here, folks.

Closer to home, the Canatrell field in Mexico is declining at more than 15%, and they are a principal supplier to the U.S. The IEA estimates that the oil industry needs to invest over \$350 billion *a year* to counter these steep rates of decline, and then they may only be able to stem the tide to a 6% depletion rate.

Meanwhile, we have a credit cycle that is severely tightening. I don’t think you are going to see anywhere near that level of investment in energy - or in any new raw material development for that matter. Even in a slowing economy, energy is going to get more difficult to obtain; and once the economy recovers, supplies of all raw materials are going to be sorely lacking.

We can take up the aspects of underinvestment in commodity production later. Right now, we have an opportunity to position in energy and hedge against a dollar destined to fall, all the while earning a generous return that eclipses the 1% or less being brought in by those money managers I mentioned earlier.

It is time to consider the Canadian energy trusts once again. They will benefit from higher oil prices in 2009, and I expect a recovery in the Canadian dollar versus the U.S. dollar. Also, I think we can use further selloffs in the general market to target some purchases at advantageous prices.

We are holding **Baytex** (BTE-NYSE-\$15.31), a stock we have owned for several years. There seems to be support forming at \$14.00, and that would be an excellent place to make new purchases. **Peyto** (PEYUN-TSX-C\$10.32) is another that we have owned for several years. My advice is to hold Peyto.

Crescent Point Energy (CPGUN-TSX-C\$26.00) is a more recent purchase and is a play on the Bakken field in Montana, North Dakota, and Canada. They have a stake in this area, which has gotten a lot of attention lately. They have not performed all that poorly considering the carnage in the overall market. I am bringing our maximum buy price down to C\$27.00 where you should limit new purchases.

I added **Enerplus** (ERF-NYSE-\$23.14) to our list in October, but it has yet to reach our buy price of \$19.00. It has come close on dips, so be patient. Buy some at \$19.00 or better, which will give you a yield of about 17%.

Another interesting Canadian energy trust we recently added is **Great Lakes Hydro** (GLHUN-TSX-C\$16.77). They are a non-petroleum energy play that may benefit down the road if President Obama follows through on his threats to tax carbon emissions. They are a buy at C\$15.00 or better and will yield about 8.3% at that price.

There is a remote possibility that some energy trusts could cut dividends, but these stocks are selling where they were when crude was much lower than it is today, and dividends will still be generous. The Canadian tax on trusts - which will go into effect in 2011 - has been watered down to some extent. It has been fully factored into price at these levels. Once the U.S. dollar turns south (which I think you will see by the end of the first quarter of next year), the loonie will begin to rise. This will push the price of your energy trusts higher, as well as your dividends once they are converted to U.S. dollars.

These elements are but the icing. The real boost will come from higher crude oil prices that will come as a result of a lower U.S. dollar and depleting production during 2009. I do not think we have seen the last of the liquidity panics, although we have seen the worst of the storm. There will be future squalls; and if you are ready for them, you should be able to snap up some delicious bargains.

Fundamentally, the dollar rally is unsustainable, and the government's/Fed's attempts to "rescue" the economy from the credit crisis is already creating unheard of quantities of dollars. This trend will continue until the tipping point is reached and the next "crisis" begins. Next time, it will be a dollar and federal debt financing crisis as U.S. Treasuries become suddenly so difficult to sell that the Fed will have to step in and act as the buyer of last resort.

Once the dollar begins to crack, the long dollar folks I mentioned earlier who are parked in T-bills at less than 1% are going to panic. I think they will rush to commodity-based assets because of the serious underinvestment phase the commodity sector is involved in now. This will lead to shortages and very high prices down the road in all commodities. I believe the next commodity boom will encompass the entire sector - food as well as raw materials. However, it is likely that money managers will soon realize that they can make up for the lost time parked in T-bills by putting some money in the Canadian trust sector, and you should be able to be there ahead of them.

Once the dollar begins to roll over, gold will be an instant benefactor. It is already looking stronger in my work, and it is time that investors should have gold in their portfolios. I still recommend that you put new money into the majors only. My three favorites remain **Yamana** (AUY-NYSE-\$4.12), **Kinross** (KGC-NYSE-\$12.17), and **Goldcorp** (GG-NYSE-\$19.66). Don't pay over \$5.15 for Yamana. Kinross and Goldcorp should be bought at \$11.30 and \$20.00 or less, respectively. Be sure to mind the balance and diversification in your portfolios.

We are approaching an interesting seasonal period for gold. Years ago, the *Stock Trader's Almanac* used to specify a seasonal trade in gold. Their study showed that if you bought ASA at its low in November and sold it at its high in the first quarter of the next year, you would have averaged a gain of 87.8%. Now, I am not recommending that you buy ASA, and I realize that one cannot pick the exact high and low ahead of time for this seasonal move. The point here is that there is a strong seasonal tendency for gold mining stocks to rally from lows in November to highs during the first quarter of the following year; and often, the lows will come in around Thanksgiving if not just before. The gold stocks seem poised for such a move this year. As oversold as the mining stocks are against the price of bullion, this year's rally just might be surprisingly spectacular. I have multi-week cyclical lows coming due soon also. The stage seems to be set for a gold rally, and it just may well be accompanied by a significant top in the dollar.