

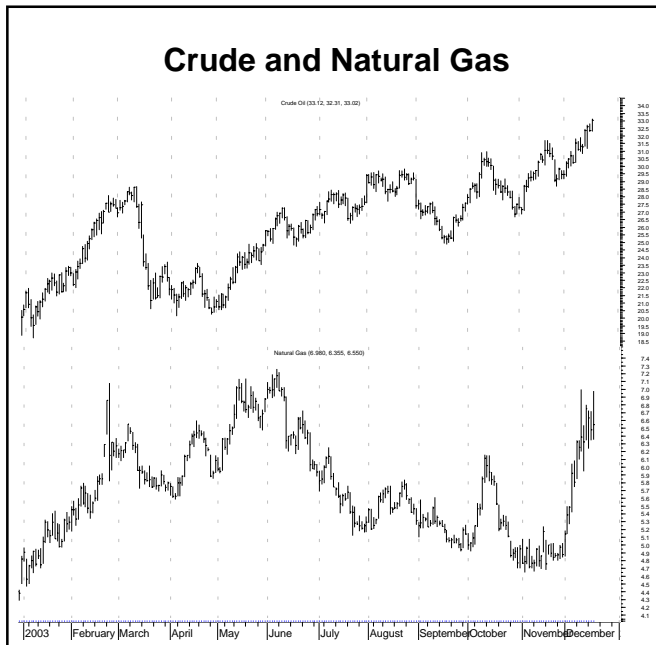
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**PROFESSIONAL TIMING SERVICE**

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## Beginning An Expensive Winter



Economic statistics are fraught with trickery. Market pricing is concrete, however. Crude is pushing \$33.00 - that is not an opinion or seasonally adjusted value. It is a fact. The fact is that crude is moving higher, and natural gas is screaming. This is just the beginning. Energy prices are going much higher this winter, and the

- The biggest threat to our jobless economic recovery is higher energy prices. Page 1

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I came across a quip the other day from the International Energy Agency stating that the Chinese demand for crude oil was “expanding at breakneck speed.” The statement went on to say that global demand for crude oil would increase by 1.4 million barrels a day in 2003.

dollar will be much lower by spring.

The investment opportunity is obvious. We have been guiding you into energy stocks and precious metals for the last couple of years, and it is still not too late to build energy and gold portfolios.

The expectation is for worldwide demand for crude to grow by another 1.2 million barrels a day next year – 2004. That’s *barrels* a day!

On December 5, we recommended **Energy Split Corporation** (CA:ES-TSX-C\$12.00) on the Web site hotline. This stock is a hybrid, and it carries some risk - more so than most of our other stock picks. The investment is interesting nonetheless. Energy Split Corporation was formed last September to acquire a basket of 17 Canadian energy trusts. All of the trusts that I like - Enerplus, Primewest, Shiningbank, etc. - are in the group, plus several others.

OPEC recently announced that they were looking into pricing oil in euros since they were getting a bit tired of suffering losses from the falling dollar. The biggest threat to our jobless economic recovery is higher energy prices; and OPEC’s comments clearly define that the dollar and energy prices are closely tied.



There are two classes of trading shares - the **ROC Preferred** and the **Capital Yield** shares. The portfolio is to be sold on September 16, 2006. The preferred shares will get their initial \$25.00 per share first from the proceeds of the sale. The Capital Yield shares and another non-trading class F shares will get the balance by a pre-determined formula.

There is leverage involved in this so that the Capital Yield shares stand to receive a large dividend. This makes some sense; and if you can borrow at today's low rates and get the yields that the Canadian energy trusts offer, the leverage effect is quite good.

If we are correct and energy prices move higher over the next two years, the dividends from the portfolio should increase. Currently, the portfolio yields about 14%, but the leverage factor indicates a yield for the Capital Yield shares at about 20% at today's price of C\$12.00.

If the portfolio yield increased to 20% because of higher energy prices, the Energy Split shares would theoretically yield about 30%. We would expect that the share prices of the stocks in the portfolio would also increase, and the price of Energy Split shares would increase as well.

This is not for widows and orphans. There are plenty of risks involved, and the whole plan has some weak spots. Perhaps energy prices will not go higher. It could happen that the portfolio is liquidated in 2006 at a lower price and the Capital Yield shares would get nothing back.

In fact, the prospectus lists a rash of risks - all not to be taken lightly. I have posted a copy of the prospectus on the Web site for your perusal. Don't get

carried away with this stock, but it is an interesting leveraged play on the energy sector. We will be updating our opinion as time goes on.

You may have difficulty finding a quote on Energy Split or a broker that will make the transaction, but I had no problem buying some through Wachovia and Scottrade. You have to buy it on the phone at Scottrade; you can't buy it online there. Scottrade also charged me \$17.00 for a market order rather than the normal \$7.00.

**My favorite online quote source for Canadian stocks is [www.bigcharts.com](http://www.bigcharts.com)**

You can create a personal page of 50 issues that updates every few minutes at bigcharts. The symbol at bigcharts for Energy Split is CA:ES, and the quotes are in Canadian dollars.

I am looking forward to another great year for our gold investments in 2004, as well as for our energy positions. Our advice to own some gold in 2003 was right on target. Next year, we can easily see gold rise to \$550/oz. - in the event that there are no surprises.

However, if we were to see some upset in the Middle East ... or a panic in the dollar due to oil-producing nations turning to alternate currencies ... or a sudden drop in foreign interest in buying U.S. Treasuries, etc., then I think \$700 could certainly be in the cards by this time next year. Longer term is another story.

The dollar's bearish turn from its highs two years ago will continue for at least two more years - and likely, four to six more years. Some experts, like John Templeton, are forecasting the dollar will fall to \$60.00. Such levels would have a significant impact on gold.

I believe the Fed will wait too long to raise interest rates. This will exacerbate inflationary pressures and further depress an already sick dollar. Short rates may stay too low too long under the Fed's control, but the long end of the bond market will take notice and decline pushing long term rates higher next year. This means that mortgage rates right now are about as good as they will get ... for a very long time.

As demand for gold gains popularity and finally runs ahead of reason, I believe we will eventually see gold hit \$2,000 to \$2,500 an ounce. There will be the usual complement of sizable corrections and gangbuster rallies along the way.

The key is to accumulate a position now - hopefully under or near \$400. I still see gold pulling back into late December, and that will offer you a chance to load up.

Our suggested stocks are shown on the back page of the monthly letter. I do occasionally update the downside targets, and the PDF version of our hotline and Hyperion list includes the latest list of recommendations and downside targets. I also post a text version of the target list in the subscriber's services section of the Web site.

If I were to give you one gold stock to buy right now, it would be **Goldcorp** (GG-NYSE-\$15.59). Buy some under \$16.00. I am not bothered in the least by the fact that their CEO Rober McEwen is selling a chunk of his stock. It provides us an opportunity.

Once again, the telephone hotline will cease on December 31. There are only 5 callers now, and the Web site hotline offers more detail and information than the antiquated recordings can.