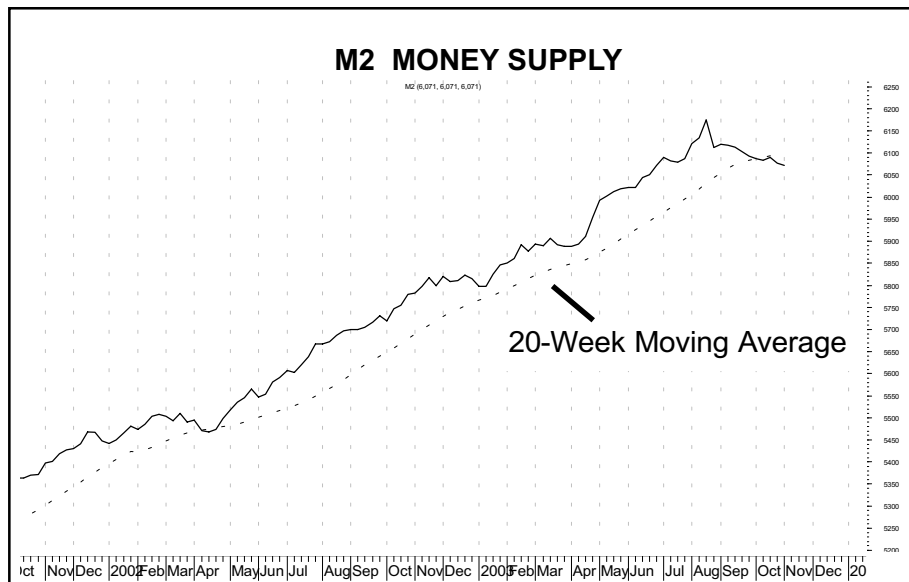


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1-406-543-4131, P.O. Box 7483, Missoula, MT, 59807, www.protiming.com
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BUCKLE UP



- In the long run, bonds should go much lower and interest rates much higher.

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- The market is in an ideal position for you to pick up some Canadian energy stocks.

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Every single day I look through my armamentarium. I look at every technical tool in my bag, both traditional and proprietary. Every day I come up with the same conclusion, and Jimmy Durante said it best: *“Everywhere I look ... assassins!”*

It is difficult to get comfortable with a stock market that still sports huge PE multiples, has almost non-existent dividends, and operates in an environment that is top heavy with debt, etc. Above is an example of the disturbing evidence I see.

This is a chart of M2 money supply and its associated 20-week moving average. I think one of the things that I didn't pay enough attention to a year ago was the massive rise in money supply and the bullish effect that can have on equities. Normally, when the Fed pumps up liquidity, it finds its way into the stock market first.

M2 growth has now come to a screeching halt, and it has slowed enough to fall below its 20-week moving average. That's not good. An assassin in the hiding, this is.

There are many more technical problems, but detail is best left to the December letter (where we have more space). On Page 2 is a list of the popular averages and their associated Hyperion sell stops. I take it as a significant warning that two of these have already hit their sell points.

What is important right now is, what should you do with your money?

Bonds look like they would like to rally some here. Our Hyperion model just went long bond futures, although our Rydex bond work is still in the money market fund. If



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e-mail: protiming@hotmail.com

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Hyperion Sell Points

*NYSE	5,926.20
*S&P 500	1,043.40
Nasdaq 100	1,346.00
Value Line (Arith)	1,371.80
Dow Industrials	9,497.70

The Hyperion model will issue sell signals in the above averages if they trade down to the values given. *Note that these two have already hit the sell price.

the stock market falls off this month, bonds will likely rally as funds flow from stocks to safer havens.

If a Rydex bond signal develops, we will announce on the hotline an exchange into the Rydex bond fund ... but that would only be a temporary trading affair. In the long run, bonds should go much lower and interest rates much higher. Speculate if you like on a trading basis, but do not put investment money into bonds.

Comments by Bill Gross of PIMCO - who is, admittedly, the best bond guy on the planet - struck me the other day. The Fed has pushed interest rates to a major low. In response, the financial industry has designed investment approaches around a very low benchmark. Most of these strategies involve arbitrage, using derivatives; and I have to agree with Warren Buffett and his recent warnings about the dangers in the derivative market.

As interest rates stay low, more of these "pegged to zero interest rate" investments will be put into place. Furthermore, the Fed has announced to the financial community that it intends to leave rates low, giving arbs the impression that rates will remain at current levels for some time.

I think it is time for investors to begin thinking about the effect that higher interest rates will have on the markets

- or about the Fed not raising rates when they should be raised. If the economy does, indeed, take off next year and the Fed keeps rates low (for political reasons?) when they should be raised, what will be the effect?

One outcome will be inflation ... and last month, producer prices were up a whopping 0.8%. That is nearly 10% annually. Bonds will suffer. Income can be found elsewhere.

The market is in an ideal position for you to pick up some Canadian energy stocks. Crude oil is doing very well at 30.00 to 32.00 a barrel. Natural gas looks like it is moving smartly higher, off a base built at the 4.60 to 4.80 level. If the Fed lets the inflation genie out of the bottle, energy prices will increase dramatically.

The biggest percentage increase will be in natural gas. Greenspan may have been off in the timing of his forecast of \$10.00 natural gas, but we will eventually see gas higher than that. What he did say that seemed to be missed by the media is that natural gas production in the U.S. is falling by 27% a year. Canada is going to be a very important energy supplier to the U.S. in the years to come.

Some favorites are not within buying range yet. **Enerplus** is best held here, so don't sell it. However, we can get better dividends elsewhere at current prices. Personally, I will be a buyer of Enerplus if it breaks back to \$24.00, but I am content to hold it for now.

Primewest (PWI-NYSE-\$19.96; dividend of 14.78%) and **Shiningbank** (SHNUN-TVX-C\$16.62; dividend of 16.61%) look good at current levels. Shinningbank's earnings just tripled for the last quarter, and I think you will be floored by the earnings reports we

will be seeing from our Canadian energy companies next year. I expect dividends will move up also.

Shiningbank is at our downside target now, and Primewest is close. I would not pay over \$20.00 for Primewest or C\$17.00 for Shiningbank. Adding to positions here or establishing new pilot positions if you haven't bought these already makes sense.

Provident Energy (PVX-AMEX-\$8.39; dividend of 12.97%) cut their dividend back some; but after dipping down a bit below our buy target of \$8.10, it bounced right back up again. Provident is more speculative than the rest of our energy stocks, but buying in around \$8.00 is a good bet.

I am reviewing a list of other energy stocks, including Pengrowth and Newalta. I will have results of this study for you in the December letter.

I still think gold should fall back and give us a buying opportunity later in the month. I've been saying for two years that you should own some gold. Hold what you have, and focus on the downside buy prices listed on Page 6 of the monthly letter. I am now posting this list in the subscribers' section of our Web site, and it will be updated every couple of weeks or so.

Goldcorp (GG-NYSE-\$17.05) should be a core holding. So should **Newmont** (NEM-NYSE-\$45.30). If you feel these are too stodgy, buy some anyway. Then pick up some of the junior mining stocks that are listed on the back page of the November monthly letter.

Don't lose your bullish outlook on gold, regardless of what the press will be saying. A week ago, everyone couldn't wait to buy the highs. Don't get cold feet when prices fall back.