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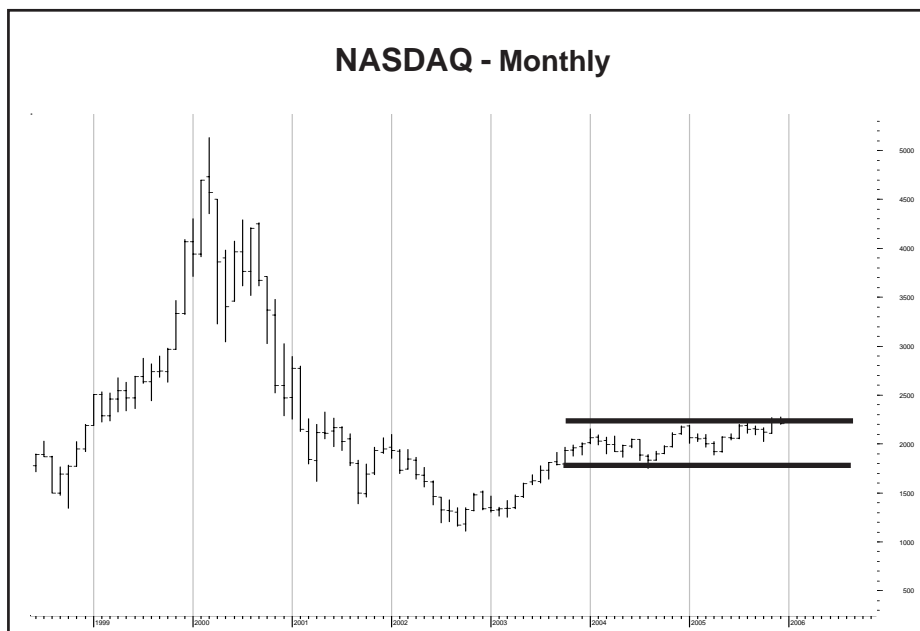
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IS IT DIFFERENT THIS TIME?



We are at the end of another year. *The Stock Trader's Almanac* has some interesting statistics for us concerning 2006 ... but 2005 didn't turn out quite as well as the Almanac forecast.

The Almanac tells us that years ending in 5 had all been gainers in the Dow Jones Industrials since 1885. This year was an enigma. The Dow lost 0.6% during 2005, thus (officially, at least) breaking the pristine record of the past 12 decades. The Nasdaq, however, did manage to post a gain of 1.3%, and the S&P 500 edged ahead by 3%. You can order a copy of the 2006 *Stock Trader's Almanac* at www.wiley.com.

All in all, 2005 was a lousy year for the averages any way you look at it. It wasn't the worst, but not the best place to make money. It was one of the duller years I can remember. A 1%

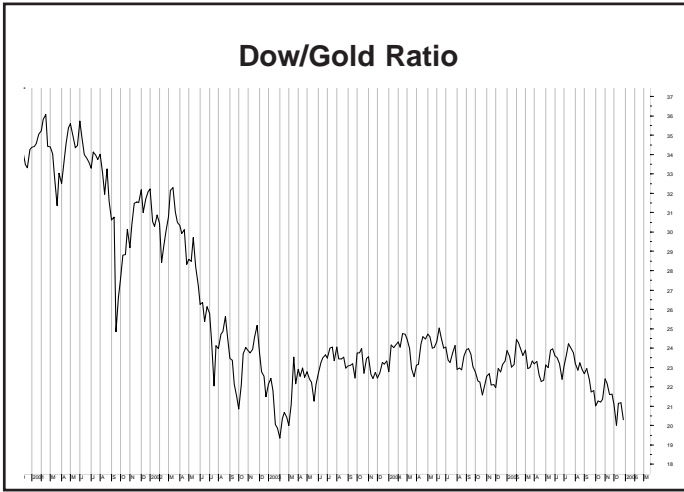
move in the Nasdaq was nothing in years past. I can remember it moving 5% a day at times during the 90's.

That is all water under the bridge at this point. The Almanac tells us that years ending in 6 have a mixed record, with 7 up years and 5 down years.

I came across an interesting article by Ed Esterling of Crestmont Research. His study centered on earnings per share (EPS) growth patterns. Since 1950, the average annual growth in EPS has been 6.1% ... but, as Mr. Esterling so aptly states, "the average rarely happens." Growth will swing over and under the average in what he found to be cycles of about 3 years.

The first three years of the decade (referring to 2000 through 2002) produced below average EPS growth.

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



It has been demonstrated that you only need to follow the difference between 3-month T-bill yields and the yield on the 10-year government bond. At this point, the 10-year still carries a premium, but it is small at only about 0.45%. If the 10-year ends up

and profitable for American business. They argue that we are beginning a new era, much like the beginning of the industrial revolution.

Their arguments are very good, and you will certainly be swayed by some of them. However, I was left with a pang triggered by experience. There is something hollow here.

Every time there is an important event, like the bull market in the Nasdaq in the 1990's or the last many times the yield curve has inverted, I have heard the same whisper. "It is different this time." History has proven since Ecclesiastes that there is really nothing new under the sun, especially where human behavior is concerned.

So, according to this theory, in 2003, investors should have expected an improvement in EPS. Sure enough, that happened. We are now some three years out in that EPS up trend cycle (years 2003 through 2005), and investors should be looking for EPS to show below average growth again.

paying less than T-bills, a recession is assured. Yes ... assured. The yield curve as an indicator of future recessions is that good.

The obvious lesson is to keep liquidity in T-bills.

The stock market did move higher during the 2003-2005 favorable EPS growth period, but its performance was not earthshaking, especially over the last 24 months. All we have really seen is a cyclical rally within a secular bear market.

The yield curve will not do you any good in timing the stock market. That is because the stock market is a harbinger of the economy, and it will turn down ahead of the economy and corporate earnings. It anticipates the future and will turn down several months ahead of the next recession.

Our Annual Asset Allocation Model (AAAM) has pointed us to tangibles or real assets and away from financial assets. I believe that real assets will provide us with the best risk-to-reward balance until the Dow/gold ratio falls under 5.

It may be that the averages have simply been marking time over the last couple of years waiting for earnings to improve enough to put traditional valuations back to normal. Time is running out though, and the S&P still sports a very high PE of 29. If EPS growth slows now, the popular averages may be in for some tough sledding this year.

There is a great book out that you should read - Empire of Debt by Bill Bonner and Addison Wiggen. The book will give you insights into more than the problems of mounting debt loads on individuals and the government. There are disturbing political changes at work as well, and all of these things are important to your financial future.

This ratio evidences the benefit of being in tangibles - as represented by the ultimate tangible, gold - versus being invested in the most basic of financial assets, the Dow Industrial Average. As the ratio falls, it reflects that one ounce of gold buys more shares of the Dow.

Slower corporate earnings growth, of course, sounds a lot like "recession" to me. The yield curve is, indeed, beginning to invert, as it should if a recession is coming. This is a condition where short term rates are higher than long term rates.

You also need to pick up a second book which is causing a stir in the investment world. It is called Our Brave New World by GaveKal Research. They propose some compelling arguments that "it is different this time." They argue that foreign account deficits are good

At the last peak, it cost over 35 ounces of gold to buy 1 share of the Dow. Currently, it only costs about 20 ounces. The bull market in commodities and the long term secular bear in the stock market will not end until 1 share of the Dow costs less than 5 ounces of gold. Some followers of this ratio think that gold and the Dow will be the same price at the bottom.

Could it be different this time?

I don't think so. If the GaveKal folks are proven correct and a new era is evolving, the U.S. stock market has not taken any notice. Remember, their arguments are fundamental opinion. Price action and technical analysis will trump fundamentals every time.

Esterling's EPS cycle and the yield curve are warning that a recession is looming. This will not have a sudden beginning. Recessions begin through a process of deterioration. We already see that housing sales are beginning to decline, but builders are still hammering nails. Thus, it has begun.

The root cause is higher oil and energy costs which will change the debt-laden consumer's spending patterns. One thing leads to another, and soon he will buy fewer lattes, eat out less frequently, or perhaps opt for a cheaper level of cable service. However, as the economy slows, the Fed will step in to help.

The Fed will stimulate. Bernanke will fire up the helicopters - all with an inflationary cost while the dollar loses value and gold appreciates. Thus is the oil/gold relationship in a nutshell. I expect to see gold sell at 16 times the price of crude oil, which is the past norm. Even if crude were to fall to \$50 (don't bet on it), gold will rise to \$800.

Precious metals and the rest of the commodity complex will generally rise in price as the value of the dollar falls this year. The U.S. dollar repatriation program is now over; and although the Fed will in all likelihood raise rates once more at the end of January, I believe that the interest rate hikes are over.

Regardless of what the media and the number wizards are reporting, there is a recession on the horizon. The Fed will be watching that closely, and they will not be anxious to accelerate a decaying economy by raising rates further. The consequence will be that the dollar will begin to weaken again as 2006 unfolds. The effect on the commodity markets will be bullish. However, there is something not different this time, but something "extra."

Many of the commodity markets are beginning to respond to supply/demand imbalances which have in the last several months overshadowed the strength in the dollar. I have shared with you my view that crude production has peaked. It is now up to the Saudis to come clean about their production, and they will probably do so some time this year. Natural gas production is also declining worldwide - at a much faster rate, by the way.

In the meantime, demand increases, and it will continue to increase.

Demand for electricity is forecast to increase tremendously (as we discussed in the December letters), and a good percentage of the electricity in this country is currently generated by natural gas. There will have to be a shift in this strategy, and the best substitute for electrical power generation is clearly nuclear. However, don't look for a massive nuclear development program any time soon.

The second best alternative to natural gas for producing electricity is coal. I believe we will be seeing a lot of new plants being coal fired, and a lot of old plants shifting to coal as well.

Our coal companies have been soft lately, and both **Alliance Resources** (ARLP-OTC-\$37.89) and **Fording Coal** (FDG-NYSE-\$36.10) are selling close to or under their respective downside buy prices. My advice is to use weakness to accumulate positions in these if you haven't already. Buy some and then be patient.

It is interesting that readers get all freaked out when a stock falls to its downside buy price. It is not that I necessarily expect our stocks to fall to those prices. However, you need to divorce yourself from linear thinking in the markets. Prices wiggle up and down. The shorter the time period, generally the more wiggles.

A drop in price is not a sign that the world is ending. It can be an opportunity, and that is what the downside buy prices are all about - opportunity and managing risk. If you chase stocks and buy strength, you will augment your mistakes and severely limit your returns. Incidentally, the buy-and-hold list has been updated on Page 6 of this letter.

China is on a bent now to expand their growth inland and away from the coastal areas. This will require massive infrastructure development. Their demand for raw materials and such basics as concrete (which requires enormous amounts of natural gas to produce) is going to grow, even if their economy slows down (although it shows no signs of doing that).

This expansion inward is going to increase their middle class enormously. China has 300 million cell phone users now. I think you can use that as a measure of their consumer class. Chinese cell phone users are expected

to grow to 700 million in the next 5 years. The impact on the world's limited raw materials will be immense. Chinese consumers are also buying other things, not the least of which is gold jewelry. The same pattern is occurring in India and Russia. The growth in consumer demand for gold will be a big surprise in 2006.

Silver is my favorite precious metal.

This is because, unlike gold, it is consumed, and technology is finding new uses for silver. Plasma televisions, water treatment technologies, super conductors, copper-arsenate wood preservative replacements, etc. are all using silver in larger quantities.

My favorite gold company is still **Goldcorp** (GG-NYSE-\$24.20). However, I cannot tell you in good conscience to buy it here. It has run hard and needs a rest. It will get that rest at some point, and you need to wait for profit-taking before buying more. My recommendation is to wait for it to fall to \$19.50, and then add to your positions.

Other issues can be purchased, but only if they fall back as well. **Newmont Mining** (NEM-NYSE-\$57.14) can be bought at \$48.80 or less, and **Anglogold** (AU-NYSE-\$52.35) can be picked up if it falls to its maximum buy price of \$44.00. This may seem like a negative recommendation, but the best way to approach the gold shares at this point is to hang on to what you have and wait for an opportunity to buy them right. You will sleep better, and you will make more money if you do.

Should you sell and try to buy back later?

No. First of all, most investors just won't buy them back. Second, there is nothing in my work to indicate a severe enough decline to risk being out of this market – at least not yet.

Last summer, I did a piece called "Trading Gold With Simplicity" on the gold/XAU ratio when it was screaming "buy." If you have misplaced your copy, send me an e-mail and I will send you one.

The ratio was over 5.25 when it was telling us to buy in May. It has recently dipped to 4.00. That is not a sell signal; but if it manages to fall under 3.75, we will announce stops and sale recommendations. When the ratio has fallen to 3.75, there has always been a top in the gold market important enough that even bulls like us are advantaged by lightening up.

I'll announce any necessary action on the hotlines and in the letters, but you can easily follow this simple ratio on your own.

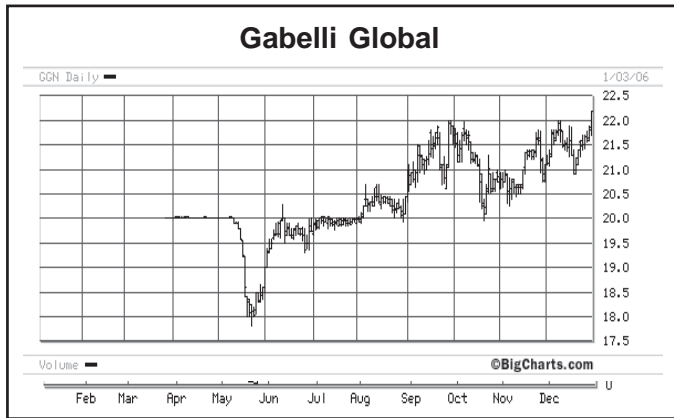
The **Pimco Commodity Real Return Strategy Fund** (PCRBX-\$14.77) dropped 12% on December 29, and it scared the heck out of several of you. If you recall, I did address the issue of funds paying large year-end dividends in the December monthly letter. Indeed, the fund paid a dividend of \$1.94. On December 28, the fund's B shares closed at \$16.61. On December 29, they closed at \$14.56. That was a drop of \$2.05, but you got a dividend of \$1.94 plus change. So, in effect, the loss for the day was 11 cents.

The confusing event was an announcement that the IRS was not going to allow them to use the strategy they have been using of putting up total return swaps against their futures positions. This caused a lot of furor in the news, but I don't see it as that big of a deal.

The issue is with the IRS disallowing the income from the swaps as "qualified income," which the fund must have. However, there are other approaches as simple as using T-bills for margin. Pimco reports that they are already working on a solution.

This is essentially a tax issue, and it could alter the type of money Pimco puts up against the fund's positions in the future. Essentially, the fund is an index fund of the Dow Jones AIG Commodity Index, and my principal incentive for buying the fund was appreciation in the commodity sector. Although attractive, the income is secondary. Nevertheless, I am going to put the fund on a hold recommendation for the time being. I think the smoke will clear and we will be happy with the fund down the road, but we should let this settle out.

Here is an interesting fund you might want to put some money into as an alternative - **Gabelli Global Gold, Natural Resources, and Income Fund** (GGN-AMEX-\$22.10). This is a closed-end fund. It is relatively new, having been launched in April of 2005. It currently pays a dividend of 14 cents a month, which is a decent yield of 7.6% on today's price. They generate income by writing covered calls on their positions. Buy a little here, but don't chase it over \$22.50. Buy some more if it sees \$20.50.



Peaking in other commodity production as well as natural gas and crude oil will be another important event we will be hearing about this year. Chilean copper production looks like it will peak in 2008. Other large copper mines look to play out between 2010 and 2015.

If everything is different this time and we see a worldwide economic boom, owning commodities will not be a mistake. I see Asia booming along just fine, but I also see the U.S. beginning the descent that all empires eventually take. Everything cycles. The first will be last, and the last will be first.

China is intent on developing their infrastructure, expanding their military, excelling in industry, and lifting the standard of living of their population. Why? To become a world power. To become the next great empire. It has been said that China will eat the world, and Canada will be its first course. In fact, the entire world is going to be bidding for Canadian raw materials.

Global energy usage has never declined on a year-over-year basis. In the energy business, Canada is the place to be, and that's where we are.

now trying to dig up dirt and produce scandals, which is how you get elected. They are trying to say that prior knowledge of decisions were leaked and that some were able to profit from such inside information.

First of all from our standpoint as investors, it is no big deal. However, you are going to hear a lot of silly stuff as the campaign goes on. Most will just be rhetoric spiced up with a decent complement of hallow promises as well as down and out lies.

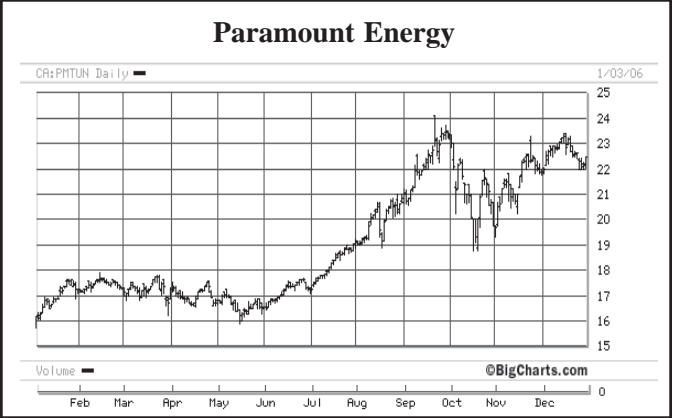
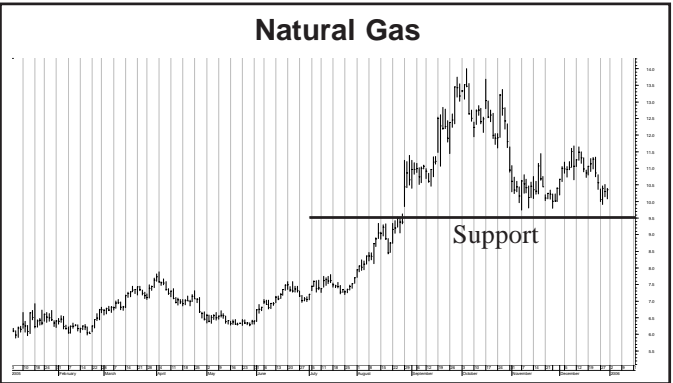
As for what to buy in the energy field, I mentioned the coal trusts above. They are buys here. **Provident** (PVX - NYSE - \$11.09) has been a bit weaker than the rest, and that is not a great sign. I am not worried about Provident, but perhaps they are not the best place for new money. If you have bought some, fine. Hang on to it. It is under its downside buy

There is an election coming up in Canada. Part of the reason the old guys are being contested is their ridiculous attack on the income trusts. The politicians are

price but, there are other energy issues that are more attractive right now.

If I were to focus on one company in our stable of energy issues, it would be **Paramount Energy** (PMTUN-TSX-C\$22.46). Natural gas has sold off recently to just over \$10.00 April basis, and Paramount has come off a bit as well. I can see April gas dropping to \$9.50; and if it does, it should pull Paramount down as well. My advice is to add to your positions at C\$21.50 or less.

Although the energy stocks have seen some late year profit-taking, the selling has been orderly and in keeping with the correction in crude. Crude looks like it is finding its footing again, but perhaps the most important element is that our Energy Forecaster is still moving higher. I don't see any reason to worry until the AAAM moves out of tangibles or we see a solid change in trend in the Forecaster.



Recommended Stocks For Buy And Hold

Note: If you go to www.bigcharts.com, you can get quotes on Canadian stocks in Canadian dollars by using the symbols we have listed, preceded by CA: For example, if you want a quote for Shiningbank, go to www.bigcharts.com and type in CA:SHNUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .86. You should buy at or below the posted downside buy price. The downside buy price does not imply that this level will necessarily be reached, but that this is the maximum price we recommend that you pay for the issue. Changes since our last posting are in bold letters.

Last Updated 01/03/05									
Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 01/03/06	Downside Buy Price	Div	Target	Web Site
Alliance Res	ARLP	OTC	10/1/2004	28.00	37.89	40.50	8.00%*		arlp.com
Anglogold	AU	NYSE	12/23/2003	43.80	52.35	44.00	n/a		anglogold.com
ASA	ASA	NYSE	10/1/2003	36.00	59.34	49.50	2.36%		asaldt.com
Barrick Gold	ABX	NYSE	1/5/2004	23.40	28.82	26.40	0.76%		barrick.com
Baytex Energy	CA:BTE.UN	TSX	12/8/2004	12.88	17.69	16.50	10.18%		www.baytex.ab.ca
Black Rock	BGR	NYSE	8/8/2005	25.99	26.21	25.10	5.70%		blackrock.com
Enerplus	ERF	NYSE	10/1/2003	24.00	48.72	44.10	8.93%		enerplus.com
Fording Coal	FDG	NYSE	11/17/2004	42.84	36.10	35.20	8.00%*		fording.ca
Frontier Oil	FTO	NYSE	8/8/2005	29.70	39.62	34.95	0.46%		frontieroil.com
Gabelli Glb Gld, etal	GGN	AMEX	1/3/2005	22.10	22.10	20.50	7.60%		gabelli.com
Goldcorp	GG	NYSE	12/16/2003	15.90	24.20	19.50	0.74%		goldcorp.com
Newmont	NEM	NYSE	1/4/2005	41.69	57.14	48.80	0.70%		newmont.com
Paramount En. Tr	CA:PMT.UN	TSX	12/20/2004	16.31	22.46	21.50	12.82%		paramountenergy.com
Peyto Energy	CA:PEY.UN	TSX	10/1/2003	18.00	25.89	Hold	5.56%		peyto.com
Pimco Comod Fund	PCRAX		3/2/2005	14.01*	14.77	HOLD	11.07%		pimcofunds.com
Primewest	PWI	NYSE	10/1/2003	18.25	31.17	28.50	11.97%		primewestenergy.com
Provident Energy	PVX	AMEX	11/11/2003	8.10	11.09	11.10	11.21%		providentenergy.com
Shiningbank	CA:SHN.UN	TSX	10/1/2003	16.65	29.40	26.90	12.24%		shiningbank.com
Suncor	SU	NYSE	5/7/2003	17.20	65.53	54.95	0.31%		suncor.com
Valero	VLO	NYSE	5/2/2005	36.63	54.36	48.10	0.74%		valero.com

*Pimco adjusted for \$1.94 distribution 12/29/05 **The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. I have listed these with a dividend of 8% since I feel that that is a likely minimum you might expect. For further details on their past dividend histories, you should visit www.fording.ca, and www.arlp.com.

Buy And Hold Junior Gold & Silver Stocks - The Option Alternative

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 01/03/06	Downside Buy Price	Div	Target	Web Site
Beme Gold	BGO	AMEX	10/1/2003	1.06	3.09	2.70	n/a		bema.com
Coeurd' Alene	CDE	NYSE	10/1/2003	3.19	4.28	3.60	n/a		coeur.com
Ivanhoe Mines	IVN	NYSE	10/1/2003	6.00	7.40	6.90	n/a		ivanhoe-mines.com
Mines Mgmt	MGN	AMEX	2/1/2005	5.54	7.38	6.50	n/a		minesmanagement.com
Novagold	NG	AMEX	10/1/2003	6.40	9.50	8.45	n/a		novagold.net
US Gold Corp	USGL	OTCBB	9/9/2005	1.70	3.63	2.30	n/a		usgoldmining.com
Western Silver	WTZ	AMEX	10/1/2003	3.50	11.79	9.50	n/a		westernsilvercorp.com
White Knight	CA:WKR	TSX	7/20/2005	1.25	1.89	1.60	n/a		whiteknightres.com
Yamana	AUY	AMEX	2/1/2005	3.12	7.15	4.50	n/a		yamana.com

C\$ Denotes Canadian dollar. Quotes for Canadian stocks can be obtained on the U.S. OTC Bulletin Board (pink sheets) with the following symbols. I want to caution you, however, that OTCBB quotes are not always current. They can be a day or more old at times. You should take the quote in Canadian dollars (as described above) times .86 to see if the OTC quote looks correct. You can access these OTCBB quotes by using www.barchart.com. I don't have OTCBB symbols for American Bonanza or International Wayside.

Shiningbank SBKEF Peyto Energy PEYUF Baytex Energy BAYXF Paramount Energy PMGYF

Target The "Target" column represents the price at which you should liquidate the position and take profits. Do not reverse on the target price. There will not always be a target price. You should only reverse on the reversal stop price, even if there is no current open position.

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