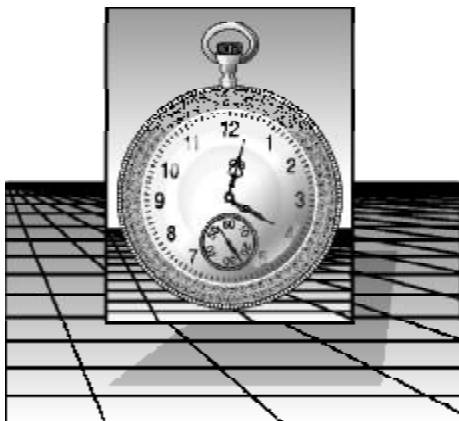


The next issue will be published January 25.

- **The U.S. dollar is going lower.**
Pages 2-3
- **Stock positions.**
Pages 3-5
- **Interest rates in 2007.**
Page 5



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Considerations On Crude Oil

In the December mid-month letter, I reviewed reasons why I see gold going substantially higher during 2007. I would like to follow up on some thoughts as to why I also see crude oil, natural gas, and coal moving higher in 2007. First, there are the obvious reasons. Production from major fields in Saudi Arabia, Mexico, and the North Sea is declining.

Politically on the home front, the Democrats will likely focus on domestic policy, which will certainly increase domestic budget deficits. They will quietly leave Bush and his antagonistic foreign policy alone to suffer its own fate. The Bush administration has not been keen on dialogue, and they seem to favor confrontation. The Democrats will let the GOP foreign policy self-destruct in preparation for the 2008 elections.

Most OPEC producers consider us the enemy, and I think you will be surprised this year by an astonishing new cohesion among the members. I expect Venezuela and Iran to become more influential within the organization. This will result in improved output discipline. OPEC will defend a floor in crude prices at \$60, and later on at \$70. We may see Iran and other countries call for oil payments in euros this year - both as a response to a weaker dollar and as an economic "in your face" response to current foreign policy. Bottom line, OPEC is done with cheap oil.

Korea and Iran will continue with their nuclear ambitions, regardless of sanctions, or the threat of sanctions. It does seem that someone may take a shot at Iran. I can't see how Israel can allow Iran to develop a nuclear capability when Iran has publicly avowed Israel's destruction. Oil prices have at least doubled each time a war has erupted in the Middle East.

Nationalization of the world's oil production will continue this year. Tyrants control the spigots; and typically, despots funnel oil revenues into public works to placate the population and into their militaries. The resulting lack of reinvestment into their oil infrastructure ensures future output declines. Russia has revoked operating permits of foreign oil majors on Sakhalin Island. Venezuela has begun to nationalize operations of foreign majors in the Orinoco region, which is likely the world's largest untapped crude oil reserve. This trend will continue.

Alternate energy sources like tar sands and ethanol will fall short of their promise. Studies show that ethanol requires more energy to produce than you get in return. Ethanol is popular politically, but it will not impact

the price of crude oil in 2007. Tar sands production will increase the demand for natural gas in 2007, and it has been suggested that Canada may decrease or even halt natural gas exports to the U.S. as they channel natural gas reserves to refining tar sands. Oil shale is really a stretch. It takes 2,000 tons of shale to make one barrel of synthetic crude. The problem with ethanol, tar sands, and shale as energy solutions is that it takes energy to make energy; and as it has been said, "alternate energy is like using caviar to make fake crab."

World oil supplies will shrink more than demand during 2007, regardless of a recession in the United States. Energy production is severely constrained. Last year, the U.S. graduated 43,000 lawyers and 420 petro engineers. What about drilling offshore and in the ANWR? With what? There are no available rigs, and many in use are decrepit. Relatively few new rigs are being built. Back orders for rigs and the materials they are made out of are years behind. Day rates for rigs are about \$62,000 and up in the Gulf of Mexico and \$140,000 in the Middle East, Far East and North Sea. Domestic rigs are leaving for greener pastures.

While aging giant fields suffer declining production, expertise wanes, and drilling rigs remain scarce and ever more expensive, supply disruptions are more likely with each passing month. I look for new highs in crude and natural gas during 2007. That will put additional downside pressure on the U.S. dollar. As the dollar falls, crude priced in dollars will rise further - encouraging the cycle. This will create a renewed interest in coal as well. Coal demand should grow at about 4% a year (that's a lot) for the next 10 years.

Bottom line, our enemies will discipline their output for higher prices and will shy away from dollar payments. The Middle East will become less friendly in 2007, and supply will lag demand globally, regardless of a possible recession in the U.S.

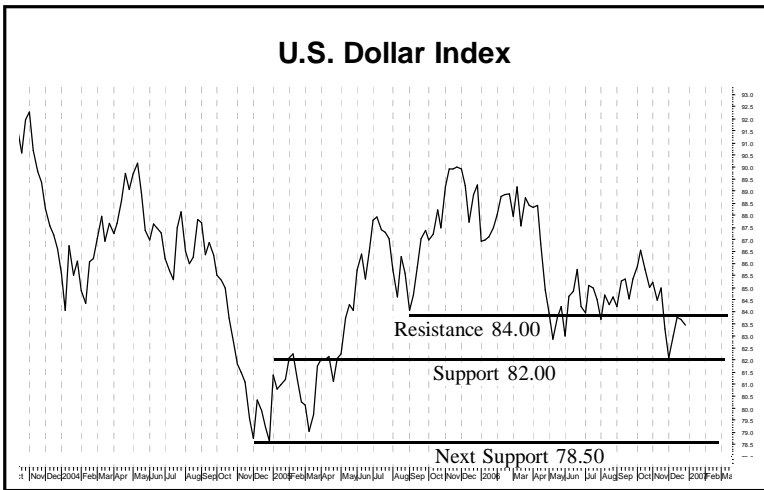
China has been coy about their strategic oil reserve. We know they are accumulating crude in a backup reserve, and we know it is huge. What we don't know is at what rate they are filling it. There are the ship counters who, like the card counters in Vegas, try to keep track of the world's oil tankers. They seem to deduce that China is trying to accumulate crude while the price is "cheap." This may be a bit of hearsay, but China's growing appetite for crude as well as their intention of amassing a large reserve will tend to keep crude prices from falling much under \$60.

What is China going to do with all that oil? Some of it is being stocked away to support their growing military. According to Reuters on December 28, China is going to begin a massive buildup of their navy. It sounds like that will take plenty of steel, copper, and energy. This is, of course, a threat to Taiwan. Geopolitical strife is always bullish for gold - and in these times, energy as well.

The dollar is a key factor in the future of energy and precious metals prices - as it is in commodity prices in general. It is also becoming more evident that the weak U.S. dollar is a growing annoyance to oil producers, and many (Saudi Arabia, Indonesia, Iran, Russia, Venezuela) have begun selling some of their dollar reserves for euros. We will no doubt see increased pressure to require euros for oil payments in 2007.

The U.S. dollar is going lower. The Dollar Index stands at 83.50 currently basis March futures (see chart on Page 3). The decline during October-November was quite sharp, and it resulted in deep, oversold readings at support established by early 2005 highs at 82.00. Looking back, it appears that 82.00 was the line of defense, and the result was a rally back to resistance at 84.00.

The long term trend in the dollar is still down. Now that the November oversold condition has been resolved by the December rally and now that the New Year is upon us, the dollar is ready to challenge its 82.00 support



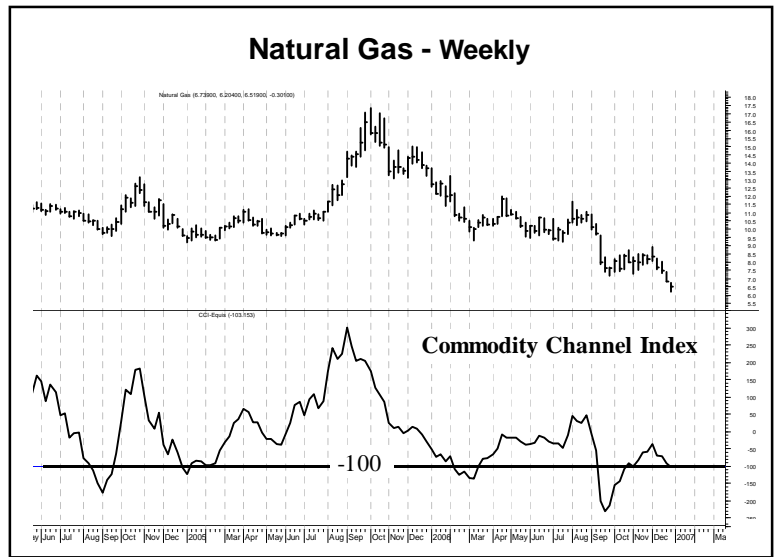
again. Once through 82.00, it should be a quick trip to 78.50 - but the Fed does not like to see the dollar drop too fast. They are in line for a lower dollar, but in an orderly fashion. Nothing is certain in the stock market, but a lower dollar in 2007 comes close. That means that commodities in general should do well, and crude oil, in particular, should do quite well.

Weak natural gas prices still plague us. Right now, it is a weather versus supply issue, and the weather continues to be mild and inventories are adequate. This is short term, of course. Long

term production will peak, and demand for natural gas to produce tar sands, ethanol, cement, etc. will increase.

Technically, there is support on the monthly chart at \$5.50-\$6.00. The signals generated have been pretty decent when the Commodity Channel Index (CCI Index) on the weekly chart (shown below) falls under -100 and then moves back over -100. The problem has been that the rallies have not sustained themselves, and each rally has been followed by a retreat back to support. The CCI is currently at -100, setting up the next buy signal.

Meanwhile, our gas trusts are flopping around. **Paramount** (PMTUN-TSX-C\$12.40) is doing okay, but **Shiningbank** (SHNUN-TSX-C\$12.85) has recently fallen to its lows and to our downside buy price. They did abandon their merger with Rider Resources, stating that even though “guidelines” have been issued from Ottawa, they didn’t want to take the risk that it would be rejected in the future. This weakness appears due to the merger cancellation coupled with low gas prices and year-end tax selling.



Buying Canadian trusts at this point is very much like buying straw hats in the winter ... but you have to be prepared for a long winter. The trusts will get a boost when crude prices launch into their next rally and break to new highs. I fully expect crude and natural gas to reach new, all-time highs in 2007. Canadian trust investors should hold what they have. Don’t add to these positions unless you can buy at the downside buy prices published on the buy-and-hold list on Page 6. If you are adding to your portfolios at our downside buy prices, don’t chase yield in deference to diversification. Keep your overall portfolio balanced.

We now need to see how the trusts fare during the next rally phase in crude and natural gas. That will be the time to look over our holdings and see what we want to keep and what we want to cut loose. We need to see which ones are the weakest and which are the strongest during a period of strength. That will be the acid test.

I recommended **Transocean** (RIG-NYSE-\$80.89) last month, and I am moving our buy price to \$75.00. Regardless of my assessment of the global shortage of drilling rigs on Page 2, I don’t want to buy this one unless we can buy it right. We will maintain a sell/stop on this position at \$64.50 if we get a fill.

Another recommendation presented last month was **Frontline** (FRO-NYSE-\$31.85). The buy price is \$31.00, and it is close. Frontline will also have a sell/stop at \$28.70 if we get a fill.

Some years ago, we recommended **Kinder Morgan Energy Partner** (KMP-NYSE-\$47.90). This is a domestic pipeline master limited partnership that we did well with in the past. The accounting for distributions from a master limited partnership works a little differently than with a stock dividend, and it will complicate your tax return. You are actually a partner in this venture with a limited liability. The distributions you will receive will be part income distributions and part return of capital. You will receive a form K-1 that will detail these amounts for your tax return, but you will have to file additional forms with your tax return. The good side is that part of the income you will receive is not taxable as a return of capital. Based on the past year, the distributions will make you close to 7% if you pay \$46.00 for the stock.

The dollar is important, and you need to design your investments with a lower dollar in mind. Of course, a lower dollar will benefit gold - as will any central bank movement out of dollars. They will buy euros, and they will also buy some gold - probably as discreetly as possible ... but gold will be accumulated nonetheless.

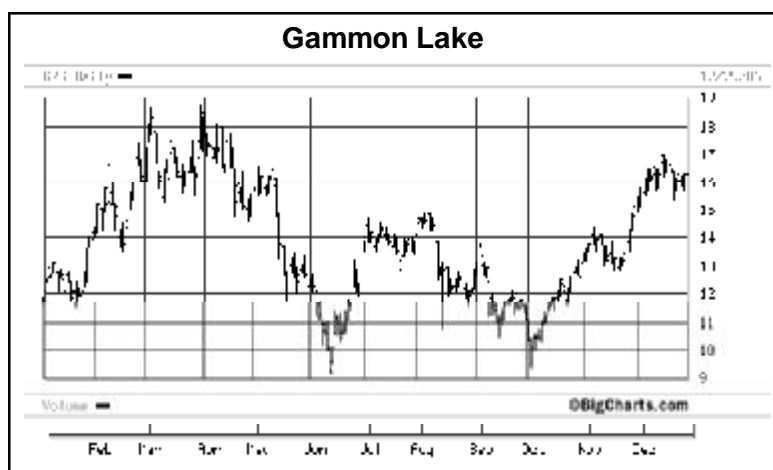
China is opening up the ability, or opportunity, for their citizens to accumulate gold. Asian countries have a tradition of hoarding precious metals, and the new “year of the pig” medallion offered in China will be attractive to the population. I expect that the Chinese may have a longer term plan of letting their population hoard gold until they need it to back their currency.

There are 1.3 billion Chinese. Even if they individually acquired small quantities, 1.3 billion people could end up owning a lot of gold. If I were the Chinese, I would let the population amass the gold and then some years hence, when the time is right, call it in (Roosevelt style) and back the Chinese currency with gold. If this was done when the rest of the world was going through some serious currency crisis - which would be surely based on distrust - wouldn't a gold-backed Renminbi look like it was worth owning? Well, the idea of a long term plan to back the Renminbi with gold is conjecture. The idea of seeing Chinese citizens accumulating gold on an individual basis is not.

In the gold arena, my favorite is **Yamana** (AUY-AMEX-\$13.18). It has not sold off as I have been expecting, and I am going to move the buy price up to \$12.00. Technically, \$11.00 still looks like a possibility, so do hold some money back for that eventuality.

Another gold issue that has hit my radar is **Gammon Lake** (GRS-AMEX-\$16.29). They mine in Mexico, and their principal properties - the Ocampo and El Cubo mines - are producing and have excellent expansion possibilities. They also expect to produce over 7 million ounces of silver in 2007. You know how I hate to chase stocks, but Gammon Lake has come off a bit here. It looks like a decent buy at \$15.00 or better.

I am raising my buy price for **Silver Standard Resources** (SSRI-OTC-\$30.74) to \$30.00. Here is how I suggest you approach this one. Buy a little at \$30.00 (which might be a little early), and then plan to accumulate more if it drops to \$26.00. Silver is looking very good



technically, and I do feel that silver has more potential during 2007 than gold. If you are wondering where the best bets are in today's market, I would say silver, then gold, and then energy.

Silver Wheaton (SLW-NYSE-\$10.48) is as close to an unexpiring silver call as you can get. Stick with the buy recommendation at \$10.00 or less. For your more speculative money, don't overlook **Taseko Mines** (TGB-AMEX-\$2.59), **Everton Resources** (EVR-TSX-C\$1.40), and **Minera Andes** (MAI-TSX-C\$1.52). Buy Taseko at \$2.50 or better. Everton and Minera Andes are Canadian companies, and the prices are in Canadian dollars. However, due to the stupidity from the Canadian Finance Minister's office, the Canadian dollar is depressed, and these are great buys in U.S. dollars. Buy Everton at C\$1.30. I have raised the buy price for Minera Andes to C\$1.40. That is about \$1.12 for Everton and about \$1.21 for Minera Andes, respectively, in U.S. dollars at our buy prices.

Some of you might think I get too fussy about price. The dollar is going lower and gold is going higher, so what is the fuss about a buck in the price? That is a good point. Maybe in the long run, it doesn't make a lot of difference what you pay. However, a little attention to price can increase your long term returns and reduce risk. That is why we have downside buy prices and why I am adamant about following them. If we miss a buy because we are trying to purchase too low and the stock runs away, so be it. There are plenty of opportunities. It is also interesting that when our stocks have fallen to their buy prices, folks have been reluctant to buy. Investors love to buy the highs and sell the lows. Investors need to work on getting over that.

You will notice that some of the buy prices have been changed on the list on Page 6. Some have been raised, but I dropped the buy price for Peyto and some of the other Canadian trusts. Primewest and Shiningbank, for example, are currently selling at or below their prices. Just go easy on the trusts. It will take some time for them to recover, but I am confident that we will see higher oil and gas prices. They will recover in that event.

Interest rates in 2007. My works says they will go higher, but most folks are looking for the Fed to lower rates in 2007. That is based on the assumption that we will find ourselves in a recession and the Fed will step in to help with lower rates. This all remains to be seen, but lower rates will accelerate the decline in the dollar. I think the housing problem is being glossed over. The propaganda is designed to keep order in the housing market by getting the public to look for a bottom. Like the dollar, the powers that be do not want a panic.

Higher rates would seem to support a higher dollar, so how can I reconcile higher interest rates with a lower dollar? The answer is that rates will have to rise substantially - to double digits - in order to make the dollar look attractive to those who are holding too many of them. Those central banks awash in U.S. currency are going to diversify, regardless of whether U.S. interest rates rise a point or two, or not. They simply are holding too much of a bad thing and are going to put some of that money elsewhere - in euros or possibly the yen, but certainly in gold.

The stock market does not look good to me. It looks and feels like early 1973 all over again - a nice recovery at year end, a break in prices to new highs in the Dow, and the bottom falling out suddenly. History will not repeat itself - not exactly. However, it will rhyme.

Negative divergences persist, and true valuations are high (see last letter). There has not been a correction of any amount since the rally started last June-July. This has been an unusually long stretch without a 10% correction in the S&P 500. Under the best of circumstances, we should at least see a drop to 1,320. We are not in a new paradigm, any more than we were in January 2000 before all hell broke loose.

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. Thus, 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.

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 12/29/06	Downside Buy Price	Div 12/29/06	Target-T Stop-S	Web Site
U.S. \$								
Agnico-Eagle	AEM	NYSE	Buy at 36.00	41.24	36.00	0.29%		agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004 27.98	34.52	34.00	5.79%		arlp.com
ASA	ASA	NYSE	11/19/2002 31.00	64.56	60.00	2.17%		asaltd.com
Barrick Gold	ABX	NYSE	1/5/2003 22.85	30.70	29.00	0.72%		barrick.com
Baytex Energy	BTE	NYSE	5/18/2004 9.00	18.96	17.00	9.84%		www.baytex.ab.ca
Black Rock	BGR	NYSE	8/3/2005 25.99	27.55	26.00	4.88%		blackrock.com
Canetic Energy	CNE	NYSE	4/19/2006 22.25	13.89	11.50	17.19%		canetictrust.com
Enerplus	ERF	NYSE	4/20/2001 18.00	43.61	40.00	9.99%		enerplus.com
Fording Coal	FDG	NYSE	11/16/2004 22.74	20.75	17.00	8.00%**		fording.ca
Frontline Ltd.##	FRO	NYSE	Buy at 31.00	31.85	31.00	18.83	S = 28.70	frontline.bm
Frontier Oil	FTO	NYSE	8/3/2005 14.38	28.74	28.00	0.42%		frontieroil.com
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005 22.10	24.60	22.50	6.83%		gabelli.com
Gammon Lake	GRS	AMEX	Buy at 15.00	16.29	15.00	n/a		gammonlake.com
Headwaters	HW	NYSE	3/10/2006 36.30	23.96	18.00	n/a		headwaters.com
Kinder Mor. MLP	KMP	NYSE	Buy at 46.00	47.90	46.00	6.76%		kindermorgan.com
Mkt. Vectors, ETF	GDX	NYSE	9/11/2006 37.00	39.91	34.00	n/a		n/a
Pimco Comod Fund	PCRAX		3/2/2005 13.97	13.85	HOLD	1.20%		pimcofunds.com
Primewest	PWI	NYSE	2/7/2003 17.00	18.47	18.65	14.11%		primewestenergy.com
Provident Energy	PVX	AMEX	6/16/2003 7.50	10.91	10.00	11.46%		providentenergy.com
Silver Standard	SSRI	OTC	Buy at 24.00	30.74	30.00	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006 8.40	10.48	10.00	n/a		silverwheaton.com
St. Trs. Gold, ETF	GLD	NYSE	9/11/2006 58.85	63.21	61.00	n/a		n/a
Transocean Inc.	RIG	NYSE	Buy at 75.00	80.89	75.00	n/a	S = 64.50	deepwater.com
Yamana	AUY	AMEX	4/14/2005 2.90	13.18	12.00	n/a		yamana.com
Valero	VLO	NYSE	4/26/2005 36.63	51.16	50.00	0.63%		valero.com
Canadian Dollars								
Energy Split II	CA:EN	TSX	9/11/2006 17.00	12.50	10.00	18.24%		scotiamanagedcompanies.com
Paramount En. Tr	CA:PMT.UN	TSX	12/20/2004 16.44	12.40	10.50	19.35%		paramountenergy.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003 8.75	17.70	14.00	9.49%		peyto.com
Shiningbank	CA:SHN.UN	TSX	1/2/2003 15.15	12.85	12.90	21.48%		shiningbank.com

**The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. I have Forging 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 12/29/06	Downside Buy Price	Div 12/29/06	Target-T/ Stop-S	Web Site
U.S. \$								
Bema Gold	BGO	AMEX	6/6/2002 1.06	5.25	HOLD	n/a		bema.com
Coeur d'Alene	CDE	NYSE	9/2/2003 3.19	4.95	4.50	n/a		coeur.com
Kinross Gold	KGC	NYSE	Buy at 11.00	11.88	11.00	n/a		kinross.com
Mines Mgmt	MGN	AMEX	5/13/2005 4.50	4.99	5.00	n/a		minesmanagement.com
Taseko Mines	TGB	AMEX	7/24/2006 2.40	2.59	2.50	n/a		tasekomines.com
US Gold Corp	UXG	AMEX	9/9/2005 1.70	5.05	5.00	n/a		usgold.com
Canadian Dollars								
Everton Res.	CA:EVR	TSX	Buy at 1.30	1.40	1.30	n/a		evertonresources.com
Laramide Res.	CA:LAM	TSX	3/16/2006 5.20	8.40	7.00	n/a		laramide.com
UTS Energy	CA:UTS	TSX	5/15/2006 6.50	4.51	Hold	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006 1.20	1.52	1.40	n/a		minandes.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.
Shiningbank-SBKEF Peyto Energy-PEYUF Paramount Energy-PMGYF Minera Andes-MNEAF Laramide-LMRXF UTS Energy-UEYCF
Minera Andes MNEAF

Target-T A price in this column preceded by "T" represents the price at which you should liquidate the position and take profits. **Stop-S** A price in this column preceded by "S" represents the price at which you should place a sell/stop. Do not short on the target price or the stop price. There will not always be a target or stop price listed. For a further definition of a sell/stop, see the Welcome Letter.