



The next issue will be published January 21.

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## SLIMMING DOWN

Slimming down should be our mantra for the next couple of years in the stock market and the economy. We are at an important transition, and things are simply not going to be the same as they were ... not ever again.

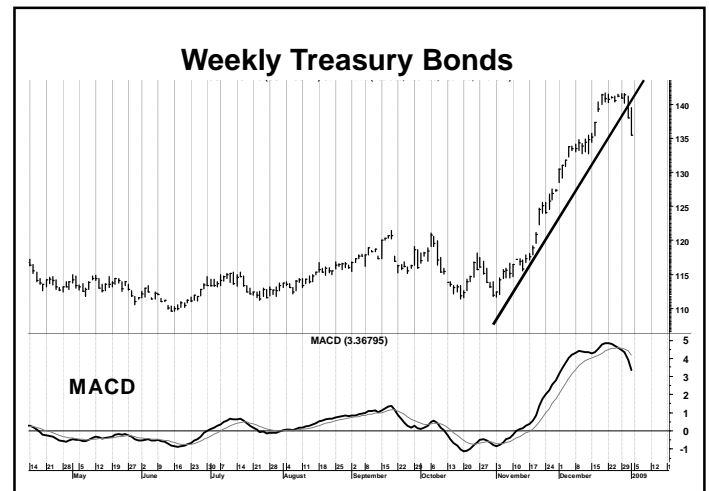
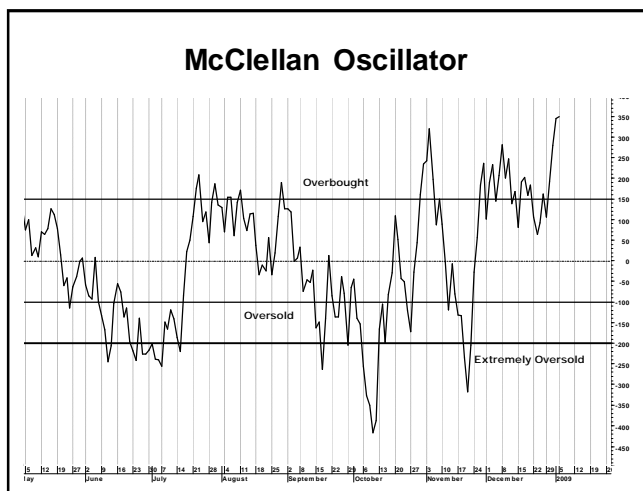
Count on a new paradigm on the part of the public. There will be caustic erosion in trust, especially trust in the government's ability to solve problems and in the financial institutions' ability to serve the public. There will be more ponzi schemes exposed, and more corrupt actions on the part of officials will be uncovered. Investigating Henry Paulson/Goldman Sachs' shorting its own mortgage-backed securities when he was CEO would be a good start in cleaning up the mess and restoring confidence. Prosecuting J.P. Morgan Chase's involvement in sucker punching gold prices last August would be another step toward restoring confidence ( <http://www.resourceinvestor.com/pebble.asp?reid=45789>).

The corruption, manipulation, and insider trading is bad enough, but the long term effects of past excesses on the behavior of the public are yet to be fully felt. The public is going to be forced to be more conservative going forward. Consumer loans will be all but impossible to attain, and this includes credit card debt, auto loans, etc. Economic activity is going to slim down to a "pay as you go" pace. The separation between the "haves" and "have nots" will widen. Corporate profits will decline, and the stock market will struggle while the public finds it increasingly difficult to believe the pap they will be fed by the media. Distrust will grow, but the long term reliable market motivators will not change. Fear and greed will continue to run the markets. The "have nots" will struggle, but the "haves" must be careful. Bear market rallies are not bull markets.

We are currently engaged in a bear market rally. The averages are coming off the bottom of trading ranges that will persist for another five to seven years. The long term range is bonded by 800 on the down side and 1,500 on the up side for the S&P 500. The Dow Industrials will be confined between 8,000 and 14,000. At first glance, a 75% to 85% move from bottom to top is not a bad profit.

The rub is that the moves from the bottom to top of the trading ranges will not be linear or pleasant. Currently, the Dow faces stiff overhead resistance at 9,000 and the S&P 500 is facing strong winds at 1,000. Journeys in the trading range will be choppy and volatile. The outside trading limits are not solid, but general. We will see dips below the lower limits and failures to meet upside expectations; but most of the *time*, trading will be within these confines. The overall theme is contraction – slimming down - and that is not bullish. Declines will be quicker

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 @ 2009 by Professional Timing



and steeper than the rallies will be strong. Fear and greed will put folks out at the lows and in at the highs ... as always. The popular averages are going to be fertile farming for those with a trading strategy, but they will not provide much for the typical long term investor looking for growth.

**So, how far will the current rally go?** Distance is more difficult to call than time. I don't expect any problems until February, but I must defer to my trading models. The Nasdaq Slow Tracker is stubbornly on the sell side where it has been since last September. However, our shorter term Palio model is currently positive for the near term. Perhaps we will see the Slow Tracker join the party with a buy, but I am more interested in Palio here. Regardless of what the Slow Tracker does, Palio's next sell will be very important - see Page 2 of the Tuesday and Thursday updates

The reason for the bearish caution is that we have seen this "rally" produce excessively overbought readings in the McClellan Oscillator. This is a good news/bad news reading. The fact that the market has been able to muster enough oomph to push the oscillator to that extreme is remarkable. However, the oscillator is based on advance-decline data rather than price. In this case, price has not been at all impressive in that the averages, which although off their 2008 lows, are certainly not screaming to the up side. The averages have been consolidating rather than rising. Performance has been sketchy on an individual stock basis also, and we are now sitting on very high, overbought readings. The best bet in calling the next decline is to key off Palio for indications that this rally phase is over.

**How about those bonds?** Treasuries have been on a tear, but the recent bond bubble - which the Fed has inspired with their open market policy - is not sustainable, and it, indeed, may be coming to an abrupt end right now. Consider that if you purchase a long bond today, you will get a whopping 2.6% yield. That may be a guaranteed loss net of inflation unless you believe in the deflation argument. I don't believe the deflation case for the reasons you can review in past letters. Perhaps one of the better indicators is gold. If deflation were truly a prospect, gold would be selling much lower - likely below \$500.

Those in power seem to be using the same tactics that caused the real estate and credit bubbles as their official remedy for these troubles. The Fed's move to drop short rates to near 0% while flooding the banks with liquidity has produced yet another carry trade. The banks can borrow short at 0% and buy long Treasuries, thus making a riskless 2% plus for the effort - all on someone else's money. Is the bailout only financing the bailout?

Our Rydex bond program is currently long, but I look for a sell rather soon. It may require total ruin before the big kids wise up; but in the meantime, we "little kids" are still in the wake of their inappropriate actions. The economy will suffer, as will production and commerce, which is where financing needs to be directed. The foreign bond holders have to have mixed emotions over the current situation at the Treasury. They are sitting on profits on their long bonds, but they

must have little incentive to buy more at current rates. Will they see the recent run as a perfect time to get out, to sell some of their Treasuries, and then sell the dollars and invest in something more durable?

Bonds were doing quite well up until the end of December when they took a serious hit (see chart on Page 2). It could be the beginning of the end of the bond bubble. Our Rydex bond model is still long, but it should soon be raising its sell point. Bond prices may now begin to dictate the value of the dollar. If the dollar holds in its current range of 84.00 to 87.00, bonds will likely accelerate on the down side. Bottom line, interest rates must rise in order for the dollar to hold its ground. With the Fed intent on keeping rates low, I see trouble for the dollar soon.

**What do I want to own in January 2010?** Not dollars, not bonds, and not stocks unless they are advantaged by higher commodity prices. Gold and crude oil will remain at the heart of my investment philosophy, along with other tangibles.

I look for the commodity market and the stock market to decouple in 2009. However, that may not appear to be the case over the next few weeks. Near term, gold needs to correct for its own technical reasons. The point to be watching is \$743.40 basis the April futures. That is the next CPP (Critical Price Point) for gold; and if prices break that level, it would be a negative. Frankly, I don't expect that to happen. More likely, we will see a period of profit-taking push prices back to about \$800.00 or so. A selloff here would be an excellent opportunity to add to positions.

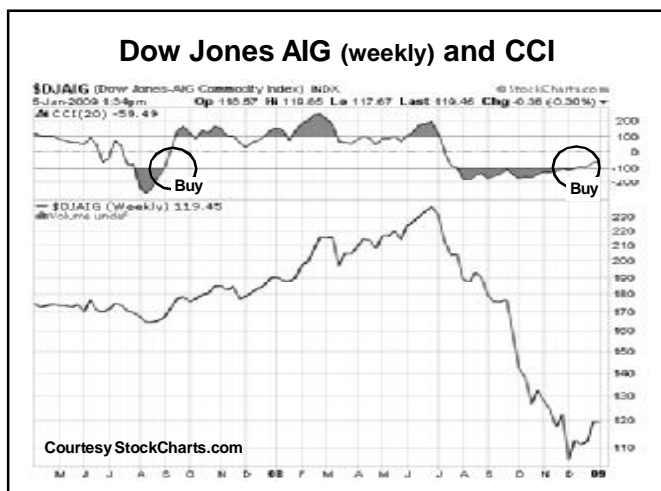
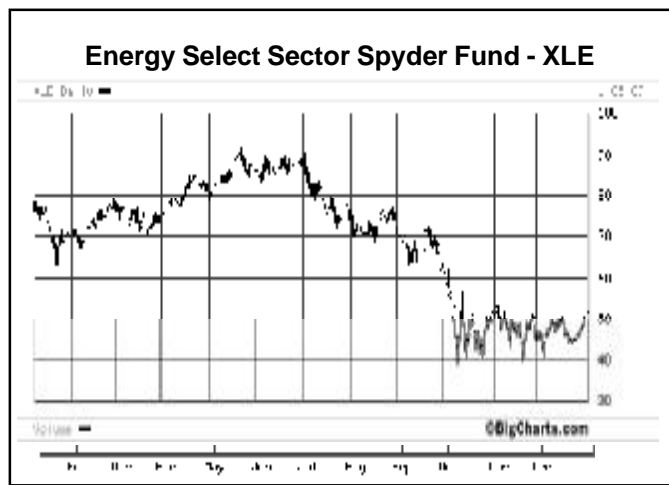
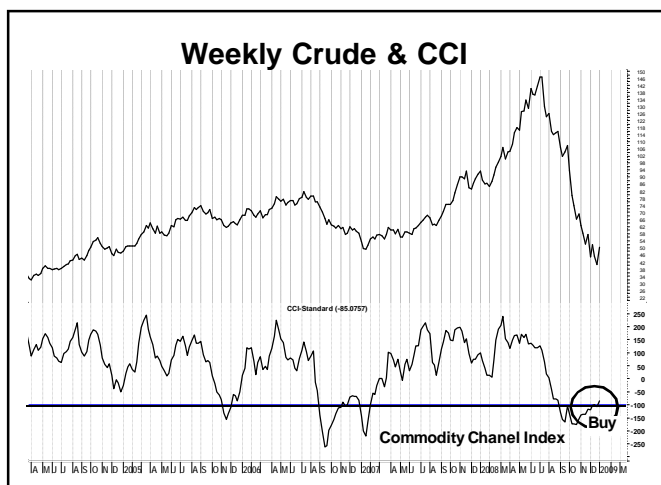
The dollar topped at 89.74 March basis in November; and although it may take a shot here at the 85.00-86.00 level, it will resume its long term down trend soon. I have held to a downside target for the Dollar Index of 60.00 since early in the decade; but with all the government is doing on the financial front, that target should be re-evaluated. I think the index can easily reach 48.00 to 50.00, and this decline could end up being amazingly fast. You might take a look at buying some **Euro ETF's** (FXE-NYSE-\$135.76) if you have an opportunity to snag some at 132.50 or better.

A brief attempt on the up side in the dollar fits with some profit-taking in gold over the next few weeks. I continue to recommend that you put new money in the major producers. The juniors have been looking better, but the best risk to return will be found in the majors like **Goldcorp** (GG-NYSE-\$29.23), **Yamana** (AUY-NYSE-\$7.26), and **Kinross** (KGC-NYSE-\$17.73). The downside buy price for Yamana is now \$5.50, and I am raising Kinross to \$12.50. I am raising Goldcorp to \$22.50. These are my favorite majors, but **Agnico-Eagle** (AEM-NYSE-\$49.65) is also attractive for further accumulation if it falls back to \$39.50 or lower.

I think all gold portfolios should hold some of the **Spyder Gold Trust** (GLD-NYSE-84.48), but pay attention to diversification and balance. I am raising the downside buy price to \$75.00.

I have put a stop on the **Silver ETF** (SLV-NYSE-\$11.11) at \$9.99. Silver might be the best place to go during the coming selloff in the metals, especially if you don't have any exposure to silver. If you want a great position in silver, consider **Silver Wheaton** (SLW-NYSE-\$6.25). Silver Wheaton actually is not a mining company. They have contracted to buy silver from other mines that produce silver as a consequence to producing metals like copper, etc. They have essentially contracted for 613 million ounces of silver at about \$3.90 per ounce. Each share is equivalent to about 2.44 ounces of silver in the ground. They expect to acquire and sell 16 million ounces of silver in 2009. A little silver in your portfolio would not be a bad thing if you can snag some SLW at \$4.00 or less. Silver is very volatile - more so than gold - and this price is well within reason if we get a decent selloff.

Crude is setting up to be a big winner in 2009. As you can see on the chart on Page 4, we finally have that Commodity Channel Index (CCI) signal I have been writing about for crude. Although these signals are on weekly data and tend to be early, this is a strong technical plus for energy.



Our Critical Price Point (CCP) for crude is still in the stratosphere at 73.60 basis the March contract. Keep in tune with the Tuesday and Thursday updates as I expect to see this adjusted downward soon. I expect to see the energy stocks begin to rally ahead of crude, though, and we may be seeing this to some extent already. The energy ETF (XLE) has been consolidating since October, and it has just tripped its Critical Price Point at \$50.80. This is a bullish signal for energy stocks at large.

We have been able to buy some of the newer recommendations like Enerplus and Great Lakes Hydro at our prices. I like some exposure to the Canadian energy trusts here if for no other reason than I see higher crude prices ahead and a weaker U.S. dollar. They are advantaged by both, plus they offer generous dividends. Check Page 6 for changes in respective downside buy prices.

The commodity sector overall - especially raw materials led by precious metals and energy - is going to have a great year in 2009. My work with the DJ AIG Commodity Index has produced a positive signal on the weekly CCI, and although not on the chart above, the weekly MACD has turned positive on the index as well.

If this is hard to square with the idea of a weak economy in the U.S., consider that the credit crash of 2008 has virtually dried up exploration and development work in all raw materials, including crude oil and precious metals. Production at many large, older mines is peaking, and this is particularly evident in the older oil fields such as Mexico's Cantrell Field. The drop in commodity prices has also worked to put projects on the back burner; and in some cases, it is making energy supplies like tar sands uneconomical.

Incidentally, Mexico's Cantrell Field is the second largest oil field ever found. Saudi Arabia's Ghawar Field is the largest. The Mexican oil company Pemex announced at this time last year that they were expecting a 15% depletion rate for 2008, but it looks like the actual depletion rate will be twice that - 33%. Cantrell accounts for 60% of Mexico's total production, and they are our third largest supplier after the Saudi's and Canada. Depletion is not something that heals up and gets better. It accelerates, even with added investment and expensive augmentation methods. The U.S. is going to get another oil shock, and it will go beyond high prices. We should be bracing for shortages and making plans for more expensive and scarcer resources. As for Mexico, the impact will cause increasing political and social unrest which, with our growing Hispanic population, cannot help but spill over the border.

Some numbers have come to light recently concerning the domestic drop in gasoline consumption. Jim Hansen's Master Resource Report (<http://masterresourcereport.spaces.live.com>) says that gasoline consumption dropped from 9.29 million barrels a day in 2007 to 8.99 million barrels a day for 2008. That is but a 3.2% decline. He aptly describes \$145 crude as causing "demand destruction" and that \$30 crude will cause "supply destruction." Meanwhile, cheap gasoline and deep dealer discounts are moving some new cars – most of which are SUV's and larger pickup trucks. I, for one, feel less reluctant to driving more with gasoline at \$1.43/gallon.

Crude has overshot on the low end, as have many other commodities that are now selling for less than the cost of production. Production will not continue at a loss, and you can rarely go wrong investing at prices below production costs.

Take a look at the **ING Risk Managed Natural Resource Fund** (IRR-NYSE-\$13.81). It is moving to the up side very well in this rally, but it should meet some overhead resistance soon. If it pulls back to \$12.20, it looks like a good buy with a stop at \$11.33. The indicated yield at that price should be just shy of 14%.



A difficult problem for retirees in this environment is how to generate income without assuming undue risk. The answer involves individual circumstances. There is no general answer, and I don't provide individual portfolio advice. One has to consider individual issues such as age, health, and expected future income requirements, etc. Overall wealth and standard of living are also factors.

I would advocate a conservative approach within these confines. Personally, I prefer plenty of liquidity, which is a challenge. T-bills, which are my favored liquidity investment, are not appropriate currently because 0% yield is not acceptable. You can defer to bank CD's if you keep two

things in mind. First, be informed about the bank you are investing with. I would be cautious with some of the obvious suspects. Citi, Merrill Lynch, Morgan Stanley, Suntrust, Legg Mason, Capital One, AIG, and MetLife are examples.

I have to be honest in that I have some CD's with some of these firms. I recognize the risk and can personally assume the risk involved. You may not feel that you can. Regardless, always keep your exposure within the limits of the FDIC and SIPC insurance levels involved. I recognize that if something goes awry, I may have to wait to get the problem settled, but I have to trust that I will get my money back albeit with some delay. Obviously, diversification is important. I also keep my CD's very short term - no longer than a year and normally less than six months. That way, I can adjust to changing market conditions, either by changing borrowers or moving money back to T-bills eventually.

I like the Canadian trusts for the reasons previously presented. Again, the amount you might devote to them is an individual consideration. I do like to ferret out income situations and present them in the letters. Currently, the ING Natural Resource Fund, Great Lakes Hydro, and others on our recommended list are appropriate. Obviously, they are not immune to downside liquidation panics, but the resource-advantaged issues should do well for you in the longer run. I also feel very strongly that regardless of income, you should hold some gold in your portfolios.

My friend, Chris Manning, who develops high-end specialized measuring and sensing equipment described the coming year succinctly when he said we are facing "peak debt, peak oil, aging populations, looming shortages of critical skills, and an overvalued currency." It is time to think about the effects of slimming down.

## Recommended Stocks For Buy And Hold

**Note: You can get quotes on Canadian stocks in Canadian dollars by using the symbols we have listed at [www.bigcharts.com](http://www.bigcharts.com). Thus, if you want a quote for Peyto Energy, go to [www.bigcharts.com](http://www.bigcharts.com) and type in CA:PEYUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .84. 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	Price 1/05/09	Downside Buy Price	Div 1/05/09	Target-T Stop-S	Web Site
<b>U.S. \$</b>									
<b>Agnico-Eagle</b>	<b>AEM</b>	<b>NYSE</b>	1/10/2007	36.00	49.65	<b>39.50</b>	0.47%		<a href="http://agnico-eagle.com">agnico-eagle.com</a>
Alliance Res	ARLP	OTC	9/29/2004	27.98	29.48	25.00	9.81%		<a href="http://arlp.com">arlp.com</a>
Apache Corp	APA	NYSE	3/5/2007	68.00	83.05	80.00	0.76%		<a href="http://apachecorp.com">apachecorp.com</a>
Baker Hughes	BHI	NYSE	2/5/2008	64.63	35.77	35.00	1.75%		<a href="http://bakerhughes.com">bakerhughes.com</a>
Baytex Energy	BTE	NYSE	5/18/2004	9.00	13.39	14.00	13.96%		<a href="http://www.baytex.ab.ca">www.baytex.ab.ca</a>
<b>Blackrock</b>	<b>BGR</b>	<b>NYSE</b>	8/3/2005	25.99	17.10	<b>15.00</b>	9.78%		<a href="http://blackrock.com">blackrock.com</a>
Central Fund Can.	CEF	NYSE	12/1/2008	9.50	10.51	9.50	0.09%	<b>S=\$7.99</b>	<a href="http://centralfund.com">centralfund.com</a>
CurrShrs. Eruo ETF	FXE	NYSE	8/22/2008	148.57	135.76	132.50	1.86%		<a href="http://currencyshares.com">currencyshares.com</a>
Enerplus Res.	ERF	NYSE	11/20/2009	19.00	21.64	19.00	11.89%		<a href="http://enerplus.com">enerplus.com</a>
Gabelli Glb. Gld.	GGN	NYSE-Alt	1/3/2006	22.10	13.64	13.10	11.63%		<a href="http://gabelli.com">gabelli.com</a>
<b>Goldcorp</b>	<b>GG</b>	<b>NYSE</b>	7/24/2008	40.00	29.23	<b>22.50</b>	0.58%		<a href="http://goldcorp.com">goldcorp.com</a>
<b>ING Mgn N Res Fnd</b>	<b>IRR</b>	<b>NYSE</b>	<b>Buy at</b>	<b>12.20</b>	13.81	<b>12.20</b>	0.78%	<b>S=\$11.33</b>	<a href="http://ingfunds.com">ingfunds.com</a>
iShares Silver ETF	SLV	NYSE	12/15/2008	10.56	11.11	10.56	n/a	<b>S=\$9.99</b>	<a href="http://ishares.com">ishares.com</a>
<b>Kinross Gold (1)</b>	<b>KGC</b>	<b>NYSE</b>	6/6/2002	2.39	17.73	<b>12.50</b>	0.43%		<a href="http://kinross.com">kinross.com</a>
<b>Kinross Gold</b>	<b>KGC</b>	<b>NYSE</b>	1/4/2007	11.00	17.73	<b>12.50</b>	0.43%		<a href="http://kinross.com">kinross.com</a>
Mkt. Vectors, ETF	GDX	NYSE-Alt	9/11/2006	37.00	31.74	22.15	2.61%		<a href="http://n/a">n/a</a>
<b>Pimco Com. Fund (2)</b>	<b>PCRAX</b>		3/2/2005	11.89	6.44	<b>8.10</b>	12.38%		<a href="http://pimcofunds.com">pimcofunds.com</a>
<b>Schlumberger</b>	<b>SLB</b>	<b>NYSE</b>	1/18/2008	75.00	46.82	<b>50.00</b>	1.84%		<a href="http://nat.bm">nat.bm</a>
Ship Finance (3)	SFL	NYSE	3/6/2007	0.00##	12.49	HOLD	18.86%		<a href="http://www.shipfinance.org">www.shipfinance.org</a>
<b>Silver Standard</b>	<b>SSRI</b>	<b>OTC</b>	1/4/2007	30.00	16.15	<b>10.05</b>	n/a		<a href="http://silverstandard.com">silverstandard.com</a>
Silver Wheaton	SLW	NYSE	3/10/2006	8.40	6.25	4.00	n/a		<a href="http://silverwheaton.com">silverwheaton.com</a>
<b>Spdr Gold Trust</b>	<b>GLD</b>	<b>NYSE</b>	9/11/2006	58.85	84.48	<b>75.00</b>	n/a		<a href="http://n/a">n/a</a>
<b>Transocean (4)</b>	<b>RIG</b>	<b>NYSE</b>	1/4/2007	75.00	54.32	<b>49.20</b>	n/a		<a href="http://deepwater.com">deepwater.com</a>
<b>Yamana</b>	<b>AUY</b>	<b>NYSE</b>	4/14/2005	2.90	7.26	<b>5.50</b>	1.58%		<a href="http://yamana.com">yamana.com</a>
Valero	VLO	NYSE	4/26/2005	36.63	24.60	HOLD	2.58%		<a href="http://valero.com">valero.com</a>
<b>Canadian Dollars</b>									
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	5.51	HOLD	n/a		<a href="http://altiusminerals.com">altiusminerals.com</a>
ARC Energy	CA:AET.UN	TSX	9/8/2008	25.85	20.77	18.00	8.61%		<a href="http://arcresources.com">arcresources.com</a>
<b>Crescent Point En.</b>	<b>CA:CPG.UN</b>	<b>TSX</b>	9/16/2008	30.20	26.12	<b>24.00</b>	10.97%		<a href="http://crescentpointenergy.com">crescentpointenergy.com</a>
Great Lakes Hydro	CA:GLH.UN	TSX	12/17/08	15.99	15.63	15.99	7.84%		<a href="http://greatlakeshydro.com">greatlakeshydro.com</a>
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	10.58	HOLD	17.05%		<a href="http://peyto.com">peyto.com</a>
Silvercorp Metals	CA:SVM	TSX	1/21/2008	8.00	2.42	HOLD	3.08%		<a href="http://silvercorp.ca">silvercorp.ca</a>

(1) On 2/27/07, Kinross acquired by exchange for Bema, originally purchased at \$1.06 on 6/6/02.

(2) Pimco Commodity Real Return Strategy Fund paid a distribution of \$2.08931 Dec 08, reducing our purchase price by this amount.

(3) Ship Finance Intl. was acquired as a spinoff from Frontline on 3/6/07.

(4) Transocean merged with Global Santa Fe on 11/27/07, receiving .6996 shares in the new Transocean plus \$33.03 in cash.

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

Company	Symbol	Exchange	Initial Recom. Date and	Price Price	Price 1/05/09	Downside Buy Price	Div 1/05/09	Target-T/ Stop-S	Web Site
<b>U.S. \$</b>									
Coeur d'Alene	CDE	NYSE	9/2/2003	3.19	0.94	HOLD	n/a		<a href="http://coeur.com">coeur.com</a>
Endeavor Silver	EXK	NYSE-Alt	7/26/2007	4.60	1.05	HOLD	n/a		<a href="http://edrsilver.com">edrsilver.com</a>
Great Basin Gold	GBG	NYSE-Alt	12/21/2007	2.45	1.15	HOLD	n/a		<a href="http://greatbasingold.com">greatbasingold.com</a>
Nova Gold	NG	NYSE-Alt	2/29/2008	11.50	1.80	HOLD	n/a		<a href="http://novagold.com">novagold.com</a>
Taseko Mines	TGB	NYSE-Alt	7/24/2006	2.40	0.76	HOLD	n/a		<a href="http://tasekomines.com">tasekomines.com</a>
US Gold Corp	UXG	NYSE-Alt	9/9/2005	1.70	0.92	HOLD	n/a		<a href="http://usgold.com">usgold.com</a>
<b>Canadian Dollars</b>									
Everton Res.	CA:EVR	TSX	1/4/2007	1.30	0.08	HOLD	n/a		<a href="http://evertonresources.com">evertonresources.com</a>
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.08	HOLD	n/a		<a href="http://goldenvalleymines.com">goldenvalleymines.com</a>
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	2.10	HOLD	n/a		<a href="http://laramide.com">laramide.com</a>
Mega Uranium	CA:MGA	TSX	5/1/2007	6.75	1.29	HOLD	n/a		<a href="http://megauranium.com">megauranium.com</a>
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	0.94	HOLD	n/a		<a href="http://uts.ca">uts.ca</a>
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	0.42	HOLD	n/a		<a href="http://minandes.com">minandes.com</a>

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 .84 to see if the OTC quote looks correct. You can access these OTCBB quotes by using [www.barchart.com](http://www.barchart.com).

Peyto Energy-PEYUF 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.