

Since 1978

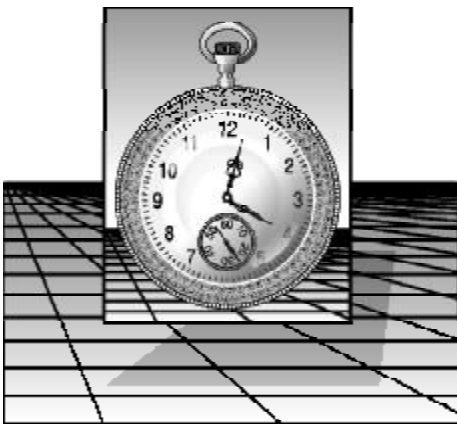
PROFESSIONAL TIMING SERVICE

Chris Hester

\$195 A YEAR • MARKET REPORT TUESDAY & THURSDAY • P.O. BOX 7483, MISSOULA, MT 59807 • (406) 543-4131

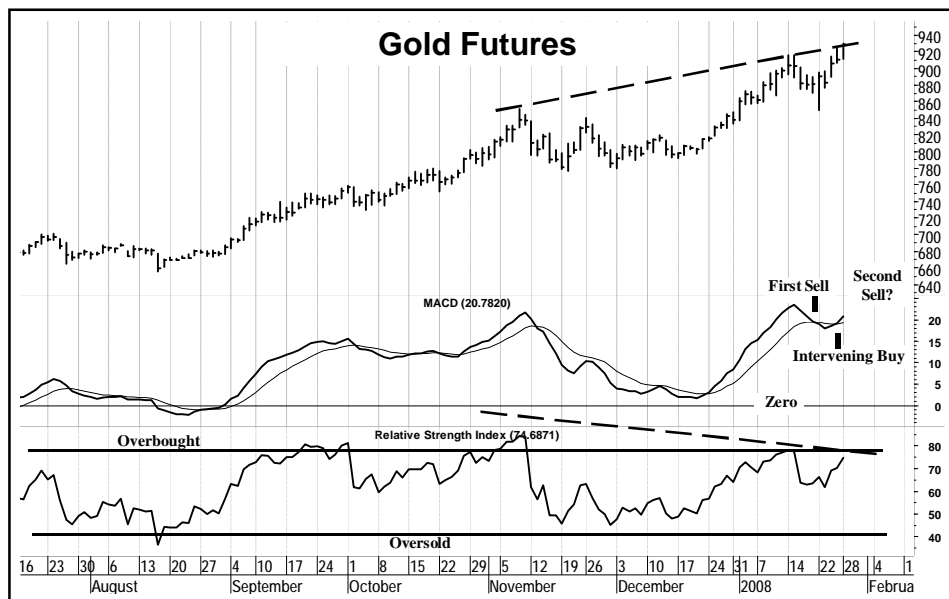
The next issue will be published February 14.

- **Once the coming correction is over, gold is going much higher.** Page 2
- **What to buy.** Page 3
- **Schlumberger and Baker Hughes, Inc.** Page 4



www.protiming.com
 e-mail: info@protiming.com

Gold Market - Mixed Signals



Let's start with a purely technical look at gold futures. The first ominous thing I see is a potential double top. The problem with double tops - and double bottoms, for that matter - is that they aren't identifiable until after the fact. Prices may well just keep cruising higher, but one should always be wary when prices reach old highs. The budding double top is not, in itself, a red flag at this point, but a caution.

The recent move off that panic low on January 22 has set up the conditions for a second MACD sell signal. What is necessary first is for the MACD pattern to be well over the zero line. The next step is for the solid line to drop below the lighter dashed line. This is a technical sell signal, but the better sells often come later. Once this "first" sell is in place, there will be a rally within a short period of time that produces what I call an "intervening buy." This occurs when the solid line recovers back over the dashed line again - as we see on the chart above.

The final element is the "second" sell, which is possible now that the intervening buy is in place. MACD does not always produce a second sell; but when it does, the "second" sells are more than casually important. MACD stands for moving average convergence divergence, and it is a model originated by Gerald Appel from *Systems and Forecasts*. If you would like more details on its construction, you can Google MACD. Most charting sites like bigcharts.com and futuresource.com will allow you to construct MACD charts.

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 © 2008 by Professional Timing Service.

I have included the Relative Strength Indicator (RSI) at the bottom of the chart on Page 1 as well. This is an overbought/oversold oscillator that you can construct at most charting sites. What is important with gold is that there has been a negative divergence in RSI since November; i.e., gold has recovered to new highs since November, but RSI has not confirmed those highs. This negative divergence should be recognized as an additional warning that gold is likely to correct some time soon. Furthermore, since the divergence has developed over several months, the correction it is forecasting may last for several months as well.

The big kids are usually right. The commitment of traders (COT) report shows that the “commercials,” who are typically on the right side of the market, are heavily short right now. The non-commercial speculators are sitting on the other side and are heavily long. It is never wise to bet against the commercials.



The chart at the left shows the seasonal pattern for gold. Interesting? I want you to feast your eyes on that high in January. Don't lend any importance to the relative levels of the highs and lows as I don't think they are important. Direction and major turning points are significant. The next important seasonal high in October will likely be much higher than the seasonal high that is due here. My interpretation is that we will see gold roll over and then stay soft until summer.

The steep drop to lows in August on the seasonal chart should not imply that gold will necessarily fall drastically in price, just as the drop from the October high last year to the November low was not a deep decline. It was more of a consolidation. The magnitude of the trend on the seasonal chart, however, should be seen as an indication of the strength or reliability of the tendency.

An important aspect is that the seasonal chart portrays a tendency rather than a specific date in time. The chart represents the average of past years. Seasonal highs and lows may come in on time, or be late, or be early. The January high may happen in February. The trick is to look at the big picture. Late, early, or on time, we are due for a seasonal correction soon, and MACD, RSI, and other technical tools agree. This could all imply a rally in the dollar as well, but I will get to that later. I know, maybe it's different this time, but going against seasonal patterns is tempting fate, at the very least.

I don't mean to get too technically involved here, but you need to see that gold is closing in on what could be an important correction, at least in terms of duration. Why? What will cause it? No one knows why at this point, but the U.S. dollar looks like it may rally soon. Once a correction in gold begins, there will be all sorts of reasons, and the bears will suddenly appear from every quarter. Resolve to not listen to the bears. Once the coming correction is over, gold is going much higher. Gold will eventually exceed \$1,600, and I expect it to break well over \$1,000 on its way to the October 2008 high.

I want to give you a glimpse of the longer term future for gold. John Hussman once conducted a study that found if four things were in place, the XAU would appreciate an average of 123.6%. The first element was that the rate of inflation had to be higher than it was six months ago. The CPI is currently higher than it was six months prior. The second element was that Treasury bond yields had to be lower than they were six months back; and again, this is the case presently. Third, the NAPM Purchasing Manager's Index had to be below 50. The reading for November was 50.8; and for December (the latest reading), it was 47.5.



Hussman's final element was that the gold/XAU ratio had to be over 4.00. Bingo! You know this ratio as Simplicity. Currently, the ratio has been pushing 5.00. However, 5.00 theoretically creates an official buy signal from Simplicity. What should we make of these mixed signals? The technical picture on gold is calling for a correction that may last several months, but Simplicity's and Hussman's rules are calling for higher prices.

The answer is in the short and long of it - between the short term and long term. Near term, gold bullion is not a bargain. It is overbought, and it's nearing a weak seasonal period. While bullion is hitting new highs, Simplicity at 5.00 is telling us that the mining stocks have not kept up with the price of bullion. Intuitively, that is not a good sign. Typically, we have seen Simplicity hit 5.00 after gold has declined. The ratio in that case has moved to 5.00 because the stocks have been weaker than bullion, and it has represented a buying opportunity.

My take on Simplicity is that since the stocks are lagging; and since they often take the lead when the trend in place changes, their relative weakness here is a negative. I look for Simplicity to move over 5.00 and stay there for some time. It may move well over 5.00. Short term, gold and the mining shares look like they will correct.

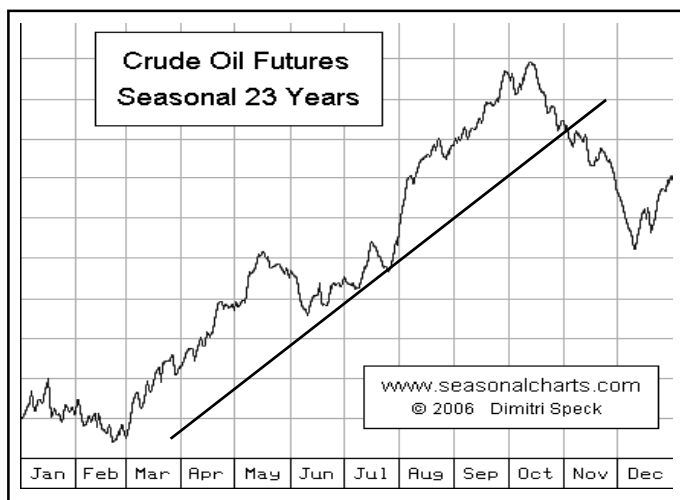
Longer term, however, Hussman's model is painting a very bright picture. As for Hussman's 123.6% average appreciation in the XAU, there can be some unsettling gyrations before that comes true, as I believe it will. Gold is volatile, and the mining stocks are more so. I think it is time to buckle up.

Short term, you should expect gold to sell off. It should sell back to \$800. The weekly chart indicates that gold could sell back to \$740 without disrupting the long term trend. The XAU should come off to at least 150.00.

I am not going to tell you to sell your positions or officially issue sell recommendations on our long term buy-and-hold stocks. Long term positions should be just that, and they should not be converted to trading positions. The best approach is to hold what you have. You should expect some sort of correction to begin soon, but gold will recover and double current prices. Resolve now to ignore the bears. Most importantly, don't chase strength. Let prices come to you, and prepare to add to your positions in weakness this spring and summer. I know many of you are chomping at the bit to buy, which is the way it always is at highs. Nevertheless, I think we will see a better opportunity to buy precious metals than we have now.

What to buy. I am not going to alter the downside buy prices for the gold stocks on our buy-and-hold list at this point. I mentioned **Coeur d'Alene** (CDE-NYSE-\$4.64) in the January mid-month letter. It should hit \$3.80 once the next correction is under way. Don't ignore the majors. Of the majors on our list, I am still setting my sights on buying **Kinross** (KGC-NYSE-\$21.97) at \$17.00. Incidentally, **Silvercorp** (SVM-TSX-C\$9.42) hit our buy price at C\$8.00 on January 21. Remember to keep diversity and balance in your portfolios.

Crude oil is behaving itself. On Page 4 is the seasonal chart for crude. Incidentally, you can get all sorts of seasonal charts at seasonalcharts.com. I have been advising that crude would stay soft into February when its next seasonal low is due. So far, it is following the script. I have been looking for prices to go back to \$80.00 - \$85.00. Crude hit \$85.42 on January 22 basis the March contract. That is close, but we should see another month or so of backing and filling before crude begins its typical spring-summer advance. This is the time to be shopping for energy investments.



The important thing here is the big picture. Crude has corrected on cue, and the energy issues on our list have come down as well. Most of them reached or exceeded our downside buy prices. I trust you have been taking advantage of this to augment your energy holdings.

We did suffer two sells on stops since the last letter. **Nordic American** (NAT-NYSE) was sold at \$28.80 on January 17, and **Penn West** (PWE-NYSE) - acquired as a result of its acquisition of Canetic - was sold on the meltdown day, January 22, at \$23.52. On the other hand, we were able to buy **Schlumberger** (SLB-NYSE-\$78.69) easily at and below our buy price of \$75.00.

Focus on the crude oil seasonal chart. We should see the energy sector begin to firm in March and then stay strong into fall. There may be some additional weakness over the next few weeks as energy finally bottoms out, but I look for crude oil to easily exceed \$100.00 a barrel on its way to \$160.00 as spring wanes and summer progresses. Buy energy now, not when crude blasts over \$100.00. Oil currently looks like gold did last July.

I am adding another oil service company to our list this month - **Baker Hughes, Inc.** (BHI-NYSE-\$73.44). As crude becomes more scarce, exploration will intensify and oil service will be in even greater demand. There is an interesting aspect to their business that I like. The old business model was for a large international oil company to come into a country and offer to exploit their oil reserves. The international, with all their experience, would explore, drill, and produce the oil. In turn, they would generously share, perhaps, 10% of the proceeds.

The petrocraacies that were being shammed in all of this have since realized that they really don't need the internationals. Big oil tends to sub the service aspects out anyway. They bring in contract drillers and the likes of Schlumberger and Baker, so why couldn't the petrocraacies do that and keep all of the revenue? There are arguments as to the efficiency in this approach, with dictators' cronies and militaries calling the shots. However, even if the new model is inefficient, this approach leaves Mr. Dictator with all the oil revenues.

This is one reason I shy away from producers - especially international producers. The exception, of course, is **Apache** (APA-NYSE-\$93.82). They possess unique technologies of their own. Bottom line, Schlumberger and Baker Hughes are growing with the price of oil. They are getting paid regardless of whether they work for big oil or big tyrant, and they provide services that there are no substitutes for. In today's world, it would be difficult, if not impossible, to be in the oil business without the products and services of Schlumberger and Baker Hughes. Let the petrocraats fight it out. Both SLB and BHI stand to see their coffers grow handsomely as we approach \$160.00 crude oil, and current price weakness is an opportunity. Buy Baker Hughes at \$69.00 or better.

How about them bears? I am referring to the stock market, of course. Extreme volatility is not a bullish sign, especially if there are 3% and 4% moves in both directions during the same day. What we saw in mid-January looks like the result of a lot of emotional confusion and black box trading programs. The market became quite oversold; and as I reported in the bi-weekly online reports, the averages are due for a bounce. However, I don't think the game has been entirely played out on the down side yet.

As we discussed in the last mid-month letter, we are beginning to see the divergence widening between financial assets and real assets. This will continue. We will see more panic selloffs in the averages, and those can bring energy and precious metal stocks down. However, commodity-advantaged stocks and other tangibles will recover. The financials will not.

There is not going to be a new bull market in stocks. Congress, the tax laws, easy money, and low interest rates will not create a new economic boom. These things may well ease a necessary economic adjustment; but, all in all, there are problem debts that need to be addressed. Some will be written off, but lenders want to be paid back. One way to amend the debt issue is to inflate the asset base, and that is exactly what you are going to see as a result of “economic stimulus.” Get on the band wagon – shun financials and invest in real assets. This approach will provide you with the best risk-to-reward advantage until the Dow/gold ratio (currently at 13.40) falls under 5.00.

Do not invest in long term bonds. Rates will eventually go much higher in response to higher inflation rates. Trade bonds if you like. Our Rydex bond program has done a great job overall (the signals and instructions, including stops, are in the Tuesday and Thursday online updates). The last signal was to buy long bonds on January 2. Long Treasuries are about 200 points higher now.

We also have a U.S. dollar trading program in the Rydex group. It is interesting that in light of our discussion on the potential for gold to correct, the dollar program will go long if the March dollar index contract trades at 77.50 or higher. I also have cyclical lows due in the dollar. Regardless of your interest in trading the dollar, a buy would all but cinch a correction in gold.

In fact, I am pleased with our Rydex trading programs, with the exception of Palio. It has done alright since we began issuing signals last June; but all in all, the Nasdaq Slow Tracker has done better. In fact, it did nearly twice as good in 2007, generating a profit of 24.0% versus 12.3% for Palio. Palio also had a total of 8 round trip trades in 2007 versus 3 for the Slow Tracker. Another benefit from the Tracker is that you get the buy/sell parameters ahead of time rather than in a special report. That way, you will know exactly where the next trade will be well before it occurs, and there is no need for special reports which clog up your e-mail.

The Slow Tracker centers solely on the Nasdaq, but the broad market is not going to have any significant rallies without the company of the Nasdaq. Let’s keep it simple and trade the Rydex OTC Fund. You can, of course, use the vehicle of your choice (ETFs, etc.) as long as it mirrors the Nasdaq Composite or Nasdaq 100 average. You must have the discipline to keep up, but it is much easier to do that with the Tracker. Consequently, I am going to remove Palio from our trading programs and not fight the success of the Nasdaq Slow Tracker.

I believe you will find larger profits - especially from an after-tax standpoint - as well as be able to keep your life less hectic by investing on a long term basis from our buy-and-hold list. However, the Nasdaq Slow Tracker can help the non-trader get a handle on the overall stock market’s turning points. I find it useful to have a technical tool that will tell me when the odds are on for a broad rally and when they are against sustained strength in the averages. It helps keep one’s expectations realistic and emotions under control. The Slow Tracker can help you do just that, even if you don’t make the trades.

Currently, the Slow Tracker will issue a buy if the Nasdaq Composite trades at 2,728. I expect this number will be adjusted lower before we see the model kick in with its next buy signal. The entry parameters for all of our trading programs (U.S. dollar, gold, bonds, and Nasdaq) are announced on the Tuesday and Thursday Web site updates, so you need to keep up with the updates to be assured of having the latest parameters.

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. Thus, if you want a quote for Peyto Energy, go to www.bigcharts.com and type in CA:PEYUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .99. 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 1/29/07 U.S. \$	Downside Buy Price	Div 1/29/07	Target-T Stop-S	Web Site
Agnico-Eagle	AEM	NYSE	1/10/2007	36.00	62.73	50.00	0.29%		agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004	27.98	36.13	34.00	6.48%		arlp.com
Apache Corp	APA	NYSE	3/5/2007	68.00	93.82	90.00	0.64%		apachecorp.com
ASA (1)	ASA	NYSE	11/19/2002	31.00	77.39	70.00	5.17%		asalt.com
Baker Hughes	BHI	NYSE	Buy at	69.00	73.44	69.00	0.71%		bakerhughes.com
Barrick Gold	ABX	NYSE	1/5/2003	22.85	53.23	38.00	0.56%		barrick.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	18.15	HOLD	11.65%		www.baytex.ab.ca
Black Rock	BGR	NYSE	8/3/2005	25.99	30.00	29.00	5.00%		blackrock.com
Enerplus Res.	ERF	NYSE	Buy at	25.00	38.22	25.00	12.89%		enerplus.com
Fording Coal	FDG	NYSE	11/16/2004	22.74	43.30	HOLD	4.82%		fording.ca
Frontline Ltd. (2)	FRO	NYSE	1/4/2007	31.00	41.75	40.00	5.98%	S = 27.70	frontline.bm
Frontier Oil	FTO	NYSE	8/3/2005	14.38	36.99	36.00	0.54%		frontieroil.com
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005	22.10	28.00	26.00	6.00%		gabelli.com
Headwaters	HW	NYSE	3/10/2006	36.30	11.70	10.00	n/a		headwaters.com
Kinder Morgan LP	KMP	NYSE	6/8/2007	52.50	55.32	HOLD	6.65%	S = 48.40	kindermorgan.com
Kinross Gold (3)	KGC	NYSE	6/6/2002	2.39	21.97	17.00	n/a		kinross.com
Kinross Gold	KGC	NYSE	1/4/2007	11.00	21.97	17.00	n/a		kinross.com
Mkt. Vectors, ETF	GDX	AMEX	9/11/2006	37.00	50.70	42.10	1.32%		n/a
Pimco Comod Fund	PCRAX		3/2/2005	13.97	17.06	15.50	5.45%		pimcofunds.com
Schlumberger	SLB	NYSE	1/18/2008	75.00	78.69	75.00	1.07%		nat.bm
Ship Finance (4)	SFL	NYSE	3/6/2007	0.00##	24.36	HOLD	9.03%		www.shipfinance.org
Silver Standard	SSRI	OTC	1/4/2007	30.00	34.93	34.00	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006	8.40	16.31	15.00	n/a		silverwheaton.com
St. Trs. Gold, ETF	GLD	NYSE	9/11/2006	58.85	91.15	78.00	n/a		n/a
Transocean (5)	RIG	NYSE	1/4/2007	75.00	126.48	120.00	n/a	S = 64.50	deepwater.com
Yamana	AUY	NYSE	4/14/2005	2.90	16.30	11.50	0.25%		yamana.com
Valero	VLO	NYSE	4/26/2005	36.63	60.58	65.00	0.79%		valero.com
Canadian Dollars									
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	19.35	24.00	n/a		altiusminerals.com
Energy Split II	CA:EN	TSX	9/11/2006	17.00	8.75	HOLD			scotiamanagedcompanies.com
Peyto Energy	CA:PEY.UNTSX		7/18/2003	8.75	16.39	HOLD	10.25%		peyto.com
Silvercorp Minerals	CA:SVM	TSX	1/21/2008	8.00	9.42	8.00	1.59%		silvercorp.ca

(1) ASA dividend includes year-end distribution.

(2) Frontline dividend based on regular payment of \$0.625 per quarter. Extras have been paid, bringing the dividend on past 12 months' payments to 13.38%.

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

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

(5) 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 1/29/07 U.S. \$	Downside Buy Price	Div	Target-T/ Stop-S	Web Site
Coeur d'Alene	CDE	NYSE	9/2/2003	3.19	4.64	3.80	n/a		coeur.com
Endeavor Silver	EXK	AMEX	7/26/2007	4.60	3.80	4.00	n/a		edrsilver.com
Great Basin Gold	GBN	AMEX	12/21/2007	2.45	3.05	2.45	n/a		greatbasin.com
Taseko Mines	TGB	AMEX	7/24/2006	2.40	4.07	4.50	n/a		tasekomin.com
US Gold Corp	UXG	AMEX	9/9/2005	1.70	3.82	3.00	n/a		usgold.com
Canadian Dollars									
Everton Res.	CA:EVR	TSX	1/4/2007	1.30	0.64	0.80	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.35	0.50	n/a		goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	4.60	8.00	n/a		laramide.com
Mega Uranium	CA:MGA	TSX	5/1/2007	6.75	2.58	3.00	n/a		megauranium.com
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	5.19	Hold	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	1.40	1.60	n/a		minandes.com

CS\$ 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 .99 to see if the OTC quote looks correct. You can access these OTCBB quotes by using 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.