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## IN THE GOLD BUYING ZONE

Gold has come down to our expected level of support at \$1,320. It was worth the wait, and prices are much more advantageous than they were when the crowd was all whipped up and buying the highs during the last few months. Patience is usually rewarded, and most of our recommended precious metals stocks hit their respective downside buy prices by late January.

Gold's correction aside, none of the fundamental reasons that pushed gold over \$1,400 have changed. There is still unrest in the Middle East, with Egypt being the most recent flareup in the Muslim world. The Middle East will continue to destabilize as a unique civil war spreads through the region. The Egyptian event follows an upset in Tunisia, and now there are protests in Syria and elsewhere. Historic changes are afoot.

These events may all be symptomatic of a civil war that is just beginning to intensify between the Sunnis and Shia. Unlike most civil wars that vie for control of a country, the Sunni/Shia conflict is vying for control of a wider expanse. This "expanse" in their minds would ultimately encompass the globe; but for now, the conflict will be confined to the present Muslim world – principally the Middle East and adjacent areas. Increased unrest will amplify uncertainty and fuel higher prices for gold and silver.

Seeing our allies like Egypt go up in flames triggers further erosion in confidence and an increase in uncertainty. Israel is on edge, having enjoyed some 30 years of peace with Egypt, and confidence in the future availability of the Suez Canal is coming into question. Confidence is at the heart of financial matters; and as confidence in global political stability, the media, the U.S. government fiscal policy, Western financial institutions, job security, and future economic prospects weakens, precious metals - especially gold - will move higher against the U.S. dollar.

Confidence in fiat currencies is fading more quickly as well. Holders of large currency reserves, central banks, and sovereign wealth funds, etc. are anxious to reposition into more trustworthy modes of wealth storage. They will be investing more in gold and less in paper over the next several years.

Don't be confused by the currency yo-yo. I like to monitor the fate of the U.S. dollar by watching the U.S. Dollar Index (DX H1). The Dollar Index is actually a measure of the U.S. dollar versus a basket of foreign currencies. The biggest components are the euro at 57.6%, the British pound at 11.9%, and the Japanese

yen at 13.6%. With an inordinate weighting to the euro, when debt problems arise with one of their weaker members (Ireland, Greece, Portugal, etc.), the euro falls with a resulting relative increase in the value of the U.S. Dollar Index. The illusion at that point is that the dollar is strong; but the truth is, the dollar is simply not as weak as the euro.

In this process, euro holders bail out - and of late, many are opting to store their wealth in gold instead. Thus, gold may end up moving higher on a stronger dollar. At some point in this cyclical process when the euro becomes oversold and short sellers take profits moving the euro higher, the dollar will "fall" and dollar holders will begin to buy gold. Over time, all currencies fall - only at different rates - and savvy investors will move into gold as an alternative. When it is all said and done, the fundamentals are still as bullish for gold as they were when gold first hit \$1,400 - perhaps more so.

Fundamentals do not change rapidly, but sometimes technical aspects of a market will shift quickly. We are all aware that markets zigzag along their primary trend, a trend that is supported by fundamentals. Investing is a business of ups and downs. You can attempt to buy and sell the twists and turns, but it is a messy business since none of us is truly clairvoyant. It is important that you separate your trading money and your long term investing money. You should then direct your investment account using the Dow/gold ratio as your guide. Conversely, you should strictly manage your trading account according to an objective short or intermediate term model like those we feature on Page 2 of the online updates. Bear in mind that trading will never catch the exact highs and lows, and no short term approach is perfect. However, if one has the discipline, a trading program need not be perfect to be profitable. Trading operates a little like the casino in that the house needs not win on every bet, but if consistent, the house will come out with a positive expected value over time.

From a long term investment standpoint, it is hard to sit tight when you are right. Hindsight is a seductive teaser. Once a correction unfolds (even if expected), one tends to ask, why not trade these corrections? Why not sell the highs and buy the lows? First, in reality, you cannot actually sell the highs and buy the lows as it seems in hindsight. Second, if you do sell the highs, the negative emotions investors encounter at the following lows tend to keep folks from coming back in. You will end up out of the market and chasing the next rally underinvested. Never convert a long term investment strategy to a short term trading strategy. Invest with your investment account and trade with your trading account.

As long as the Dow/gold ratio is over 2, investors should sit tight with their precious metals and other commodity investments. Use weakness to accumulate. Markets get oversold and overbought, and they react accordingly. As the highs were being set at \$1,400, we warned that too many folks were on one side of the boat and our technical work was warning of a correction. That correction is now in progress.

Concerning gold, it is best to stand back and take a look at the long term technical picture first. The best tool in this regard is the Dow/gold ratio, which could just as easily be called the Long Term Gold Indicator. When the ratio gets high (as it did in the late 1990's) indicating that paper assets are overvalued, it is time to sell paper assets and buy tangibles. We did that when gold was \$250-\$300 an ounce. At the time, folks thought my forecast of \$1,300 gold was difficult to believe. Such is the nature of turning points. In the late 1990's, there were too many believers in paper - especially the Nasdaq as it was breaching the 5,000 level - and very few believers in hard assets.

The ratio was over 40 in 1999, and it fell as low as 8 last year. The question is whether it is time to make a shift back to paper and sell our gold. The answer is emphatically, NO. Gold and other commodities like crude oil will continue to outperform the Dow Industrial Average and other paper assets until the ratio falls to 2. As I have repeatedly said, I think it may well fall to 1 because that is where hard asset bull markets have ended in the past.

The commodity bull is not over; but this late in the game, one must be more concerned about where to buy and how much to pay. The ratio will fall further, but maximizing profit and minimizing risk will be more difficult from here on.

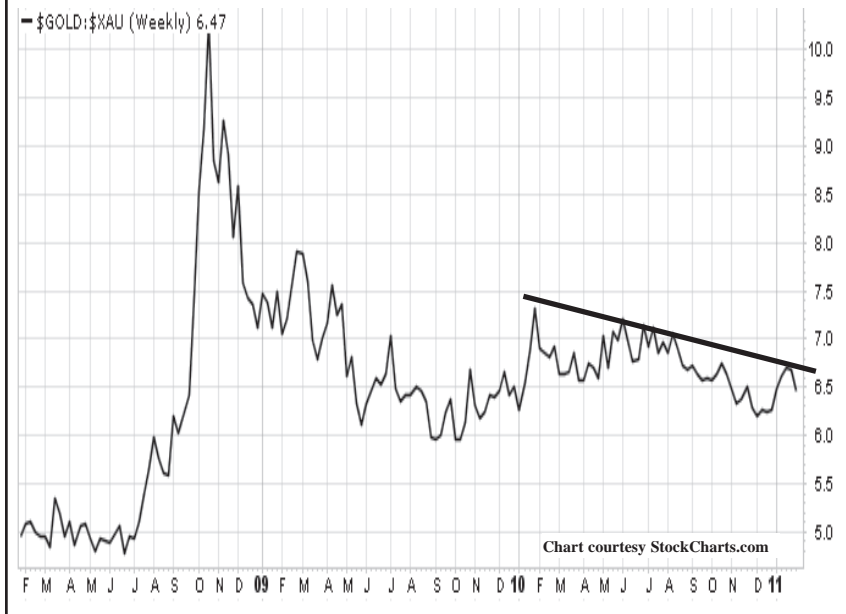
## Dow/Gold Ratio



Another ratio I like to follow is Simplicity, or the gold/XAU ratio. This will give you a glimpse as to the relative value between the mining shares and gold bullion. Mining shares usually move much faster than bullion, and that “leverage” factor is what makes them attractive to investors. You can augment your returns by buying the miners rather than gold, but you take on a bit more risk in buying mining shares. Mining operations are businesses that can encounter production problems, mine floods, etc. - problems inherent in any business enterprise.

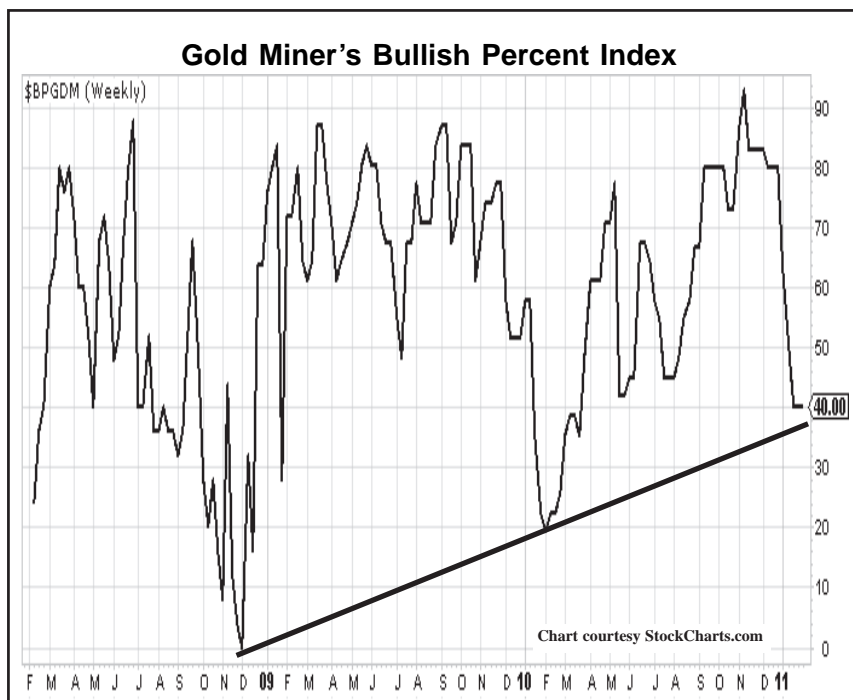
On a macro scale, studying how an average of mining shares like the XAU is performing relative to gold bullion is helpful. You can review my comments on Simplicity made in last month’s letter; but to bring you up to date, you can see the index has moved up as expected. I was looking for it to move as high as 7.00, but drawing a simple trend line over the highs is interesting. The ratio has moved back to that trend line.

## Simplicity



Over time, I expect the ratio will fall back in line with the parameters set before the 2007-2008 crash. Eventually, mining shares will be inexpensive when the ratio is over 5.00 and pricey enough to sell when the ratio falls to 3.75. Likely, normalizing from the effects of the 2008 debacle will take a little time and will involve the final velocity/bubble stage of the gold bull market that began in 1999. Once the velocity stage begins, the ratio will eventually fall to the bottom of that 5.00 to 3.75 zone.

At that point, I expect we’ll see the Dow/gold ratio at 2.00 or less, and then it will be time to sell our commodity-related investments, including precious metals. I will discuss the pain of not selling the exact highs when the time comes, but it is not too early for you to begin thinking about this. We will not sell the exact highs. In fact, all of our positions will not top out on the same day anyway. Nevertheless, if you sell gold at \$5,000 that you bought at \$250 or even \$1,300 and it goes up another \$100 to \$5,100 the next day, two things will happen. One, you will make a ton of money; but two, you will foolishly kick yourself and be upset at missing the extra \$100. This is a predictable emotional reaction simply fueled by greed. Greed will get you in big trouble if you succumb to it, just as buyers using greed as an advisor and buying into the ultimate highs down the road will find out. Forget the crowd. Follow the indicators mapped out here. Resolve to do the right thing when it is time to sell.



Another interesting shorter term indicator is the Gold Miner's Bullish Percent Index. You can view this at [StockCharts.com](http://StockCharts.com) with the symbol \$BPGDM. This is an intermediate term oscillator, and it doesn't have a long history only having started in 2008. You can see that it could fall a bit lower, but it's hitting an up trend line here. There is likely not much more time in this correction.

The good news is that the best is yet to come for hard asset investors, and patience over the last few months has been rewarding. We have seen most of our recommended issues hit their respective downside buy prices; and, hopefully, you have been taking advantage of that opportunity. Now is the time to use weakness to accumulate positions.

You don't have to buy all or nothing. If you have the time to monitor the markets during the day or at least day to day, you can scale down as long as you do not pay over the downside buy price. If you can't devote the time to such refinements for order execution, just put in your open "good 'til cancelled" orders and wait for fills.

We were able to buy **Central Gold Trust** (GTU-NYSE-\$50.85), **Goldcorp** (GG-NYSE-\$41.84), and **Royal Gold** (RGLD-OTC-\$48.63) at our downside buy prices. These are my favorites.

**Central Fund of Canada** (CEF-NYSE-\$19.33), which is a relatively new recommendation, has not reached our initial buy price of \$17.00. CEF holds about 50% in silver bullion, and silver is more volatile than gold, so further weakness is not out of the question. However, it time to raise the buy price a little on CEF to \$17.50 or better. **Gabelli Global Gold and Natural Resources** (GGN-NYSE-\$18.75) fell to \$18.03, coming within 28 cents of our \$17.75 buy price before firming up. The best strategy here is to sit tight on buy orders at \$17.75 or better.

**Sprott Physical Gold Trust** (PHYS-NYSE-\$12.25) hit our buy price. As of January 21, we are officially long.

**Jaguar Mining** (JAG-NYSE) hit our sell stop at \$6.10 on January 21. I think the proceeds will be better with one of our other recommendations. Sometimes it is good to shed the weak sisters.

We have a few mining shares on hold. **Yamana** (AUY-NYSE-\$11.85) is an excellent hold. I wouldn't sell it, but it is lagging the pack somewhat. I think we will do well with Yamana longer term, but new money will do better elsewhere. This goes for **Silver Standard Resources** (SSRI-OTC-\$24.31) as well. I think we will see it move higher, but there are better places for new investment.

If you are interested in silver, **Silver Wheaton** (SLW-NYSE-\$34.08) is my first choice. However, at current prices it is still a little rich for new money. You can consider adding to positions at \$20.00 or better if it falls back that far.

In reviewing the juniors on our list, most should simply be held for now. The exceptions are **Coeur d'Alene** (CDE-NYSE-\$25.03), **Endeavor Silver** (EXK-NYSE-\$6.71) and **Minera Andes** (MAI-TSX-C\$2.79). These are all



performing very well from a technical viewpoint and are comparatively strong within our group of junior miners. Buy Coeur d'Alene at \$20.00 or better, Endeavor Silver at \$5.00 or better, and Minera Andes at C\$2.00 or better.

Remember, these are junior miners and carry a higher degree of risk than buying the majors. I harp on the subject of diversification and balance. Exact portfolio asset allocation among individual issues is something that I must leave up to you. Every individual has a different financial makeup, risk tolerance, and future needs. What is an appropriate mix and risk level for one is not appropriate for another. My job is to guide you to the asset classes and specific investments that offer the best risk-to-reward

prospects. Just be sure to diversify and balance your portfolios according to your individual needs, background, and financial station in life.

It is interesting that the press offers to do your thinking for you, and the government wants to make your choices for you. In certain cases that may be appropriate, but investing successfully requires that you do your own thinking and choosing.

The Rydex gold trading program is featured and updated on Page 2 of the online updates along with a few other trading programs. Here are the gold trading strategies for those who have followed this program all along and those new to the program. The parameters for entry could change before we get another entry. If so, changes will be announced via the online updates. Consequently, participants need to keep up with the updates.

At this point if you have been following this program all along, you should be about 54% invested in the **Rydex Precious Metals Fund (RYPMX)**. If the XAU rallies to 228.90 or higher, you should bring the account up to 80% invested. If you have not followed this program in the past and wish to get involved, first determine what you want to commit to this account and invest 50% if the XAU hits 228.90 or higher.

**What now for gold?** I look for a bounce here and then a test of recent lows. However, with world events as potentially incendiary as they are, I think we can rest easy with purchases made during late January. If we see a test and final washout culminating the correction, I encourage you to continue to use weakness to accumulate precious metal positions.

There is an outside possibility we will see gold come off in one final move to \$1,250. If this occurs, steel yourself against all the bearish claptrap you will be fed by the media. The fundamentals have not changed and will not change over the next couple of months. If the going gets scary, here is something to keep firmly in mind. There have been three highs at the \$1,420 level in gold since November. Triple highs like this are a sign to be cautious in the near term as corrections usually follow. The exciting thing is that once triple highs are broken, the market will accelerate on the up side. I think that once the \$1,420 level is exceeded, the precious metals bull market will begin its velocity stage. This stage will begin modestly and increase in intensity as time goes on. You need to be invested before the highs are broken and this process begins.

When the gold bubble begins, it will be stimulated by credit rating problems in the U.S. It is hard to believe that the rating folks would actually officially lower the U.S. credit rating, but there will be warnings or perhaps a new addition to the ratings - perhaps something like AAA with an asterisk. Who knows?

Could gold peak in 2011? It is not likely. I am looking for a blast through \$1,420, and we need to begin talking about \$2,000 gold. Gold during the 1976 to 1980 period increased ninefold. From 1970 to 1980, it appreciated twenty-fourfold, but that move began from an artificially depressed level. A ninefold increase in the current bull market would take gold from \$250 to \$2,250. That is not out of reason. Seeing the Dow at 4,500 and gold at \$2,250 would put the Dow/gold ratio at 2. That should not be a stretch. The low in the Dow in 2008 was right at 6,470. Gold at \$2,000 looks like a conservative estimate longer term. Bullion should easily hit \$1,600 this year. My personal outlook calls for something in the neighborhood of \$1,800 in 2011 barring any outright "black swan" calamities that would accelerate the market prematurely. Short term weakness is a buying opportunity.

The Dow/gold ratio tells us that the lowest risk and greatest rewards will be found in tangible assets, and the CRB has broken over its pre 2007-08 crash highs. You don't have to spread yourself thin and trade every commodity on the planet. If you stick to gold and energy, you can participate and even generate some income from the energy companies on the recommended list. However, if you want a broad shot at the commodities market with a little income tossed in, take a look at the **Pimco Commodity Real Return Strategy Fund** (PCRAX-\$9.39).

Morningstar indicates the yield at 8.49%, which is not bad, but I would gamble on a correction bringing the price back to \$8.50. That would be a reasonable place to buy, either adding to existing accounts or establishing new positions. I talk in terms of the "A" class shares; but if you are purchasing this for the first time, you should review the various share classes and decide what might be the best fit for you. I would also reinvest the dividends. This year looks like it is shaping up as an exciting year for commodity prices overall. The Pimco fund - although not the only way to buy into a broad commodity run - is a well-managed fund with a decent, although fluctuating, dividend.

While being aligned with a tangible asset investment strategy, income is easiest found in the energy companies. As you know, the Canadian government ambushed us a few years back and forced all the royalty trusts to convert to corporations by November of this year. Those on our list have done so, and you will see different symbols listed in some cases. **Baytex** (BTE-NYSE-\$51.39) and **Enerplus** (ERF-NYSE-\$32.26) have retained their old symbols. **Crescent Point Energy** (CPG-TSX-C\$43.70), **ARC Resources** (ARX-TSX-C\$25.34), and **Peyto Exploration and Development** (PEY-TSX-C\$19.41) have new symbols.

Baytex is doing famously for us, but it needs to correct back to \$36.00 or better to warrant further buying. In the meantime, hang on to your shares. Enerplus is also doing well; and for now, we need to wait for better prices in the energy patch. Our buy price will remain at \$24.00. That is not to say these will necessarily fall back to \$36.00 and \$24.00, respectively. It is just that unless they do, we will be better off finding new places for our investment dollars.

ARC Resources and Crescent Point also need to come off some to offer a decent buying opportunity so their buy prices will remain at C\$20.00 and C\$37.00, respectively. Peyto changed their name a bit and cut their dividend in half. One can make fundamental arguments about the dividend cut and all, but the fact is, the stock is behaving quite well all considered. I don't think it is an exceptional buy here, but it's well worth holding.

**Apache Corp.** (APA-NYSE-\$118.32) has come off due to their exposure in Egypt, and this may well lead to a good buying opportunity. Apache has unique talents in exploiting played-out oil fields, and the Egyptians will need them regardless of what occurs politically there. I still hold that Apache is the only major you should own. Raise the buy price to \$110.00. If you are able to buy at \$110.00 or better, you should be well rewarded down the road.

Last August, we bought an initial position in **Legacy Reserves LP** (LGCY-NYSE-\$29.47) for \$24.00. Our intent was to scale in during further weakness, but that weakness did not unfold. You should change your approach somewhat now. Increase your position by one-third at \$26.00 and complete the other one-third at \$24.00 or better.

You should continue to hold **Linn Energy LLC** (LINE-OTC-\$39.10). **Schlumberger** (SLB-NYSE-\$89.43), although doing better for us now, should be held for further gains. A slow mover for us is **Prospect Capital** (PSEC-NYSE-\$11.64). While not a pure energy play, it benefits from energy financing deals. Due to its comparatively weak technical performance, I am going to suggest putting Prospect on hold and taking profits at \$13.00 or better. I feel that unlike our other energy issues, due to their pseudo-banking activity, they are vulnerable to another downturn in the economy and also vulnerable to a surge in interest rates. Both of these are likely events to unfold this year.

**Brookfield Renewable Resources** (BRCUN-TSX-C\$21.47) generates electric power exclusively with wind and hydroelectric installations. This is an interesting alternative energy play with a decent dividend. It is time to raise the downside buy price a bit, and further accumulation should be done at C\$21.00 or better.

**Natural Gas Services Group** (NGS-NYSE-\$17.98) hit our \$17.50 buy price on January 6. This is the best way I can think of to invest for future growth in the natural gas industry (as discussed last month).

Crude oil has rolled over somewhat from the upper end of its trading range at \$94.00, dropping as low as \$84.00. Crude then lunged higher again on fears sparked by the unrest in Egypt and uncertainty over the Suez Canal.

I look for consolidation in crude oil, and that consolidation should serve up some nice buying opportunities. However, the Egyptian issue needs to cool off first. I have often talked about the potential for unrest in the Middle East to upset the energy markets, and perhaps this is the seed of such an event. At some point, a surprise among the oil-producing countries is inevitable. The Sunni versus Shia civil war is just beginning.

Crude oil is going to move much higher by late year regardless of the American economy. In fact, the odds are good that higher energy prices will be just another step toward a new normal of domestic economic malaise. Another reason not to trade your investment account is that surprise events can change the game quickly, and any changes in energy will be extremely bullish for crude prices. Sit tight on your energy positions.

The economy is expected to grow at 2.5% to 3.0% this year. That will require some serious data tweaking. We are headed to the new normal, and that includes a huge change in consumer behavior. Consumers are not going to return to their old habits. They are going to continue to rein in spending, increase saving, and shun borrowing.

Still, the stock market has been on a tear, and our purely objective Palio model has handled the market's direction extraordinarily well. Palio is on a buy; and although that is prone to change, I will go with its positive stance until it says otherwise. Then I will send you a special online update to that effect.

It would be nice if one could figure the market out logically; but if that were possible, everyone would be rich. You know by definition, everyone can't be rich. Rich folks are those who have more money than you do.

The Fed is buying all the T-bonds being issued, and they are now the largest holder of Treasuries outside of China. That is what QE2 is all about, and there is no indication the Fed is going to discontinue this policy any time soon. There is already talk of QE3. The big question is, what happens when they do quit? Perhaps Congress will step in and put a stop to this, but that would truly be a "black swan" event. The Fed has also alluded to the possibility that they are actively working to support the stock market, which is quite possible. We have long been aware of the Working Group

on Markets, better known as The Plunge Protection Team. It is possible that the Fed, acting through Goldman and Morgan Stanley, can prop up the markets in an attempt to bolster weakening consumer confidence and thus hopefully bolster a sagging economy. Remember 70% of GDP is from consumer spending. The problem is that the consumer can feel as good as he might; but if all his money is going to food and energy and he is out of a job, no amount of good feeling can put dollars in his wallet or confidence in his psyche.

There is too much artificial monkey business going on. Nothing has really changed since the days of extend and pretend, and liar loans. It is still smoke and mirrors - not substance. Until the government and powers that be start initiating policy that stimulates wealth rather than consumption, this economy is not going to do better than stagnate.

Incidentally, I must comment on artificial pricing. This stems from the answer Bernanke gave when asked why the bond market was not responding to QE2. He pointed to the increase in the stock market in his reply, hinting that the stock market was being influenced directly by QE2.

Any artificial influence on price, while possibly effective in the relative short term, is always destined to fail. The Hunt brothers' silver market corner in the late 70's, Nixon's price and wage controls during that decade, and even the reported gold manipulation over the last few years all failed. Eventually the market will set the true price, even if it is artificially skewed in the short term. The aberrations can last some time, but there is always an adjustment. The market always returns to where it should have been. Also, remember the Fed is not quite the big dog that it was in the past. There are other global influences for the markets to contend with. China and other sovereign wealth funds, central banks and other large foreign currency holders, and investors connected by the Internet all have a potentially overriding influence in the market's direction.

Highs and lows in the market are not really points in time and price, but rather zones of opportunity. The next buying opportunity in gold will not be a point in time. Yes, there will be an absolute price low on some date at some exact time; but as investors, we can only approximate that time and price. It is not important that we are perfectly accurate - only that we are profitable. Even if we knew the exact time and price low for gold or crude oil, the stocks we are interested in will all bottom at different times. What we are looking for are low risk, high profitability periods of opportunity.

**Bonds and the mirror of contrary opinion.** I was intrigued the other day by a comment that bonds were a buy because everyone was a bond bear. However, I have not seen that many bond bears. Most commentators are bullish because they feel that QE2 will continue to depress interest rates. So, where is the consensus really? It is a bit like looking into one of those mirrors in the clothing store where you can see yourself looking at yourself looking at yourself. It is best to rely on technical tools in this regard to cut through the haze. Bonds should not be invested in, but they can be traded. Our bond trading model on Page 2 of the online updates is short. For those of you following this program, there has been a new reversal number. The program will exchange from the Rydex Inverse Government Bond Fund (RYJUX) into the Rydex Government Long Bond Advantage Fund (RYGBX) if the March 2011 bond contract (USH1) trades at 121-24/32 or higher.

As a final note, the Critical Price Point for March silver (SI H1) on Page 2 of the online updates has been adjusted up to \$26.29. If that price is hit, I expect to see silver come off to about \$24.00 and give us a shot at buying some Silver Wheaton (SLW) and Endeavor (EXK) at our prices.

## 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 .98. 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 letter are in bold letters.**

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 02/03/11	Downside Buy Price	Div 02/03/11	Target-T Stop-S	Web Site
<b>U.S. \$</b>									
Apache Corp	APA	NYSE	3/5/2007	68.00	118.32	<b>110.00</b>	0.50%		<a href="http://apachecorp.com">apachecorp.com</a>
Baytex Energy	BTE	NYSE	5/18/2004	9.00	51.39	36.00	4.73%		<a href="http://www.baytex.ab.ca">www.baytex.ab.ca</a>
Blackrock	BGR	NYSE	8/3/2005	25.99	30.28	23.00	5.36%		<a href="http://blackrock.com">blackrock.com</a>
Enerplus Res.	ERF	NYSE	11/20/2008	19.00	32.26	24.00	6.70%		<a href="http://enerplus.com">enerplus.com</a>
Gabelli Glob. Gld.	GGN	NYSE	1/3/2006	22.10	18.75	17.75	9.06%		<a href="http://gabelli.com">gabelli.com</a>
Central Gold Trust	GTU	NYSE	7/27/2010	45.50	50.85	49.90	n/a		<a href="http://gold-trust.com">gold-trust.com</a>
Central Fund of Can	CEF	AMEX	<b>Buy at \$17.50</b>		19.33	<b>17.50</b>	0.05%		<a href="http://centralfund.com">centralfund.com</a>
Goldcorp	GG	NYSE	7/24/2008	40.00	41.84	42.50	0.88%		<a href="http://goldcorp.com">goldcorp.com</a>
Jaguar Mining	JAG	NYSE	<b>1/21/2011</b>	<b>Sold on Stop @ \$6.10</b>					<a href="http://jaguarmining.com">jaguarmining.com</a>
Legacy Reserves LP	LGCY	OTC	8/6/2010	24.00*	29.47	<b>26.00*</b>	7.24%		<a href="http://legacylp.com">legacylp.com</a>
Linn Energy LLC	LINE	OTC	11/18/2009	24.72	39.10	HOLD	6.74%		<a href="http://linnenergy.com">linnenergy.com</a>
NG Service Grp.	NGS	NYSE	<b>1/6/2011</b>	<b>17.50</b>	17.98	<b>17.50</b>	n/a		<a href="http://ngsgi.com">ngsgi.com</a>
Pimco Com. Fund	PCRAX		3/2/2005	11.89	9.39	<b>8.50</b>	8.49%		<a href="http://pimcofunds.com">pimcofunds.com</a>
Prospect Capital	PSEC	OTC	1/5/2009	12.00	11.64	<b>HOLD</b>	10.44%	<b>T=13.00</b>	<a href="http://prospectstreet.com">prospectstreet.com</a>
Prospect Capital	PSEC	OTC	2/1/2010	11.00	11.64	<b>HOLD</b>	10.44%	<b>T=13.00</b>	<a href="http://prospectstreet.com">prospectstreet.com</a>
Royal Gold	RGLD	OTC	7/8/2009	38.00	48.63	49.00	0.92%		<a href="http://royalgold.com">royalgold.com</a>
Schlumberger	SLB	NYSE	1/18/2008	75.00	89.43	<b>HOLD</b>	1.13%		<a href="http://slb.com">slb.com</a>
Silver Standard	SSRI	OTC	1/4/2007	30.00	24.31	HOLD	n/a		<a href="http://silverstandard.com">silverstandard.com</a>
Sprott Phys Gld Tr.	PHYS	NYSE	<b>1/21/2011</b>	<b>11.50</b>	12.25	<b>11.50</b>	n/a		<a href="http://sprottphysicalgoldtrust.com">sprottphysicalgoldtrust.com</a>
Silver Wheaton	SLW	NYSE	3/10/2006	8.40	34.08	<b>20.00</b>	n/a		<a href="http://silverwheaton.com">silverwheaton.com</a>
Yamana	AUY	NYSE	4/14/2005	2.90	11.85	HOLD	1.03%		<a href="http://yamana.com">yamana.com</a>
<b>Canadian Dollars</b>									
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	13.70	HOLD	n/a		<a href="http://altiusminerals.com">altiusminerals.com</a>
ARC Resources	CA:ARX	TSX	9/8/2008	25.85	25.34	20.00	4.79%		<a href="http://arcresources.com">arcresources.com</a>
Crescent Point En.	CA:CPG	TSX	9/16/2008	30.20	43.70	37.00	6.32%		<a href="http://crescentpointenergy.com">crescentpointenergy.com</a>
Brookfld Ren Pw	CA:BRC.UN	TSX	12/17/2008	15.99	21.47	<b>21.00</b>	6.13%		<a href="http://brookfieldpower.com">brookfieldpower.com</a>
Peyto Exp & Dev	CA:PEY	TSX	7/18/2003	8.75	19.41	HOLD	3.78%		<a href="http://peyto.com">peyto.com</a>
Silvercorp Metals	CA:SVM	TSX	1/21/2008	8.00	11.54	HOLD	0.72%		<a href="http://silvercorp.ca">silvercorp.ca</a>

\*Legacy - scale in 1/3 at \$26.00 and final 1/3 at \$24.00.

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

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 02/03/11	Downside Buy Price	Div	Target-T/ Stop-S	Web Site
<b>U.S. \$</b>									
Coeur d'Alene	CDE	NYSE	9/2/2003	31.90	25.03	<b>20.00</b>	n/a		<a href="http://coeur.com">coeur.com</a>
Endeavor Silver	EXK	NYSE	7/26/2007	4.60	6.71	<b>5.00</b>	n/a		<a href="http://edrsilver.com">edrsilver.com</a>
Great Basin Gold	GBG	NYSE	12/21/2007	2.45	2.67	HOLD	n/a		<a href="http://greatbasingold.com">greatbasingold.com</a>
Nova Gold	NG	NYSE	2/29/2008	11.50	14.65	HOLD	n/a		<a href="http://novagold.com">novagold.com</a>
Rubicon Min.	RBY	AMEX	2/1/2010	4.00	5.34	HOLD	n/a		<a href="http://rubiconminerals.com">rubiconminerals.com</a>
US Gold Corp	UXG	NYSE	9/9/2005	1.70	7.18	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	0.30	HOLD	n/a		<a href="http://evertonresources.com">evertonresources.com</a>
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.48	HOLD	n/a		<a href="http://goldenvalleymines.com">goldenvalleymines.com</a>
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	2.59	HOLD	n/a		<a href="http://laramide.com">laramide.com</a>
Mega Uranium	CA:MGA	TSX	5/1/2007	6.75	1.05	HOLD	n/a		<a href="http://megauranium.com">megauranium.com</a>
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	2.79	<b>2.00</b>	n/a		<a href="http://minandes.com">minandes.com</a>

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 .98 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.