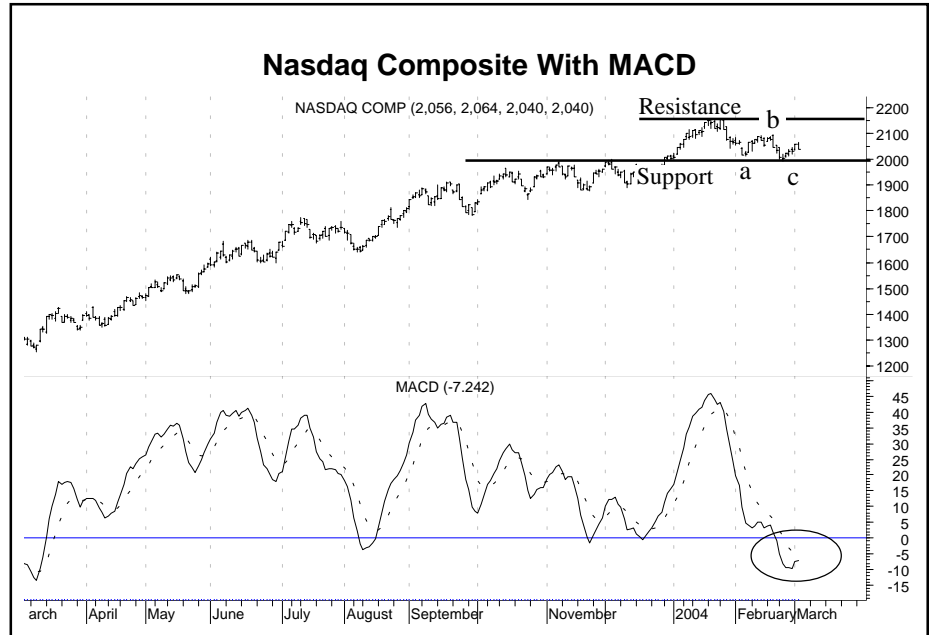


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ONE MORE CHANCE TO SELL



- We should sell Primewest and Provident during the coming rally.

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- If you are looking for a potential buy candidate, it should be Shiningbank.

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- A good annuity that has Rydex Fund trading options.

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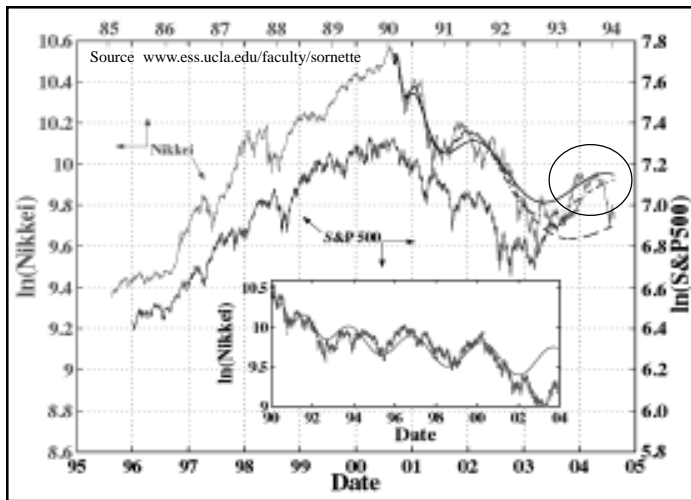
We are approaching the end of the best six-month period for stocks. This interesting aspect of market behavior was discovered and popularized by Yale and Jeff Hirsch, publishers of *The Stock Trader's Almanac*, at www.stocktradersalmanac.com. It seems that since 1950, virtually all of the stock market's profits have been made during the November through April period.

There is a good news/bad news story in this that applies to the current market. The bad news is that we are heading to a major high in the stock market, which my cyclical studies are placing in mid to late April – just after tax season and at the end of the best six-month season. The good news is that we should see one final rally before those highs are in.

The “good news rally” forecast is based on several factors. One is that since the highs are due in April and the market - especially the Nasdaq - has been flat to lower lately, it follows that prices should rally into those highs.

There is other evidence, however. Even though it has been lagging the broad market so far this year, the Nasdaq is carving out an a-b-c correction from its January high. This is a typical corrective pattern.

Note also the MACD chart here with the Nasdaq. MACD has fallen to oversold levels associated with trading lows in the past. The next step would be an upside crossing. That should occur soon since the solid line is now turning up.



In the last letter, I showed you the double sell signal from MACD in the Philadelphia Semiconductor Index (SOX). The SOX is the core of the Nasdaq; and although this does not prevent a test of the January highs, it is telling

portfolios now and making plans to liquidate stocks during this rally. The only possible hold candidates will be select issues that are advantaged by higher prices of tangibles; i.e., metals and energy.

As I will go on to explain, we will want to use strength to sell even some of our past favorites. I will be harping on this as we go along, but it is important that you plan to use strength over the next month or two to raise cash. Traders following the Hyperion model can simply follow the signals as they are presented.

If this were a major low in the Nasdaq rather than simply the end of a minor correction, I would be looking for a second buy signal to set up. However, in this case, I only expect to see the one signal followed by a trip back to the highs in the index.

us the longer term is dangerous.

What to expect out of a rally to cyclical highs in April.

Not all that much. I would not expect more than a test of the January highs at 2,150. But ... that is a tradable move, perhaps.

Mr. Greenspan got on his podium last month and began alerting the public to future problems with retirement plans and Social Security. The real problem is due to demographics - the impact the baby boomers are going to have.

We will be using strength to pare our holdings. I think we will be able to cull weak sisters out of our buy-and-hold list and take some profits. Throughout the balance of the year, we will improve the mix of our holdings as we buy back in.

The longer term future of the market is more ominous. Once the highs are in this April, I expect the averages will be on the down side for the balance of the year. The potential damage on the down side after April is much greater than what one might expect to see on the up side between now and the highs.

Bill Bonner in his book Financial Reckoning Day has some things to say in this line as well. His theory is that our baby boom is about 10 years later than the same group in Japan. You can simply look back 10 years at their market to see what will happen with ours.

What you should do during this rally is employ the technique of comparative weakness. This simply means that during a rally, you should keep the strong ones and sell the weak ones. In terms of our energy issues, for example, **Enerplus** (ERF-NYSE-\$30.73) is moving up smartly after the recent swoon in the energy sector. It is a strong one.

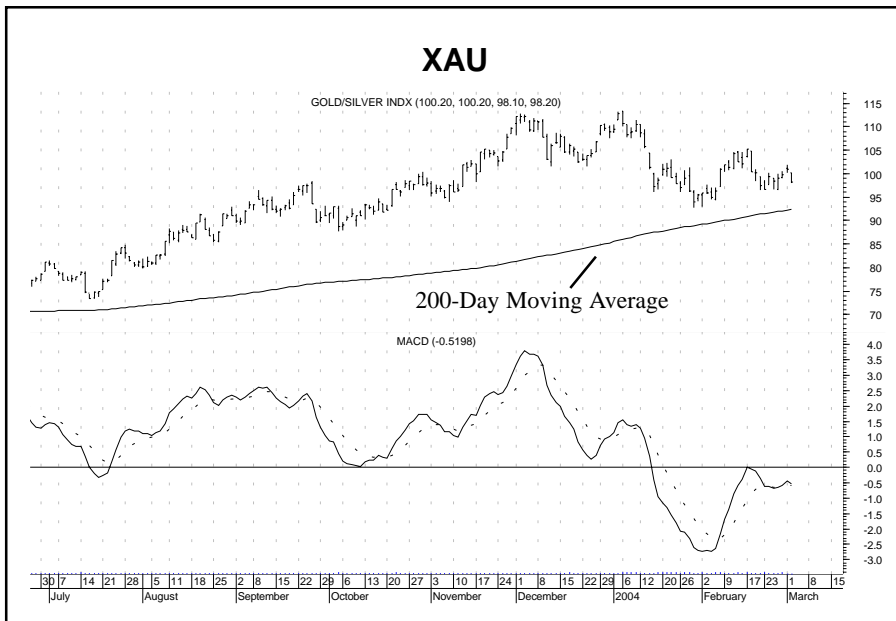
The longer term picture is plagued by disturbing divergences and non-confirmations that are just now developing. The Dow Industrial Average has made a new high, but the Transports have not. This is classical Dow theory, and it's a major negative.

Didier Sornette at UCLA of "Why Stock Markets Crash" fame also follows this comparison. Above is a chart taken from Sornette's Web site www.ess.ucla.edu/faculty/sornette.

The question is, what to do when things go wrong. The first thing is, don't panic. The second is, learn to sell the wrong stocks at the right time. That is what we plan to do with a couple of our energy issues which have been weak and disappointing. They are **Primewest** (PWI-NYSE-\$18.30) and **Provident** (PVX-AMEX-\$8.14). You should sell these positions during the coming rally.

The fit with a 10-year lag between our market and the Japanese has definitely been coincidental. In the near term, though, this analysis also seems to be looking for an important high this spring.

Complacent, non-trading oriented investors should be looking over their



The key is to set upside targets and sell at those levels. Don't just dump your stocks here. This is much like using our downside buy points, except these are upside sell points.

You should enter orders to sell **Provident** at \$9.00 or higher and **Primewest** at \$21.00 or higher. Provident is just a laggard, and Primewest should be making and paying more than they are. It is time to plan on cutting them loose, and it's time to put your GTC orders in over the market to sell them. Then just sit back, don't panic, wait, and collect the dividends until they sell.

As I will get into later, crude oil has been doing well recently, constantly probing new highs. Also, natural gas looks like it's turning to the up side after an extended correction. Higher energy prices will lift all of the energy stocks higher, but Provident and Primewest are still disappointing - especially compared to Enerplus. They are apparently poorly run, and it is time to make plans to get rid of them. We will do that during strength.

Currently, we have all of our energy stocks on hold. However, if you are looking for one as a potential buy candidate anyway, it should be **Shiningbank** (CA:SHNUN-TSX-\$17.45) - but only at \$16.50 or less.

Shiningbank is traded on the Canadian Exchange. As a result, it just doesn't get the exposure to U.S. investors that Enerplus, Provident, and Primewest do. In the current situation, that is good.

There is still the issue of what percentage of foreign ownership the Canadian energy trusts are allowed to have. If they have over 50% foreign ownership, they may be ineligible for Canadian Registered Retirement Savings Plans.

There is also some concern that newly installed Prime Minister Paul Martin may tighten rules for Canadian trusts. Enerplus has been the most aggressive in taking action to head off losing their U.S. investment market, and their market performance reflects that. They are very well managed.

The foreign ownership issue is all a bit up in the air at this point, but you should be aware that this is a potential chink in the armor. Our approach will be to use coming strength to lighten up and improve the quality of our energy portfolio.

Shiningbank likely does not have as many foreign investors as those trusts listed in the U.S. have. Their relative anonymity to U.S. investors should work in our favor concerning the foreign ownership issue.

Our tanker stocks have recovered, and these companies are getting new contracts for their ships (as I expected they would). I don't see any place to buy more of these here, but they are definitely worth holding for now.

So what about our gold stocks?

I am bullish for the next few months, but we also want to prepare to make some adjustments this summer in our precious metals holdings.

Cycles tend to misbehave, but I still like to study cycles because they provide handy guidance. For example, there is an eight-year high due this summer. The prudent thing to do will be to lighten up our buy-and-hold metals positions at those highs, and then buy back after the following correction runs its course.

That correction should last for six months, and it should pare prices back a good deal. It is not something we want to ride through. Also, it will give us a chance to improve the quality of our holdings when we buy back in at the lows this next winter.

Going forward from here, you should be invested in our recommended gold and silver stocks. Most of them have hit our downside buy points.

The dollar is running here, and we have yet to see bullion gold, which is currently on a Hyperion sell, hit our downside expectation of \$380-\$385. We also have targeted the XAU for 88.00-91.50, which hasn't been met. We do have a buy in at 105.35 to catch a position if gold takes off before our downside objectives are met, but we will likely see one more dip and a chance to buy this month.

For those who are so inclined, some money in bullion gold coins (as we have discussed in the past) is also recommended. Those who are following the Hyperion model don't have to worry about any of this. The model will take care of the changes that you need to make.

Our Rydex gold program exchanges in and out of the Rydex Precious Metals Fund. This fund is an index fund designed to mimic the action in the XAU, or Philadelphia Gold and Silver Index. It is an index of gold mining stocks much like the Dow is an index of industrial stocks.

The program is presently in money market funds, but we expect to be moving into the Precious Metals Fund soon. Our instructions are to move to a 25% position in the fund if the XAU trades at 105.35 or higher. However, this entry point can change, so you need to keep up with the hotline.

I have finally found a good annuity that has Rydex Fund trading options.

It is very difficult to find an annuity that has any gold options at all, but the Nationwide Marketflex variable annuity has a Rydex Precious Metal Fund option.

The advantage of an annuity is that it shelters all of your gains from taxes - much like an IRA does - except that you are not limited to what you put in the annuity. Also, you are not forced to take money out as you are eventually forced to do with your IRA. You do not have to report the individual trades you make in your annuity either.

Annuities these days have a lot of load options from front end to declining back end to no-load. However, most no-load annuities have much higher internal fees and charges.

For some, the tax shelter offered in annuities makes sense. If this seems to fit your situation, look into the Nationwide Marketflex annuity. They have Internet access where you can make your exchanges online.

Longer term on gold, we look for a high this summer followed by a correction that will be worth sitting out. This correction will last several months, and perhaps until the end of the year. This correction will then be followed by the next bull market leg, which will take gold back to the highs we set this summer and beyond.

The gold bull market has a long ways to go yet, and you will know when it is finally over by following our AAAM, or Annual Asset Allocation Model. That model shifted out of bonds and into tangibles as the asset class of choice in October, 2001. It will tell us when and where to move next when the time comes. In the meantime, tangibles (gold, silver, energy) will offer us the best risk to reward.

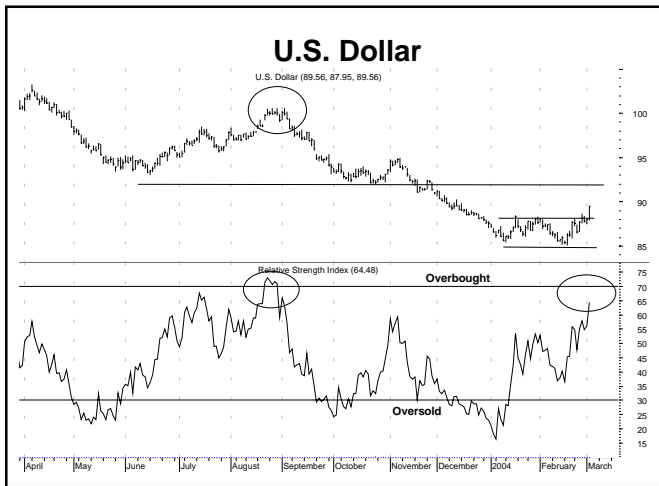
You may not be aware of this, but studies have shown that 85% of investment success in the stock market is being in the right asset class. Only 15% of market success is due to the right stocks.

Summing this up, you should expect a rally in the stock market - in particular in the Nasdaq - over the next several weeks. This will lead to a very significant high, and you must plan now to raise cash during that strength.

I believe that by the end of summer, investors will be holding losses. Believe me, the gains in the Nasdaq over the last year can disappear in the blink of an eye.

The dollar is a key element in the longer run, and it will be a key factor in turning the market down from the highs in April. The "dollar" is really an index of the value of the dollar against a basket of other currencies.

When the index is falling, you are losing value in the dollars you own versus the euro, etc. This prompts professional investors to do something else with their dollars.



inversely and will pull back to our objective at 380-385 while the XAU will settle back to about 90.00.

Don't let this cause you to be a dollar bull or a gold bear. We are working off

This economic turn may already be beginning. New housing sales have been falling, yet new housing supply is still increasing. There will be an adjustment. Job growth is also nowhere near where it needs to be - at 150,000 or more a month - to produce an internal driven recovery. The economy is alive on an IV, but the juice is running out and there is little more to be had.

Stocks rallied with very little momentum from lows in October, 2002, and momentum all but disappeared during 2004. The best trading markets have both direction and momentum. I do believe that once the highs are in this spring, you will see plenty of momentum on the down side.

If you trade online, you can trade Rydex funds with no fees at Scottrade. I am looking forward to adding Arktos and possibly Ursa to our buy-and-hold list.

For those of you unaware, Arktos is short the Nasdaq 100 (not the Nasdaq Composite Index) and Ursa is short the S&P 500. They will rise when the Nasdaq 100 and S&P 500 fall. We are nearing a point when putting a little of these in our longer term portfolios will make sense.

Gas and Oil

The Hyperion model just moved to the sidelines in natural gas, and MACD looks positive. Gas may base here for a while, and MACD will likely set up a second buy signal before this gets a real head of steam. However, it looks like the weakness in natural gas is over.

They may trade them for gold at some ratio (the price), or they may invest them in other non-dollar based assets like commodities. The Chinese have been stockpiling industrial commodities lately like nothing I have seen before. Look at copper!

The dollar has broken out of its trading range.

The Hyperion model bought the dollar on February 26 at 88.50. I am a dollar bear, but one should not second-guess his models, and the Hyperion model does an excellent job calling the trends.

There is solid overhead resistance at 92.00, and you can see what is going on in the RSI (Relative Strength Index) on the chart. You can create a chart for the June dollar at www.futuresource.com with the symbol DXM04. You can configure your chart any number of different ways there.

My take on this is that the dollar will bounce to the 91.00 to 92.00 level, RSI will become overbought, Hyperion will sell, and that will be that. Gold will mirror this move

the final elements in this adjustment.

It is interesting, for example, that bonds have been doing tolerably well while the dollar has floundered. This is not necessarily logical, but it is also a short term phenomenon. Our Hyperion model is long the bond, and rightly so. However, our Rydex bond program is still in money market funds. The reason is that there is virtually no momentum in bonds.

My feeling is that the Fed will not raise rates - not because of political pressures, but because of economic pressures. This is a stimulus driven recovery. The Fed has poured everything they have into an economic recovery, and now I see that the forecast is for 4% real growth in GDP this year. That is paltry considering the stimulus.

This means that what we have is all we are going to have. We are at the upper limit of GDP growth, and I think the markets have factored in better performance than that. Once you reach a limit, the trend changes. I think stocks will react to this soon.

Crude oil has been doing very well, and it seems to want to work its way higher. The bottom line is that we will all be paying more for energy next fall ... but energy issues will be doing well also.

The real political element in this - particularly with an election coming up - is availability. The administration cannot afford any shortages. There can be no gas lines. The price can go where it will, but American consumers do not like to wait in line. They will pay the price, but they expect to be able to buy what they want, when they want it. I don't expect any shortage problems, but I do expect to see higher prices, both at the well head and at the pumps.

The higher prices in these commodities will push our energy stocks higher. Nevertheless, we will be lightening up on our Canadian energy stocks and some of our gold positions during the next rally phase.

I warned you about the new IRS rule on dividends in margin accounts last month. My friend, Brian Greenberg, a CPA who also does a radio program in New Jersey, advises that one should wait on filing until mid-March if you think the 1099 problem might affect you. There are likely going to be a lot of revised 1099's sent out this month.

What are the possibilities of a bank bust? I don't think anyone is thinking about this much, but there are untold amounts of derivatives out there. Warren Buffett has said that the derivative market is a "time bomb" waiting to explode. The fact that no one really knows how big this market is and that very successful investment types like Mr. Buffett are concerned should have you at least thinking about this.

Some estimates put the derivative market at \$105 trillion, 10 times the U.S. GDP. It is reported that commercial banks hold \$56 trillion in derivatives and that seven U.S. banks own 96% of these, and perhaps more.

Derivatives are a bet really - a side bet, or a bet on a bet. The bet is over which way the price of interest rates, a currency, a market index, etc. will move. There is all sorts of alchemy being done with these, including converting short term interest to long term through interest rate swaps, etc.

The derivative market is unregulated, and it's only understood by a handful of experts. Perhaps they really only think they understand? We have already seen one explosion when LTCM, Long Term Capital Management - supposedly run by the brightest minds in finance, some Nobel laureates - went up in flames because of a failed derivatives deal. There will be more eventually.

Derivatives can also work to overstate earnings. In some cases, both sides in the derivative contract can postulate positive profits on their positions depending on the assumptions they use. When something goes wrong, there can be a chain reaction of defaults. This is why the Fed stepped in to assist during the LTCM crisis.

There will be more LTCM, Enrons, etc. eventually. The real problem is that derivatives cast a cloud over the entire financial horizon. The problem is that although no one knows how much money is involved, they know it is huge and likely understated. The biggest problem is liquidity and the spiral of liquidity problems a single default can set off. A stampede for cash could make the 1987 stock market crash look tame.

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