

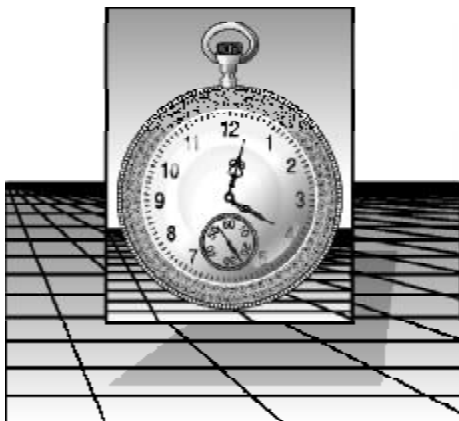
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Please note that we will be publishing the mid-month letter one week later than usual.

The next issue will be published March 24.

- **What looks good right now?**

Pages 3-4



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INVESTING WITH INFLATION IN MIND

This could be just another urban myth, but I was told of a mobile home in California that is for sale for \$1 million! Supposedly, it sits in a trailer park, and it has a nice view of the ocean. The million dollars is basically for the right to park your mobile home in this space. You won't own the land.

I've no idea what the actual rental fee for the lot space might be. That's not the point. The point is that U.S. dollars are becoming worthless.

Maybe the average American, who borrows to the hilt, is on to something that will end up being praised as financial wisdom. The wisdom will depend on whether one is able to pay back what he owes - and that's a big if.

I don't think you will see my California real estate example show up in the CPI. The government number crunchers have a tight handle on those statistics and a strong, vested interest in keeping "official" inflation numbers low.

My personal experience tells me inflation is alive, well, and getting stronger. The CRB has just reached a 17-year high, and U.S. Treasury Inflation Protected Securities (TIPs) performed well ahead of traditional Treasuries last year.

The last official inflation numbers showed the CPI at 3% January 2005 over January 2004. In January 2004, this number was 1.9%. Research has shown that it is not the level of inflation that is important to investors. It is the direction of inflation that is the determining factor. If inflation is rising, it is bearish for financial assets and bullish for tangibles.

We have a model designed to direct our attention to the investment sector that offers the best risk-to-reward balance. Our Annual Asset Allocation Model (AAAM) is engineered to "show us the money."

In October 2001, it shifted from bonds to tangibles, and we have since concentrated (quite successfully, I believe) on tangibles - natural resources and commodities as well as stocks that are advantaged from rising commodity prices. We will stay this course until the AAAM tells us otherwise.

The implications of the model's confirmation last October to stick with tangibles points to the dollar becoming more worthless in the future. Perhaps the mobile home deal for a million dollars will end up being a good investment. It's hard to imagine; but then, the future is always hard to imagine.

I think we have better investment opportunities available than the California mobile home. We have investment opportunities that offer far less risk and greater profit potential.

The bond market is not one of those better opportunities.

I cannot get my mind around bonds, at least not in a bullish sense. Reason number one is that the Annual Asset Allocation Model shifted out of bonds and into tangibles when it made its last asset shift in 2001. That leaves us with bonds being very high risk comparatively, with limited profit potential. The big money in bonds has already been made.

Bonds may well sit at current levels, or bounce around; but if they collapse - which is certainly possible - the losses will be all but unrecoverable. If you have an interest in bonds, my recommendation is to simply trade them in accordance with our Hyperion model and/or the Rydex bond program signals, which we announce on the hotlines. Trading bonds is fine. Long term investing in U.S. bonds carries too much risk.

Investing in foreign bonds, however, is not a bad idea, although I do not profess to be an expert in foreign debt instruments. I have bought some Canadian bonds, and they have worked out very well for me.

I had some Ontario bonds come due at the end of February. As it worked out, I made a coupon rate of about 5% and paid about \$9,300 in U.S. dollars for C\$15,000 face value two

years ago. I got just over \$12,000 U.S. back when they paid off. Not considering that the interest payments translated into more U.S. dollars with each payment because of the increasing value of the Canadian dollar against the U.S. dollar, there was a 29% profit in the bonds - simply from the dollar falling against the Canadian loonie.

I am not sure I really made all that much doing this, considering inflation and the weak dollar, but it turned out better than holding those \$9,000 U.S. dollars for the last two years. Your broker can provide you with a list of foreign bonds available. I like the natural resource countries like New Zealand, Australia, and Canada. A few dollars in foreign bonds will give you a decent hedge against the dismal future in store for the U.S. dollar ... but there are other avenues as well.

You might consider buying some TIPs.

I see they are issuing 20-year TIPs now. If you do buy them, I recommend that you purchase them from the Treasury at the auctions that are held in January and July.

You should read up on TIPs if you are not familiar with them so you fully understand how they work. Go to www.publicdebt.treas.gov. You can also find information on setting up a Treasury Direct account there, which I highly recommend if you are buying Treasuries. You can also find information on I-bonds at the public debt site. They work somewhat like E-bonds, and they are easier for many investors to understand.

You know that I am fond of the Canadian energy trusts. That is because we can acquire the same dollar-hedging characteristics as we get buying a foreign bond, as well as a better current yield.

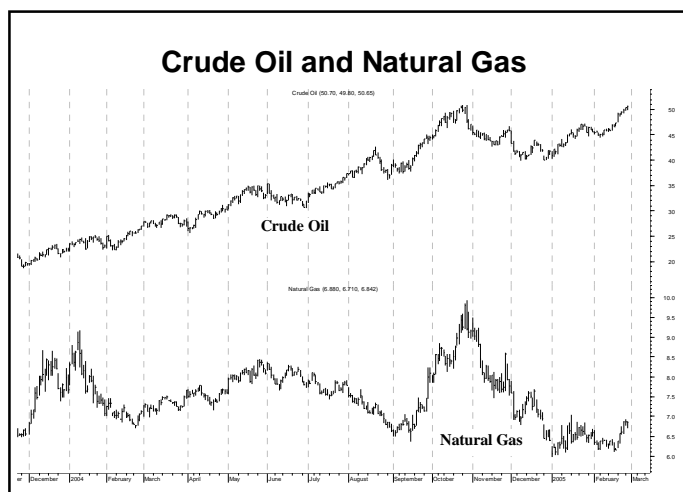
There is a tradeoff, of course.

These investments will succeed or fail on the basis of the price of crude oil and natural gas - in terms of U.S. dollars. If the price of oil and gas fall, the price of our energy trusts will fall - as perhaps will the amount of the dividends they pay. The other "problem" which is at the forefront of the arguments you will see against investing in Canadian energy trusts is their limited reserve lives.

It is true. At some point, these entities will cease to exist, at least in their present form. They will all run out of oil and gas - some, admittedly, sooner than others. However, this is the reason I like them, along with the fact that Canadian energy trusts are allowed to invest in additional reserves, where U.S. energy trusts are basically limited to a given piece of real estate.

The world is running out of oil and gas while demand - especially from Asia - is growing relentlessly. This is a classic case for higher energy prices. I am not worried about crude or natural gas falling out of bed. Yes, they have done that in the past, but the days of cheap energy and the nickel Coke are long past.

According to a Bloomberg piece on February 10, crude demand is expected to increase 1.4% during 2005 to 84 million barrels a day.



Perhaps more interesting about this forecast is that this amounted to an increase of 80,000 barrels a day from the forecast given only a month before. The tendency seems to be to underestimate demand.

Consider that the U.S. has 293 million people and uses 22 million barrels a day (MBD). Asia has 3.6 BILLION people and uses 20 MBD. On an individual or per capita basis, this amounts to Asia using only 7% of U.S. demand. This is according to a report by Steve Belmont of Rutsen Meier Belmont Group.

With the Chinese standard of living beginning to accelerate, it is not a stretch to see them doubling their per capita energy usage to, say, 14% of what we use. That would add another 20 MBD to demand and would push world energy usage from 2005's 84 MBD to over 100 MBD. This is a reasonable expectation.

Kevin Kerr is an expert in energy markets, and this recent comment is worth passing on to you. "Given the likelihood that world production cannot rise much above 90 million barrels per day and the fact that world demand will easily reach 90 million

at the point that we have already run out of cheap oil.

What good is a Canadian energy trust if they have dry wells when the price of crude is \$200 a barrel? Good question. My answer is to sell them before that event occurs. The time to sell the Canadian trusts will come within the next two years.

They will be all the rage when we sell, and you will complain about giving up their generous dividends, made ever more generous when compared to your original cost basis in these issues. In all probability, we will not sell at the high either. They will be tough for you to give up when the time comes, but we do not intend to hold these forever.

That leaves us with today. It may be too late to get too much more involved in these stocks, at least until they sell off some. **Enerplus** has definitely gone too far to be a sensible investment at this point. I wouldn't sell it just yet, but it is certainly a hold.

So, let's cut to the bottom line. What looks good right now? I still like **Paramount Energy** (PMTUN-

barrels per day by the end of 2007, there is little chance of cheap oil returning."

We are close to where the rubber meets the road. No, we have some years yet until the world runs out of oil, but we are now

TSX-C\$17.14). That is about \$13.90 in U.S. dollars. At this price, the indicated dividend is right at 15.40%. The reason Paramount is lagging the pack is that it deals exclusively in natural gas, and natural gas has been sitting just over \$6.00 while crude oil has taken the spotlight.

If one were looking for relative bargains in this market, natural gas would qualify. Once gas takes off, I think investors will turn their attention to the likes of Paramount. The key is to buy it before the crowd gets interested. If you own it already and are looking for a "buy into weakness" price, put your open orders in at C\$15.90 Canadian.

Another on our list that I could buy here is **Baytex** (BTEUN-TSX-C\$14.63). This equates to about \$11.85 U.S. Their reserves have actually increased, which cuts them from the herd. The yield is about 12.30% at this price, which is definitely not ground floor, but it's decent. Buy a little here and then buy more if given the chance at C\$13.50 Canadian or \$10.95 U.S.

I want to mention our old friend **Peyto Energy**, which is on our buy-and-hold list as a hold. They are much too far along now to represent a good, low risk buy, but they just announced their third dividend increase since reorganizing into an energy trust. Hang on to this one.

I have been looking into several very interesting energy investment ideas, including alternative energy like uranium, oil sands, and ethanol ... but that old risk to reward thing keeps coming back on me. There is just

too much excitement in these areas right now to find low risk, high potential places to put our money.

Incidentally, according to the Financial Times, for the US to replace 10% of its anticipated petrol consumption in 2020 with ethanol, corn would have to be planted in an area equal to the size of Illinois, Indiana, and Ohio – one sixth of the land used to grow all U.S. crops!

It is time to be a little cautious in the energy sector.

The media has energy in their sights, and the public is all over energy stocks right now. With a few exceptions like Paramount and Baytex, I think prices have run a bit far with recent enthusiasm. I believe we will see energy prices higher down the road, but I also think we will see a better time to invest than right now. Although I do not recommend selling just yet, I will be working up a list of stop points for the trusts on our list with “hold” ratings.

Precious metals are looking more interesting.

There are several ways to place investments in this sector. First is to buy gold and silver. You might buy silver bars, but I prefer bullion coins like Krugerrands, Canadian Maple Leafs, or Chinese Pandas. You have to buy these through a coin dealer, and I can't really offer too much advice as to what amount over their respective gold content you should expect to pay.

My friends who deal in coins tell me you will pay \$10 to \$15 over spot for the 1-ounce Krugerrands, but you will pay up to \$25 for the other bullion coins. There are discounts for quantity purchases.

The second important aspect in buying any coins is to take delivery of the coins. That means you need to have some safe means of storing them yourself. There are too many instances of dealers ending up broke and all the stored coins gone.

I am not a numismatic authority, so the topic of collectable coins belongs to someone else. If you have the knowledge, experience, and interest, rare coins are a consideration. If you know nothing about rare coins, I can almost guarantee you will end up on the short end of the deal.

My choice in silver runs along the bullion gold philosophy. I like junk silver coins or bullion ingots. It is hard to give you any guidelines here; but typically, you will pay up to 60 cents an ounce over spot.

More exciting, to me at least, is to buy the precious metal mining stocks that we have on our buy-and-hold list. Some, like **Newmont Mining** and **ASA**, pay a modest dividend as well. If you are a trader and don't like to sit through the volatility inherent in the gold and silver markets, consider trading the metal stocks on our Hyperion list. The easy way is to heed the downside buy prices and buy from the buy-and-hold list.

My choice for purchase today is still **Western Silver** (WTZ-AMEX-\$10.33). It has been on the move, so I would buy into weakness if at all possible. Do not pay over \$10.60. I have owned this for some time and have added to my position along the way. If we see a pullback to \$9.00, I will buy more again.

Most of you who have been with me for any length of time know that I do not like put and call options. This is like playing the slots in Vegas. Like the house, the option writers have the odds strongly in their favor, and I don't like to bet against them. You are better off buying an inexpensive stock from our buy-and-hold junior gold and silver stock list (Page 6) than buying a call option.

Our last new addition to the list is **Yamana Gold** (AUY-AMEX-\$3.24). Yamana is a Canadian mining company with operations in Brazil, Argentina, and other Latin American countries. You can get all the fundamentals at their Web site www.yamana.com. They look great technically as well. Buy some here - preferably under \$3.40 - and add to that at \$2.90.

Our Rydex gold program is back in the Rydex Precious Metals Fund with a 25% position. I expect we will be increasing this stake soon. The instructions are on the Web site hotline. If you are too busy to follow this yourself, we do manage some money at Rydex in this program. Drop me a line or send me an e-mail and I will send you information.

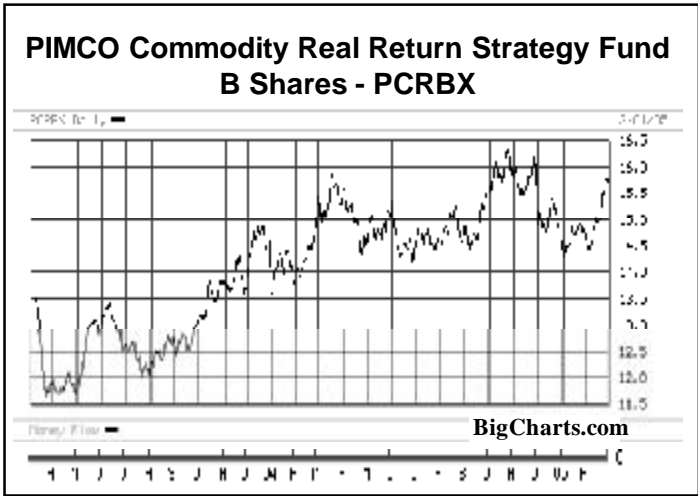
Gold and silver futures are also an investment avenue, but I am a proponent of buying a futures contract outright - that is, with no margin. You can put up T-bills and use 95% of the face value of the bills to back a futures contract.

So, if you were to buy one contract of silver for delivery in December 2008 (yes, there is a December 2008 contract, but it is not extremely liquid), it would cost you \$7.80 an ounce, or \$39,000 for a 5,000-ounce contract. This would require roughly \$42,000 in T-bills to establish.

You now have 5,000 ounces of silver and an annual income of 2.5%, or \$1,050 from the T-bills. You can buy either 3-month or 6-month T-bills and roll them over as they come due. I would go for the 6-month bills.

The downside to this is that although you can do this with smaller accounts, larger accounts will give you a better net yield on the T-bills because the broker is going to charge you a flat fee to buy \$50,000 or \$500,000 worth of bills. I know that Jackson Commodities charges \$50.00. In my above example of one contract of silver, the yield will drop to about 2% if you buy 6-month bills.

In the future, you will earn more interest on T-bills. They can't really pay much less, but they will pay a lot more than today's 2.25 rate as the Fed continues to crank up short term rates. This investment is safe from theft and provides safe storage.



I have a lot of reasons for liking silver better than gold. Top of the list is silver's industrial demand, especially in Asia, and the fact that there really is not that much silver being produced.

I recently became aware of the Mexican silver monetization bill. This could help return the gold/silver ratio from its present 58 to 1 back to its historic level of 25 to 1.

The Mexican silver monetization bill is not actually a bill, but rather a communique sent by the governors of all 31 states of the Mexican Republic to the Ways and Means Committee of the Mexican House of Representatives. The governors' message was that they encourage and support the monetization of silver in Mexico (something they mine a lot of there). They urged the committee to support a bill to this effect.

This is not law yet, but the sentiment is interesting, especially if the Mexicans are looking for alternatives to holding huge U.S. dollar reserves. Alternatives to the dollar are gaining popularity in the international community.

You should also consider buying some P i m c o Commodity Real Return Strategy Fund (P C R B X - \$15.65). This fund invests rather like the commodity investment

approach I have outlined, but they use TIPs instead of T-bills, and they have a portfolio of contracts they have invested in.

As you can see, it has been moving higher. Buy some here, and then pick up more in weakness. I have added this to the buy-and-hold list with a downside buy price at \$14.50.

A recent study done at the University of Pennsylvania found that over the last 45 years, commodities have been 19% less risky than the S&P 500. It is the small margin that causes the problems. Eliminate the extreme leverage, and you have a conservative investment vehicle.

The U.S. dollar must be central to your investment strategy. It is going lower, and most everything you buy is going to get more expensive. At least everything you need to buy soon is going to get more expensive - including housing if you have a variable rate mortgage.

If you are not getting the hotlines in your e-mail and would like to, let me know and I will set you up.

Late comment on stocks: On March 1, both the Nasdaq Fast Tracker and the Phoenix model turned positive. The specific action to be taken in each program was announced on the Web site hotline. The market looks like it would like to run a bit here; and, hopefully, these trades will turn a decent profit. Any changes in these trading programs will be announced on the hotlines.

Recommended Stocks For Buy And Hold

Note: If you go to www.bigcharts.com, you can get quotes on Canadian stocks in Canadian dollars by using the symbols we have listed, preceded by CA: For example, if you want a quote for Shiningbank, go to www.bigcharts.com, and type in CA:SHNUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .81. You should buy at or below the posted downside buy price.

Last Updated 3/01/05

Company	Symbol/ Exchange	Initial Recom. Date & Price	Price 3/01/05	Div.	Downside Buy Price	Target	Web Site
Enerplus Resources	ERF-NYSE	4/20/01@\$18.00	\$37.52	9.03%	HOLD		www.enerplus.com
Peyto Energy	PEYUN-TSX	7/18/03@\$17.50	C\$52.95	4.99%	HOLD		www.peyto.com
Primewest Energy	PWI-NYSE	2/07/03@\$17.00	\$24.00	11.94%	HOLD		www.primewestenergy.com
Provident Energy	PVX-AMEX	6/16/03@\$7.50	\$9.86	11.81%	HOLD		www.providentenergy.com
Shiningbank	SHNUN-TSX	1/02/03@C\$15.15	C\$22.67	12.17%	C\$21.00		www.shiningbank.com
Suncor Energy	SU-NYSE	2/07/03@\$16.8	\$37.79	0.51%	\$34.00		www.suncor.com
Anglogold	AU-NYSE	2/25/03@\$32.00	\$35.31	n/a	\$36.00		www.anglogold.com
ASA Ltd.	ASA-NYSE	11/19/02@\$31.00	\$40.12	1.00%	\$38.00		www.asaltd.com
Goldcorp	GG-NYSE	8/15/03@\$13.00	\$13.32	1.35%	HOLD		www.goldcorp.com
Newmont Mining	NEM-NYSE	9/05/03@\$39.10	\$44.05	0.91%	\$43.00		www.newmont.com
Barrick Gold	ABX-NYSE	1/05/03@\$22.85	\$24.35	0.90%	HOLD		www.barrick.com
Baytex Energy	BTEUN-TSX	05/18/04@C\$11.90	C\$14.63	12.30%	C\$13.50		www.baytex.ab.ca
Alliance Res. Part.	ARLP-OTC	9/29/04@55.96	\$76.22	3.94%	HOLD		www.arlp.com
Fording Cdn. Coal	FDG-NYSE	11/16/04@68.20	\$91.70	4.65%	HOLD		www.fording.ca
Paramount En. Tr.	PMTUN-TSX	12/20/04@C\$16.44	C\$17.14	15.40%	C\$15.90		www.paramountenergy.com
PIMCO Com. RR Str. Fnd.	PCRBX	New Rco.	\$15.65	n/a	\$14.50		www.pimco.com

Energy Split and Pengrowth were removed from the list since they have not hit our recommended buy prices.

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

Last Updated 3/01/05

Company	Symbol/Exchange	Initl. Recom. Date & Price	Price 3/01/05	Downside Buy Price	Target	Web Site
Kinross Gold Corp	KGC-AMEX	10/2/02@\$6.30	\$6.41	\$6.15		www.kinross.com
Bema Gold Corp.	BGO-AMEX	6/6/02@\$1.06	\$2.88	\$2.65		www.bema.com
Coeur d'Alene	CDE-NYSE	9/2/03@\$3.19	\$3.93	\$3.50		www.coeur.com
Western Silver	WTZ-AMEX	9/2/03@\$3.50	\$10.33	\$9.00		www.westernsilvercorp.com
American Bonanza	BZA-V	10/2/02@C\$0.15	C\$0.16	HOLD		www.americanbonanza.com
Ivanhoe Mines	IVN-NYSE	6/4/04@\$6.00	\$7.85	\$6.75		www.ivanhoe-mines.com
International Wayside	IWA-TSX	4/26/04@C\$0.14	C\$0.09	HOLD		www.wayside-gold.com
Guinor Gold	GNR-TSX	6/4/04@C\$1.00	C\$1.03	HOLD		www.guinor.com
Novagold Resources	NG-AMEX	12/8/04@6.50	\$9.07	\$8.00		www.novagold.net
Yamana Gold	AUY-AMEX	New Reco.	\$3.24	Buy at \$2.90		www.yamana.com

C\$ Denotes Canadian dollar

Quotes for Canadian stocks can be obtained on the U.S. OTC Bulletin Board (Pink Sheets), with the following symbols. I want to caution you, however, that OTCBB quotes are not always current. They can be a day or more old at times. You should take the quote in Canadian dollars, as described above, times .81 to see if the OTC quote looks correct. You can access these OTCBB quotes by using www.barchart.com. I don't have OTCBB symbols for American Bonanza, International Wayside, or Guinor.

Shiningbank SBKEF Peyto Energy PEYUF Baytex Energy BAYXF Energy Split EGYSF Paramount Energy PMGYF

Target: The "Target" column represents the price at which you should liquidate the position and take profits. Do not reverse on the Target Price. There will not always be a target price. You should only reverse on the reversal stop price, even if there is no current open position.

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e-mail: protiming@hotmail.com