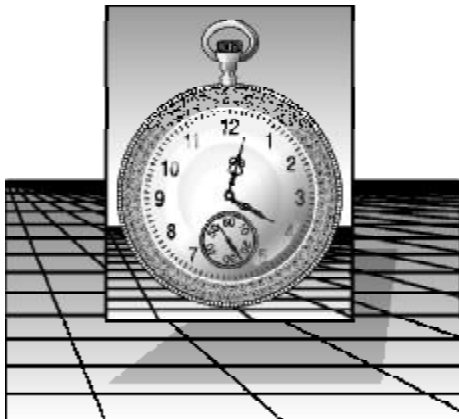




**The next issue will be published April 20.**

- **Consumer spending is the key to the economy.** Page 2
- **The best buys today are still in energy.** Page 4
- **Do this now.** Page 5



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## THERE IS A RECESSION COMING

*The reasons are many. Most important, the Fed seems to want to cool the economy down ... and, indeed, they will.*

We have just seen the 15<sup>th</sup> consecutive interest rate hike, but you have to put this into prospective. The Fed ran rates down to 1%, creating a housing boom. They are now just beginning to get rates back to normal. Normal, by the way, is close to 6%. The median rate for Fed funds from 1966 to 2000 was just at 6%. As the comments after the March FOMC meeting inferred, there will be more rate hikes this year.

The economic warning signs are in the yield curve. With 3-month T-bills paying 4.75 % and the 10-year bond paying 4.85%, the yield curve, although not yet inverted, is definitely flat.

### The Fed has other tools in addition to setting short term interest rates.

They can adjust the reserve requirement. The higher the requirement, the less money banks have to loan. They can buy and sell Treasuries through their open market activities, thus adding or subtracting money in the system.

There is something else. An old friend of mine used to study what we call the “green sheets.” Along with other interesting local economic tidbits, these sheets list who is borrowing money. My buddy would wait until the banks

were lending money to the local “bad risks” and then he would dust off his favorite project and head for the bank.

Banks are sometimes more willing to take risks with their loans. This is normally the consequence of how strict the Fed bank examiners are. If the Fed wants to reign in lending, they can instruct their examiners to clamp down. If they want money loosened up, the examiners will be a lot friendlier during their audits.

Fed chairman Bernanke has been warning in his speeches that he thinks commercial real estate loans are out of sync with asset values and “may be due for upgrades.” Such comments are telling us that Fed bank examiners are going to get more restrictive.

The point is that debt creates money. If commercial real estate loans are restricted, downgraded, etc., liquidity will dry up, mortgage rates will rise, and the tightening process will continue until we find economic growth contracting.

The Fed wants mortgage rates higher, and this is going to hit the consumer squarely in his pocketbook. According to David Rosenberg at Merrill Lynch, approximately \$2.5 trillion of household debt (or 21% of outstanding

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 © 2006 by Professional Timing Service.

household debt) will re-price upwards in 2006. Rosenberg is talking about variable rate mortgages. Credit card rates are also going to be swept up in all of this, and it is going to cost households enough to make a difference.

### **Consumer spending is the key to the economy, and to the stock market as well.**

As consumer spending slows later this year due to Fed activities in process now, S&P 500 earnings will also slow. The S&P 500 is sitting with a PE of 29 as I write this. This is a level from which bear markets are started - not from which bull markets are born.

Yes, Virginia there is a recession coming, and this is a good time to take stock and be sure your portfolio is not sitting in front of a speeding train. Here is what to do.

### **Think retro 1970's stock market.**

Again, it is all up to the consumer, many of whom may be on the brink of bankruptcy and are too blind to see it. We are emerging out of an era of low interest rates that was artificially created by the Fed, essentially in response to the dot com crash in 2000. An era of low rates has entranced investors and consumers, and it has produced an aura of perceived low risk.

The stock markets with historically high PE's show no premium for risk at all, and investors have accepted unrealistic expectations of performance. They see the stock market as a slam dunk investment. They are wrong. It is time for you to manage your expectations

and recognize the high risk in today's popular averages.

The next serious decline will begin within the coming six months. If you were to invest in, say, the Dow Industrials, you would find that nearly all your profits would be made during November through April. April is the last month of the best six months of the year for stock market performance. If you simply were to stay out of the market from the end of April to the end of October each year, you would have only missed the bad times – the crashes and massacres – not the profits. The May-October time frame is an overall loser.

Sy Harding in his book Riding the Bear applied MACD to the S&P 500 to time when one would exit the best six months. Sometimes it was better to exit early, and sometimes late. If this is something that interests you, you can take a MACD “sell” after mid-April as a signal that the bear is beginning. I will follow up on this timing aspect in the hotlines.

Another way to signal the next bear - but not as refined - is to follow the 39-week moving average on the S&P 500. It is currently about 1,250. If prices on a weekly basis break below that, you will know the water is getting deep.

Perhaps an easier way to red flag the market is to simply watch our Nasdaq Slow Tracker, which is updated on the hotlines. Currently, we need to see prices fall to 2,239.50 in the Nasdaq Composite to trigger a sell. I like signals on the Nasdaq best since this is the key index in the market. If the Nasdaq is weak, everything will be weak. Incidentally, the Nasdaq is nowhere near its all-time highs. That, in itself, is a serious warning.

Regardless of whether you are interested in timing the bear, you should be reviewing your portfolio. If you hold securities that are not advantaged by higher commodity prices, at least protect them with sell stops.

### **Where to put money?**

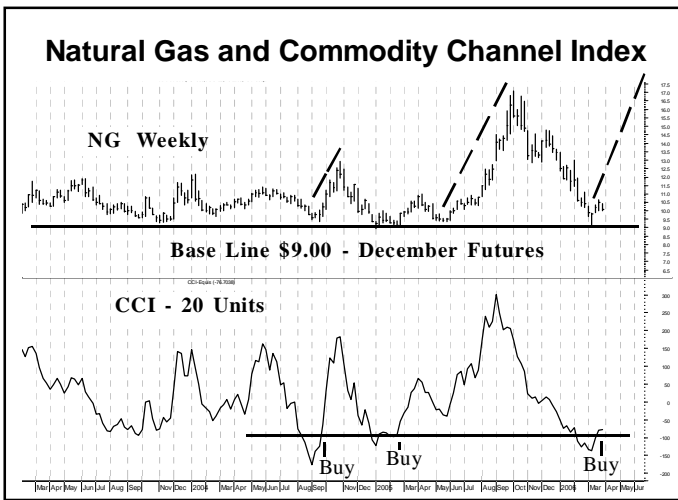
Shelter from the storm can be found in 3-month T-bills, which you can purchase directly at the Fed by opening a Treasury Direct account. Go to [www.publicdebt.treas.gov](http://www.publicdebt.treas.gov) and check them out.

If you are of the ilk to sell short - which I don't recommend for any but those of you who are seasoned in such matters - my suggestion is to buy Rydex Ursa or Arktos funds on the next market sell signals. Ursa is short the S&P 500, and Arktos is short the Nasdaq 100. There are other short funds as well, and some offer higher leverage. I will leave that up to you, but I tend to be conservative.

### **Energy prices are not going to fall, regardless of the severity of the recession.**

In fact, energy prices - being a non-discretionary expense for the most part - will be part of the reason consumer spending slows. Higher energy prices are like a tax. Gasoline looks like it is on the way up again, and higher heating and cooling costs are going to come on the back of higher house payments this year. Regardless of the official CPI figures, living is going to get more expensive as the year wears on.

At first, the public and media will view spikes in energy prices as fleeting and temporary. Note the jumps we have seen in natural gas. Once again, natural



gas prices have settled back to the baseline (although the baseline seems to be rising as time goes on). My forecast is that the next spike in natural gas will stick.

The next natural gas run should exceed the last highs by a significant margin. They will then settle back, but likely not much further than back to the old highs.

A mild winter and plentiful storage supplies have taken the heat off, so to speak; but if you are paying attention to events in Europe and Britain, you will see a different story. Supplies are running well behind demand, to the extent that some areas are experiencing no supplies at all from time to time. With domestic gas production on the wane, we can anticipate similar problems here over the next couple of years.

The summer is approaching; and once the air conditioners get kicked on, the current generous natural gas inventories will dissipate in a heart beat. The Commodity Channel Index (chart above) has also officially triggered a buy signal for gas, which has already moved up by over a dollar.

A recession in the U.S. is not going to dampen energy prices because energy

each year. Recession or not, the world will use more energy in the next 12 months than they did in the last 12.

**China is not going to fall into a recession and save the situation.**

China may cool off a little in the normal course of things, but only from “white hot to red hot.” They are frantically expanding into their interior in an effort to bring more of their population into their economic miracle. As they do, they are developing an internal economy less and less dependent on the outside markets. Asia as a whole is also beginning to evolve into a self-powered trading group less and less dependent on Western markets.

**Demand is only half of the problem.**

The problem - or the benefit if you are investing in oil and gas - comes in meeting this demand. That is the crux. Crude oil is not being brought on line as fast as existing wells are being depleted. Global production is falling behind and will continue to do so, regardless of a recession in the U.S. It is only a question of how far production of crude and natural gas will fall behind

is a global supply/demand problem. Conservation, alternate sources, and new drilling all matter little as demand keeps marching steadily ahead of these attempts to keep up. Demand relentlessly increases at about

1.8 mbd to 2.0 mbd

demand. If energy demand in the U.S. were to simply level off, any supply left behind would be quickly sucked up by global growth elsewhere.

My expectation for crude oil is to see it balk temporarily at \$70.00, which is close to where it is now. Then after a brief period of consolidation, it will break through the \$70.00 high and never look back again. This jump may well be perpetuated by an event in world politics, but we are running short on time to invest in energy while crude is below \$70.00 and natural gas is selling under \$11.00.

**The dollar is not innocent in our outlook.**

A U.S. recession will weaken the dollar. I am seeing more indications that our “trading partners” are getting tired of having to accept and hold “foofoo” dollars in exchange for ever more scarce real assets. Several Arab countries have announced that they are re-allocating their currency reserves away from the dollar in deference to the euro.

Some are getting in line with Iran and are talking of requiring oil payments in euros. Iran has apparently postponed the opening of their euro-based oil exchange. Perhaps they are too busy right now building nuclear bombs and missiles to deliver them. This is not bullish for the dollar. A weak dollar will buoy the price of crude in dollar terms, even if supply/demand forces soften.

The dollar is key to the future of precious metals, although the metals have found independent motivation thus far this year. Gold is threatening the \$600 level, and silver streaked through resistance at \$11.00 like it wasn't there. Silver, of

course, has the expectation of a silver ETF fomenting speculative demand. Gold is moving along just fine on its own without apparent help from a falling dollar since the dollar index basis June has been stable between 88.00 - 90.00.

### **The markets anticipate. What does gold see that we don't?**

I think gold is anticipating a strong performance in the commodity sector at large and a much weaker dollar. It is telling us that regardless of how the propagandists want to calculate the CPI, inflation is about to increase, regardless of the coming recession. Yes, you can have both a recession and inflation in commodity prices.

Where should you invest? First, make sure you are prepared for a decline in the popular averages. If there were a crash, everything might fall with the averages, but only briefly. The commodity stocks will rebound, but the others won't.

Frankly, I am suspicious that we may see the averages begin to slowly erode, and the erosion could last for several years. The averages may well simply drift lower, interrupted occasionally by a sharp rally lasting a week or two. Such rallies keep everyone in and the bullish talk going. The next bear may be quite stealthy.

### **The best buys today are still in energy.**

I have been pushing readers toward energy stocks for the past several months, and most of our recommendations hit their downside

buy prices in the first quarter. You will notice on the buy-and-hold list on Page 6 that there have been numerous changes which are shown in bold. There is a methodology involved in arriving at those prices, and we need more time before further adjustments are warranted.

Remember, the downside buy prices are not necessarily downside expectations. It is not that I am forecasting that prices will necessarily fall to those levels. What the downside buy prices represent are low risk purchase points. If prices fall to those levels, you will have a low risk buy in effect.

Folks often panic when the price is hit, but that is part of buying when risk is low. Warren Buffett said it best in describing his investment success: "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

I did change the downside buy price for **Headwaters** (HW-NYSE-\$39.35) to \$37.10. I detailed this recommendation in the last letter, and a few shares at \$37.10 or better would be a nice addition to your portfolios. I also like **Paramount Energy** (PMTUN-TSX-\$19.92). Although the downside buy price is still at C\$19.00, if you don't have any, you might want to pick up a few shares under C\$20.00. Add to existing positions if it hits C\$19.00.

You should note that **Primewest** (PWI-NYSE-\$29.00) is still trading under its buy price of \$30.05 and qualifies for purchase. Also, I am taking **Provident** (PVX-AMEX-\$11.29) off its hold rating. However,

this one should not be purchased over \$10.50. Do remember as well that some amount of diversification among the energy issues is wise.

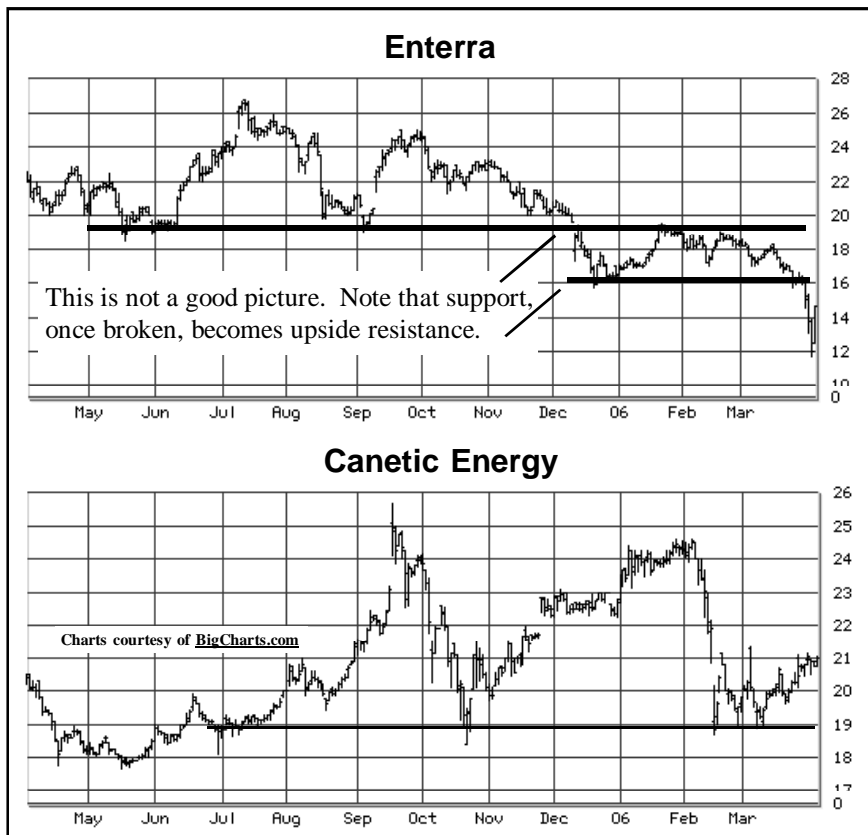
I have been looking for additional Canadian trusts that are listed on the NYSE. As you know, **Baytex** (BTE-NYSE-\$17.16) is now on the big board with the symbol BTE. One of our subscribers sent me information on **Enterra** (ENT-NYSE-\$14.60) wondering what was wrong with it. I don't frankly know (see chart on Page 5). It is making new lows on good news, which is as bad as it gets. It could see a technical bounce to \$16.00, but this is one to avoid.

Another subscriber sent in a suggestion - **Canetic Energy** (CNE-NYSE-\$21.01), recently listed on the NYSE (see chart on Page 5). This one I like. The dividend is 11.3% at today's price, which is a little less than I would like. However, the trust has corrected along with the others, and it has established a base at \$19.00. Buy some Canetic at \$21.00 or less and accumulate more during weakness.

### **You need to stand aside the precious metals for now.**

We had an excellent buying opportunity last fall when many of our metals stocks hit their buy prices, and we had a major buying opportunity last May when we published the "Simplicity" special report. We are now faced with an overextended market that no one is afraid of.

The e-mails I get are busting with buying enthusiasm at multi-year highs, while RSI's and MACD numbers are



are going to make a lot more money, but this is still not the best time to buy.

Although you will be uncomfortable enough sitting on what you have while profit-takers take prices down, I advise against selling with the idea of buying back in. Experience has shown me that you just won't get back in. Sitting tight is exactly what you need to do. The path to success is to learn to sit tight when you are right, and don't chase the crowd. We are in this for the long haul, and it isn't over by a long shot.

**Do this now.**

Put in an open order to buy **Silver Wheaton** (SLW-AMEX-\$10.48) at \$8.50 "good 'til cancelled." When the profit-takers set in, the metals will correct back sharply and quickly.

Gold and silver are extremely volatile. Daily movements of 4% to 8% are not unusual, both up and down. It is not unusual to see movements of 15% to 20% in a few days. The point is, hang on, be patient, and put your orders in under the market, even if you don't think those prices are possible right now. The best risk you can take is buying low.

overbought. Let's take the sage of Omaha's advice and be "fearful when others are greedy."

Although cyclical turning points are notoriously late or early, we are at the point where we should see cyclical highs come into the metals complex. The next cyclical lows should show up in May, a month that in the past few years has provided awesome buying opportunities.

weakness. Yes, I think gold is going well beyond its current highs in the years to come, but we will see a lower risk buy point first.

Incidentally, Rob McEwen, the marvel who developed Goldcorp and is currently heading U.S. Gold Corporation, said the other day that he thinks gold will go to ... dare I even pass this on to you ... \$5,500 ... an ounce! If he is half right, we

I think you could follow the crowd and buy the highs here. If you are very patient, have a strong stomach, plenty of Pepto, and are steely in your resolve, you should be able to profit eventually ... but that is the hard way.

You will feel just as anxious to sell when the next cyclical lows form as you are to buy now. You will also be able to buy one heck of a lot more for your money if you wait for



## Recommended Stocks For Buy And Hold - Updated 4/04/06

**Note: If you go to [www.bigcharts.com](http://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](http://www.bigcharts.com) and type in CA:SHNUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .86. 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.**

Company	Symbol	Exchange	Initial Recom. Date and	Price Price	Price 04/04/06	Downside Buy Price	Div. 04/04/06	Target	Web Site
<b>U.S. Dollars</b>									
Alliance Res.	ARLP	OTC	9/29/2004	27.98	35.33	35.10	5.21%*		<a href="http://arlp.com">arlp.com</a>
Anglogold	AU	NYSE	2/25/2003	32.00	54.29	<b>48.10</b>	n/a		<a href="http://anglogold.com">anglogold.com</a>
ASA	ASA	NYSE	11/19/2002	31.00	66.50	<b>55.25</b>	2.11%		<a href="http://asaltd.com">asaltd.com</a>
Barrick Gold	ABX	NYSE	1/5/2003	22.85	27.91	27.00	0.79%		<a href="http://barrick.com">barrick.com</a>
Baytex Energy**	BTE	NYSE	5/18/2004	9.00	17.16	<b>16.25</b>	12.59%		<a href="http://www.baytex.ab.ca">www.baytex.ab.ca</a>
Black Rock	BGR	NYSE	8/3/2005	25.99	26.30	<b>25.10</b>	5.70%		<a href="http://blackrock.com">blackrock.com</a>
<b>Canetic Energy</b>	<b>CNE</b>	<b>NYSE</b>	<b>New Recommendation</b>	<b>21.01</b>	<b>21.00</b>	<b>21.00</b>	<b>11.37%</b>		<a href="http://canetictrust.com">canetictrust.com</a>
Enerplus	ERF	NYSE	4/20/2001	18.00	51.00	<b>47.90</b>	8.51%		<a href="http://enerplus.com">enerplus.com</a>
Fording Coal	FDG	NYSE	11/16/2004	22.74	38.16	<b>36.10</b>	8.00%*		<a href="http://fording.ca">fording.ca</a>
Frontier Oil	FTO	NYSE	8/3/2005	28.75	60.60	<b>46.25</b>	0.26%		<a href="http://frontieroil.com">frontieroil.com</a>
Gabelli Glb Gld, etal	GGN	AMEX	1/3/2005	22.10	23.05	<b>21.10</b>	7.29%		<a href="http://gabelli.com">gabelli.com</a>
Goldcorp	GG	NYSE	8/15/2003	13.00	29.63	<b>24.50</b>	0.61%		<a href="http://goldcorp.com">goldcorp.com</a>
Headwaters	HW	NYSE	3/10/2006	36.30	39.35	<b>37.10</b>	n/a		<a href="http://headwaters.com">headwaters.com</a>
Newmont	NEM	NYSE	9/5/2003	39.10	51.75	HOLD	0.77%	\$56.50	<a href="http://newmont.com">newmont.com</a>
PanAm. Silver	PAAS	OTC	New Reco.		25.61	<b>21.95</b>	n/a		<a href="http://panamericansilver.com">panamericansilver.com</a>
Pimco Commod.	PCRAX		3/2/2005	13.97	13.85	HOLD	7.43%		<a href="http://pimcofunds.com">pimcofunds.com</a>
Primewest	PWI	NYSE	2/7/2003	17.00	29.00	30.05	12.88%		<a href="http://primewestenergy.com">primewestenergy.com</a>
Provident Energy	PVX	AMEX	6/16/2003	7.50	11.29	<b>10.50</b>	10.98%		<a href="http://providentenergy.com">providentenergy.com</a>
Silver Wheaton	SLW	AMEX	3/10/2006	8.40	10.48	<b>8.50</b>	n/a		<a href="http://silverwheaton.com">silverwheaton.com</a>
Suncor	SU	NYSE	2/7/2003	16.80	79.33	<b>65.00</b>	0.26%		<a href="http://suncor.com">suncor.com</a>
Valero	VLO	NYSE	4/26/2005	36.63	59.84	54.85	0.40%		<a href="http://valero.com">valero.com</a>
<b>Canadian Dollars</b>									
Paramount En. Tr.	CA:PMT.UN	TSX	12/20/2004	16.44	19.92	19.00	14.46%		<a href="http://paramountenergy.com">paramountenergy.com</a>
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	26.83	Hold	6.26%		<a href="http://peyto.com">peyto.com</a>
Shiningbank	CA:SHN.UN	TSX	1/2/2003	15.15	24.72	22.00	12.14%		<a href="http://shiningbank.com">shiningbank.com</a>

\*The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. I have listed these with a dividend that I feel is a likely minimum you might expect. For further details on their past dividend histories, you should visit [www.fording.ca](http://www.fording.ca), and [www.arlp.com](http://www.arlp.com). \*\* Baytex is now listed on the NYSE.

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

Company	Symbol	Exchange	Initial Recom. Date and	Price Price	Price 04/04/06	Downside Buy Price	Div. 04/04/06	Target	Web Site
<b>U.S. Dollars</b>									
Bema Gold	BGO	AMEX	6/6/2002	1.06	4.59	3.50	n/a		<a href="http://bema.com">bema.com</a>
Coeur d'Alene	CDE	NYSE	9/2/2003	3.19	6.37	<b>4.95</b>	n/a		<a href="http://coeur.com">coeur.com</a>
Mines Mgmt.	MGN	AMEX	5/13/2005	4.50	8.56	<b>6.90</b>	n/a		<a href="http://minesmanagement.com">minesmanagement.com</a>
Novagold	NG	AMEX	12/8/2004	6.50	15.91	<b>11.00</b>	n/a		<a href="http://novagold.net">novagold.net</a>
US Gold Corp.	USGL	OTCBB	9/9/2005	1.70	9.95	<b>6.75</b>	n/a		<a href="http://usgoldmining.com">usgoldmining.com</a>
Yamana	AUY	AMEX	4/14/2005	2.90	10.39	<b>8.05</b>	n/a		<a href="http://yamana.com">yamana.com</a>
<b>Canadian Dollars</b>									
UTS Energy	CA:UTS	TSX	New Reco.		7.14	6.05	n/a		<a href="http://uts.ca">uts.ca</a>
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	5.99	5.20	n/a		<a href="http://laramide.com">laramide.com</a>

C\$ Denotes Canadian dollar. Quotes for Canadian stocks can be obtained on the U.S. OTC Bulletin Board (pink sheets) with the following symbols. I want to caution you, however, that OTCBB quotes are not always current. They can be a day or more old at times. You should take the quote in Canadian dollars (as described above) times .86 to see if the OTC quote looks correct. You can access these OTCBB quotes by using [www.barchart.com](http://www.barchart.com).

Shiningbank SBKEF    Peyto Energy PEYUF    Paramount Energy PMGYF    Laramide LMRXF    UTS Energy UEYCF

**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:** [info@protiming.com](mailto:info@protiming.com)