

GOT GOLD?

There were two important events last month that will have a serious impact on our investment approach. One is a good one; one is not so good. First, the good.

I have talked in the past about the Chinese using their burgeoning foreign reserve stash to buy things they need, like raw materials. It would be much better for them to have a field full of copper ingots or silos of wheat than a vault bursting with depreciating U.S. dollars. It is now official. The great Chinese investment fund has been established, and it is a whopper. They have announced that they will hold \$650 billion of their reserves at ready, and they will invest the balance, along with \$200 billion to \$250 billion a year they expect to receive hereafter. That is a lot of money!

What will China buy? I believe they will spend some of their money on technology - both military and commercial. They will spend some on political influence. They will certainly spend a lion's share on raw materials and other commodities. This money will likely be the engine that will fuel the next major leg in the commodity bull market.

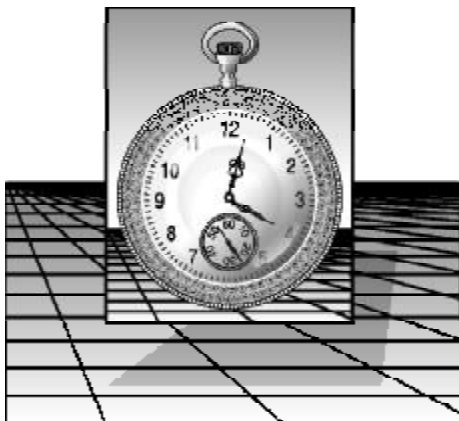
China will buy gold. They have every intention of being a significant player on the global scene; and to do that, they will need to increase their gold reserves. Some experts estimate they will need to accumulate 2,000 to 3,000 tons of gold toward this goal.

They will do this both directly and indirectly, with a little help from the population, which is enormous at some 1.3 billion souls. They have already legalized the ownership of gold for their citizens, and the citizenry is eagerly snapping up panda and "year of the pig" coins.

Consider this possibility. As the Chinese government trades depreciating dollars (and other flat currencies they are forced to accept in their commercial activities) for gold, they encourage their citizens to do the same - invest in gold. Then at some point when Western currencies are teetering or in a serious crisis, China can pull their trump card. They can call in the gold from the population (as Roosevelt did), and they can use it (along with government reserves) to provide gold backing for the yuan. They could suddenly end up with a highly desirable world reserve currency.

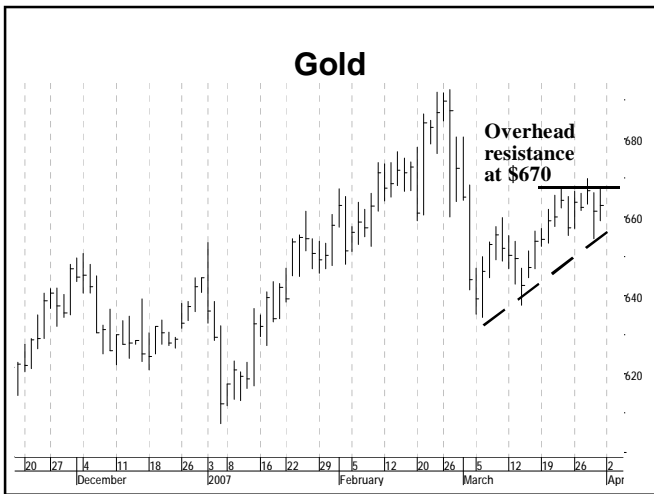
A bit of science fiction? Perhaps, but it's not really that far-fetched. Regardless, China is definitely gearing up to do some serious spending, and commodities will be the biggest beneficiary.

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Urban construction in China is moving at a pace that amounts to building a city the size of Houston every month. There are more sky cranes in the city of Shanghai alone than in the rest of the world. They are pouring a lot of concrete, stringing a lot of wire, plumbing a lot of pipe, and pounding a lot of nails. It's no wonder copper is back over \$3.00 a pound, which is, in itself, a sign that the recent correction in commodity prices is behind us.

A recession in China is not in the wings yet, by a long shot. China may cool off some day; but if they do, it will be from white hot to red hot.

Gold paused last month, but there was not a noticeable selloff as the late March cyclical lows came due. That is a bullish sign, but there still may be near term weakness before prices can surmount \$670.

Silver has also done well recently. Our last silver recommendation was **Silver Standard** (SSRI-OTC-\$36.18). It is up about 16% since our original purchase in January. **Silver Wheaton** (SLW-NYSE-\$9.69) is up from our initial purchase, but it's still selling under our \$10.00 downside buy price. Silver Wheaton seems to be a bit stodgy, and I don't have an explanation for that. Most of the recent analyses I have come across suggest that it is undervalued. Perhaps it is simply not well understood. I like it, but I encourage you ... do not concentrate your positions in any one issue. If you already have some Silver Wheaton, just hang on to it. Diversify new purchases elsewhere.

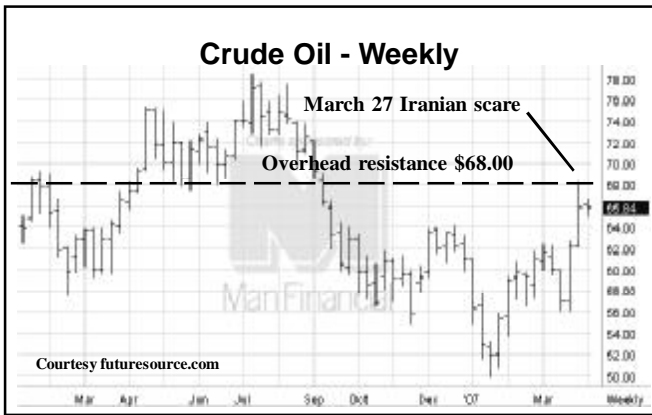
Don't overlook **Everton Resources** (EVR-TSX-C\$1.40). It has been dipping under our buy price of C\$1.30 regularly over the last three months. This one is, admittedly, a junior; and with that, there is some added risk. Nevertheless, the junior stocks on our list beat buying call options hands down.

Gammon Lake (GRS-AMEX-\$17.80) still looks great, but I would stick with our \$15.00 buy price. **Yamana** (AUY-NYSE-\$14.79) is hovering above our \$13.00 buy price. If you don't have any, you should accumulate at \$13.00 or less.

Another solid core metal investment is **Gabelli Global** (GGN-AMEX-\$26.71). It sports a decent dividend; and being a closed-end fund, it gives you a broad-based investment in metals. The downside is that because it is a portfolio of stocks, it will not be as volatile or promise the appreciation potential you will find in individual issues. Buy Gabelli at \$23.80 or better.

I have my eye on several new mining issues, but there is nothing that looks better to me right now than what is on our list. The key is patience. Wait for the market to sell off and then accumulate during weakness. The market cycles. Let it come to you. Bottom line, if the metals don't sell off to our prices, I would just hang on to what you have.

Gold is pushing on overhead resistance at \$670. The rally off the early October lows has been decent and orderly, but I feel there will be more profit-taking from this move than we have seen. Wait for weakness and then accumulate at our listed downside buy prices. I firmly expect to see gold eventually hit \$1,600 and silver to triple from today's price. That will put the mining stocks through the roof. As the commodity market improves, gold and silver will lead the way.



There is an important flip side to the resumption of the commodity bull market - a resumption of the bear market in the U.S. dollar. If the past tells us anything, it is that over time, the U.S. dollar will continue to lose value - which it has ever since the Federal Reserve was formed in 1913. The best direct hedge against dollar depreciation is gold.

On March 27, there was a rumor that Iran had attacked one of our ships in the Gulf. Crude immediately jumped from \$64.00 to \$69.00. The rumor was dispelled and

prices settled back down - but only to \$65.00. This should have been an eye opener to those complacent about the price of crude or those looking for a return to \$35.00 a barrel. I only wonder what the next surprise event will be - a dollar collapse? Crude has since worked its way back to \$68.00 where there is solid overhead resistance. I expect to see crude take a brief rest before launching through resistance to \$78.00 and beyond.

In the meantime, keep in mind the message conveyed by the market on March 27. The Middle East remains volatile; and if an unsubstantiated rumor can push prices up nearly 8% in a heartbeat, what would a real incident do! The crude market and the metals, along with the rest of the commodity complex, is hostage to surprise events, and the likelihood of nasty surprises is very high. Yet, the market has all but taken the so-called "terror premium" out since topping out last July. The terror premium is returning - and justifiably so. Crude oil will no doubt reach \$100.00. Throw in a surprise or two, it could possibly happen this year.

The second important, "not so good" event which occurred last month was not a threat to crude oil supplies, but it was a threat to our profits. I am beginning to see the rise of what we might call "petro-fascism." As crude oil and natural gas become more profitable, governments will step in to confiscate those assets and/or the profits they generate. This is something you find in third world countries like Venezuela. Dictators and tyrants are expected to confiscate money and the businesses that generate profits.

What is not expected is to see fascist (and I mean fascist in the true sense of the word) activities carried out by our government and/or our friendly neighbors. These appropriations are typically labeled as being for the common good, but they are really motivated by greed and power.

A case in point is the Canadian government's move to turn back on their explicit promise to not tax the Canadian income trusts. The reason for the betrayal was greed. Canada has the strongest financial picture of any of the G-7 nations. They have a surplus, yet they deemed it necessary to break the trust of the people and confiscate their constituents' earnings. In the process, they destroyed a needed economic entity by taxing the trusts. The U.S. - apparently not to be left out of the piracy - has introduced legislation to see how much of the pie they can grab from the lucrative trust income stream, and from other foreign businesses as well. The details are still a little vague to the public, but Congressman Richard E. Neil, a Democrat from Massachusetts, recently filed a bill in the House that would revoke the existing special tax treatment on dividends from certain foreign entities such as income trusts. The effect would be to increase the tax on these dividends to as high as 35%!

Approximately 46% of the Canadian trusts are owned by U.S. investors. Of course, many bills are introduced in the legislature, and few of them actually become law. Yet, Neil's move lights the path for the future. The Canadians injected uncertainty into the trust sector when they made their surprise announcement to tax the trusts last Halloween. The U.S. has now entered the fray and introduced even more uncertainty into the mix.

Unfortunately, the combination of these two events necessitates that we make a change in strategy with our energy investments. Clearly, the governments of Canada and the U.S. are targeting our income from these wonderful operations. The trusts are viable businesses in their own right; but without generous dividends, they will not be able to attract the investment dollars they will need in the future.

Regrettably, the barbarians are at the gate, and this necessitates that we put targets and stops on some of the trusts we own (see Page 6). **Enerplus** (ERF-NYSE-\$42.38) was sold as per instructions on the March 29 online update (hotline). We need to reinvest this money elsewhere. At first, it appears we will be giving up some dividend income in doing so. However, after the dividends have been ravished by third parties, we will be better off from an income standpoint and we will also be able to recoup asset values elsewhere.

There is nothing wrong with the energy sector. Crude and natural gas prices are going higher - much higher. It is just that we need to take a new approach to exploiting \$100 crude and \$25 natural gas.

First is uranium. We have a wonderful uranium stock, **Laramide Resources** (LAM-TSX-C\$15.15), that we originally bought in March 2006 for C\$5.20. I have a downside buy price of C\$9.00 on this one; and with the rocket ride it has taken of late, I am not inclined to chase it further than C\$9.00. Hold your Laramide.

The problem with uranium right now is that it is overhyped. When the media is rife with overenthusiastic talk about anything - be it gold, silver, crude oil, or uranium - and how they are never going to be cheaper, it is time to sit back and wait. We will have another shot at Laramide and other uranium stocks I am watching, but this is not a good time to buy them.

Living in a world of petro-fascism will not be easy for energy investors or for energy users. I look for our government under the momentum established with the Patriot Act to extend their abuse of citizens' freedoms and independence by slowly regulating every aspect of energy in our society. This will be gradual; but eventually, you will be limited legally as to how much energy you can use, how high your thermostats can be set, how many miles you can drive, and perhaps even where you might be allowed to travel. The underlying reason will be guised in nationalism and patriotic duty for the common good of homeland security.

Beyond this, it will be important to safeguard the homeland by protecting the sea lanes and sources of crude oil. I believe the recent taxation moves are an unconscious part of this. It is not that there is an outright conspiracy or plan. This trend is not unlike Adam Smith's invisible hand in economics. It is not a conscious plan per se, but it's the way things work naturally if unrestricted. In the current political environment with energy resources growing more scarce, the natural political flow will be toward petro-fascism.

We need to concentrate more on the ancillary aspects of the politically coveted crude oil in the ground. The real profit in tennis balls is selling the fuzz to ball manufacturers. It is often not the product source that offers the best avenue for gain, but rather the company that provides the wherewithal. As an example, we bought **Transocean** (RIG-NYSE-\$82.53) for \$75.00 in January. They are the world's largest supplier of drilling rigs. As oil passes its peak production, drilling for more will intensify. Transocean is a great company. Be patient; and if it falls back, take some of the proceeds from your Canadian trusts and purchase a few shares of Transocean.

Another company fitting this ancillary investment philosophy is **Frontline** (FRO-NYSE-\$35.89), which we originally bought last January. This is a tanker company based in Norway. Price is important here, and so is the change in their dividend policy announced earlier last month. They paid a \$2.05 cash dividend for the quarter, and they spun off shares in **Ship Finance International** (SFL-NYSE-\$27.44). This amounted to

about \$.95 per share of Frontline. That is a nice \$3.00 dividend for the quarter. However, Frontline announced that they are going to pay a regular quarterly dividend of \$0.625 from now on. That is about 7% on today's price, and it's not all that bad. However, the board held out that they would use any extra cash each quarter for whatever they saw as advantageous at the time, be that reinvestment, special dividends, stock purchases, etc.

As the world uses more crude, Frontline will grow and make more money. This is a dandy alternative for some of your Canadian trust money. Note two things. There is a sell/stop on this position at \$27.70. Also, investors who came in during January are already \$3.00 ahead of the game, and they would suffer only a minor loss if this stop were hit.

Don't forget the refiners. Both **Valero** (VLO-NYSE-\$64.60) and **Frontier** (FTO-NYSE-\$32.48) are on our list, and they will see their profits increase with higher crude prices. These two have the capability to refine sour crude, which most other refineries cannot handle. Sour crude production, incidentally, is gradually replacing sweet crude in the Middle East.

A final income-related energy issue on our list that I want to draw your attention to is **Black Rock** (BGR-NYSE-\$28.60), which we originally bought in August 2005. It pays about 5% at our buy price of \$26.00.

Kinder Morgan (KMP-NYSE-\$53.88) is a great domestic pipeline company, but it has averted our grasp by refusing to sell off to our buy price of \$48.00. Stay the course and see if you can't buy there. If you can, you will get a nice 6.75% dividend as well as some tax breaks. You might want to review investing in limited partnerships with your accountant. These are not corporations, so you get some benefits of non-cash deductions against your partnership income. However, limited partnerships will complicate your filing somewhat. If the extra effort at tax time is not a problem for you, Kinder Morgan at \$48.00 warrants some of the money from sales of Canadian trusts.

I am still a coal believer, but I have put **Fording** (FTO-NYSE-\$22.12) on hold along with the other trusts. I am not excited to sell Fording here, but a better choice for new money would be **Alliance Resources** (ARLP-OTC-\$38.24). At our buy price of \$34.00, it yields close to 6%.

A word about bonds and the Fed. The Fed will likely not lower interest rates to deal with the economic fallout we are seeing - and that we will continue to see this year from the housing market. They will, however, increase liquidity through various open market transactions at their disposal. Real inflation is running at about 6% according to shadowgovernmentstatistics.com. Some folks claim it is higher than that if the Clinton era math were used to calculate the CPI. We all know inflation is not 2.5%.

As long as interest rates are lower than the true rate of inflation, inflation will continue to grow and the dollar will be under pressure. In failing to increase rates, the Fed is sacrificing the value of the dollar to keep the economy from collapse - and more importantly, to keep voters employed. Meanwhile, the Chinese are going to be on a spending spree, for the next several years at least. U.S. Treasuries will not be at the top of their shopping list.

The technical underpinnings supporting the stock market continue to unravel. We are now approaching the beginning of the next "worst six-month period." It begins officially at the end of April. As it is, we have not found a reason to abandon the Rydex short fund position we took at the beginning of last year's worst six-month period. If we liquidated our short funds, we would be about 6% behind, but the potential in this position is greater now as the worst six-month period approaches.

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. Thus, 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 .85. You should buy at or below the posted downside buy price. The downside buy price does not imply that this level will necessarily be reached, but that this is the maximum price we recommend that you pay for the issue. **Changes since our last posting are in bold letters.**

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 04/03/07	Downside Buy Price	Div 04/03/07	Target-T Stop-S	Web Site
U.S. \$								
Agnico-Eagle	AEM	NYSE	1/10/2007 36.00	36.68	36.00	0.33%		agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004 27.98	38.24	34.00	5.65%		arlp.com
Apache Corp	APA	NYSE	3/5/2007 68.00	71.84	68.00	0.84%		apachecorp.com
ASA	ASA	NYSE	11/19/2002 31.00	66.26	60.00	2.11%		asaltd.com
Barrick Gold	ABX	NYSE	1/5/2003 22.85	29.12	29.00	0.75%		barrick.com
Baytex Energy	BTE	NYSE	5/18/2004 9.00	17.66	HOLD	10.41%		www.baytex.ab.ca
Black Rock	BGR	NYSE	8/3/2005 25.99	28.60	26.00	5.27%		blackrock.com
Canetic Energy	CNE	NYSE	4/19/2006 22.25	12.99	HOLD	14.98%	S = 12.00	canetictrust.com
Enerplus	ERF	NYSE	4/20/2001 18.00	42.38	SOLD	at \$42.50	3/30/2007	enerplus.com
Fording Coal	FDG	NYSE	11/16/2004 22.74	22.12	HOLD	8.00%		fording.ca
Frontline Ltd.	FRO	NYSE	1/4/2007 31.00	35.89	31.00	6.95%	S = 27.70	frontline.bm
Frontier Oil	FTO	NYSE	8/3/2005 14.38	32.48	28.00	0.37%		frontieroil.com
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005 22.10	26.71	23.80	6.29%		gabelli.com
Gammon Lake	GRS	AMEX	1/4/2007 15.00	17.80	15.00	n/a		gammonlake.com
Headwaters	HW	NYSE	3/10/2006 36.30	21.95	18.00	n/a		headwaters.com
Kinder Mor. MLP	KMP	NYSE	Buy at 46.00	53.88	48.00	6.16%		kindermorgan.com
Mkt. Vectors, ETF	GDX	AMEX	9/11/2006 37.00	40.48	37.00	1.13%		n/a
Pimco Comod Fund	PCRA	NYSE	3/2/2005 13.97	14.46	14.00	3.52%		pimcofunds.com
Primewest	PWI	NYSE	2/7/2003 17.00	19.54	HOLD	13.03%	S = 18.60	primewestenergy.com
Provident Energy	PVX	AMEX	6/16/2003 7.50	10.92	HOLD	11.22%	T = 11.00	providentenergy.com
Ship Finance Int. ##	SFL	NYSE	3/6/2007 0.00##	27.44	HOLD	7.88%		www.shipfinance.org
Silver Standard	SSRI	OTC	1/4/2007 30.00	36.18	31.50	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006 8.40	9.69	10.00	n/a		silverwheaton.com
St. Trs. Gold, ETF	GLD	NYSE	9/11/2006 58.85	65.83	61.00	n/a		n/a
Transocean Inc.	RIG	NYSE	1/4/2007 75.00	82.53	75.00	n/a	S = 64.50	deepwater.com
Yamana	AUY	NYSE	4/14/2005 2.90	14.79	13.00	n/a		yamana.com
Valero	VLO	NYSE	4/26/2005 36.63	64.60	50.00	0.74%		valero.com
Canadian Dollars								
Energy Split II	CA:EN	TSX	9/11/2006 17.00	10.95	HOLD	19.36%		scotiamanagedcompanies.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003 8.75	17.10	HOLD	9.77%		peyto.com
Shiningbank	CA:SHN.UN	TSX	1/2/2003 15.15	12.42	HOLD	14.52%	S=11.90	shiningbank.com

Ship Finance Intl. was acquired as a spinoff from Frontline 3/6/07

**The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. I have Forging with a dividend of 8% since I feel that that is a likely minimum you might expect. For further details on their past dividend histories, you should visit www.fording.ca, and www.arlp.com.

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

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 04/03/07	Downside Buy Price	Div 04/03/07	Target-T/ Stop-S	Web Site
U.S. \$								
Coeur d'Alene	CDE	NYSE	9/2/2003 3.19	4.32	4.50	n/a		coeur.com
Kinross Gold***	KGC	NYSE	6/6/2002 2.39	14.19	11.00	n/a		kinross.com
Kinross Gold	KGC	NYSE	1/4/2007 11.00	14.19	11.00	n/a		kinross.com
Mines Mgmt	MGN	AMEX	5/13/2005 4.50	4.86	5.00	n/a		minesmanagement.com
Taseko Mines	TGB	AMEX	7/24/2006 2.40	2.82	2.50	n/a		tasekomines.com
US Gold Corp	UXG	AMEX	9/9/2005 1.70	4.29	5.00	n/a		usgold.com
Canadian Dollars								
Baja Mining	CA:BAJ	TSX	Buy at 1.20	1.37	1.20	n/a		bajamining.com
Everton Res.	CA:EVR	TSX	1/4/2007 1.30	1.40	1.30	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007 0.50	0.63	0.50	n/a		goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006 5.20	15.15	9.00	n/a		laramide.com
UTS Energy	CA:UTS	TSX	5/15/2006 6.50	4.17	Hold	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006 1.20	1.91	1.60	n/a		minandes.com

*** on 2/27/07 Kinross acquired by exchange for Bema originally purchased at \$1.06 on 6/6/02

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 .85 to see if the OTC quote looks correct. You can access these OTCBB quotes by using www.barchart.com.
Shiningbank-SBKEF Peyto Energy-PEYUF Paramount Energy-PMGYF 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.