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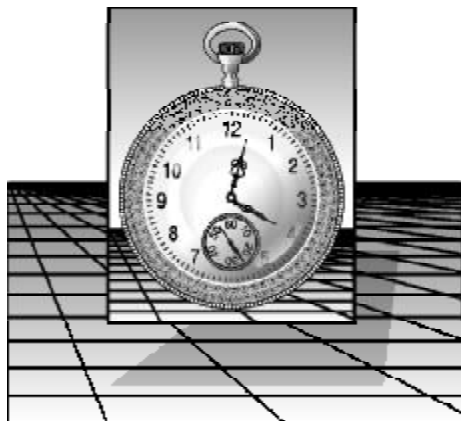
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The next issue will be published April 16.

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www.protiming.com
e-mail: info@protiming.com

Finding Income In A Low Yield World

The markets and the economy are entering a new paradigm. Two or three years from now, we will look back and see that business was not operating as usual - at least not like it was in the early part of this decade. Most of the changes will be centered on how credit is created and is granted. This, in turn, will alter consumer spending habits - perhaps drastically.

Many expenses like fuel, food, medicine, education, taxes, and insurance will continue to march higher. These increases will mostly be a matter of rising commodity costs that are passed on to the consumer. There is nothing anyone can do about the price of depleting supplies of crude oil. However, discretionary spending will come under fire, and competition for that money will be intense.

We will see big changes in credit - in the way loans are made. Essentially, we will see a return to the old days when you will need to prove you can pay the money back and have the assets to back up the obligation. There will be no more “liar” loans, no more securitization in the fashion it has been done, and no more easy, cheap money for the consumer.

Whether in the form of collateral or in the form of debt obligations, assets one might consider investing in are going to be assumed high risk until proven otherwise. George Akerlof, 2001 Nobel Laureate and behavioral economist at the University of California, Berkeley, calls this “the market for lemons.” The idea is that potential buyers of assets will assume they are lemons, and their investment interest will gravitate toward quality. In this shift are new opportunities, and we will see new organizations develop to attempt to fill the credit void.

The “vulture lender” is already on the scene. Essentially, this is a form of hedge fund that seeks to make significant-sized loans to credit worthy borrowers unable to find resources elsewhere. Typically, the borrower has been set against the wall due to an obligation - a balloon payment perhaps - that he had assumed he could take care of with a refinance. When a refinance is no longer an option, he is at the mercy of the vulture lender. The VL then looks deep into the deal; and if they can find generous collateral and are convinced they will be paid back, they make the loan at typically 9% to 16% interest. Incidentally, VL's are not regulated, but they fill a need - often a desperate need.

Here is another interesting spin. The latest move by some banks in an effort to salvage what they can of their mortgage business is to tout reverse mortgages. This may become the hottest product being pitched this year. A reverse mortgage is a loan against your house that you don't have to pay back as long as you live there. You don't pay the bank - the bank pays you. Wow! Bring on the Caribbean cruises! You don't have to "qualify" in the sense that you don't need an income or proof that you can pay the loan back. Plus, you don't even have to pay the loan back. Can it get better than that? You have to be 62 years old and have home equity in order to do this; but as time goes on, your debt increases and your equity decreases unless the value of your home increases substantially. Essentially, the bank buys your home from you. A reverse mortgage may fit some estate plans, but it is not appropriate for general consumption. Beware of augmenting your income with a reverse mortgage.

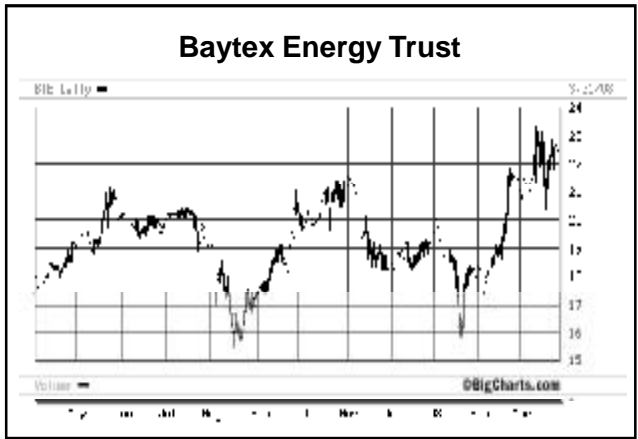
Regardless of the recession, business will go on - but not as usual. With the Fed running T-bill yields down to the basement (I got 1.3% on the last six-month bills I bought through Treasury Direct) decent returns are getting hard to come by. Be cautious of money markets and CD's that pay much over the 6-month T-bill rate.

In a quest for yield, I have written up **Gabelli Global Gold Natural Resources and Income** (GGN-AMEX-\$26.30) and **Blackrock Global Energy and Resources** (BGR-NYSE-\$29.95) in the last two letters. They are both close or under their official downside buy prices of \$28.00 and \$29.50, respectively. They are both excellent buys at those prices.

To reiterate comments in the last mid-month letter - if you would like to shoot for more extreme prices because you already have some and would like a super advantageous price to buy more, put open orders in for Gabelli under \$26.00 and Blackrock under \$27.00. You need to have the orders in ahead of time on a "good 'til cancelled" or "open" basis. On March 20, the market swooned, and Gabelli dropped as low as \$25.40 - but not for long. Blackrock hit \$27.48 that day - close, but not quite low enough. I look for more panics in this market, and these two if bought while the babies are being tossed out with the wash are excellent income stocks.

Another commodity play with a dividend that bears repeating is the **Pimco Commodity Real Return Strategy Fund** (PCRAX-\$18.50). I won't belabor you with the details, but they buy commodity contracts and pay for them in full in a mix that is designed to mimic the Dow Jones AIG Commodity Index. You can track the index at bigcharts.com using the "symbol" 26099104. Since last August, the index has appreciated 28%. The fund is up 37%, and it has paid 98.8 cents. That is a 5.3% return on today's price and 7.3% on the price last August. Our downside buy price is \$17.00, and that is very attainable with a little patience. You do have to watch, though, since the fund will not take an open order. Like most mutual funds, the price is set only once at the end of the day. You can watch the fund and wait for prices to drop under \$17.00 before putting in your order and/or you can watch the commodity index itself. If it falls under 190.00, I would feel comfortable buying the fund.

I have not abandoned the Canadian royalty trust sector entirely, but it is difficult to find anything that looks all that attractive. I fully expect them to be taxed in 2011, and any trusts you hold need to be able to prosper as a corporation. I have my eye on a couple of new prospects, but they are not right for purchase here. I will follow up on the Tuesday and Thursday online updates and in future letters. As it is, I am very pleased with **Baytex** (BTE-NYSE-\$22.16). I am going to put a new downside buy price on this at \$19.50. Go easy on this, but a few shares at that price should work out well in time and appreciate as crude moves toward \$160.00.



In a new paradigm where risk will become a paranoid obsession with investors, a few TIPS make sense for income. You can buy them in your Treasury Direct account. If you don't have a Treasury Direct account, you can open one at www.treasurydirect.gov. The problem is that so far, you can't open a retirement account - only an individual account. Go to the Treasury Direct Web site and bone up on all the details, especially if you are going to buy them online.

TIPS work this way. They are U.S. government bonds issued by the Treasury. They are marketable in that you can sell them in the "after" market. They come in terms of 5, 10, and 20 years. The interest rate on an issue is determined at auction, and they are sold in increments of \$1,000.

The principal is adjusted for changes in the Consumer Price Index. If the CPI increases, the principal increases. If the CPI falls, the principal will be adjusted lower. As per the Treasury Direct Web site, "The relationship between TIPS and the Consumer Price Index affects both the sum you are paid when your TIPS mature and the amount of interest that a TIPS pays you every six months. TIPS pay interest at a fixed rate. Because the rate is applied to the adjusted principal, however, interest payments can vary in amount from one period to the next. If inflation occurs, the interest payment increases. In the event of deflation, the interest payment decreases. At the maturity of a TIPS, you receive the adjusted principal or the original principal, whichever is greater. This provision protects you against deflation."

The Web site has further instructions and information on how to go about buying them as well as some tools to calculate changes depending on changes in the CPI, etc. The subtle trick, of course, is use of the CPI and the shameful government manipulation of that number. It is not actually a measure of inflation in a true sense, but it is the guide the Treasury uses to value TIPS. Nevertheless, TIPS have proven a decent investment, especially considering that the risk is as low as you can find anywhere. Buying TIPS in your Treasury Direct account will give you the safest way to invest fixed income money. The term is longer than T-bills, but you are not locked into a set yield as you are with typical longer term bonds. As inflation rises, the CPI must rise as well to some extent, and the TIPS will reflect that in higher yield and augmented principal.

There is another way to buy TIPS, but you will assume some minor added risk. You can buy the **iShares TIPS ETF** (TIP-NYSE-\$109.90). The added risk is that this is an exchange-traded fund complete with all the complex workings that allow ETF's to exist, and they are dependent on the fund managers to do their job. Nevertheless, this is not a bad way to go with a little money. They are about the same price as when I wrote them up last month when they were selling for \$109.84, but I continue to advise purchase at \$106.00 or less. The indicated yield is about 5.8% at that price, and they are less risky than most equity investments these days.

Inflation is a fact, and it will not be abated by the recession. That is because the world is bidding up the price of resources, regardless of our needs. The commodity bull is a function of the value of the U.S. dollar, which is eventually going to fall from its current level of 72.50 to at least 60.00 as measured by the U.S. Dollar Index (DXM8 at barchart.com). As the dollar falls, commodities will require more dollars to purchase. That is the gritty truth about inflation, pure and simple.

Our foreign friends are already covertly and overtly working on divorcing themselves from U.S. dollars. Their participation at Treasury auctions has been waning, and they are on a mission to trade the dollars they have for things of more lasting value. Most countries with bulging amounts of U.S. dollars in their treasuries have formed some form of national investment fund. These amount to super hedge funds, if you will, and are referred to as Sovereign Wealth Funds. SWFs are vulture lenders with an attitude and clout. We have already seen Arabian investments in American banks, but the typical SWF's investments are directed at acquiring and

controlling supplies of essential raw materials, military hardware, and technology. They are investing their money in political might because they are already rich.

Gold is money. FDR would argue against that, but any way you look at it, gold is money - and it does not require any assessment of risk. Short term confidence can be shaken by price fluctuations; but long term, you have to trust gold, unless you are not paying attention. As the dollar falls, gold rises. Long term, this is cast in stone.

In my 45 years of investing, the essential thing I have learned - and all you need to know to be successful - is that you must be invested in the right asset class. Furthermore, there are only two diametrically opposed asset classes you need to be mindful of – real assets and paper assets. Real assets are tangibles - commodities. They are things you can hold in your hand – as Clyde Harrison says, “stuff.” Conversely, paper assets are concepts or paper representations with no intrinsic value. Examples are promises like bonds or stocks which are ethereal in content. Yes, you can hold the stock certificate in your hand, but it is only a piece of paper you are holding - not grain, copper, or gold.

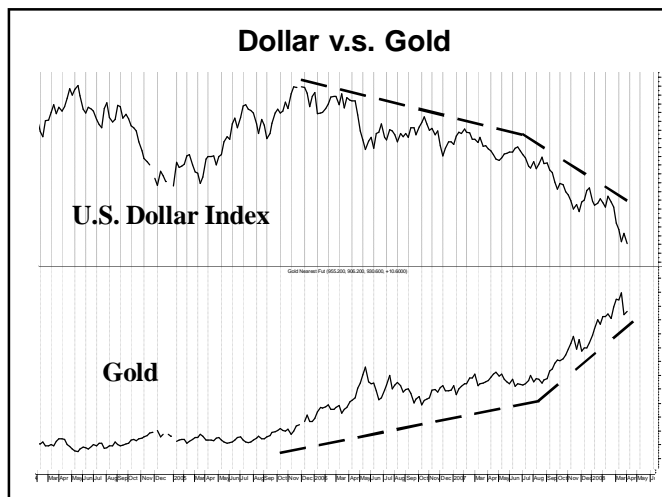
We are in what Clyde likes to call a “stuff” market. We are in the middle of a commodity bull market that has several years to run, just as the dollar has some ways to go on the down side. We will know when it is over and it is time to sell our commodity investments when the Dow/gold ratio falls under 5. Currently, it is 13, down from a high of 43.7 in 2000, and it’s still trending lower. This ratio between the ultimate paper asset, the Dow Jones Industrials, and the quintessential real asset, gold, is all you need to stay on track and stay invested in the right asset class. The only paper assets you should own are those advantaged by higher commodity prices.

The new paradigm has already affected the smaller miners. I believe investors are shunning them - and to some extent the larger ones as well - for fear they will not be able to garner the future financing they need. Exploration and mining are highly leveraged endeavors, which is why they tend to augment one’s returns compared to holding gold bullion. Lately, this has been a detriment due to fears surrounding future financing.

Perhaps this fear is overdone. **Nova Gold** (NG-NYSE-\$7.71) - which we obviously moved on too early - was able to float US\$95 million in senior convertible notes last month. I think this was worrying the investment community, and it accounts for some of the stock’s weakness. Nova is still weak; but at \$7.50 or less, they offer an excellent speculation among the juniors on our list. Future financing concerns are also weighing on other issues on our list, like U.S. Gold, etc. I’ve put some of these on a hold rating this month and have made a few changes in the downside buy prices for others (see Page 6). I also removed the sell stops on ASA and Frontline.

From a technical perspective, gold should come off a bit more over the next couple of months. To see gold at \$840.00, silver at \$15.50, and the XAU at 155.00 or better this spring would not be a big surprise. If this comes to pass, you will hear plenty of bearish talk about the bull market being over and the “bubble” being popped. Steel yourself against this right now, and be prepared. The commodity “bubble” has yet to come. It will, and you won’t believe the prices and public’s positive sentiment toward commodities when it does.

Energy is a special case. Production has peaked, and depletion is accelerating around the world. Of OPEC’s members, 7 of the 12 are experiencing declining production. Of the major private oil producers, Exxon, BP,



Chevron, Royal Dutch, and Total/Elf are all suffering production declines. This is why the only major producer worth having in your portfolio is **Apache** (APA-NYSE-\$120.82). They have unique technologies, they are able to grow reserves, and they are the best on the planet for wringing extra production out of old fields. I have a buy price at \$90.00, which may be a bit low. We need to see a correction in place before raising that number. Put in an open order and see what happens. Prices can dip by 30% quickly and recover just as fast. The key is to be there when those corrections occur.

As global energy reserves diminish and production wanes, demand continues to grow, assisted in no small way by Asia. The Chinese consumer uses 2.1 barrels of oil per year compared to 13.0 in the EU and 25.0 in the U.S. The Chinese consumer class will double in the next 5 to 7 years, and their per capita usage will also rise. There are a lot of Chinese. It is a matter of one more bowl of rice a day, and you are suddenly talking about one heck of a lot of rice. One more barrel of oil per year with 1.3 billion people ... well, you do the math.

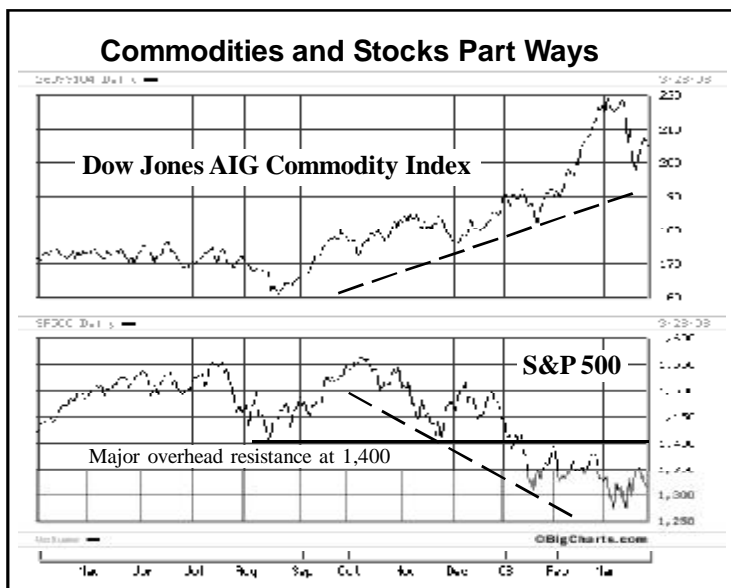
India has been, by and large, a service economy with those ubiquitous call centers, etc. The recent purchase of Jaguar and Land Rover from Ford by Indian corporation Tata is interesting. They are obviously interested in expanding their manufacturing base, and that will take plenty of raw materials ... and energy.

I think the refiners are being held back by future financing fears and concerns about the impact of a U.S. recession. This especially applies to **Altius** (ALS-TSX-C\$13.63). Their recent earnings were off, but that was because they sold off some assets last year that inflated comparable numbers. Their operations look fine; and although the refinery in Newfoundland will be some time in the making, the project has not hit any snags.

I see that **Frontline** (FRO-NYSE-\$46.02) paid a dividend the other day of 34 cents. This was a special dividend having to do with a spinoff of assets. Bigcharts.com listed their dividend yield at 3%, which is what you would receive if you got the 34 cents quarterly. In reality, they pay a regular dividend of \$0.625 per quarter with special dividends and extra payments as they see fit. In the last 12 months, we have gotten \$8.59, which is 27.7% on our original purchase at \$31.00. Our buy price is \$40.00; and if you have open orders in, you stand a good chance of buying there with a little patience.

The initial stages of the new paradigm will come replete with a good dose of denial. The process of working around a loss of confidence in the credit markets will take some time – maybe years. The consumer will feel the pinch and should be cautious of new approaches to get sucked into assuming more debt. Reverse mortgages and VL's are the beginning. There will be more products, more schemes. As trust erodes further, gold will brighten. The “market for lemons” and resulting flight to quality makes gold look pretty easy to understand.

The stock market, as measured by the popular averages, is looking very tired. I expect more panic selloffs, and they can be a benefit as they will temporarily tend to drag everything down in sympathy. “Good ‘til cancelled” orders under the market will benefit. Commodity-related issues will recover from these swoons and continue to do well long term. Paper assets will continue to struggle. The stock market’s best days ended in October.



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. Thus, if you want a quote for Peyto Energy, go to www.bigcharts.com and type in CA:PEYUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .99. 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 3/31/08	Downside Buy Price	Div 3/31/08	Target-T Stop-S	Web Site
U.S. \$									
Agnico-Eagle	AEM	NYSE	1/10/2007	36.00	67.71	50.00	0.27%		agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004	27.98	35.00	34.00	6.74%		arlp.com
Apache Corp	APA	NYSE	3/5/2007	68.00	120.82	90.00	0.50%		apachecorp.com
ASA (1)	ASA	NYSE	11/19/2002	31.00	81.94	70.00	4.99%	Remove Stop	asalt.com
Baker Hughes	BHI	NYSE	2/5/2008	64.63	68.50	65.00	0.77%	S = 62.50	bakerhughes.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	22.16	19.50	11.09%		www.baytex.ab.ca
Blackrock	BGR	NYSE	8/3/2005	25.99	29.95	29.50	5.04%		blackrock.com
Fording Coal	FDG	NYSE	11/16/2004	22.74	52.20	HOLD	3.93%		fording.ca
Frontline Ltd. (2)	FRO	NYSE	1/4/2007	31.00	46.02	40.00	5.40%	Remove Stop	frontline_bm
Frontier Oil	FTO	NYSE	8/3/2005	14.38	27.26	25.00	0.75%		frontieroil.com
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005	22.10	26.30	28.00	6.39%		gabelli.com
Headwaters	HW	NYSE	3/10/2006	36.30	13.19	10.00	n/a		headwaters.com
Kinder Morgan LP	KMP	NYSE	6/8/2007	52.50	54.69	HOLD	6.74%	S = 48.40	kindermorgan.com
Kinross Gold (3)	KGC	NYSE	6/6/2002	2.39	22.11	17.00	0.36%		kinross.com
Kinross Gold	KGC	NYSE	1/4/2007	11.00	22.11	17.00	0.36%		kinross.com
Mkt. Vectors, ETF (4)	GDX	AMEX	9/11/2006	37.00	47.70	42.10	6.28%		n/a
Pimco Com. Fund	PCRAX		3/2/2005	13.97	18.17	17.00	5.30%		pimcofunds.com
Schlumberger	SLB	NYSE	1/18/2008	75.00	87.00	75.00	0.97%	S = 72.10	nat.bm
Ship Finance (5)	SFL	NYSE	3/6/2007	0.00##	26.28	HOLD	8.42%		www.shipfinance.org
Silver Standard	SSRI	OTC	1/4/2007	30.00	30.33	28.00	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006	8.40	15.53	15.00	n/a		silverwheaton.com
St. Trs. Gold, ETF	GLD	NYSE	9/11/2006	58.85	90.41	78.00	n/a		n/a
TIPS iShares ETF	TIP	NYSE	Buy at	106.00	109.90	106.00	5.61		n/a
Transocean (6)	RIG	NYSE	1/4/2007	75.00	135.20	120.00	n/a	S = 119.05	deepwater.com
Yamana	AUY	NYSE	4/14/2005	2.90	14.62	11.50	0.27%		yamana.com
Valero	VLO	NYSE	4/26/2005	36.63	49.11	51.50	0.98%		valero.com
Canadian Dollars									
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	13.63	12.00	n/a		altiusminerals.com
Energy Split II	CA:EN	TSX	9/11/2006	17.00	10.70	HOLD			scotiamanagedcompanies.com
Peyto Energy	CA:PEY.UNTSX		7/18/2003	8.75	19.48	HOLD	8.78%		peyto.com
Silvercorp Minerals	CA:SVM	TSX	1/21/2008	8.00	8.20	8.00	1.88%		silvercorp.ca

(1) ASA dividend includes year-end distribution.

(2) Frontline dividend based on regular payment of \$0.625 per quarter. Extras have been paid, bringing the dividend on past 12 months' payments to 13.38%.

(3) On 2/27/07, Kinross acquired by exchange for Bema, originally purchased at \$1.06 on 6/6/02.

(4) Market Vectors dividend was an annual distribution, not a regular dividend

(5) Ship Finance Intl. was acquired as a spinoff from Frontline on 3/6/07.

(6) Transocean merged with Global Santa Fe on 11/27/07 receiving .6996 shares in the new Transocean plus \$33.03 in cash.

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

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 3/31/08	Downside Buy Price	Div	Target-T/ Stop-S	Web Site
U.S. \$									
Coeur d'Alene	CDE	NYSE	9/2/2003	3.19	4.04	3.80	n/a		coeur.com
Endeavor Silver	EXK	AMEX	7/26/2007	4.60	3.40	4.00	n/a		edrsilver.com
Great Basin Gold	GBN	AMEX	12/21/2007	2.45	3.66	2.45	n/a		greatbasingold.com
Nova Gold	NG	AMEX	2/29/2008	11.50	7.71	7.50	n/a		novagold.com
Taseko Mines	TGB	AMEX	7/24/2006	2.40	5.10	4.50	n/a		tasekominer.com
US Gold Corp	UXG	AMEX	9/9/2005	1.70	2.54	HOLD	n/a		usgold.com
Canadian Dollars									
Everton Res.	CA:EVR	TSX	1/4/2007	1.30	0.55	HOLD	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.25	HOLD	n/a		goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	3.07	8.00	n/a		laramide.com
Mega Uranium	CA:MGA	TSX	5/1/2007	6.75	2.10	3.00	n/a		megauranium.com
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	5.23	HOLD	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	1.48	1.20	n/a		minandes.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 .99 to see if the OTC quote looks correct. You can access these OTCBB quotes by using 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.