

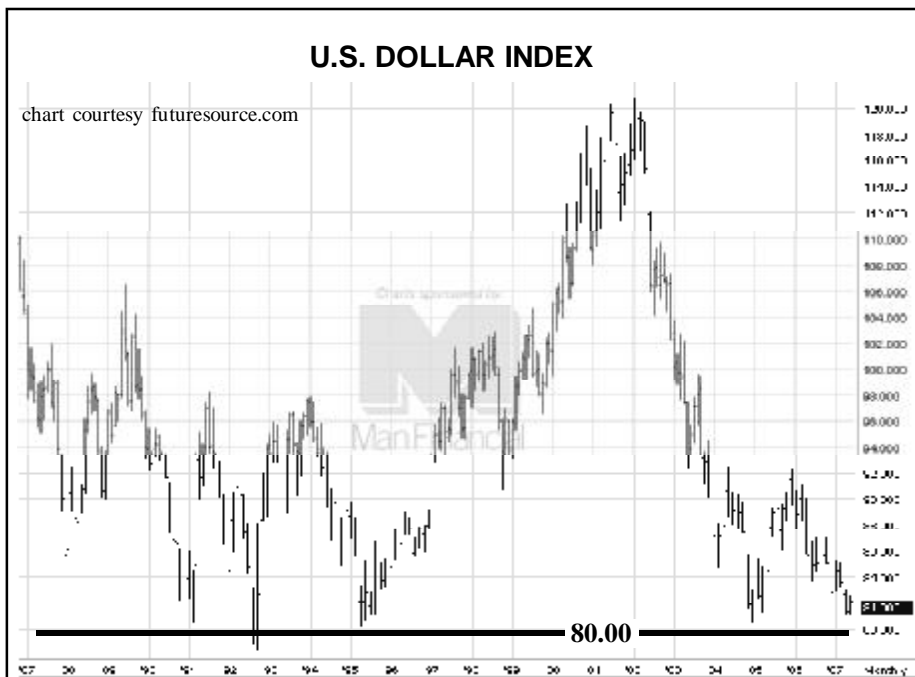
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## THE DOLLAR HOLDS THE KEY

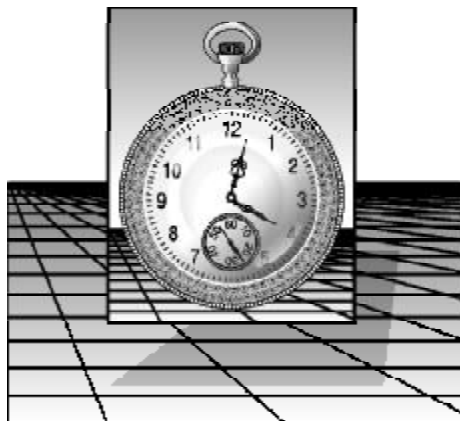


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A friend stopped me at the post office the other day and asked me what I thought would be THE investment sector next year. Where will we want our money next July? I told him that the best strategy is to invest with a weak U.S. dollar in mind. We are approaching an important crossroad with the dollar, and the best investments in 2008 will reflect a sizable drop in the value of the dollar from present levels.

Note the lows just over 80.00. They are important, and I believe they will be decisively broken by the end of next year. Near term, the critical level to watch is 81.30 basis the September futures, but that should only be important to those following our Rydex dollar trading program. From a long term standpoint, once the dollar breaks 80.00, we will be in an entirely new investment paradigm.

The bearish dollar fundamentals are apparent. China has officially announced that they are going to significantly reduce their foreign reserves and are going to invest the difference - some hundreds of billions, as well as excesses they receive in future years. This means they are going to shift out of massive holdings in financial assets and spend this money on raw materials, military technology, and political influence. This is a major move away from U.S. dollars. Syria, Egypt, and Ecuador are also shunning dollars.

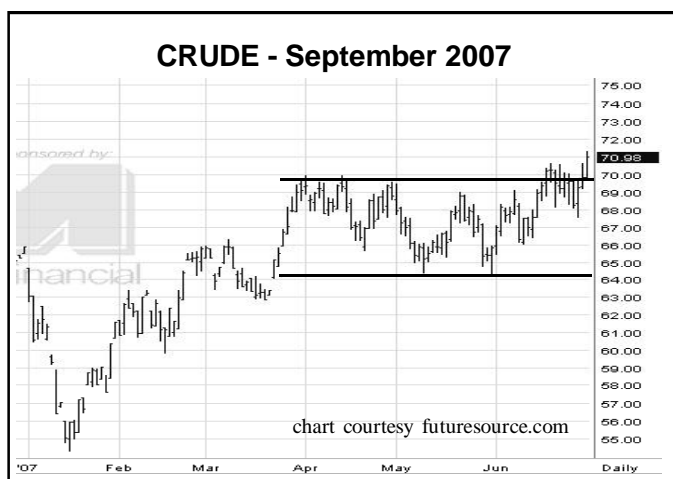


Venezuela, Iran, Kuwait, and Russia are now demanding euros rather than dollars for oil. Remember, Kuwait is a friendly country. Their decision is not political; it is economic. The Saudi's are leaning toward euros as well. Who can blame them? It is foolish to accept an out of control, fiat currency for finite precious resources. The fundamental handwriting is on the wall. My advice is to take heed.

I firmly believe that crude oil will reach \$100 a barrel. "When" is always the next question, and it's the most difficult to answer. All it will take is a surprise flare-up in the Middle East, and crude will be \$100 before you can read what happened. However, let's discount something so drastic (although far from unlikely) and look at crude from a purely technical viewpoint.

Below is a chart showing the September futures contract for light sweet crude. It has been consolidating between \$64.00 and \$69.50 for several months; but lately, it looks like it is breaking through the top of the trading range. Once crude breaks convincingly through \$69.50, what was overhead resistance will become downside support. It may pull back briefly to \$69.50 and test that support, but the next near term objective is \$76.00. Believe me, \$76.00 is going to attract attention from the media, and it will excite the market.

I cannot see any credible negatives in the fundamentals. The inventory storage numbers can be manipulated (they are temporary measures anyway). The fact remains that most of the important oil fields in the world are



drying up, and production is falling off. I mentioned the Mexican Cantrell field in the last mid-monthly letter. Experts are looking for production (which was over 2.0 mbd last year) to be as low as .5 mbd next summer. That is a big drop.

I believe the Saudi's are lying about their production, as well as their capacity to increase production. They are scrambling all of their resources to develop new fields and enhance old fields just to keep up. Their day of reckoning is coming soon, and that is why they are getting tired of accepting depreciating dollars.

**There is another side to this peak oil story.** Most of the new production being brought on line - especially in Saudi Arabia - is sour crude. Some sour crude can be blended with sweet crude and refined in most refineries. The amount depends on how heavy the sour crude is, but it's not a huge percentage in any case. Nevertheless, there are few refineries that can process sour crude domestically. Two of them are on our buy-and-hold list – **Valero** (VLO-NYSE-\$73.86) and **Frontier Oil** (FTO-NYSE-\$43.77). Over the last six months, these two recommendations have run hard on the up side. I don't recommend chasing strength, even though I see crude breaking out to the up side. I think many of the energy issues have been anticipating this breakout; and thus, it may already be priced in. Frontier is an excellent little company, and you can add to your holdings if it comes off to \$36.00. Valero would be a decent buy at \$65.00. My advice is to hold your refiners, don't chase them, and only add to your positions on weakness.

It is easy to talk about the winners, but one nag in our stable is **Headwaters** (HW-NYSE-\$17.27). Although their price has suffered this year, I like this stock. They have directed their operations away from the so-called Section 29 synfuel business, which they were solely dependent on eight years ago. Since then, they have grown from 50 employees, revenues of \$6.7 million, and a \$28.4 million loss to over 4,000 employees, \$1.12 billion in revenues, and a net income of over \$100 million.

It is important to realize that although their net on a per share basis was down in 2006, they are profitable. Headwaters is officially described as a diversified growth company providing products, technologies, and services to the energy, construction, and home improvement industries. Basically, they are a technology company. Their researchers recently won the Presidential Green Chemistry Award for their “Direct Synthesis of Hydrogen Peroxide by Selective Nanocatalyst Technology Project.” That is a mouthful, but this is the highest environmental award given in the U.S. They also have coal cleaning technology, and they are involved with recycling waste products from coal burning. Some of this activity improves products for the construction industry, which has been a drag this year with real estate in the dumps. They have a process that allows refineries to handle greater quantities of heavy crude and to process tar sand more efficiently and profitably.

There are a lot of companies with new and exciting technologies that promise to solve all of our problems. I am normally not impressed since they tend to be “pie in the sky” situations with only the promise of a profit. So far, Headwaters is making money, and their technologies are being implemented in real time - not just on the lab bench. I expect their earnings will be erratic as their new technologies and research are put into service. While Headwaters may not be a blue chip, I think at today’s price it is a great speculation, at the very least. Buy Headwaters up to \$18.00, but go easy and be patient. This one will take some time to find its footing.

So, how should you invest today for the eventuality of \$100 oil? I cannot in good conscience advise putting new, long term investment money into the Canadian trusts. I recommend that you hold the trusts on our list, but these are not going to recover to their former glory. The Canadian government has seen to that. I believe there will be a better time to dispose of these positions. Once crude hits \$100, we can review the trusts, but new energy money will be better spent elsewhere. We have had some nice energy buys outside the trust arena this year, but **Frontline** (FRO-NYSE-\$45.85), **Transocean** (RIG-NYSE-\$105.98), **KinderMorgan LP** (KMP-NYSE-\$55.19), and **Apache** (APA-NYSE-\$81.59) need to pull back some more before we can reconsider them for further purchases.

Coal offers a huge promise - especially in the U.S. - as we face the prospect of limited crude supplies in the future. Alternative energy (like ethanol, solar, wind, fuel cells, bio-fuels, etc.) offers a profitable avenue for filling smaller energy needs. However, coal is perhaps our best long term bet. The U.S. is the Saudi Arabia of coal; and as more technology is directed at solving emission problems (see Headwaters) and conversion to liquid fuels, coal will come into its own. It is easier to clean up coal than to extract oil from dry wells. Coal’s full potential is down the road some, but it is not too early to put some coal in your portfolio. My preference is **Alliance Resources** (ARLP-OTC-\$41.96). It is a buy at \$39.00 or better.

As the dollar falls, gold and silver will rise. That is cast in stone. Gold and silver exhibit seasonal tendencies that are fairly strong. Typically, we will see a low in late June or early July followed by a brief rally. There is a more important seasonal low that usually forms in August. It is not that the August low needs to be lower than the June low. It is more important because the rally that follows the August low is usually a stronger one than that which follows the June low. Prices then settle back into November, which is followed by what normally turns out to be the year’s very best rally.

Consequently, we are heading into a period where we will see a tendency for the metals to form three important lows. I think each of them will present an excellent buying opportunity. The focus that investors need to take is not on the weakness that will lead into those lows, but the rallies that will follow. Don’t be seduced by the bears. Steel your resolve, and use the weakness that these lows will present to accumulate precious metals shares from our buy-and-hold list. Once the dollar index breaks below 80.00, it will be too late to chase the mining shares. The next few months will offer a better opportunity than waiting for gold to break to new highs.

**Yamana** (AUY-NYSE-\$11.12) announced their intent to acquire **Northern Orion Resources** (NTO-AMEX-\$5.69) and **Meridian Gold** (MDG-NYSE-\$27.58). You can get the details on Yamana's Web site [www.yamana.com](http://www.yamana.com). The deal with Northern is friendly; the deal with Meridian may not be. Some think the price offered for Meridian is too high, but that is often the case in acquisitions. The company being bought out is always too expensive. That may be arguable based on today's numbers, but these acquisitions are not done for today. They are definitely forward thinking.

Merger activity always intensifies during the second phase of a commodity bull market because although commodity prices have begun to rise, it is still cheaper to buy your competition at what seems to be a premium price than explore and develop new properties. There is usually some synergy in these combinations as well. If this all goes through, Yamana will be producing 1.4 million ounces by 2009 with a cash cost of *minus* \$100 per ounce! That is due to copper credits; so, admittedly, it is a bit of hype. However, suffice to say, they will be a low cost producer. I like the deal, and Yamana looks good under our downside buy price of \$13.00. If you are looking to go deep with your open orders, there should be support at \$11.00.

**Golden Valley** (GZZ-TSX-C\$0.69) is doing well since hitting our buy price of C\$0.50 recently. Don't chase it. If it falls back again to C\$0.50, pick some up if you want a good, cheap speculation, but be mindful to maintain diversification and balance in your portfolios.

There is a relationship between gold and crude oil, which is expressed in the gold/oil ratio. Currently, the ratio is about 9.1 using the nearby futures. Historically, the ratio has run between 30 or better on the extreme up side and 6 on the down side. Those periods when the ratio is under 10 have been good times to buy gold. When the ratio has been over 20, it has been wise to sell.

The average for this relationship is 16. If we consider even \$70 crude – today's price - this points to a potential for gold at over \$1,100. I look for crude to eventually make it to \$100, which equates to a potential gold price of \$1,600. Frankly, I think both of these estimates could end up to be quite conservative as the gold/oil ratio tends to peak out over 20. There is some logic to this relationship. Higher oil prices beget higher energy prices, which pervade the economy and induce an economic slowdown.

The Fed will come to the fore in order to stimulate job creation (especially during an election year), and this stimulation is inflationary. Dollars are created out of thin air for the purpose, and thus fall in value. As a result, gold prices rise. In a nutshell, this is the scenario for 2008.

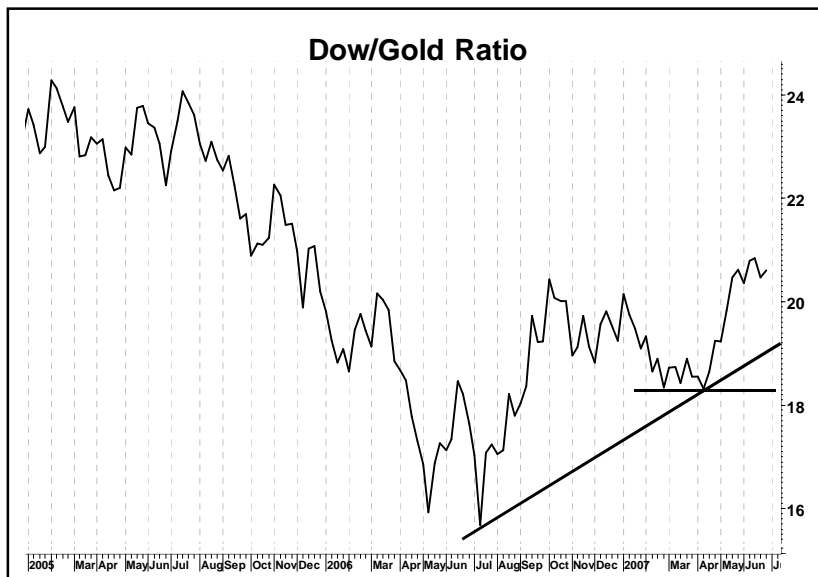
Each October, I recalculate the Annual Asset Allocation Model that points us to either financial assets or real assets. It has been telling us that the greatest rewards with the lowest risk is to be found in real assets - ever since the commodity bull market began some years back. Just for curiosity sake, I ran the numbers the other day, and the model is still in real asset mode.

Commodity bull markets average about 20 years; and with this one having begun in 1999, it has plenty of life left in it. The average rarely happens, of course. This bull will last either less or longer than the 20-year average, but I don't see it ending before the middle of the next decade.

In terms of the Annual Asset Allocation Model, you need to understand that the model points us to where the best rewards are to be found at the lowest risk. Stocks can perform positively at times when the model is in a tangible asset mode. It is just that investing in financial assets during those periods carries a high level of risk, and my advice is to only place money in financial assets on a trading basis during such periods of high

vulnerability. Furthermore, the only financial type assets you should own on a long term basis are those advantaged by higher commodity prices, like precious metals mining shares.

Another important indicator to keep in mind is the Dow/gold ratio. Currently, it takes about 20 ounces of gold to buy one “share” of the Dow Industrials at 13,400. This ratio tends to peak out in the 30’s and bottom out at 5 or less. When the ratio is over 30, it indicates that financial assets are too expensive relative to the ultimate hard asset - gold. On the other hand, when the ratio is under 5, it evidences that real assets have gone too far in deference to financial assets, as measured by the quintessential financial asset indicator, the Dow Industrials.



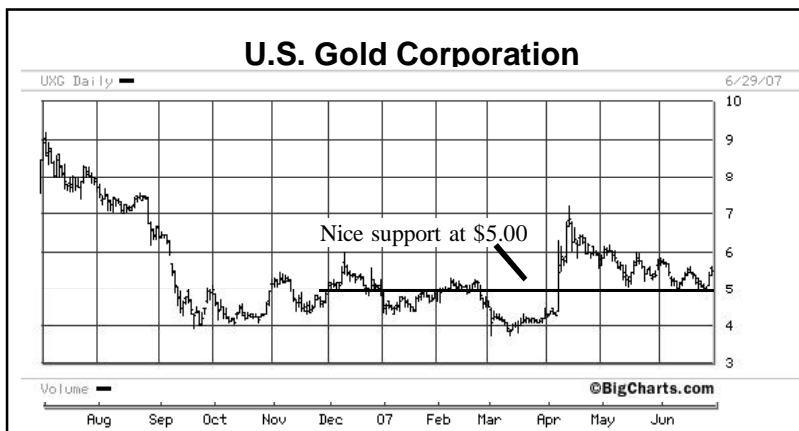
Currently, the ratio is just over 20, and it has been moving up from a low just under 16 set last summer. This coincides with the stock market’s strength during the same time. A key to the end of this move in the stock market will be a drop in the ratio to 18. This will break the up trend shown on the chart, and it will also break the low formed last April.

Based on past history, once the ratio begins to fall from highs over 30, it will continue to wiggle its way lower until it falls under 5. Some old timers who have been involved in the stock market for many years - since

before the great crash in 1987 and since before the stock market bear in 1973-74 - feel the ratio will fall to 1!

Rob McEwen, the previous CEO and creator of **Goldcorp** (GG-NYSE-\$23.69) and who is recently developing **U.S. Gold** (UXG-AMEX-\$5.50), feels that based on the Dow/gold ratio, we will see gold reach \$5,500 by 2010. He further expects to see gold reach new highs over \$850 next year. Forecasts are only forecasts, but here is a guy that has one of the best track records in the gold mining industry, and he has been investing tens of millions of dollars of his own money based on his convictions.

U.S. Gold (UXG) is a favorite of mine. You should take a look at putting a few shares in your portfolio. The stock is not too far from our ideal downside buy price of \$5.00. Pick up a small pilot position now, and then accumulate more if it falls back to \$5.00.



Bottom line, the U.S. Dollar Index looks vulnerable; and once it breaks below 80.00 and the fireworks start, it will be too late to take advantage of the chaos. Concentrate your investment strategy on a weak dollar, and you will do just fine over the next 18 months. Currently, precious metals offer the better advantage as the energy issues have run up of late. By and large, our energy issues - especially the new recommendations we have made this year - have performed as expected. Nevertheless, if I were to put money into the market this month, it would be in the metals.

## Recommended Stocks For Buy And Hold

**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. Thus, 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 .94. 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 06/29/07 U.S. \$	Downside Buy Price	Div 06/29/07	Target-T Stop-S	Web Site
Agnico-Eagle	AEM	NYSE	1/10/2007 36.00	36.50	36.00	0.33%		<a href="http://agnico-eagle.com">agnico-eagle.com</a>
Alliance Res	ARLP	OTC	9/29/2004 27.98	41.96	39.00	5.15%		<a href="http://arlp.com">arlp.com</a>
Apache Corp	APA	NYSE	3/5/2007 68.00	81.59	75.00	0.74%		<a href="http://apachecorp.com">apachecorp.com</a>
ASA	ASA	NYSE	11/19/2002 31.00	64.56	60.00	0.93%		<a href="http://asaldtd.com">asaldtd.com</a>
Barrick Gold	ABX	NYSE	1/5/2003 22.85	29.07	29.00	1.03%		<a href="http://barrick.com">barrick.com</a>
Baytex Energy	BTE	NYSE	5/18/2004 9.00	19.99	HOLD	10.08%		<a href="http://www.baytex.ab.ca">www.baytex.ab.ca</a>
Black Rock	BGR	NYSE	8/3/2005 25.99	30.61	28.00	4.90%		<a href="http://blackrock.com">blackrock.com</a>
Canetic Energy	CNE	NYSE	4/19/2006 22.25	16.28	HOLD	13.12%	S = 12.00	<a href="http://canetictrust.com">canetictrust.com</a>
Fording Coal	FDG	NYSE	11/16/2004 22.74	32.74	HOLD	7.39%		<a href="http://fording.ca">fording.ca</a>
Frontline Ltd.	FRO	NYSE	1/4/2007 31.00	45.85	36.00	5.45%	S = 27.70	<a href="http://frontline.bm">frontline.bm</a>
<b>Frontier Oil</b>	<b>FTO</b>	<b>NYSE</b>	8/3/2005 14.38	43.77	<b>36.00</b>	0.46%		<a href="http://frontieroil.com">frontieroil.com</a>
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005 22.10	26.43	25.10	6.36%		<a href="http://gabelli.com">gabelli.com</a>
Gammon Gold	GRS	AMEX	1/4/2007 15.00	12.62	15.00	n/a		<a href="http://gammonlake.com">gammonlake.com</a>
Headwaters	HW	NYSE	3/10/2006 36.30	17.27	18.00	n/a		<a href="http://headwaters.com">headwaters.com</a>
Kinder Morgan LP	KMP	NYSE	6/8/2007 52.50	55.19	52.50	6.02%		<a href="http://kindermorgan.com">kindermorgan.com</a>
Kinross Gold***	KGC	NYSE	6/6/2002 2.39	11.68	11.00	n/a		<a href="http://kinross.com">kinross.com</a>
Kinross Gold	KGC	NYSE	1/4/2007 11.00	11.68	11.00	n/a		<a href="http://kinross.com">kinross.com</a>
Mkt. Vectors, ETF	GDX	AMEX	9/11/2006 37.00	37.89	37.00	1.21%		<a href="http://n/a">n/a</a>
Pimco Comod Fund	PCRAX		3/2/2005 13.97	13.95	14.00	4.52%		<a href="http://pimcofunds.com">pimcofunds.com</a>
Primewest	PWI	NYSE	2/7/2003 17.00	21.03	HOLD	13.42%	S = 18.60	<a href="http://primewestenergy.com">primewestenergy.com</a>
Ship Finance Int. ##	SFL	NYSE	3/6/2007 0.00##	29.68	HOLD	7.41%		<a href="http://www.shipfinance.org">www.shipfinance.org</a>
Silver Standard	SSRI	OTC	1/4/2007 30.00	34.37	32.00	n/a		<a href="http://silverstandard.com">silverstandard.com</a>
Silver Wheaton	SLW	NYSE	3/10/2006 8.40	11.69	10.00	n/a		<a href="http://silverwheaton.com">silverwheaton.com</a>
St. Trs. Gold, ETF	GLD	NYSE	9/11/2006 58.85	64.27	64.00	n/a		<a href="http://n/a">n/a</a>
Transocean, Inc.	RIG	NYSE	1/4/2007 75.00	105.98	79.00	n/a	S = 64.50	<a href="http://deepwater.com">deepwater.com</a>
Yamana	AUY	NYSE	4/14/2005 2.90	11.12	13.00	0.36%		<a href="http://yamana.com">yamana.com</a>
<b>Valero</b>	<b>VLO</b>	<b>NYSE</b>	4/26/2005 36.63	73.86	<b>65.00</b>	0.65%		<a href="http://valero.com">valero.com</a>
<b>Canadian Dollars</b>								
Energy Split II	CA:EN	TSX	9/11/2006 17.00	12.50	HOLD	15.84%		<a href="http://scotiamanagedcompanies.com">scotiamanagedcompanies.com</a>
Peyto Energy	CA:PEY.UN	TSX	7/18/2003 8.75	18.20	18.50	9.23%		<a href="http://peyto.com">peyto.com</a>
Shiningbank	CA:SHN.UN	TSX	1/2/2003 15.15	13.75	HOLD	13.09%	S=11.90	<a href="http://shiningbank.com">shiningbank.com</a>

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

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

\*\*The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. 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).

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

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 06/29/07 U.S. \$	Downside Buy Price	Div 06/29/07	Target-T/ Stop-S	Web Site
Coeur d'Alene	CDE	NYSE	9/2/2003 3.19	3.59	4.50	n/a		<a href="http://coeur.com">coeur.com</a>
Taseko Mines	TGB	AMEX	7/24/2006 2.40	3.70	2.60	n/a		<a href="http://tasekomines.com">tasekomines.com</a>
US Gold Corp	UXG	AMEX	9/9/2005 1.70	5.50	5.00	n/a		<a href="http://usgold.com">usgold.com</a>
<b>Canadian Dollars</b>								
Baja Mining	CA:BAJ	TSX	Buy at 1.50	2.03	1.50	n/a		<a href="http://bajamining.com">bajamining.com</a>
Everton Res.	CA:EVR	TSX	1/4/2007 1.30	0.85	1.30	n/a		<a href="http://evertonresources.com">evertonresources.com</a>
Golden Valley	CA:GZZ	TSX	2/20/2007 0.50	0.69	0.50	n/a		<a href="http://goldenvalleymines.com">goldenvalleymines.com</a>
Laramide Res.	CA:LAM	TSX	3/16/2006 5.20	10.40	10.25	n/a		<a href="http://laramide.com">laramide.com</a>
Mega Uranium	CA:MGA	TSX	5/1/2007 6.75	5.45	6.75	n/a		<a href="http://megauranium.com">megauranium.com</a>
UTS Energy	CA:UTS	TSX	5/15/2006 6.50	6.06	Hold	n/a		<a href="http://uts.ca">uts.ca</a>
Minera Andes	CA:MAI	TSX	9/11/2006 1.20	2.12	1.60	n/a		<a href="http://minandes.com">minandes.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 .94 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 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.