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TIME IS RUNNING OUT

The *Stock Trader's Almanac*, www.stocktradersalmanac.com, is indispensable. Yale Hirsch - and now his son, Jeff - have carried on many years of valuable market research, and it is wonderfully presented in the Almanac. A quick check reveals that August does not stack up to be the best of months. According to the Almanac, "August has become the worst month in the last 15 years on the Dow and the S&P, third worst on the Nasdaq..."

There is a little more to this, however. Bear in mind that the Almanac is measuring performance from the beginning to end of the month. October is known as the "bear killer month," and it can often be devastating. In fact, most of the great market massacres have occurred during October. Remember October, 1987 when the Dow fell over 20% in one day?

On the other hand, many bear market *lows* have also occurred in October once these crashes were over. Thus, although October is often the month of crashing prices, it has also been an excellent month to buy into those lows for the beginning of a year-end recovery.

August is not friendly from this standpoint. Prices at the end of August are traditionally lower than

at the beginning. Typically, August weakness will spill over into September as well. The Almanac tells us that over the last 52 years, September has been the biggest percentage loser on the S&P and the Dow.

The bottom line from the information we find in the Almanac is that August and September are usually bearish months. Yes, exceptions do occur ... but keep in mind that the current market is perched near the highs of a rally, and the technical underpinnings are beginning to break down.

If you have bought into the bullish scenario which the media has been touting, you might at least lighten up during any further strength. It would be wise to put some stop loss orders under long positions. If you have some profits, put some of that in the bank.

As far as those technical underpinnings that are weakening, here are a few examples. First, I do some proprietary work on Gerald Appel's new high/new low index, www.signalert.com. This is calculated by taking the 10-day moving average of the percentage of new highs in relation to the total of new highs plus new lows NH/(NH+NL).

Junior Gold Stocks - The Option Alternative

Company	Symbol-Exchange- Price 10/02/02	Price 7/29/03
Kinross Gold Corporation	(KGC-AMEX-\$6.30**)	\$6.48
Golden Star Resources	(GSS-AMEX-\$1.30)	\$2.96
Bema Gold Corporation	(BGO-AMEX-\$1.06)	\$1.65
Cumberland Resources	(CBD-TSX-C\$2.10)	C\$2.95 US\$2.14
American Bonanza	(BZA-V-C\$0.15)	C\$0.30 US\$0.23
American Bonanza Warrants	(BZAWT-V-C\$0.06)	C\$0.17 US\$0.13

Note: C\$ denotes Canadian dollars ** Adjusted for 1:3 reverse split 2/3/03

increasing your liquidity by nailing down profits wherever possible.

There is a major exception to this advice.

You should continue to hold **Anglogold** (AU-NYSE-\$33.21) and **ASA** (ASA-NYSE-\$39.49), as well as the junior gold stocks you might have bought from our list to the

Just plotting the moving average is enlightening, and Gerry has some of his personal rules for following this. Essentially, if the average moves over 70 and then falls under 70, it is a sell. If it falls under 30 and moves back over 30, it is a buy.

We both have some finer tuned rules, and my models issued a "sell" on July 21. The sell is, of course, for the new high new/low ratio, but we would expect the market averages to be in the trouble zone once we see the ratio begin falling.

Again, this is a crack in the foundation of the rally.

The MACD patterns - another Appel invention - are also issuing warnings.

They are diverging from the averages now. Essentially, as the averages have moved basically sideways to higher during July, the MACD patterns have fallen.

Perhaps most interesting is our Hyperion model. It has handled the rally very well, I think. **Amazon** is up 48% on this last buy, and **eBay** just took a 38% profit. I would term these two the core of this rally, which has seen old favorites rebound.

Recently, we have seen the Hyperion model pull sell stops up dramatically in many positions, including the QQQs. Hyperion has been much more cautious lately. Time is running out, and you should be protecting profits with stop loss orders and

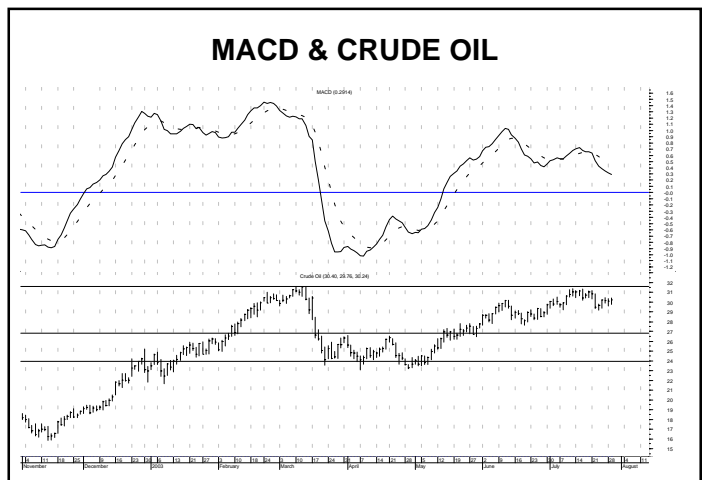
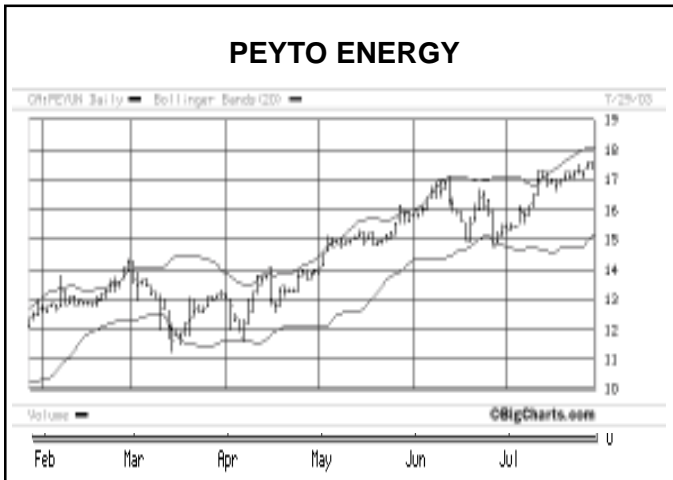
left. I like to think of these stocks as perpetual call options on the price of gold. They are inexpensive and will appreciate on a percentage basis much better than the bullion.

Hold your positions in our previous buy-and-hold recommendations shown in the list below. The list includes current downside buy prices. I expect that weakness in the next 8 to 12 weeks will bring many of these issues down.

All the ships seem to move up and down with the tide, but you can add to your positions at the listed downside buy prices. My favorite is Enerplus, of course, but diversification is always a good strategy. Consider Peyto and Shiningbank.

Recommended Stocks For Buy And Hold

Stock	Symbol/ Exchange	Price 7/29/03	Downside Buy Price	Web site
Enerplus Resources	ERF-NYSE	\$24.30	\$20.50	www.enerplus.com
Primewest Energy	PWI-NYSE	\$19.09	\$18.25	www.primewestenergy.com
Shiningbank	SHNUN-TVX	C\$16.99	C\$16.20	www.shiningbank.com
Provident Energy	PVX-NYSE	\$8.03	\$7.50	www.providentenergy.com
Peyto Energy	PEYUN-TVX	C\$17.40	C\$15.50	www.peyto.com
Kinder Morgan Partners	KMP-NYSE	\$40.40	\$39.40	www.kindermorgan.com
Knightsbridge Tankers	VLCCF-OTC	\$8.91	\$6.25	www.knightsbridgetankers.com
Nordic American Tank	NAT-AMEX	\$14.18	\$12.00	No Web site
Anglogold	AU-NYSE	\$33.21	\$29.90	www.anglogold.com
ASA Ltd.	ASA-NYSE	\$39.49	\$35.00	www.asaltd.com



Here is the new recommendation I mentioned in the last mid-month letter: **Peyto Energy Trust** (CA:PEYUN-TSE-C\$17.40). I am excited about this one. Peyto was an exploration and development company, and they were essentially drillers. However, they have maintained a 99% ownership in their projects; and over the last few years, they have developed some fine income-producing properties.

They have just completed a reorganization (as of July 2) into an oil and gas trust, much like Enerplus or Shiningbank. However, Peyto is an energy trust with a twist, so to speak, since they will continue to do exploration and development work.

They intend to distribute half of their revenues to unit holders. (Their shares are technically called units.) They intend to pay the 50%, or C\$0.15 per month - whichever is higher.

Based on their current price of C\$17.40, this will provide a 10% annual dividend distributed to investors on a monthly basis. The rest of revenues will be used for further exploration and development.

The biggest problem with energy trusts is that they are wasting assets.

At some point, they will sell all of the oil and gas they have. This is certainly true for the domestic trusts I am familiar with. Enerplus has been able to increase reserves through acquisitions, which is one of their strong points.

I am not all that concerned with the wasting asset problem because part of our play in the Canadian energy trusts is a play on a falling U.S. dollar and higher energy prices in the next few years. I intend to hold the energy trusts for the longer haul - but certainly not indefinitely. I expect to make a lot more money in these before we cut them loose from our portfolios, but we will sell them at some point.

Peyto has the prospect of significantly increasing their reserves through their exploration and development efforts. The CEO is saying he expects 30% to 40% a year growth for several years to come. Well, he is bound to be enthusiastic ... but even if they did half of that, we would come out very well as investors.

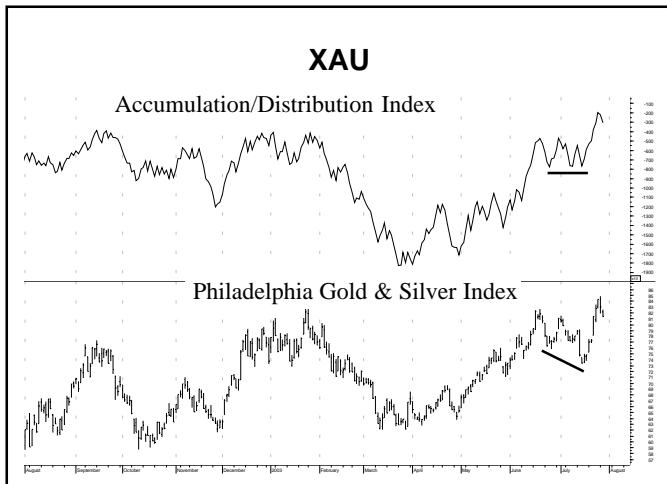
Peyto's costs for current production are very low for the industry at \$1 per barrel. Most producers are happy to fall under \$6. According to one analyst I read, for every \$1 Peyto has spent, they have returned \$4. This is a very good return - probably the best in the industry. I encourage you to check out their Web site at www.peyto.com.

Peyto looks very good, and you should begin to accumulate a position. As you can see on the chart, it is close to its upper Bollinger band, which means it is two standard deviations over its 21-day moving average - a bit high. However, you do get a monthly dividend, which at C\$17.40 is just over 10%.

I would buy some here – say, 20% of what you intend to own - and add in weakness. Hopefully, our outlook on the market falling back over the next 12 weeks will help bring this stock off some.

Peyto's downside targets.

The lower Bollinger band is at about C\$15.50, and the 21-day moving average is at about C\$16.25. I would add to positions at the 21-day moving



average and again at the lower trading band if it fell back that far.

Peyto is a Canadian stock, remember. You can convert the Canadian dollars to U.S. at about .73, so C\$17.40 Canadian equals about \$12.60 in U.S. dollars.

I mentioned in the last mid-month letter that I expected to see the price of crude and natural gas fall back. Natural gas has dropped to \$4.65, but crude has stubbornly held at about \$30.00 basis September futures.

The Hyperion model has been right on with natural gas, being short from \$5.85. It has also been right on crude oil, being long from \$28.40. The model will be adjusting the stops soon, however, so this bears watching.

You can see the trading range for crude on the chart on Page 3, along with its MACD patterns. There has been a second sell in MACD - which is ominous, to say the least. A drop to \$28.00 - \$29.00 would not be disturbing, and it may help give us an opportunity to add to our energy positions.

Don't worry about some weakness in the energy sector as the summer wears on. Markets move in waves. There will be a bigger up wave in the future once crude and natural gas complete the current correction.

I have listed buy points for **Knightsbridge** and **Nordic American** in the list on Page 2. They both have paid a dividend since the last letter, and prices adjust by the amount of the dividend. Knightsbridge paid \$0.65 and Nordic paid \$0.78. We are in good shape if the dividends continue at this rate and Knightsbridge gets a new contract, which I believe they will.

I am content to hold these for now, and I'd only add carefully if they come off to extreme levels - see Page 2. I think the issue over the foreign ownership of Provident will be worked out also, but this will cloud the stock for awhile yet.

If you want to buy into Provident, be patient. A price of \$7.50 or less looks good. However, I'd rather buy a position in Peyto than add to my position in Provident or the tanker companies at this time.

How about gold!

It has been remarkable. The bullion is lagging the stocks here, and that is a bullish sign. It is said that the most bullish thing that can happen to an index or stock is for it to go to new highs. Well, the HUI and XAU have both broken over past highs, and they look great.

The XAU chart here includes its professional accumulation/distribution index. Accumulation looks strong, and you should note the positive divergence at the recent lows. This bodes well for the longer term.

The XAU is getting a bit overbought, though, and that is why we are currently holding a 50% position in the Rydex Precious Metals Fund. Stay in touch with the hotline for continuing instructions. We could see a dip back to the 73.00 - 74.00 level, and we will add to our position during weakness in August.

The precious metal stocks on the Hyperion trading list have been interesting. Silver has been

definitely leading the pack recently. The silver stocks - **Pan American** silver and **Apex** silver - are on buy signals. Pan American is up over 30%, and Apex is up about 15%.

The gold stocks on the list are also doing okay, but the model is not long all of them yet. **Agnico Eagle**, **Newmont**, and **Central Fund of Canada** were just recently bought, but **Gold Fields** has yet to hit the buy price. If you are trading these stocks with the Hyperion model, simply stay true to its advice and follow the stops as listed.

As for our buy-and-hold positions in AngloGold and ASA, all is well. It may be too late to buy AngloGold under \$30.00 (as we have recommended for several months now); but if I am wrong and it dips back, it could be the very last chance to get a bargain.

Gold bullion is on a tear, likely trying to catch up with silver. Note the wedge on the chart on Page 4. Breaking out to the up side will be very bullish. That will require gold to reach \$370.00, which I believe is likely - especially if the dollar begins to fall again.

Silver has broken over \$4.90, which should become support if we see it sell back. The bottom line is that the metals look very bullish, and we are all likely under-invested in this sector.

On June 1, the Chinese were allowed to own gold. The Chinese save 25% of their incomes. Wonder where they put it? Into US Treasuries? I doubt it. They will

be putting a good deal of it into gold.

The U.S. dollar, of course, is key to the future of gold, silver, crude oil and natural gas.

A weak dollar will result in forcing the prices of these and virtually all tangibles (commodities) higher in the next several years. The Hyperion model caught the little rally from oversold lows in the dollar quite well; and on July 25, it took profits on the long position and moved to cash. The model is now neutral and not short yet.

Hyperion will sell the dollar short if it falls to the sell stop at \$92.25 September basis, but I expect to see this stop price moved up soon. Once the dollar breaks to new lows, the decline will accelerate; and this will push tangible prices higher. So, we may have a little time to garner further positions in our favorite stocks, but not much.

Bonds have collapsed.

We had a nice trade on the short side with the Rydex Juno fund, but our Rydex bond program is currently in cash awaiting further developments. I have to admit this drop has been a bit surprising to me, and I am a bond bear.

We should expect to see some support at the 104.00 - 105.00 level basis September futures ... but, as you will remember, bonds didn't even stall at 114.00 where the decline should have taken a breather. Nevertheless, we should see some respite from the selling -

at least producing a sideways trading band for a while.

This may, indeed, be too optimistic. A recent article by Stephen Roach at Morgan Stanley called "Losing Control" was enlightening. He explained that a lot of bonds have been purchased in what have been termed "deflation trades." As rates rise on the long end and bonds fall, we could see a massive unwinding of these positions. This would push long bonds lower and encourage more unwinding. This whole process is in great danger of feeding on itself. He also mentioned the likelihood of a major unwinding of mortgage-related hedges.

If the bond collapse continues, the effect will be bearish for other asset classes - including the stock market and the U.S. dollar. Higher long rates would have a devastating effect on the supposed recovery in the U.S. economy.

I believe the government will need to issue the 30-year Treasury bond again as the deficit begins growing by leaps and bounds and the cost of servicing higher interest rate payments mounts. Also, we all know that the cost of maintaining our liberation armies on foreign soil will be immensely higher than is being advertised.

Although the next two months look troublesome - more so than July - it is a good time to own stocks. It is not whether to buy stocks, but *what* to buy and *when*. It is true that 85% of stock market success is being in the right place, and 15% is being in the right stocks.

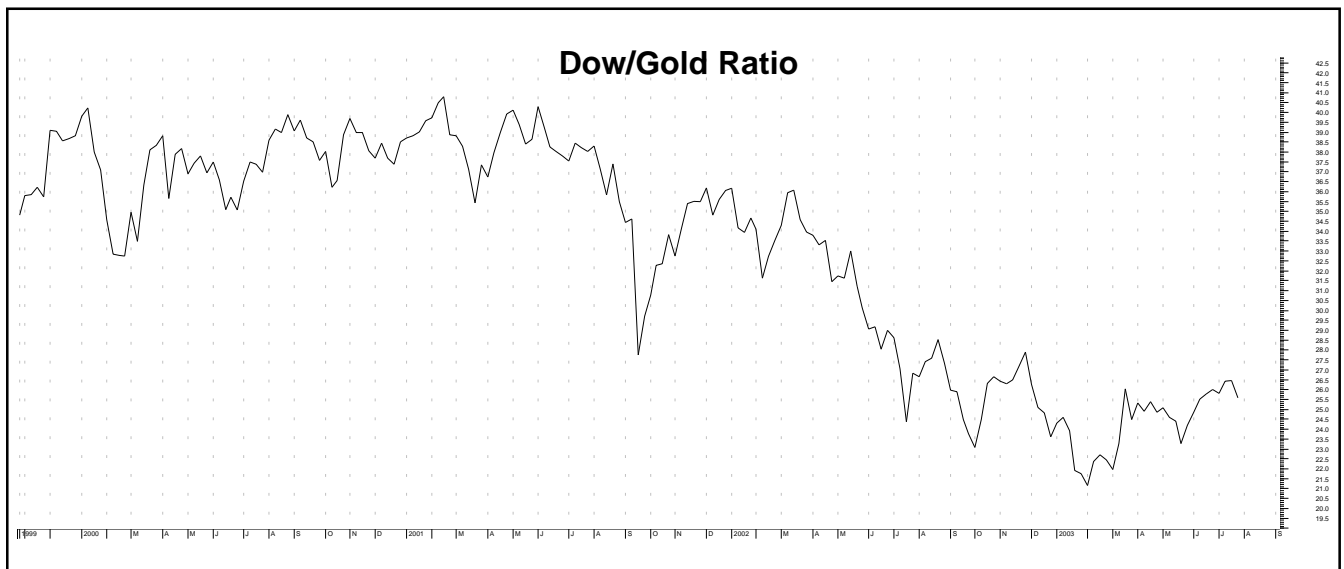
The right place to be now is gold, silver, crude oil and natural gas.

Few people realize that one-third of America's energy consumption is natural gas. This was nearly a waste product 25 years ago, but that is true no longer.

I think that the second half of 2003 will be a big disappointment economically, but there may be a pick up after the first quarter next year. We will likely get a tradable rally from lows in October-November, 2003; but we could see the Dow break under 7,300 and the Nasdaq 100 below 940 first.

As for deflation and inflation. It is a real puzzle, isn't it? I have mentioned that the key to understanding this is that stuff is cheap to buy, but expensive to own. A friend of mine recently bought a watch at Walmart for \$4.95. He discovered on the warranty that the watch would be repaired if it failed for any reason during the first year of ownership. All he would have to do is send the watch in with \$5.95 for shipping and handling!

Below is a chart of the Dow/gold ratio. The recent stock market rally pushed this up a bit, but the bottom line is that over the past 120 years, secular bear markets in stocks have never bottomed until the Dow/gold ratio has fallen below 5. With the current level about 26, there is plenty of room for the Dow to fall and gold to rise.



Here is a tip. If you are having a problem bringing up pages on the Internet, empty your Internet cache or Internet temporary file folder. Your browser will arrange copies of pages you are frequently going to so that it is faster to access them. However, if the cache gets crowded, it can cause problems.

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