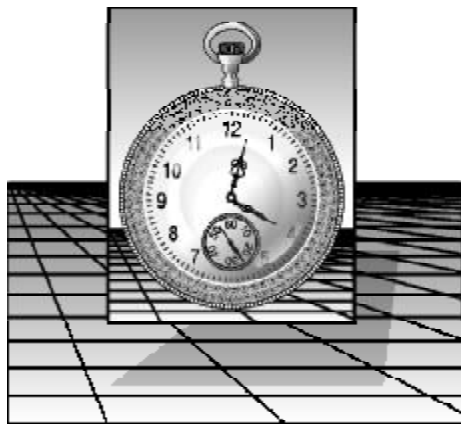


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The next issue will be published August 24.

- **It is time to look at taking a profit with Suncor.** Page 2
- **Canetic looks good here.** Page 3
- **The profit potential is tremendous in precious metals.** Page 4-5



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THERE IS NO SUBSTITUTE FOR CRUDE

Crude oil is unlike any other commodity - it is unique. There simply is no substitute for crude oil, and it lies at the core of our society.

There are substitutes for some of its products, of course. You can make plastic out of corn and you can make ethanol to mix in gasoline, but there is no substitute for that wonderful black gold.

As this year wears on, it appears more obvious that world production and use of crude oil are very evenly balanced, and the balance is vulnerable. There is no longer any cushion. The major wells that produce about 40% of the world's crude are old and in decline.

Crude is forced out of a well, either by gas pressure from above the crude or water pressure from below. By and large, water is pumped in the well under the crude to force it out. It appears that the globe's four major fields are using more and more water to generate the same amount of gross output, which is a telltale sign that they are in decline.

The decline or peaking of oil production starts out as a gradual process, like the crest of a bell curve. At first, the decline is almost unnoticeable. Wells can be forced to maintain past output, but only at the cost of longer run production declines. We are in the beginning

stages of this process now. You will begin to see it more clearly as the next few years pass and as we begin to descend down the ever steeper slope of the curve.

Crude oil will have its ups and downs price-wise; but in the long run, it is the high price of crude and its associated products that will be the incentive to solve the energy problem. It is \$7 a gallon gasoline and \$150 crude that will change public usage of energy - not politics or scientifically sound warnings.

Supply is on the wane, and that will be getting worse.

New fields will be brought on line, but the new crude will be more difficult to refine (sour crude), will be more difficult to produce (expensive), and insufficient to replace depletion of existing reserves. Demand, on the other hand, will continue to grow.

There is an economic dependency factor related to GDP and crude oil demand. The world dependency factor is about 40%, meaning that if global GDP increases 10%, the demand for oil will increase 4%. This number varies from country to country. The dependency factor for China is 90%. That means when China's GDP increases 10%, its demand for crude oil increases by 9%.

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.



World demand grows at the rate of about 2 million barrels a day. Global use is currently at about 86 million barrels a day; so, in 10 years, even at an annual demand increase of only 1.5 million barrels a day, we will be looking at needing production of 86 plus 15 - or over 100 million barrels a day! With the four major giant fields in decline, I don't think this is going to happen.

If we factor in all of the best news we can conjure up, peace in the Middle East with Iraq back on line, etc., I don't see how world production can realistically ever get over 90 million barrels a day. Incidentally, 86 million barrels a day is, good heavens, 995 (nearly 1,000) barrels a second!

Bottomline, crude oil is going to get a lot more expensive. Remember, crude oil prices are a function of both supply and demand. Demand is where the bears focus their attention, but supply is the real problem.

Consider that nearly $\frac{3}{4}$ of the world's supply comes from countries at war or close to it. There are only two things that can actually stem the demand for oil - a worldwide

pandemic or a dinosaur-eliminating size meteor. Neither of these is at all likely.

The biggest energy bargain today is natural gas - at least it is a bargain in the U.S. It is not a bargain in Europe, though;

and it appears that Russian natural gas production is peaking very fast. This winter will be extremely hard on Europe as I expect Russia will be withholding gas production from the European market again, as they did last year.

Growth in electricity demand is expected to grow faster than any other form of energy for the next 15 years, and electricity comes from natural gas and coal. Consider that over half (54%) of American homes are heated by natural gas, 70% of new homes in North America are natural gas heated, and 94% of power plants built in North America are gas fired.

Natural gas production, of course, is peaking, just like crude oil production, but with an important difference. The curve is steeper and more pointed at the top. Natural gas wells do not typically last as long as crude oil wells. They peak sooner, and the decline is very steep. Natural gas is not easy to transport, although it can be liquefied (LNG) and shipped. This, however, requires special facilities, especially on the receiving end of transport. There are a few LNG terminals, but not nearly enough.

Nevertheless, in the U.S., we see natural gas selling for \$7.25 today - a veritable bargain with crude at \$77. The crude/gas ratio should be more like 6 rather than 10. The relatively low price has been due to current large storage amounts brought on by last winter's mild weather, but this is temporary. The summer heat and other factors are solving the storage issue; and in the last couple of months, prices have firmed from just under \$6.00 to over \$7.00.

Look at this long term chart of natural gas. Note that since 2002, gas has moved steadily higher - from \$2.00 to \$6.00. The deviations from this up trend have all been spikes to the up side. There have been no downside surprises. The \$6.00 level looks like a strong base now, and we should be seeing prices on the move again this winter. One of these days, one of these price spikes will just keep going and not come back down.

It takes 1,000 cubic feet of natural gas to make one barrel of crude from tar sand. With natural gas relatively cheap in North America, the tar sand companies are doing well. This cost relationship is going to change, though, and it is going to impact our favorite tar sand producer **Suncor** (SU-NYSE-\$84.36). It is time to look at taking a profit here.

I recommend that you put in orders over the market for Suncor at \$87.50 and take your profits there. Just to be safe, put in a sell/stop at \$74.50 in case it falls apart before we can get out. Of course, be sure that you specify to your broker that one cancels the other if you put these orders in simultaneously.

I am going to hang on to **UTS Energy** (UTS-TSX-C\$4.98) a little longer. It is on our list of junior stocks, and it has not done much lately. I am putting it on hold for now.

At this stage in a commodity bull market, raw material producers are on the hunt. Those who were able to weather the past commodity bear market (1980-2000) and are strong and profitable are looking to buy their weaker competitors. It is still cheaper to buy a competitor's assets than find new resources on your own.

Mergers are also prevalent. This is the normal way of things in this stage of the bull, but it seems that the market discounts the acquiring company. **Canetic Energy** (CNE-NYSE-\$20.30) acquired Acclaim Energy and Starpoint Energy lately; and apparently, Canetic has someone else in their sights now.

As is typical, the market knocked their stock price down a bit on the announcement. By the way, Canetic has done very well with the drill bit in the past year, bringing in 98% of the wells they drilled.

The market still thinks crude is going back to \$40 and that these acquisitions are pure folly. I think those making acquisitions at today's prices will look "Nobel prize" brilliant when crude breaks over \$100 a barrel and natural gas sells for \$25.

Canetic is selling close to our downside buy price of \$20.00, and it looks good here. If you already have some and are looking for a steal, try an open order in at \$18.75. You may

not be able to snag any there, but that is a nice price if you can.

I introduced **Energy Split II** (EN-TSX-C\$19.25) to you in the last letter. My buy price is C\$17.00 Canadian, and I am going to stick with that for now. **Shiningbank** (SHNUN-TSX-C\$22.74) and **Paramount** (PMTUN-TSX-C\$19.70) are still buys if they dip back to our buy prices of C\$18.00 for Paramount and C\$21.25 for Shiningbank. Both were recently at or below these prices, and they could dip back again. Paramount produces 100% natural gas, and Shiningbank's gas production is about 30%.

If you would like a broader shot at energy that goes beyond production, consider **Blackrock Global Energy and Resources** (BGR-NYSE-\$27.21). Open orders at \$26.50 are recommended.

I tell readers that 85% of investment success is being in the right asset class. This is easier than it looks. There are basically two asset classes that you need to be concerned with on a macro basis. There are financial assets and there are real assets.

Following the ratio of the Dow Jones Industrials to gold can help you make the determination of which class is the best. The Dow is the quintessential financial asset, and gold is the ultimate real asset. When financial assets are in a bull market, this ratio will be rising. When real assets are in a bull market, the ratio will be falling. See chart on Page 4.

The key times of transition occur when the ratio runs over 35 and under

5. When the ratio is over 35, you will know that financial assets are overpriced and real assets are underpriced. You will know that a shift is going to occur and that the bull in financials will be ending and a bull in real assets will be beginning.

When financial assets are in a bull market (as they were from 1980 to 2000), real assets will be in a bear market during the same time frame. These two asset classes have always run counter to one another.

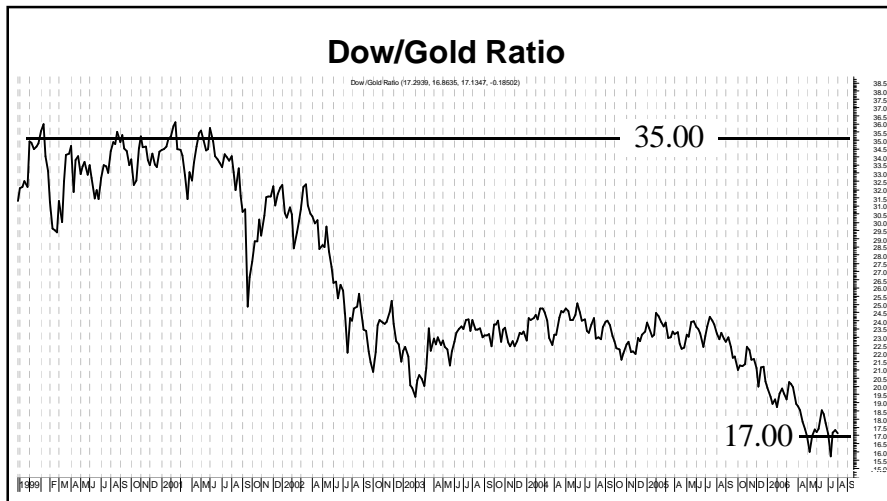
The bull in real assets (commodities) began in 2000 commensurate with the end of the secular bull market in stocks. The other key is that these trends usually last from 15 to 20 years. There is plenty of time for the bull in commodities to run yet, and that is not good news for the Dow and paper assets that it represents.

Currently, the ratio is 17. That means if the Dow were to simply stay where it is at about 11,200, gold would have to reach \$2,240 for the ratio to hit 5.

History has a better lesson.

It suggests that gold will rise, and the Dow will fall until the ratio hits 5. I have a conservative target for gold at \$1,600 - roughly double its 1980 high. A ratio of 5 would put the Dow at 8,000. That does not take a stretch of the imagination to envision.

Some think the ratio will fall as low as 1 before the next asset shift from tangibles to financials puts an end to the current commodity market. I agree that the ratio will likely dip lower than 5. Whether it falls to 1 or not doesn't matter at this juncture.



Dow/gold ratio hits 5 or the Simplicity model (currently at 4.40) hits 3.20, you can get bearish. Until then, there is \$1,000 an ounce to be made in gold.

Don't worry about "when." It will happen - and likely, sooner than you expect. The profit potential is tremendous in precious metals, and now is the time to be invested for that potential.

What matters is that you are invested in assets that are driven by higher commodity prices.

As crude oil becomes scarce in relation to demand and its price rises, the price of all commodities will rise. Energy commodities are the easy calls, but the rest of the complex (including grains) will be moving higher as well.

Gold is the core real asset of all time, and it will continue to be so. You should be saddled up with your gold positions now as most of them dipped to our buy prices last month. The next thing is the hardest ... to wait.

Missed the bargains last month?

Well, there MAY be another shot. Typically, we will see cyclical lows in August in both gold and silver. There was a low in July with gold hitting \$613 December basis, and gold has rallied nicely from that point. However, I don't think this is the low we are looking for.

Here is something folks have trouble grasping. The August

cyclical low does not need to be as low as the July low was. This is not an exercise in distance, but one in time. Often when cyclical lows have formed in a shallow manner and above the previous low, the resulting rally has been excellent.

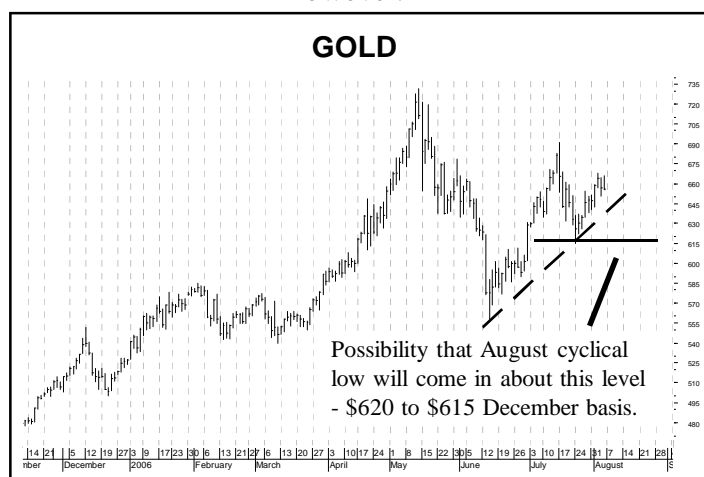
Consequently, I am not going to go too far out on a limb with what sort of weakness we may see over the next week or two. The \$613 low in late July was close to my earlier expectation of \$590 - \$600. Also, the XAU corrected to 130.00, in line with our target of 133.00. At this point, the thing for you to do is use weakness over the next couple of weeks to accumulate precious metal mining shares.

I want to warn you that weakness in gold and silver from here will be accompanied by all sorts of bearish news in the media. Forget about it. Once the

Silver Wheaton (SLW-AMEX-\$10.12) fell nicely under our \$9.00 buy price last month. If you haven't purchased any Silver Wheaton yet, put those orders in at \$9.00 and pray for a dip.

Goldcorp (GG-NYSE-\$30.49) is still on my list of favorites. They are doing well, indeed, and should be bought at \$28.50 or less.

I have recommended **U.S. Gold Corporation** (USGL-OTCBB-\$7.25) as a favorite on the buy-and-hold list of junior companies. My downside buy price is \$8.05, and it is trading under that level now. This one has not been participating in the recent rally off the July lows, however.



To reiterate the story a little here, this company was taken over by Rob McEwen last year. Rob took another company, Goldcorp (GG), from a \$50 million holding company to an \$11 billion major producer. When he purchased a major position in USGL, he also bought a large interest in several other companies at the time, but USGL was his core investment.

Well, it looks like Mr. McEwen has plans for augmenting U.S. Gold Corporation as he has several buyouts in the works, including a company called Nevada Pacific. Once he puts this together, he will have a mining company which will control the best of the gold mining properties in the state of Nevada, and perhaps the best in the U.S.

Lately, there have been regulatory problems getting these deals put together. It appears that the target companies are not adverse to the acquisitions, but jumping through U.S. regulatory hoops is difficult and a bit of a challenge for this Canadian mining executive. This has been a drag on USGL shares.

My bet is that this will all be worked out in time. Buy some USGL under \$8.05. If you are looking for a low probability but very advantageous price deeper than this, shoot for \$6.50. A bit of disappointing news could drive it that low temporarily; but if it does, shed your fear and take advantage of the opportunity.

Another precious metal issue on our buy-and-hold list that deserves your attention is the **Gabelli**

Global Gold and Income Fund (GGN-AMEX-\$22.25). It is right under our buy price of \$22.50.

This is a closed-end fund investing in gold and natural resources, and it sports a decent dividend as well. Currently, it is paying 7.4%. It's a very nice, diversified investment in the right asset class.

I recommended **Taseko Mines** (TGB-AMEX-\$2.77) in the last letter with a downside price of \$2.40 or better. On July 24, it dipped to \$2.31. Those of you who had your orders sitting there should have had no problem getting filled. The stock is up now, but I don't see any reason to change the buy price just yet. I am not sure if the opportunity at \$2.40 is gone forever or not. Nevertheless, I think that is the price to pay.

I am not a fan of ETF's, but I do like **Market Vectors ETF** (GDX-AMEX-\$39.72). It is an ETF of the AMEX Gold Miner's Index - GDM. It holds 43 international gold and silver stocks listed on the AMEX. Unlike the XAU - which includes the likes of Phelps Dodge - this one is all gold and silver. It is an excellent way to buy a broad portfolio of mining shares. I am putting it on the list with a downside price of \$35.70.

I know some of you would like a way to invest more directly in gold itself and have asked about the gold bullion ETF **StreetTracks Gold** (GLD-NYSE-\$63.97). I would rather put my money into bullion coins and mining shares. However, if you would like a little

exposure to bullion, that does not require a large dollar stake. It also avoids the problem of storing your gold. Buy GLD if it drops to \$60.00 on a dip to those August lows I have been anticipating.

Nova Gold (NG-AMEX-\$16.86) is on our list, and it is being acquired by **Barrick** (ABX-NYSE-\$32.11), another stock on our buy-and-hold list. The bid from Barrick is only \$14.50, and yet Nova is selling for \$16.80 - well above the offer price. I really don't have an explanation for this, but we put an upside target on Nova at \$18.95 in the last letter. I would like to bring that back a little and lower it to \$17.00. If we can get that, we will end up with a very nice profit on our original shares.

The stock market looks very, very tired. We have a little Phoenix program trade going, but I expect to see this closed in the next couple of weeks at most. We are still in the worst six-month period (May-October) with the worst months still ahead. I can't remember a September that was kind to the market, and October is when the big massacres usually happen.

Our best/worst six-month position - 50% in the **Rydex Inverse OTC Fund** and 50% in the **Rydex Inverse S&P Fund** - is doing fine. So far, we are ahead about 6% since we established the trade on May 12. I intend to hold these positions until the best/worst period ends. When our indicators tell us it is time to switch to a best six-month strategy, we will exchange into the Rydex Nova and OTC Funds.

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, preceded by CA: For example, 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 .89. 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 08/08/06	Downside Buy Price	Div	Target	Web Site
U.S. \$								
Alliance Res	ARLP	OTC	9/29/2004	27.98	38.30	36.00	5.22%	arlp.com
ASA	ASA	NYSE	11/19/2002	31.00	63.36	60.05	0.63%	asaltd.com
Barrick Gold	ABX	NYSE	1/5/2003	22.85	32.11	29.90	0.68%	barrick.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	22.95	21.00	8.30%	www.baytex.ab.ca
Black Rock	BGR	NYSE	8/3/2005	25.99	27.21	26.50	5.52%	blackrock.com
Canetic Energy	CNE	NYSE	4/19/2006	22.25	20.30	20.00	12.00%	canetictrust.com
Enerplus	ERF	NYSE	4/20/2001	18.00	58.30	54.00	7.59%	enerplus.com
Fording Coal	FDG	NYSE	11/16/2004	22.74	29.00	30.00	8.00%*	fording.ca
Frontier Oil	FTO	NYSE	8/3/2005	14.38	36.75	30.00	0.33%	frontieroil.com
Gabelli Glob. Gld.	GGN	AMEX	1/3/2005	22.10	22.25	22.50	7.40%	gabelli.com
Goldcorp	GG	NYSE	8/15/2003	13.00	30.49	28.50	0.59%	goldcorp.com
Headwaters	HW	NYSE	3/10/2006	36.30	21.77	HOLD	n/a	headwaters.com
Mkt. Vectors, ETF	GDX	NYSE	Buy at	35.70	39.72	35.70	n/a	n/a
Pimco Comod Fund	PCRAX		3/2/2005	13.97	15.31	HOLD	1.50%	pimcofunds.com
Primewest	PWI	NYSE	2/7/2003	17.00	30.75	29.50	10.44%	primewestenergy.com
Provident Energy	PVX	AMEX	6/16/2003	7.50	12.53	11.50	10.20%	providentenergy.com
Silver Wheaton	SLW	AMEX	3/10/2006	8.40	10.12	9.00	n/a	silverwheaton.com
St. Trs. Gold, ETF	GLD	NYSE	Buy at	60.00	63.97	60.00	n/a	n/a
Suncor***	SU	NYSE	2/7/2003	16.80	84.36	HOLD	0.33%	87.50 suncor.com
Valero	VLO	NYSE	4/26/2005	36.63	66.89	59.00	0.47%	valero.com

*** put sell stop on SU at 74.50

Canadian Dollars

Energy Split II	CA:EN	TSX	Buy at	17.00	19.25	17.00	13.30%	scotiamanagedcompanies.com
Paramount En. Tr	CA:PMT.UN	TSX	12/20/2004	16.44	19.70	18.00	15.78%	paramountenergy.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	24.35	Hold	7.47%	peyto.com
Shiningbank	CA:SHN.UN	TSX	1/2/2003	15.15	22.74	21.25	12.78%	shiningbank.com

**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 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 08/08/06	Downside Buy Price	Div	Target	Web Site
U.S. \$								
Bema Gold	BGO	AMEX	6/6/2002	1.06	5.75	5.00	n/a	bema.com
Coeur d'Alene	CDE	NYSE	9/2/2003	3.19	5.26	4.50	n/a	coeur.com
Mines Mgmt	MGN	AMEX	5/13/2005	4.50	6.73	6.50	n/a	minesmanagement.com
Novagold	NG	AMEX	12/8/2004	6.50	16.86	HOLD	n/a	17.00 novagold.net
Taseko Mines	TGB	AMEX	7/24/2006	2.40	2.77	2.40	n/a	tasekomines.com
US Gold Corp	USGL	OTCBB	9/9/2005	1.70	7.25	8.05	n/a	usgoldmining.com
Yamana	AUY	AMEX	4/14/2005	2.90	11.16	9.05	n/a	yamana.com
Canadian Dollars								
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	5.50	5.10	n/a	laramide.com
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	4.98	Hold	n/a	uts.ca

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 .89 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

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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