#0708/8-2-2007

Since 1978

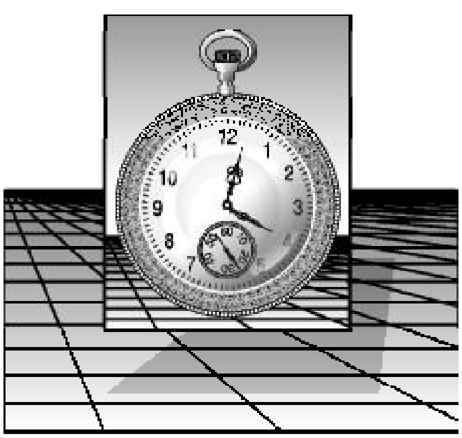
PROFESSIONAL TIMING SERVICE

Curtis J. Hesler

$150 A YEAR • MARKET REPORT TUESDAY & THURSDAY • P.O. BOX 7483, MISSOULA, MT 59807 • (406) 543-4131

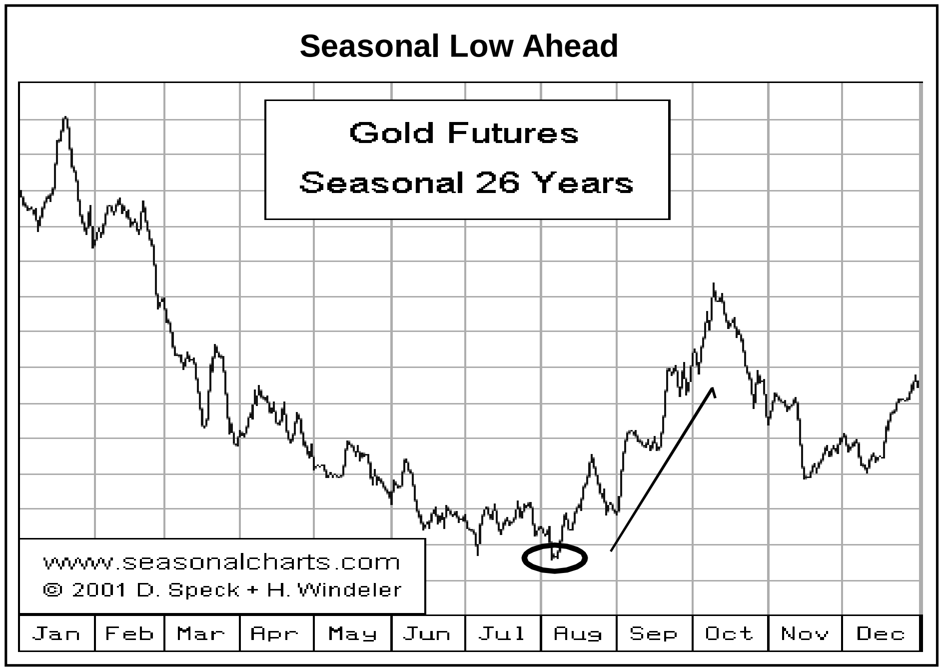
The next issue will be published August 23.

- **There are two interesting energy ETF's available .....** **Page 3**
- **One of my favorite buys this year is Transocean.** **Page5**



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

August - A Month For Buying Gold

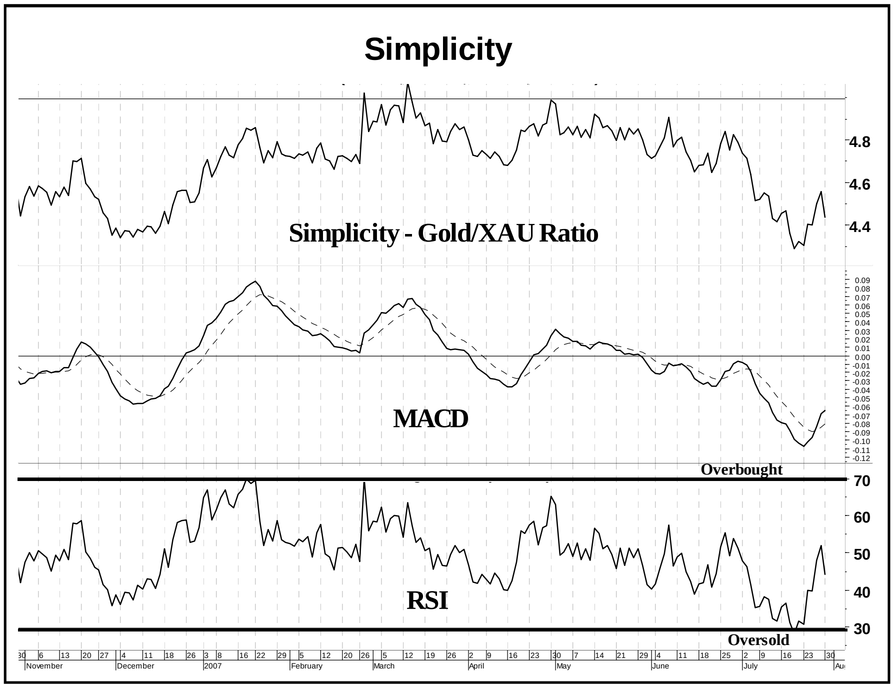


Here is an interesting chart of the seasonal patterns for gold futures. Note the low in early July. Some studies will show this low occurring in late June, but seasonal highs and lows should be accepted as tendencies rather than precise turning points. They are compiled from averages, and the chart above reflects the average of 26 years, prior to 2001.

Thus far, this summer looks like it is true to the pattern. Gold bottomed out on June 26, and it rallied modestly into late July. It is now pulling back toward the August seasonal low. The question is, how low will gold fall before turning up again? The chart above lends the possibility of a double bottom. I don't expect to see the July low broken; but if it is, it will be a minor infraction. Gold still has very good support at the $640 level basis August futures.

The important element in all of this is that you should expect gold and the mining shares to sell off this month, but the reward will be in the ensuing rally. Note the chart again. The July blip is just that – a bounce. However, the rally into October is typically splendid. The only better seasonal period for gold is the one following the November low … but let's take this one step at a time.

The U.S. dollar is part of the seasonal driver this time around. I went into this in the July monthly letter, so a rehash is unnecessary. The dollar is playing by the script thus far. The U.S. Dollar Index hit long term support at 80.00 during July, as we expected that it would. It even dipped under 80.00 a couple of times; but once it appeared that it might accelerate on the down side, the powers that be stepped in to support it. The result has been to stem the fall. The Fed would prefer that the dollar ease its way slowly lower, and that is just what will happen.



As the short sellers cover, the Dollar Index will recoil and catch its breath. It may be able to tip 81.50 at the outside, but I rather doubt it. Nevertheless, while the dollar consolidates, gold will settle back to its August low.

On a relative strength basis, the mining shares did better than gold during the July rally - which our Simplicity model reflected by falling to readings as low as 4.30. This indicates that gold shares had been performing better than the bullion, but 4.30 is not extreme enough to generate a long term sell signal. If you haven't read our Simplicity report, direct subscribers can log into the Subscriber's Services section on our Web site and get a copy. Forbes' subscribers can log into Professional Timing Service at the Forbes' newsletter site and find a copy in the Special Reports folder. I expect the trend in Simplicity to reverse, and it should move higher now as gold corrects.

Although the mining shares should perform a bit weaker than bullion during the August correction, this is nothing to get concerned about. If Simplicity falls below 3.75, we will have to consider some defensive action, but the mining shares are not an out and out sell until Simplicity falls below 3.20. A reading at 4.30 only tells us to not chase strength and to wait for a better time to buy. I expect to see Simplicity move back to about 4.80 at the August lows.

The recent rout in the overall stock market lends to the weakness in mining shares because everything goes out the window with the bath water when the stock market panics. We are seeing some weakness in energy stocks here as well, even though crude oil is doing very well. Fear seduces investors into raising cash by indiscriminately selling everything. It is an irrational response that will lead to our finding some excellent buying opportunities this month. Remember Warren Buffet's advice to fear when others are confident and buy when everyone is fearful.

I introduced a new silver stock on the July 26 online update – **Endeavor Silver** (EXK-AMEX-$4.92). They expect to produce 2.8 million ounces of silver and 7,500 ounces of gold in 2007. Their principal activities are in Mexico, with several interesting development projects in the works. The potential looks good here, and you can dig deeper at www.edrsilver.com. Our recommendation is to take advantage of current market weakness and buy Endeavor at $4.60 or less. This is a fine speculation on a junior silver producer - something that is not all that easy to find.

As long as you heed our downside buy prices (I have adjusted a few on Page 6), anything on our buy-and-hold list is an active recommendation. If I were to pick one, I still like **Yamana** (AUY-NYSE-$11.07) - but don't pay over $13.00. Just be sure to maintain balance and diversification in your portfolios, and don't get over invested in any one issue or sector. If you don't own some already, watch the **Market Vectors ETF** of AMEX mining shares (GDX-AMEX-$39.94). Purchases at $37.00 or better will add some decent diversification in your gold portfolio.

As mentioned earlier, crude oil is holding up better than I expected. It is not that I am a crude oil bear. I just think that crude needs a rest. Price keeps probing higher, but there are glaring negative divergences now that do not confirm the recent highs. If crude came back to its last level of resistance (now support), it would be in better technical shape to move over $80.00 later this year. Support should be very solid at $69.00 - $70.00 basis September.

One driving force here is that the economies in Asia and China are not slowing down, as everyone keeps telling us they will. The idea that the U.S. economy is the foundation under world growth is no longer a fact. As Asia becomes more internally driven, its economic activity will continue to grow, regardless of the West. According to the U.S. Energy Information Administration, crude consumption by the U.S increased 200,000 barrels a day during the second quarter of 2007 versus a year ago. China's consumption increased by 500,000 barrels a day, putting their growing demand at a rate 2-1/2 times that of the U.S.

You also have to ask how bad things really are in the U.S. Everywhere I go, I see help wanted signs posted. I realize the possibility that the sub prime loan problem and the real estate building slowdown could spill over into other aspects of the economy, but one thing you can count on is that the Fed will protect the banks. That is why the Federal Reserve System was created – to protect the banks and not to protect the purchasing power of your dollars. If loan defaults begin to hurt the banks, they will be bailed out with your tax dollars - just like the S&L crisis, the Long Term Capital Management crisis, etc.

The Fed will also protect the powers that be as best they can. There is a very important national election coming up in 2008, and the last thing the "in's" want is unemployment. The real sacrificial lamb in keeping the voters happily employed is the U.S. dollar. Your dollars will be available for you at your bank under any circumstances, sub prime write offs notwithstanding. However, those dollars will will buy less and less with the resolution of each successive crisis. Bottom line, you can count on the dollar's perpetual decline. Raw material prices will be rising due to increasing global competition for supplies as well as the depreciating value of the dollar. Regardless of how our government wants to twist the numbers, the result is inflationary.

Gold and silver are relatively easy to invest in. You can buy some gold or silver, or buy mining companies. Buying crude oil and natural gas is a little more difficult. First, all crude is not created equal, and that wonderful light, sweet crude is quickly disappearing. It is being replaced with difficult to process, heavy sour crude. You can buy futures, of course, but most investors are not going to go that route. If you do, you should put up the full value of the contract in Treasury Bills (don't use the margin).

There are two interesting energy ETF's available that make the process of directly investing in crude or natural gas easier - the **United States Oil Fund** (USO-AMEX-$58.53), which we have on our trading list (Page 2 of the twice weekly online update), and a new one, the **United States Natural Gas Fund** (UNG-AMEX-$39.36). UNG is a little too young to produce a decent buy point as yet; but when it does, we will add it to the trading list.

The Canadian energy trusts were an answer; but for reasons outlined in our Petrofascism booklet, they are no longer appropriate for new buy-and-hold money. We have a few on our recommended list as holds, and that is how they should be approached. The exception on the list is **Peyto Energy** (PEYUN-TSX-C$17.16), and it can be accumulated under C$18.50. This is one that I feel can do just as well as a corporation or as a limited partnership than as a trust.

The trusts are going to see their operating costs increase, and they are not going to be able to easily raise new capital to acquire old production from the E&P companies. This was the key to the efficiency the energy trusts added to the energy industry - taking mature production off the hands of exploration and production companies so that new, inexpensive capital was available for further exploration and development. With the trusts being taxed, the advantage to the unit holder is diminished and uncertainties are increased. There are now too many unanswered questions and too many wild cards, all diminishing the international investment appeal of the trusts.

There is a way, however, that we can invest in the trusts and manage the new risks and uncertainties imposed by the Canadian government's tax attack. The answer is to manage the risk by approaching the trusts as trading vehicles rather than long term, buy-and-hold investments. We are adding several trusts to our trading list now, and the recent weakness in the group should provide some decent buying opportunities.

An option that some of the trusts are considering is to reorganize as U.S. based limited partnerships. Not all of them will find an advantage in this because of the limitations inherent in their operations. Converting to a limited partnership may not be that advantageous for trusts whose only operation is pumping oil and gas. It may well be advantageous to a pipeline company like Pembia, though. Peyto retained their E&P activities when they converted to a trust, so perhaps a limited partnership approach would work for them. Or since they converted from a corporate structure originally, they could easily convert back again. They have long life reserves, a rock bottom payout ratio, extremely low operating costs, and little debt. Their payout is solid.

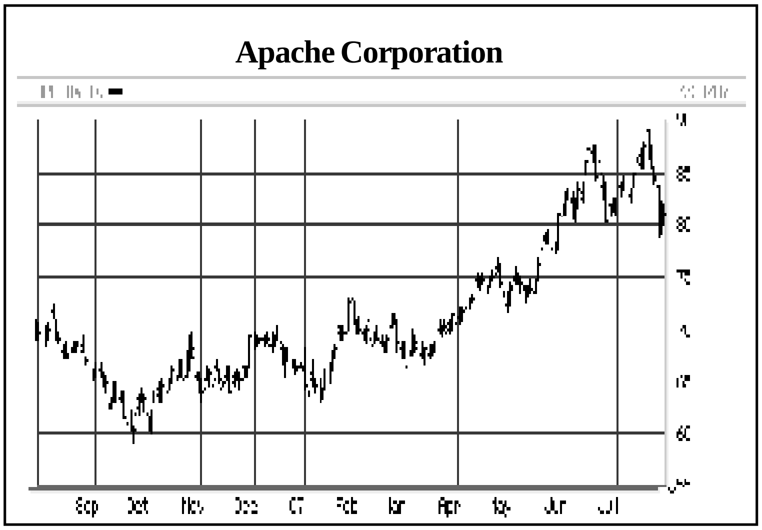
The key to the trusts is this. If there is an advantage for them to convert to an LP or back to a corporation, they look like good buys at this point. If not, they should be approached only on a trading basis. However, here is something to think about in terms of limited partnerships. The U.S. Congress is discussing taxing partnerships. They are trying to target the hedge funds, but any legislation in this regard could have wider consequences to other partnerships. We will be keeping an eye on this and on our **Kinder Morgan** (KMP-NYSE-$52.98).

Finding income without threats is perhaps not possible, but I prefer buy-and-hold investments that profit indirectly from higher oil prices. One example of this is **Frontline Ltd.** (FRO-NYSE-$46.04), a tanker company that we purchased in January for $31.00. Since then, we have gotten some really nice dividends and a spinoff worth about 95 cents a share.

On the July 24 online update, we recommended purchase of another tanker, **Nordic American** (NAT-NYSE-$39.70) at $38.50 or better. The meltdown in the stock market on July 26 provided us with that opportunity. This is a fine tanker company that we have successfully owned in the past. Tanker dividends can vary, but you should expect a 12% yield. There is more weakness to come in the energy sector, and it should allow you to accumulate Nordic American at $38.50 or less.

In the July mid-monthly letter, I introduced a new resource recommendation - **Altius Minerals** (ALS-TSX-C$22.59). They are involved in raw material resources as well as energy-related activities, most exciting of which is a new refinery to be built in Newfoundland. It definitely has been on a tear, but recent weakness in the general market pushed it back. I still think we have a good chance to pick some up at C$18.00.

There is one energy company that everyone should have in his or her portfolio, **Apache Corp** (APA-NYSE-$80.84). Shown on Page 5 is a chart showing their performance. In fact, I believe this is the only major you should hold. They are not simply an E&P company any longer. They are well ahead of the curve in respect to oil technology with advanced use of 4-D seismic and seismic inversion programs, satellite imagery, and GIS systems, etc. They are very good at enticing additional production out of old wells, and they are one of the few large independents that has been able to grow their reserves. As you might imagine, their discovery costs and overhead are among the lowest in the industry. Apache also has no exposure in the Middle East. The general weakness in the market is bringing Apache off its recent highs, and it looks like a great buy at $78.00 or better now. If you are looking for a deep, downside target, $75.00 is an absolute steal.



One of my favorite buys this year is **Transocean** (RIG-NYSE-$107.45). They announced that they intend to merge with **Global Santa Fe** (GSF-NYSE-$71.74) and form a new company that will still be called Transocean. Transocean shareholders will get $33.03 in cash and .6996 shares of the combined company. I like the deal, but I am not thrilled with the cash. I will have a recommendation for you on what do with the money - whether to buy more of the new company or buy something else when the deal comes through. I doubt the Justice Department is going to be as excited about this deal as others might be, and they could kill it. I would like to buy more on a pullback, but there is no clear downside buy point as yet, other than the $79.00 price we have on our buy-and-hold list. I doubt it will come off that far; but as soon as something new develops and we can confidently raise the buy price, we will. For now, hang on to it. Transocean is a dandy asset.

Not so dandy is that pesky **Headwaters** (HW-NYSE-$16.13). Its performance has been dismal, but I cannot recommend that you sell it - not here. The construction products that they make like FlexCrete, Inspire Slate Roofing, etc. are products made from energy waste like fly ash. I think the real estate jitters are dragging Headwaters' price down and are overshadowing their other divisions. Nevertheless, their total revenue for the June 2007 quarter was up 14% versus last year, and operating income was up 42% over the June 2006 quarter. Net income was up 69%. Down and dirty, this company has great looking fundamentals; but technically, it is weak. My recommendation is to hold what you have. If you would like to average down, go easy and shoot for $14.00 on the down side.

I have mentioned the word "vulnerable" to describe the stock market for some time now, and the stilts certainly came out from under it in late July. The question is whether this is a brief interlude before the averages begin to move higher again or the beginning of the next secular bear market.

The McClellan Oscillator hit an amazingly oversold reading of -344 on July 27, which should presage a brief stall in the decline, if not a bounce. We are operating within the worst six months for stock market performance (from May through October), so I would not get excited about any sharp, upside moves you see. They will likely be brief, short-covering flurries. October is yet ahead, and it's known as the bear killer - not because it is a positive month, but because it is during October when past declines have often culminated in savage, final panic moves. If this market is going to come unglued, October will be the month most likely to see the worst damage.

Both our Palio and Nasdaq Slow Tracker trading models turned negative on July 30. Palio did not exit as well as I would like, but this is a trading model. It covered the last trade at a point that the averages were very oversold and approaching support. It is always easy to question the signals, but the whole idea of having systematic, objective trading signals is to avoid emotional imput. Nevertheless, a good trading model will keep losses small, allowing us to wait for conditions to warrant a new entry. So it is with Palio and the Nasdaq Slow Tracker.

Trading is not for everyone; and if it doesn't suit you, ignore the trading advice and stick with the buy-and-hold list recommendations. Buy and hold is easier. Be patient, and look for some buying opportunities to develop later this summer in energy. This month, the low-hanging fruit will be found in precious metals. In terms of the overall stock market, remember that the best investment during past stock market bears has always been gold and silver.

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 .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 07/31/07	Downside Buy Price	Div 07/31/07	Target-T Stop-S	Web Site
					U.S. Dollars				
Agnico-Eagle	AEM	NYSE	1/10/2007	36.00	42.54	36.00	0.28%		agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004	27.98	40.50	39.00	5.35%		arlp.com
Apache Corp	**APA**	**NYSE**	3/5/2007	68.00	80.84	**78.00**	0.72%		apachecorp.com
ASA	ASA	NYSE	11/19/2002	31.00	64.61	60.00	0.92%		asaltd.com
Barrick Gold	ABX	NYSE	1/5/2003	22.85	32.90	29.00	0.90%		barrick.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	19.33	HOLD	10.68%		www.baytex.ab.ca
Black Rock	BGR	NYSE	8/3/2005	25.99	29.93	28.00	4.94%		blackrock.com
Canetic Energy	CNE	NYSE	4/19/2006	22.25	14.93	HOLD	14.49%	S = 12.00	canetictrust.com
Fording Coal	FDG	NYSE	11/16/2004	22.74	33.11	HOLD	7.41%		fording.ca
Frontline Ltd.	FRO	NYSE	1/4/2007	31.00	46.04	36.00	5.30%	S = 27.70	frontline.bm
Frontier Oil	FTO	NYSE	8/3/2005	14.38	38.73	36.00	0.51%		frontieroil.com
Gabelli Glb. Gld.	**GGN**	**AMEX**	1/3/2005	22.10	27.50	**26.00**	6.03%		gabelli.com
Gammon Gold	GRS	AMEX	1/4/2007	15.00	11.22	15.00	n/a		gammonlake.com
Headwaters	**HW**	**NYSE**	3/10/2006	36.30	16.13	**14.00**	n/a		headwaters.com
Kinder Morgan LP	KMP	NYSE	6/8/2007	52.50	52.98	52.50	6.35%		kindermorgan.com
Kinross Gold* **	**KGC**	**NYSE**	6/6/2002	2.39	12.98	**12.00**	n/a		kinross.com
Kinross Gold	**KGC**	**NYSE**	1/4/2007	11.00	12.98	**12.00**	n/a		kinross.com
Mkt. Vectors, ETF	GDX	AMEX	9/11/2006	37.00	39.94	37.00	1.13%		n/a
Nordic American	**NAT**	**NYSE**	**7/26/2007**	**38.50**	**39.70**	**38.50**	**12.43%**		**nat.bm**
Pimco Comod Fund	PCRAX		3/2/2005	13.97	14.31	14.00	4.42%		pimcofunds.com
Primewest	PWI	NYSE	2/7/2003	17.00	20.51	HOLD	13.95%	S = 18.60	primewestenergy.com
Ship Finance Int. ##	SFL	NYSE	3/6/2007	0.00##	27.95	HOLD	7.73%		www.shipfinance.org
Silver Standard	SSRI	OTC	1/4/2007	30.00	34.57	32.00	n/a		silverstandard.com
Silver Wheaton	**SLW**	**NYSE**	3/10/2006	8.40	13.71	**11.00**	n/a		silverwheaton.com
St. Trs. Gold, ETF	GLD	NYSE	9/11/2006	58.85	65.79	64.00	n/a		n/a
Transocean Inc.	RIG	NYSE	1/4/2007	75.00	107.45	79.00	n/a	S = 64.50	deepwater.com
Yamana	AUY	NYSE	4/14/2005	2.90	11.07	13.00	0.36%		yamana.com
Valero	VLO	NYSE	4/26/2005	36.63	67.01	65.00	0.71%		valero.com
					Canadian Dollars				
Altius Minerals	**CA:ALS**	**TSX**	**Buy at**	**18.00**	**22.59**	**18.00**	**n/a**		**altiusminerals.com**
Energy Split II	CA:EN	TSX	9/11/2006	17.00	13.95	HOLD	16.16%		scotiamanagedcompanies.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	17.16	18.50	9.73%		peyto.com

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, and www.arlp.com.

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

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 07/31/07	Downside Buy Price	Div 07/31/07	Target-T/ Stop-S	Web Site
					U.S. Dollars				
Coeur d'Alene	CDE	NYSE	9/2/2003	3.19	3.91	4.50	n/a		coeur.com
Endeavor Silver	**EXK**	**AMEX**	**7/26/2007**	**4.60**	**4.92**	**4.60**	**n/a**		**edrsilver.com**
Taseko Mines	TGB	AMEX	7/24/2006	2.40	4.75	2.60	n/a		tasekomines.com
US Gold Corp	UXG	AMEX	9/9/2005	1.70	5.83	5.00	n/a		usgold.com
					Canadian Dollars				
Baja Mining	CA:BAJ	TSX	Buy at	1.50	2.30	1.50	n/a		bajamining.com
Everton Res.	**CA:EVR**	**TSX**	1/4/2007	1.30	0.81	**0.80**	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.62	0.50	n/a		goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	9.50	10.25	n/a		laramide.com
Mega Uranium	CA:MGA	TSX	5/1/2007	6.75	5.56	6.75	n/a		megauranium.com
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	6.17	Hold	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	1.83	1.60	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 .94 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.