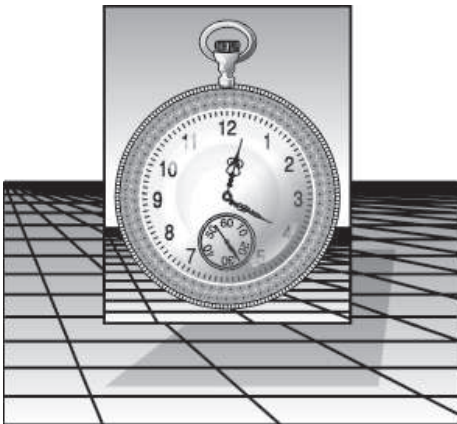


The next issue will be published September 1.

- **Two gold charts from Profitimes.com article.** Page 2
- **The message is that mining shares are dirt cheap.** Page 3
- **Meanwhile, I expect to see the dollar move to new lows and for commodities...** Page 5



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The Case For \$5,000 Gold

First of all, no matter what Mr. Bernanke and associates want you to think, gold is money. The powers that be don't like that thought, of course, because it ruins their little banking debt slavery scheme that I wrote about in last month's letter. You can buy stuff with gold. In fact, last May, Utah became the first state to pass legislation making gold and silver coins legal tender. They also have exempted the sale of coins from state capital gains taxes. A depository system is being established so investors can store their gold and silver and use depository receipts in financial transactions. Other states are currently considering such legislation.

There is talk that Zimbabwe is working toward revitalizing its currency by introducing a gold standard. Malaysia has suggested using gold in transactions with other Muslim countries using an Islamic gold dinar. There is also a movement in Mexico to monetize the silver Libertad. Currently, the coins have no monetary value embossed on them, which makes them clumsy for day-to-day transactions. However, there is an initiative that should pass with ease that will allow the Mexican bank to quote a price for the coins that cannot be depreciated.

The problem with these hard money approaches is that due to Gresham's Law, you are not going to see gold and silver coinage in circulation any time soon. The headwind here is that if you have a pocketful of depreciating U.S. bank notes and another pocketful of gold and silver coins, which pocket are you going to reach into when buying something? Bad money is spent before good money if there is a choice. Nevertheless, you may in the future be able to spend out of either pocket. I am considering selling this newsletter for \$6.00 a year given payment is in pre-1965 silver coins.

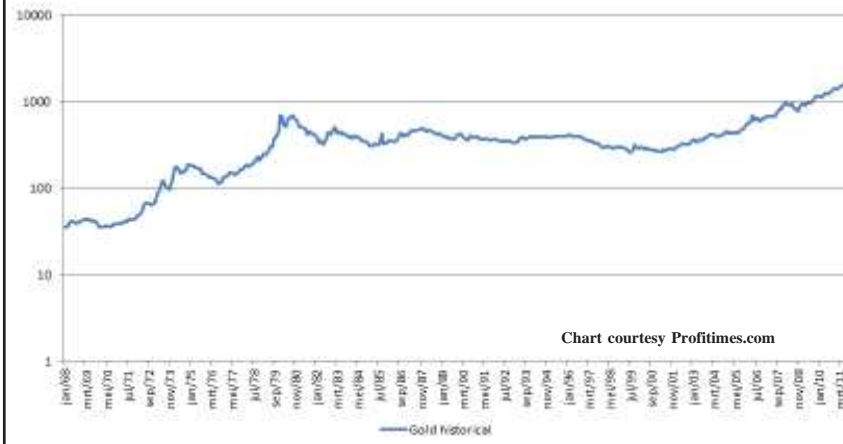
Some brokerage firms are beginning to accept gold on deposit from customers against which financial assets can be purchased. Gresham's Law aside, gold is gradually being monetized, and it may not be long until you will think in terms of what something costs in gold rather than the price of gold in dollars.

In the meantime, remember that although the gold price fluctuates, gold has never become worthless. Gold cannot default. Furthermore, gold appreciates in any unstable economic environment, either deflationary or inflationary. Only in stable environments or when the rate of inflation is declining does gold fail to do well. I don't think we have to worry about that for a while.

There has been talk at each new high that the gold rally is in a "bubble." A good place to start with that is smoothing out the arithmetic price comparison with a log chart. The two charts on Page 2 come from an article at Profitimes.com,

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 © 2011 by Professional Timing Service.

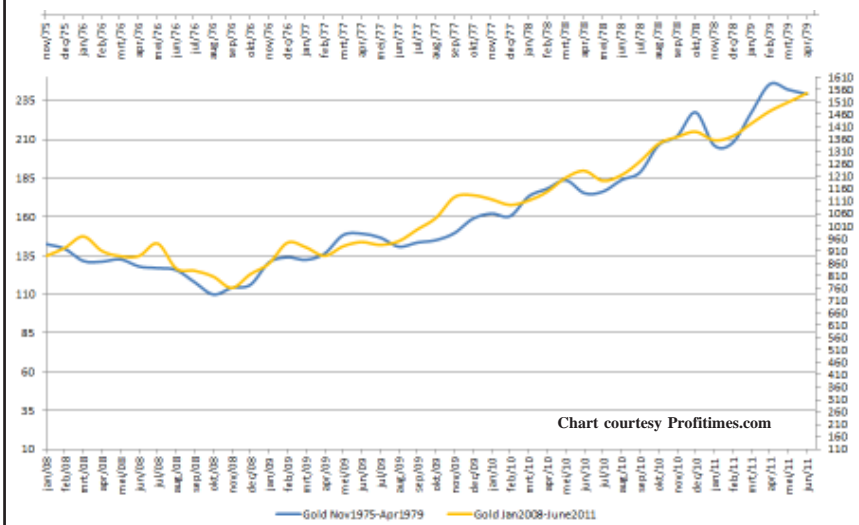
Historical Gold Log Scale



<http://profitimes.com/free-articles/gold-headed-to-5000-per-ounce>, which you should definitely read. The chart quality here is not as good as I would like, but the point is important. If you look at this gold bull on a percentage increase basis, it does not look like a bubble. The blowoff or velocity phase will come; but currently, the gold market is a normal bull move that is far from over.

The second chart overlays the rally in gold from November 1975 to April 1979 with the current bull market. Keep in mind that in the bull of the 1970's, the bubble phase came after April 1979. The interesting element brought out in the Profitimes article is that the two periods correlate at 97.83%. That is an eye opener. So, bottom line, where does gold end up if this correlation runs full course? Well ... \$5,000.

Comparison Gold Market 1975 - 1979 With Current Market



I am not sure that it is a good idea to tie your sights too closely on any long term call for the ultimate high in gold, but the above exercise is interesting, to say the least. I am quite certain we will see gold break \$2,000, but the best way to handle this is to monitor the Dow/gold ratio (currently about 7.50) and take your cue from the market itself. The ratio will tell us

when it is time to shift out of gold and silver, but we have some very exciting times ahead before that happens. As gold continues higher over the longer term, the ratio will eventually fall under 5.00 and ultimately to 2.00.

So, what to do now? Hopefully, you were able to use weakness during April, May, and June to accumulate positions. If not or if you feel underinvested in precious metals, August is typically a soft month for gold prices. With gold and silver as overbought as they are, it should not be surprising if they cool off a bit this month. As for gold, our technical work is asking for caution, with major support at \$1,500 and minor support at \$1,550.

I have pointed out that there are a lot of big, serious buyers lurking out there. China, Russia, and India are but a few of the biggest hitters. Russia, interestingly enough, is now a net importer of gold and is also one of the world's largest producers. Think about that. I wouldn't get overly bearish on bullion.

Silver is another matter. Silver is definitely a precious metal, and it will move higher with gold. To what extent is not cast in stone. Silver at about \$40.00/oz. has not made new highs with gold, and it has the potential to come off to \$34.00 basis December. There should be good support there.

Goldcorp (GG-NYSE-\$47.81) has come off on a disappointing announcement. They are paring back their 2011 output forecast by 6.5%. The reasons are typical business matters. The Penasquito mine in Mexico is progressing slower than expected due to a temporary restriction in cyanide supplies. They have a minority interest in the Pueblo Viejo project in the Dominican Republic, which is run by Barrick. A tailings facility at the site was damaged by unusually heavy rainfall. Due to forest fires in Ontario, Goldcorp's Musselwhite mine had to halt production for a few weeks, which will cause a 20,000/ounce shortfall in production there.

Nevertheless, second quarter operating profit doubled, and earnings per share were \$0.52 versus \$0.27 a year earlier. All is well at Goldcorp, and the selloff created by the diminished output forecast is a buying opportunity. Use weakness for accumulation. There should be some decent support at \$46.00. There is major support between \$40.00 and \$42.00, but I don't expect to see it fall that far. Just don't pay over \$50.00.

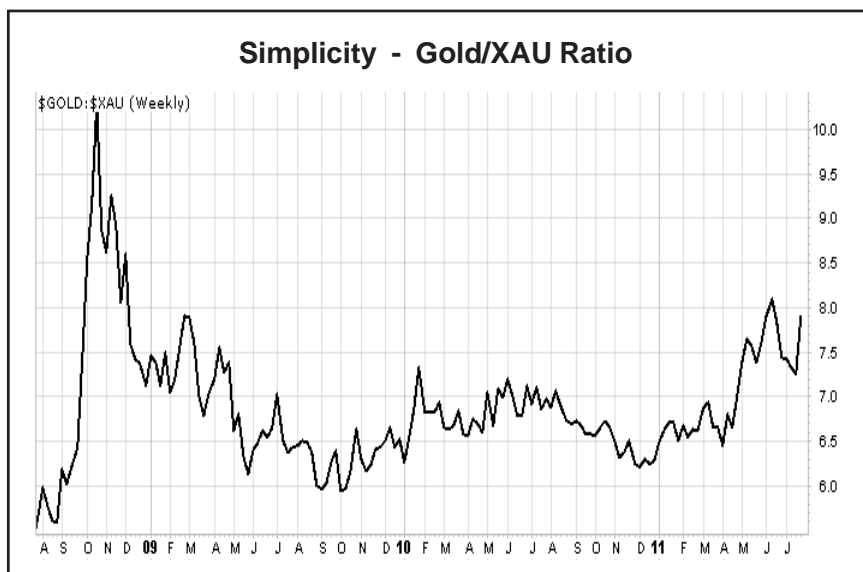
Silver Wheaton (SLW-NYSE-\$36.08) was originally spun off from Goldcorp some years back. We sold SLW last May at \$37.25 because it was beginning to evidence comparative weakness with other stocks in its sector. Silver Wheaton contracts for silver that is produced as a by-product, thus freeing up capital for the miners involved. They pay about \$4.00 an ounce at the time of production. It is interesting that they have contracted for 25% of the silver from the Penasquito mine mentioned above and are thus impacted by the cyanide shortage that is holding back Goldcorp's production there.

Fundamental excuses aside, the near term technical picture still looks weak for Silver Wheaton, but I want to buy SLW back if we can do so at \$29.00 or better. There is good support at \$29.00, and I believe we will have the opportunity if we remain patient.

Another gold stock that deserves attention and has been performing better than the average is **Royal Gold** (RGLD-OTC-\$64.10). We are bumping up the downside buy price a bit to \$56.00.

Central Fund of Canada (CEF-NYSE-\$23.84) has not broken below \$22.66 as yet. However, our buy price of \$20.75 is still within reason.

The gold/XAU ratio reflects the relative performance between mining shares represented by the XAU and gold bullion. During bullion's recent break to new highs, the mining shares - with a few exceptions like Royal Gold - have lagged behind. The ratio has moved back up to 7.9, as you can see on this chart.



The message is that mining shares are dirt cheap. The reason is that the public and many professional and institutional investors have yet to catch on that there is a major bull market going on.

We may be at the leading edge of a paradigm shift toward global, gold-backed transactions; i.e., money. Institutions like pension plans, universities, and insurance companies are still woefully underinvested with only about 0.15% of their assets in precious metals. There will come a day when they will want to rebalance, and likely that will be stimulated by some event. They will

not take their time, but will act in a panic. Consider that the Gold Bugs Index of unhedged miners (HUI) is only worth some \$220 billion. The point is that the gold market is very small and institutional money is very big. We haven't even factored in potential demand from the public. As mining stocks take off under pressure from institutional buying, the public will jump in next.

You will look back at the price of mining shares during 2011 much like you looked back at prices in 2008. Once the opportunity passes, you can only chase strength and suffer from greatly diminishing marginal returns because of buying high. How soon will we see \$1,800 gold? I believe by the end of the year; but first, expect a weak August followed by a robust September. This will be followed by some profit-taking in late October and November. Then the fireworks should heat up with another strong up leg into the first quarter of 2012. I am expecting 2012 to be a huge year for precious metals and a dire year for the stock market and economy.

Crude oil has been bouncing within its \$90.00 to \$100.00 trading range. When it tries to penetrate \$100.00, the sellers come in, but they can't seem to push prices below \$90.00. Some of this is due to day-to-day weakness in the stock market, which indeed portends a poorer economy next year. However, crude supplies get more expensive and less reliable while global demand takes up the slack in any softness in demand from Western appetites.

Bottom line, transportation runs on crude oil, food production is dependent on crude oil, clothing is made from crude oil, and medicines come from crude oil. Crude oil is indispensable, and China is buying supply wherever they can - even in Canada and Iraq. They are now importing more from Saudi Arabia than we do. What they buy through outright investment or contract is then unavailable for our use. Considering that the Chinese middle class is larger than the entire U.S. population and continues to grow, they will continue to lock down supplies.

I am eyeing **Legacy Reserves** (LGCY-OTC-\$27.81) and **Linn Energy** (LINE-OTC-\$40.03). Legacy Reserves is trading under our buy price of \$29.50 and sports an annual indicated dividend of 7.77%. Linn Energy is still a bit above our buy price of \$37.50, but patience will win out. They pay 6.89%.

On the more speculative side, **Advantage Oil & Gas** (AAV-NYSE-\$6.95) hit our buy price of \$7.25 on July 27.

AltaGas (ALA-TSX-C\$26.46) has come off some, but not quite far enough yet to give us a fill on our pilot position at C\$25.00. Stay the course. We have a very good chance of filling this. For instructions on purchasing this using the pink sheet market in U.S. dollars, see the July letter.

Remember, any recommendation is a candidate for purchase at or below its listed downside buy price on Page 6. Just be sure to diversify and balance your portfolio.

Our Critical Price Point analysis on Page 2 of the online updates recently turned positive on crude oil. So, although I look for some continued softness this month in the energy stocks, the overall environment for crude is positive. The next CPP sell/reversal price is \$95.00 basis December crude.

There is always the potential to have some event suddenly send energy prices higher, regardless of recessions. Another factor, of course, is the purchasing power of the dollar and what impact Congress and their debt solutions will have. A year from now, the dollar is not going to buy you more goods - or even the same amount of goods as it does today - unless what you are buying is simply unnecessary stuff. Consumers are going to have to make some painful adjustments. As the power company, the gas pump, the grocery store, the doctor, and the tax man demand more of your scarcer and softer dollars, something will have to be given up. Those things will be discretionary items and services.

Washington will be spinning the unemployment and economic numbers with extra ferocity as the 2012 elections are on the horizon. The big political problem is those folks that have no job and see little chance of getting one - including their spouses and voting age children. They cannot be fooled by news broadcasts. They know exactly the truth of their situation and will be voting for a new deal - probably any new deal.

The Fed has two mandates - employment and inflation. They can only address one factor to the detriment of the other. The current administration is facing some stiff headwinds, and the Fed is going to strongly address unemployment, which means inflation is going to get worse.

There is a lot of talk about deleveraging, but debt has only been shifted from the private sector to the public sector. Consumer debt is still very high, and the burden will grow as unemployment and the price of necessities increases. There is a difference between saving and borrowing that evidently is not obvious to governments or individuals. If you borrow, you are able to consume more now but less in the future. On the other hand, if you save, you forego current consumption in order to be able to consume more in the future.

I encourage all of you to eliminate debt. You cannot make a better investment than paying off debt. The benefit and return are guaranteed. The government should do likewise. Stop borrowing and use income to pay off debt. There is a problem with the government taking over more and more of the economy. If the government were to account for, say, 1% of the economy and the private sector the other 99%, it is easy to see how affordable this is. However, if government were to account for 99% of the economy, the other 1% simply cannot afford it. The actual critical balance comes somewhere in between these two extremes, and we are there.

Unfortunately, in the real world, it takes a crisis in order to see the light. Do not rule out QE3, or QE4 for that matter. At some point, interest rates will come under the control of the market and the Fed will lose their grip. It is fine to trade the bond market if you are seasoned at that sort of thing and follow technical guides. Our Rydex bond model is currently long with a sell stop and reversal at 124-27/32 September basis. This is a revision of the information you were given in the last online update.

I mentioned my outlook for the stock market above. I have held the opinion that this year would play out in a roller coaster fashion with some decent rallies and gut-wrenching declines - all adding up to nothing in the end. If there is any bias at all, it will be generally to the down side. However, the secular bear will get in gear next year. I am not necessarily looking for a replay of 2008; but even in good times, a three-year rally deserves a hard down year to balance out extremes. I am looking for a significant top in late February early March and then hard down for the rest of the year.

Meanwhile, I expect to see the dollar move to new lows and for commodities (especially gold) to reflect this by appreciating significantly in dollar terms. The biggest winner will be gold and the miners, but crude oil will be right there in the pack with the leaders. There is no way you are going to see \$5,000 gold (or even \$2,500 gold) without seeing much higher crude oil prices. If gold were \$2,500 and crude oil was \$100 a barrel, an ounce of gold would buy 25 barrels of oil. I don't see that happening. The long term average is 15 barrels (close to where it is today at 16.5) which equates to \$166 a barrel.

The Nasdaq Slow Tracker program on Page 2 of the online updates trades the Rydex OTC fund. It hit its sell point on July 29, and the next buy/reversal price is 2,863. The Palio model sold on July 25 as per our online update that day. Not bad so far. I am working on a tweak to the model that looks like it may smooth out many of the whipsaw signals. I am pretty excited about this and will share my testing results with you when they are complete.

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:PEY. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by 1.045. 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 letter are in bold letters.

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 07/29/11	Downside Buy Price	Div 07/29/11	Target-T Stop-S	Web Site
U.S. \$									
Apache Corp	APA	NYSE	3/5/2007	68.00	123.72	110.00	0.48%		apachecorp.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	55.77	HOLD	4.42%		www.baytex.ab.ca
Blackrock Energy	BGR	NYSE	8/3/2005	25.99	29.12	28.00	5.56%		blackrock.com
Central Fund of Can.	CEF	NYSE	Buy @ \$20.75		23.84	20.75	0.04%		centralfund.com
Central Gold Trust	GTU	NYSE	7/27/2010	45.50	62.55	55.00	n/a		gold-trust.com
Enerplus Res.	ERF	NYSE	11/20/2008	19.00	31.22	30.00	7.18%		enerplus.com
Gabelli Glb. Gld.*	GGN	NYSE	1/3/2006	22.10	18.10	18.00	9.28%		gabelli.com
Goldcorp	GG	NYSE	7/24/2008	40.00	47.81	50.00	0.85%		goldcorp.com
Legacy Reserves LP	LGCY	OTC	8/6/2010	24.00	27.81	29.50	7.77%		legacyp.com
Linn Energy LLC	LINE	OTC	11/18/2009	24.72	40.03	37.50	6.89%		linnenergy.com
Natl. Fuel Gas Co.	NFG	NYSE	3/10/2011	70.00	72.38	70.00	1.96%		natfuel.com
NG Service Grp.	NGS	NYSE	1/6/2011	17.50	15.91	18.50	n/a		ngsgi.com
Pimco Com. Fund	PCRAX		3/2/2005	11.89	9.04	8.50	9.01%		pimcofunds.com
Prospect Capital	PSEC	OTC	1/5/2009	12.00	9.30	HOLD	13.07%	T=13.00	prospectstreet.com
Prospect Capital	PSEC	OTC	2/1/2010	11.00	9.30	HOLD	13.07%	T=13.00	prospectstreet.com
Royal Gold	RGLD	OTC	7/8/2009	38.00	64.10	56.00	0.69%		royalgold.com
Silver Standard	SSRI	OTC	1/4/2007	30.00	27.40	HOLD	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	Buy @ \$29.00		36.08	29.00	n/a		silverwheaton.com
Sprott Phys Gld Tr.	PHYS	NYSE	1/21/2011	11.50	13.99	12.50	n/a		sprottphysicalgoldtrust.com
Yamana	AUY	NYSE	4/14/2005	2.90	12.98	12.00	0.92%		yamana.com
Canadian Dollars									
AltaGas**	CA:ALA	TSX	Buy 1/3 25.00 **		26.46	25.00	4.99%		altagas.ca
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	11.53	HOLD	n/a		altiusminerals.com
ARC Resources	CA:ARX	TSX	9/8/2008	25.85	24.91	HOLD	4.82%		arcresources.com
Crescent Point En.	CA:CPG	TSX	9/16/2008	30.20	42.95	43.00	6.43%		crescentpointenergy.com
Brookfld Ren Pw	CA:BRC.UN	TSX	12/17/2008	15.99	22.95	22.50	5.66%		brookfieldpower.com
Peyto Exp & Dev	CA:PEY	TSX	7/18/2003	8.75	23.30	HOLD	3.09%		peyto.com

* GGN was bought at \$17.75 on March 15, 2011 to average down original position.

** AltaGas Buy 1/3 position at C\$25.00, 1/3 at C\$24.50, and 1/3 at C\$23.50

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

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 07/29/11	Downside Buy Price	Div	Target-T/ Stop-S	Web Site
U.S. \$									
Advantage Oil & Gas	AAV	NYSE	7/27/2011	7.25	6.95	7.25	n/a		advantageog.com
Coeur d'Alene	CDE	NYSE	9/2/2003	31.90	27.29	30.00	n/a		coeur.com
Endeavor Silver	EXK	NYSE	7/26/2007	4.60	9.75	9.00	n/a		edrsilver.com
Great Basin Gold	GBG	NYSE	12/21/2007	2.45	2.01	2.40	n/a		greatbasingold.com
Northern oil & Gas	NOG	NYSE	5/3/2011	22.00	22.14	22.00	n/a		northernoil.com
Nova Gold	NG	NYSE	2/29/2008	11.50	10.02	10.00	n/a		novagold.com
Rubicon Min.	RBV	AMEX	2/1/2010	4.00	4.20	HOLD	n/a		rubiconminerals.com
US Gold Corp	UXG	NYSE	9/9/2005	1.70	6.35	HOLD	n/a		usgold.com
Canadian Dollars									
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.41	HOLD	n/a		goldenvalleymines.com
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	2.31	2.50	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 .1.045 to see if the OTC quote looks correct. You can access these OTCBB quotes by using www.barchart.com.
Peyto Energy-PEYUF Minera Andes - MNEAF Golden Valley - GLVMF Brokfield - BRPF AltaGas - ATGFF

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.