

This one reads a little differently in that low numbers are overbought at the bottom. Note that it became oversold at the August lows, just as the McClellan Oscillator did. Now, like its cousin, it is also overbought, and it is telling us to look for an end to the rally very soon.

**Bottom line:
There is not much more
left on the up side.**

You should be using strength to lighten up on your positions. At the very least, you should be putting stop loss orders into effect. September is absolutely the worst month in which to try to make money with stock investments.

Ugly Septembers lead to uglier Octobers, which have the reputation of being the month when major crashes have occurred. In years past, crashes have become full blown in October, but they have had their beginnings in September.

The stock market has looked ominous all this year. Perhaps it is anticipating economic realities that are just beginning to surface. Recent economic numbers are not looking

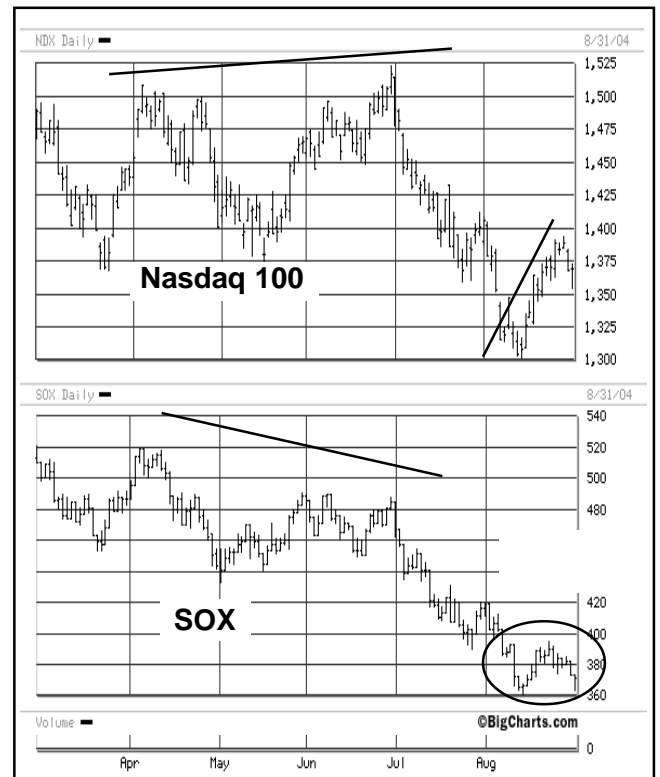
good. Mortgage applications are falling. Existing home sales are falling, and new home sales are falling. Credit card debt is suddenly being paid off with a vengeance.

Housing has been the core driver in the economy, and consumer spending has been a close second. This may all be turning, and the stock market sees it coming.

**There are always safe
harbors in every storm.**

I do not encourage investors to hold stocks wholesale. There are exceptions - safe harbors - which I will address presently. The worst thing you can hold right now are tech stocks. Above is a chart of the Philadelphia Semi-Conductor Index (SOX) and the Nasdaq 100. Just as housing and consumer spending are at the heart of the economy, the semiconductor industry is at the heart of technology.

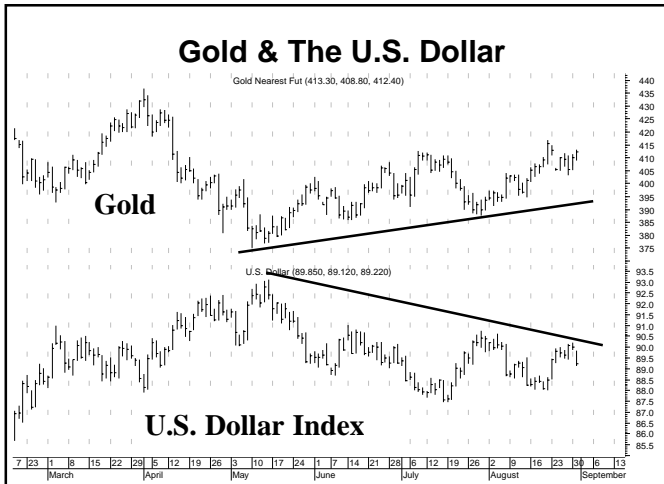
You can see the relative weakness in the SOX on these charts. While the Nasdaq 100 has bounced during this



rally to some extent, the SOX has faltered. The Nasdaq 100 should be able to muster 1,420 on the up side, but the SOX will have a difficult time getting above 395. I consider the break under 374 a warning. A break under 360 would be the last straw.

The smart money is selling this sector, and you should follow their lead. The best way to exploit the approaching market weakness is to buy some **Rydex Arktos Fund** (RYAIX-\$26.63). I like the investor class shares. Traditionally, the long Labor Day weekend has been preceded by, and followed by, strength in the market.

This seasonal strength will top off the rally that began in mid-August. The gamble is that it will lift the Nasdaq a bit more, which will bring Arktos down some. Specifically, I recommend that you buy Arktos if it trades at \$25.10 or lower.



gold and the precious metals are young as well.

Long term secular market trends are interrupted from time to time by intermediate term cyclical countertrends. We saw the secular bear in the stock market interrupted by a

countertrend cyclical bull market from October 2002 to early this year. This cyclical run is now over.

The secular bear in the dollar and the secular bull in gold were also interrupted this spring when a countertrend rally began in the dollar and a countertrend correction began in gold. These countertrends are not complete yet, but we are getting close.

The key in the dollar is 87.50 basis the December dollar futures. Short term, it would not surprise me to see one more attempt to challenge the May high at 93.00.

Why is this important? Because gold follows the dollar inversely - not necessarily on a day-to-day basis certainly, but it does over time, as the chart above shows.

I was expecting a low in gold during August, and that low showed up on time. However, as I explained in our special report on gold, there is a more important low coming up before this cyclical countertrend correction can be counted as finally over. I expect that low will form in November, commensurate with a final, last ditch rally attempt in the dollar.

The problem with cyclical work is that cycles can and often are early or late. We will simply let the lows develop first and then let our timing tools tell us when to buy.

There are two ways you can approach the gold market - either as a trader or a long term investor.

We follow both approaches. Our trading approach is offered in two forms. First and easiest is our Rydex gold program. The signals are given on the Web site hotlines. Currently, this program is in money market funds. As the expected November lows begin to unfold, we will have instructions as to when and where to exchange into the Rydex Precious Metals Fund.

Gold traders can also follow the gold and silver stocks we have on our Hyperion trading list. If you are unfamiliar with how the Hyperion program works, it is explained in our Trading Handbook which you can access and download in the subscriber services section of our Web site.

Longer term gold investors should focus on our buy-and-hold list. It lists our recommended gold and silver stocks. Currently, we have all of our metals stocks on hold - with the exception of **Newmont Mining** (NEM-NYSE-\$44.39). Newmont is listed with a downside buy target of \$35.25. That may seem a bit extreme, and it may not fall back that far. If it does, I want to buy it. Newmont is the largest gold mining company in the world, and it is the only gold company in the S&P 500. It belongs in everyone's gold portfolio.

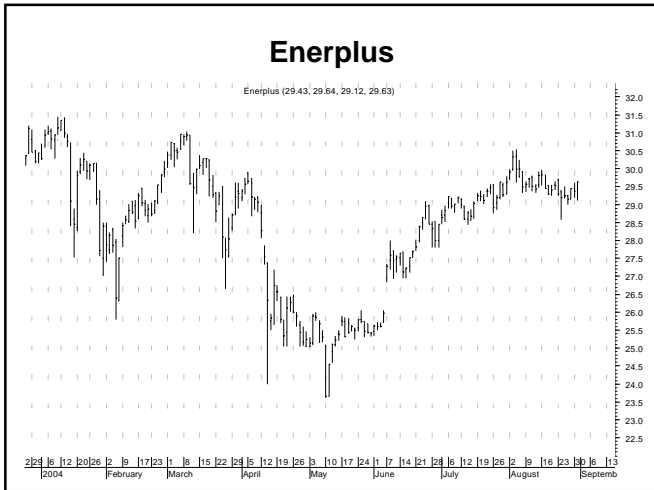
Yes, mutual funds only settle at the end of the day. When you see that the fund has settled at our target price of \$25.10 or less, you will buy on the next day. Don't worry. You may even get a better price the next day.

You will find this recommendation included on our buy-and-hold list. The list is posted in the subscriber services section of our Web site in text format. It is also included in each of the PDF versions of the hotline on Page 3.

Another exception to my bearish stock market outlook is gold.

Gold is a dollar thing, and the dollar has been holding gold back since March. The U.S. dollar index topped out in 2001 at just over 120. Once the dollar peaked, gold shifted into a bull market after bottoming out at about \$255/ounce.

That was the beginning of a long term secular bear market in the dollar and a long term secular bull market in the precious metals. Past dollar bears have lasted at least 6 or 7 years, so this one is far from over at this point. The secular bull markets in



Enerplus (ERF-NYSE-\$29.63) has been a star. We have made a ton of money with Enerplus, and we see further profits down the line. I wouldn't buy it here, but I would add to existing positions if it falls

back into that gap at \$26.00.

The other precious metal stocks on the buy-and-hold list will be assigned buy targets once the next decline begins and our technical model begins to target these issues. For the time being, you should definitely own some gold. Our recommendation is to hold what you have and be set to increase your holding substantially as weakness develops over the next couple of months.

Every once in a while, someone dumps a million shares or so and the Specialist does not get in the way. This stock can drop from \$29.00 to \$26.00 in a heartbeat and then recover as quickly.

There is a big bull market coming in gold, and 2005 promises to be very exciting. The next phase of weakness will be the ultimate opportunity to buy gold shares, and our goal is to position for this as 2004 comes to an end. I have been working on a list of new buy candidates for our gold portfolio, and I will introduce these to you in the mid-month letter. By then, we should have a glimpse as to which ones hold up the best technically.

When the Specialist sees a sizable sell order, he marks the stock down to ridiculous levels and then buys a load for his own account. No sooner is this over and the stock will be right back where it started. You can see examples of this in February, April, and May on the Enerplus chart. The trick is to have your open order in under the market.

Another important exception to our bearish stock market stand is energy. The buy-and-hold list includes several energy-related issues, including Canadian energy trusts. These are my personal favorites.

This is a bit of a pain because the stock pays a dividend each month, and your order will be adjusted down accordingly. You need to re-enter after each dividend to keep your buy price constant.

I am more excited about buying **Shiningbank Energy** (SHN.UN-TSX-C\$19.28). If I were to buy something today, it would be Shiningbank. You need to accumulate positions, taking advantage of

periodic weakness in price. I would buy some here – say, 20% of what you want to end up with - and put an order in for more – say, another 30% at C\$18.50.

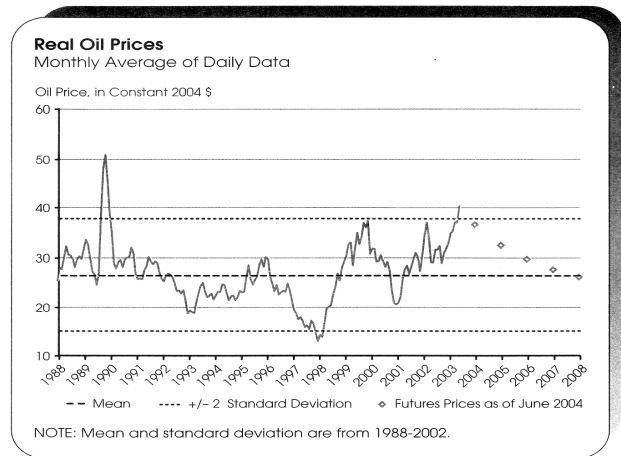
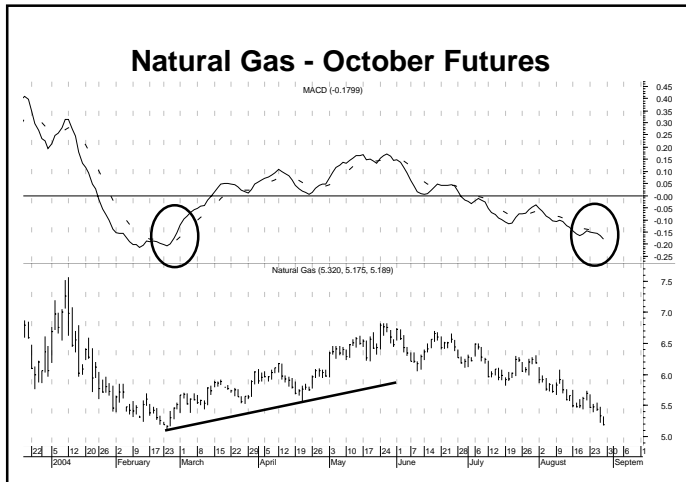
I am talking in Canadian dollars here. You need to be sure you are trading on the basis of current prices. Your broker may give you a quote for Shiningbank under the symbol SBKEF in U.S. dollars. This quote will be from the OTC bulletin board, or what we used to call the pink sheets. I have found that these quotes are up to a day old at times. You can take the Canadian quote times .76 to approximate the price in U.S. dollars.

If your broker gives you static about buying Canadian stocks, get a new broker. I have had good luck with Scottrade - especially with buying Canadian stocks. I have to phone the orders in and cannot trade Canadians online ... but thus far, there has been no static or double talk - just good service.

Another current favorite of mine is **Baytex Energy** (BTE.UN-TSX-C\$11.95). I would target this one a buy at C\$11.15 or less.

Sometime ago, I had recommended **Energy Split Corp.** (ES-TSX-C\$15.30). In June, I recommended that subscribers take profits. Now, with the dollar relatively strong and crude oil and natural gas prices pulling back, I think this may be a good speculation again.

Energy Split is what we refer to in the U.S. as a closed-end fund. The fund is levered, however, which



pumps up the dividend to about 16.25% on today's price. They pay quarterly - not monthly.

The kicker is that in September 2006, they will liquidate the fund and distribute the net back to the unit holders. Preferred shares get paid first, and then the remainder goes to the rest of the shareholders.

With the leverage, this is not a conservative investment. I encourage you to take a look at their prospectus, which explains all the details. You can get one in the subscriber services section of our Web site. If you can snag some **Energy Split** at \$13.75 or better, it looks like a good gamble.

I have also taken **Primewest Energy** (PWI-TSX-C\$18.60) off "hold" on the buy-and-hold list and listed a downside buy price of \$17.05. That is a bit deep, perhaps, but the stock is acting better. Adding to previous positions at C\$17.05 would not hurt.

If it looks like any of these downside buy prices should be adjusted, we will do that, of course. You will see changes on the hotline.

A definite buy for new money is **Suncor** (SU-NYSE-\$27.92). Buy a little here, and then add to your positions at \$25.20 or less.

I expect to see the energy issues fall off some - for several reasons. First, after exceeding our \$45.00 upside target, crude oil is pulling back (as anticipated). It should sell off to \$39.00 to \$40.00, where the breakout came in the last rally.

This will garner a lot of bearish talk about energy prices. The political impact from lower gold and crude oil prices - and perhaps a firmer dollar - won't hurt President Bush. This is interesting. I read that every major Wall Street firm is projecting lower oil prices. Hmm... One reason that the energy stocks haven't done better is that the Street is pricing them as if high crude prices are temporary.

Likely, a more important reason that the energy issues did not do better in the last crude oil run is that they all produce a good deal of natural gas as well as crude oil. Natural gas has been a definite drag on revenues, as you can see from the chart above.

I expect to see natural gas hold the \$5.00 level basis October futures. This market is getting oversold. RSI is under 30 (oversold), and MACD is back to where it was in February when natural gas began its spring rally. Winter is also approaching. The combination tells us to watch for a turn in gas prices.

I expect the next rally phase in energy will see both crude oil and natural gas improving to new highs. When we see that, we should see our energy trusts start to increase dividends. In the meantime, we can sit back and try for some fire sale bargains ... and pocket those wonderful yields.

How high can crude go?

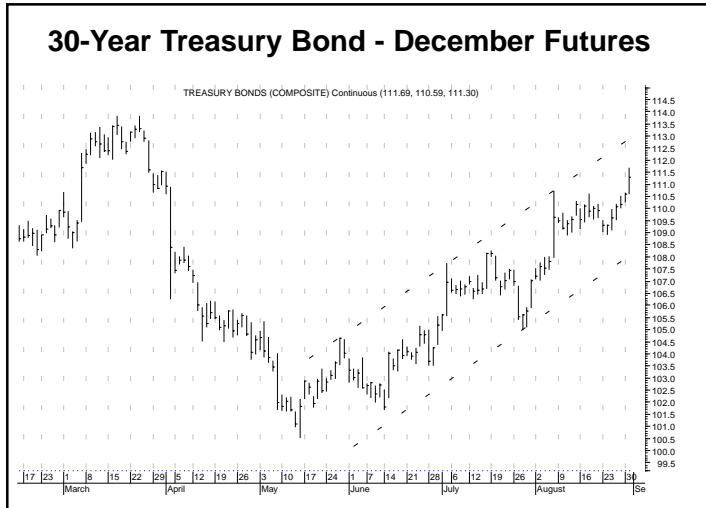
The chart above, from the St. Louis Federal Reserve, is interesting. It presents crude oil in constant dollars. We are nowhere near the real price levels hit in late 80's, but we will get there and beyond.

Another element that we have alluded to - but the press seems to ignore - is Venezuela. Chavez won the referendum, and he is not happy with U.S. interference in the politics

of Venezuela. He is especially unhappy with what he regards as our push to have him deposed. Look for oil supply problems from Venezuela, and look for them to begin demanding payment in euros rather than dollars.

BONDS

Bonds have moved smartly higher over the last few months, but I am still a bear. We have a position in the Rydex Juno Fund, which is short the bonds. There will be another opportunity coming up to buy this fund.



Note that bonds have been trading within the upward channel. I expect this last rally to fail to reach the upper channel boundary. RSI is now over 70 (overbought), and MACD is close to triggering a sell signal.

The final key is our Hyperion model. It is still long the bond futures, and the Hyperion sell stop is still a distance from current levels at 107-10/32 basis December. We should see this sell stop adjusted in the next week or so, and any changes will be on the hotline.

I expect the Fed will bump rates another quarter point at their meeting in September. I expect it will be

accompanied by plenty of spin from the media. The pitch will likely be that rates are being raised because the economy is doing well, and Fed action now will prolong the recovery. However, as I mentioned earlier, the economy does not look that good; and I don't think the public is buying the rhetoric any longer either. Jobs being created are paying 30% less than jobs lost, and the guy on the street sees this clearly.

I believe that Iraq is about oil, and we need the oil. Unfortunately, the public has been pandered with excuses and manipulated reality ... not truth. You see this in the official government numbers like the CPI, and in "glossed over" press releases. The reality is that the economy is beginning to seriously weaken, the President is in real danger of losing this election, and there is a stock market correction in the wings that you will want to avoid. The best place for money is in tangibles. My favorites are crude oil, natural gas, and precious metals.

You should all be getting the hotlines e-mailed every Monday, Wednesday, and Friday - except for holidays. If you are not getting them and think you should be, log in and click "View/Edit Your Profile" in the yellow band to the right. Make sure that your e-mail address is correct and that it says "yes" to the right of where it says "Please e-mail my hotlines to me."

Another thought on this. The hotlines are broadcast, and this form of delivery is sometimes picked up by spam filters. You may need to tell your filter to allow e-mail from our address - info@protiming.com.

Late thoughts: A great source for futures quotes is www.futuresource.com. Volume is drying up. That is not bullish. During 1973 and 1974, volume all but disappeared. The Street said the the market's weakness was not a problem because it was on low volume. These investors learned that it doesn't help to say that you lost a fortune, but it was lost on low volume.

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