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[www.protiming.com](http://www.protiming.com)  
e-mail: [info@protiming.com](mailto:info@protiming.com)

## STOCK MARKET AT LARGE

*“We’re in a very confusing atmosphere. People didn’t really know what to make of a 300-point rally in the Dow the other day, but my main message was that 300-point rallies from the Dow don’t happen in bull markets. In fact, they never happened in the bull market from October ’02 to October ’07, but it has happened 6 times in this bear market, and it happened 12 times in the last bear market. You don’t get moves like that in bull markets. As Rich Bernstein has said time and again, ‘This is the hallmark of a recession and a hallmark of a bear market.’”*

14 August 2008 David A. Rosenberg

There is no doubt in my mind that we are in a bear market, and the situation is going to get worse economically. The popular averages are at least going to visit their 2002 lows. That puts the Dow Industrials back to 7,000 and the S&P 500 back to 800. Earlier this summer when the averages were breaking below their January and March lows, I advised that we would see the current summer rally unfold. I also advised that you should use the strength to liquidate stocks. The only exception is any stock that is advantaged by higher commodity prices.

September and October are normally very difficult months for the averages. I don’t remember ever making any decent money in financial assets during September, and October is often the coup de grace. Past massacres were all during October; and with the problems I see looming in the credit markets, this October could be a doozy. There may be a little more up side here, but it would be best to not wait too long before taking appropriate defensive action.

What is the big deal? The dollar is strong - and won’t the government solve all of these problems? I don’t believe that the government is being totally honest about the extent of the “problems.” Perhaps they simply want to deny what is apparent. The credit problems are much deeper than the media is willing to discuss, but there are some honest folks out there. Bennet Sedacca, in a piece published by John Mauldin’s *Outside the Box* on August 25, alluded to the Treasury as peeling back the onion in terms of Fanny and Freddy. Each layer reveals something worse, and he suspects there is a hornet’s nest in the center.

The main problem facing the economy at this point is availability of credit. As the banking mess unfolds and loans continue to default, the banks, in effect have nothing to lend. The housing problem is obvious. What might not be so obvious

to the average investor are the problems with credit card debt, auto loans, and other consumer obligations. The well is running dry. Regardless of how low interest rates are, it doesn't help the economy if you are required to have 100% compensating balances to get a loan. No credit certainly means no economic growth.

Corporate earnings are going to suffer, and the S&P 500 is sporting a P/E of 25. That is simply absurd when we are facing worsening credit problems on the horizon. How bad can it get? In the 1970's after the market imploded, I remember a brokerage firm executive telling me that I would never see P/E's over 10 again. Well, he was wrong, just as those thinking we will not again revisit the sub P/E 10 level again are also wrong. The market cycles. It is not linear.

I expect the Dow Industrial Average will revisit its 2002 low of 7,000 and the S&P 500 will see 800 in this bear cycle. I don't know how long it will take for that to unfold; but with a possible stall at a Dow at 10,000, we are in a down trend that has a ways to go. It is also of import that in terms of time, the largest portion of any move takes the least amount of time. The market spends a lot of time stalling out and basing. The actual moves are usually fairly short-lived, but they are also very dynamic. The point is that the losing periods are quick and sharp, punctuated by extended phases of consolidation. The Dow and S&P 500 have another 35% to 40% decline ahead of them.

The 1970's are a good model for what we will see ahead. The only defense the government; i.e., the Treasury/Fed has is to inflate. With credit in trouble, they may not have the same tools available as in the past. The recent widening of the discount window has been of some help, but it has only stemmed the bleeding. Bailing out problem institutions is not actually getting money out where it needs to be in order to stimulate consumer demand.

Another tool at the Fed's disposal is "open market policy" which allows them to buy all the Treasury paper that can be printed ... and they will do so if necessary. This allows the Treasury to borrow to a fare-thee-well, and the Fed can step in and accommodate if our foreign friends (creditors) get shy.

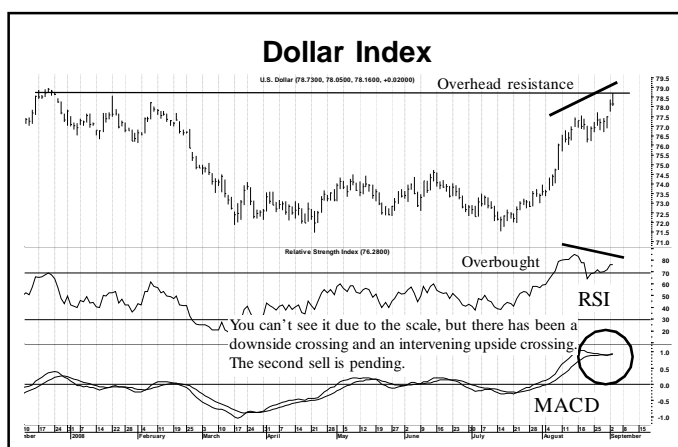
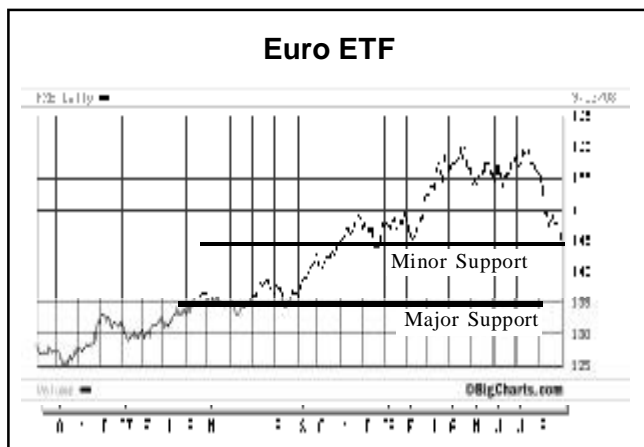
A third tool is to adjust required bank reserve requirements. Under the circumstances, if the banks were forced to show their so-called "off balance sheet" items, they would not show any net reserves at all. If the accounting was transparent, you would see that the banks are essentially broke. The reserve requirement strategy is moot. A fourth unadvertised tool at the Fed's disposal is varying how strict the examiners are. Leniency is the only option at this point.

The rub here is that if all were on the up and up, we would be talking \$100 trillion - maybe more - in obligations with no backing. Hence the problem with peeling back the onion. The layers run deep, and each one covers something more rotten than the last. It is hard for me, given the circumstances, to accept that we are going to see this recession end in record time. It may, indeed, continue for record time. In the process, the dollar will become weaker, as will our influence (power) in the world. The empire is cresting, as they all do eventually.

I expect that at some point - some years from now - the dollar will become so weak and disrespected that a new dollar will be created. It may have to be gold backed by then just to regain credibility. The U.S. currency has been through this before, and the cycle will continue between flat money and hard money.

Take a look at the **ProFunds Short S&P 500 ETF** (SH-AMEX-\$68.38). Buying this ETF will put you short the S&P 500 without leverage. It is a little tame perhaps. At any rate, buy at \$65.00 or better with a stop at \$61.00.

I have been discussing the progression of the Simplicity model recently in the online updates, and I have been discussing the prospects for a test of the \$780-\$800 level basis December gold along with a second signal set up from MACD. This process seems to be underway. I will continue to follow up on this in the updates. The tumblers for a mega-low in metals and the commodity market at large is falling into place, albeit slower than I expected.



You should have precious metal positions at this point. Gold is money, and I think we are looking at the formation here of the mother of all buying opportunities. I know that folks like to think like a straight edge, but you have to give up linear thinking. Gold has been correcting since topping out in March at \$1,040/oz. The idea in everyone's mind back when I was warning against chasing prices was that it was going to move higher forever. The thinking now is that it will fall forever. It will not. It is time to be anticipating a bottom in this correction. Hold your gold; and if you have extra cash from liquidating financial/paper based positions, buy more.

I like **Goldcorp** (GG-NYSE-\$30.05), and it is a buy up to \$36.00. There is good support at \$30.00, but also major multi-year, long term support at \$25.00. Buying there is a long shot; but personally, I am not worried about what I hold and I will certainly add at that level. If you are loaded up on Goldcorp, any of the recommendations on Page 6 not on a hold rating are buys up to their respective downside buy price. Remember to diversify and balance your portfolios.

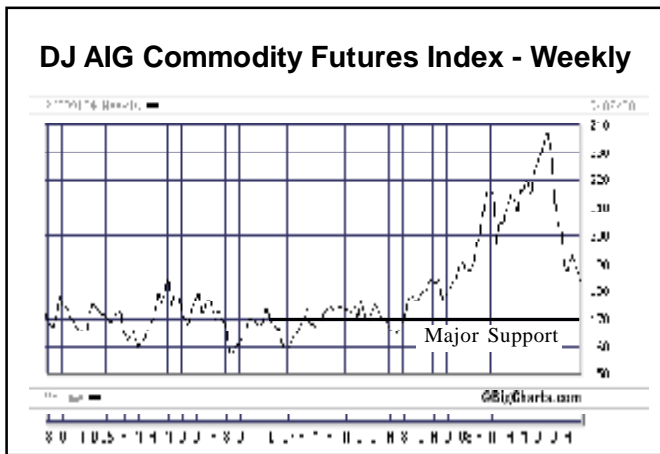
**What about silver?** I like silver. Silver will do well, along with gold. However, I have always been one to go to the heart of the matter. I like gold better. There is a lot written about the gold/silver ratio, which currently is about 60. There have been times in years past that the ratio has been 16 or lower. This has prompted some analysts to recommend silver over gold. There may be some appeal in the argument, but I wouldn't buy silver thinking the ratio will fall to 16 any time soon. It may fall to 50. That would equate to \$16.00 silver if gold stood still.

The fact is, gold is not going to stand still. It is going significantly higher, and so is silver and the rest of the commodity complex. I see \$25.00 silver in the future, but the industrial aspects of silver may be one reason that it will hold to a gold/silver ratio of 50 to 60 in the future.

Buy silver, by all means, but not because the ratio is 60. Buy it as a diversification to gold ... but concentrate on gold. My favorite silver company is still **Silver Wheaton** (SLW-NYSE-\$10.17). It is now a buy up to \$12.00.

I continue to recommend that new purchases be directed principally at the major producers. The juniors are worth holding, but I think they will lag the majors until we see new highs in gold. I have my eye on them, to be sure, but the best bet at this juncture is the major producers.

Some of you may be interested in buying some coins at this juncture, and it is a great time to do so. I am not an expert in rare coins, so I will leave that to others more qualified. My personal preference is bullion coins like South African Krugerrands and the like. One of our subscribers forwarded an interesting story from Bloomberg relating that Rand Refinery, Ltd. (the world's largest gold refinery) ran out of South African Krugerrands after an unusually large order from a buyer in Switzerland. The article also said that the U.S. Mint suspended sales of one ounce American Eagle gold coins. Other suppliers around the globe are reporting similar shortages.



Apparently not everyone is a metals bear these days. I can't really give you a recommendation as to sellers of coins, but you should deal with companies that have been in the business for a long time, shop prices, and take delivery of your coins. It is very important that you store your own coins.

The dollar continues its rally, but I am seeing the same formations in the Dollar Index that I am seeing in the metals, energy, and Simplicity. In this case, MACD has become overbought (versus oversold in the metals and crude oil) and has produced the intervening signal that sets up the more important second sell signal. See the chart on Page 3. The

process has been slower than the dollar bears would like, but it is there nevertheless. There is also obvious negative divergence in RSI and MACD at this point. Bottom line, a significant sell signal is forming in the Dollar Index.

The dollar may be manipulated a bit higher here short term, but this is not a place to be optimistic about its future. As the dollar curls over, the commodity complex will revive. I am seeing the same RSI and MACD formations, although inverse and positive in the metals and energy sectors. Gold and silver should be approaching their March highs by year's end, at the very least.

On the August 21 online update, I recommended pilot positions in **CurrencyShares Euro Trust ETF's** (FXE-NYSE-\$145.16). Our suggestion was to pick up an initial position under \$150.00, and then buy more at \$145.00 or better. However, in the August 26 online update, I adjusted this downside target to \$135.00 where the next major level of support is. There is a chart on Page 3. Although there is a small dividend and the payments are monthly, the position is meant as a diversification and insurance hedge against a weaker dollar. If the \$135.00 figure ends up being too low, I have some additional counter-dollar ideas that are not opportune just yet. I will have more on them later.

The commodity market is still in a bull phase, regardless of what the media and linear thinkers are trying to shove down your throat. The DJ AIG Commodity Futures Index has pulled back in this correction, but it gives you a big picture of what is happening. There should be major support now at 170.00.

The **Pimco Commodity Real Return Strategy Fund** (PCRAX-\$16.08) mirrors this index and pays a bit of a dividend as well. In the last 12 months, we got \$1.0672 per share, which is a decent 6.27% on our listed downside buy price of \$17.00. The fund is selling below that and qualifies for purchase.

The "strategy" is that Pimco buys futures contracts to mimic the DJ AIG Commodity Index, but it pays for them in full. The quirk is that in futures trading, you actually only have to put up what I like to call earnest money to back the contract. You are allowed to use certain interest-bearing government securities for this purpose. With leverage taken out of the picture, the leverage risk you encounter in typical commodity trading is eliminated. You get a commodity position with a yield. Buys under \$17.00 are recommended. If you want to go deeper, watch the commodity index and buy if the index hits 170.00. Follow the index at [bigcharts.com](http://bigcharts.com) and use the arcane symbol 26099104. You should review the various classes of shares to find what fits your individual situation best, but this will be a long term hold. If you don't need the dividend income, I recommend that you have the distributions and dividends reinvested.

**Energy** – The Hurricane Gustav panic has passed, and the sellers have hit the market dumping their long hedges. This pushed prices a bit under my long held downside expectation of \$108.00/barrel. There may be more in store from the weatherman, and the essential fundamentals remain balanced in favor of higher prices. Major exporting nations are all

suffering declining production problems while Asia is continuing on a growth path that will eclipse softness in demand from the West. Oil at \$100.00 is a bargain, and I don't think OPEC will stand for it, regardless of their rhetoric and declining production.. It is time for the next bull leg to get under way in energy.

**What to buy?** If I had to pick one, it would be **Blackrock Global Energy** (BGR-NYSE-\$28.98). It is selling just under our downside buy price of \$30.00. I am taking **Apache Corp.** (APA-NYSE-\$107.48) off its hold rating and am re-establishing a downside buy price at \$95.00. I also see that **Baytex** (BTE-NYSE-\$27.81) has been trading under our buy price of \$30.00 of late.

We recently added **Crescent Point Energy** (CPGUN-TSX-C\$35.34) to our list. I would keep buy orders at our downside buy price of C\$30.20. This is a play for the Bakken Field, which we discussed in the August monthly letter.

There are several other energy issues on the list that still have hold ratings. I can't justify changing them as yet. Among those with hold ratings are the refiners **Valero** (VLO-NYSE-34.77) and **Frontier** (FTO-NYSE-\$19.00). Their stock prices have improved lately, but I think there are better places for new energy investment. At this point, I'm recommending Apache for growth and Blackrock for income.

There is always the question of what to do with cash. The biggest mistake is chasing yield. You should be cautious about money market funds, especially in today's credit environment. I recommend that you keep liquidity in T-bills, at least some for safety reasons. You are not going to beat inflation in any interest-bearing investment denominated in U.S. dollars, and there is no easy way around this.

If you are holding money in a money market fund, be wary if the rate they are paying is much over the T-bill rate. The last 3-month T-bills I bought yielded somewhat over 1.70%. If your money market is yielding much over that, move the money somewhere else. The only way to generate high yields is to hold risky paper. Go to [treasurydirect.gov](http://treasurydirect.gov) and open an account. You will then be able to shuttle money from your local bank account into government bills and pay no commission. Since your account will be at the U.S. Treasury, you needn't worry about safety.

Do watch your limits if you are buying CD's. The FDIC put 117 banks on the troubled list, but they aren't saying which banks are in the list. According to Mr. Sedacca (mentioned on Page 1), some of the more problematic are Zion's Bancorp, KeyCorp, Fifth Third Bank, Washington Mutual, Regions Financial, National City, GMAC, Ford Motor Credit, Wachovia, and CitiGroup. He lists as "not quite as bad but limping" Citi, Sun Trust, Legg Mason, Capital One, Net Life, Merrill Lynch, Morgan Stanley, and Prudential. This is not meant to be a comprehensive list, but these are suspect. This is simply a word to the wise - I would not want to hold CD's issued by any of them.

Regardless of the issuing institution, be aware of your FDIC insurance limits. It is a good idea to discuss this with your broker or banker, but typically individuals have a coverage of \$100,000 per institution including interest. That means if you put \$100,000 into a CD and the bank fails, you will not get any of the interest back. If you put in \$95,000 and the bank fails, you will get your \$95,000 back as well as the interest accrued up to a total of \$100,000. The "insured" limit for some retirement accounts is \$250,000, but you should go over these details with your broker.

As fall comes all too early for me, it is time to remain rational in the markets. Sometimes when major corrections come along - as we are experiencing in the commodity complex - it is difficult to avoid the noise and still hear reality. Reality is that the U.S. dollar has been declining for 95 years; and unless something changes, it will continue to do so. Meanwhile, the population of Asia has grown to 3 billion people, and it's still growing. The U.S. is expanding by the equivalent of one new Chicago a year. The rest of the world population is also growing. In a nutshell, the supply of energy and other raw materials is declining while demand is increasing. As Jimmy Rogers would say, "it's a bull market."

## 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](http://www.bigcharts.com). Thus, if you want a quote for Peyto Energy, go to [www.bigcharts.com](http://www.bigcharts.com) and type in CA:PEYUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by 1.01. 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 9/03/08 U.S. \$	Downside Buy Price	Div 9/03/08	Target-T Stop-S	Web Site
Agnico-Eagle	AEM	NYSE	1/10/2007	36.00	52.40	60.00	0.34%	<a href="http://agnico-eagle.com">agnico-eagle.com</a>
Alliance Res	ARLP	OTC	9/29/2004	27.98	42.15	39.85	6.06%	<a href="http://arlp.com">arlp.com</a>
<b>Apache Corp</b>	<b>APA</b>	<b>NYSE</b>	3/5/2007	68.00	107.48	<b>95.00</b>	0.57%	<a href="http://apachecorp.com">apachecorp.com</a>
Baker Hughes	BHI	NYSE	2/5/2008	64.63	74.17	70.50	0.81%	<a href="http://bakerhughes.com">bakerhughes.com</a>
Baytex Energy	BTE	NYSE	5/18/2004	9.00	27.81	30.00	10.05%	<a href="http://www.baytex.ab.ca">www.baytex.ab.ca</a>
Blackrock	BGR	NYSE	8/3/2005	25.99	28.98	30.00	5.18%	<a href="http://blackrock.com">blackrock.com</a>
Central Fnd. Of Can.	CEF	AMEX	8/8/2008	11.98	10.11	12.05	0.10%	<a href="http://centralfund.com">centralfund.com</a>
<b>CurrShrs. Eruo ETF</b>	<b>FXE</b>	<b>NYSE</b>	8/22/2008	148.57	145.16	<b>135.00</b>	3.80%	<a href="http://currencyshares.com">currencyshares.com</a>
Fording Coal	FDG	NYSE	11/16/2004	22.74	87.45	HOLD	11.44%	S=70, T=95 <a href="http://fording.ca">fording.ca</a>
Frontline Ltd. (1)	FRO	NYSE	1/4/2007	31.00	53.18	49.50	4.81%	<a href="http://frontline.bm">frontline.bm</a>
Frontier Oil	FTO	NYSE	8/3/2005	14.38	19.00	HOLD	1.31%	<a href="http://frontieroil.com">frontieroil.com</a>
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005	22.10	23.52	28.00	7.15%	<a href="http://gabelli.com">gabelli.com</a>
Goldcorp	GG	NYSE	7/24/2008	40.00	30.05	36.00	0.59%	<a href="http://goldcorp.com">goldcorp.com</a>
Headwaters	HW	NYSE	3/10/2006	36.30	14.82	HOLD	n/a	S = 8.95 <a href="http://headwaters.com">headwaters.com</a>
Kinder Morgan LP	KMP	NYSE	6/8/2007	52.50	56.49	HOLD	6.99%	S = 48.40 <a href="http://kindermorgan.com">kindermorgan.com</a>
Kinross Gold (2)	KGC	NYSE	6/6/2002	2.39	14.71	18.00	0.54%	<a href="http://kinross.com">kinross.com</a>
Kinross Gold	KGC	NYSE	1/4/2007	11.00	14.71	18.00	0.54%	<a href="http://kinross.com">kinross.com</a>
Mkt. Vectors, ETF	GDX	AMEX	9/11/2006	37.00	33.57	40.00	8.79%	n/a
Pimco Com. Fund	PCRA	NYSE	3/2/2005	13.97	16.08	17.00	6.63%	<a href="http://pimcofunds.com">pimcofunds.com</a>
<b>ProFnd Short S&amp;P</b>	<b>SH</b>	<b>AMEX</b>	<b>Buy at</b>	<b>65.00</b>	68.38	<b>65.00</b>	1.16%	<b>S=61.00</b> <a href="http://pimcofunds.com">pimcofunds.com</a>
Schlumberger	SLB	NYSE	1/18/2008	75.00	88.65	80.75	0.95%	<a href="http://nat.bm">nat.bm</a>
Ship Finance (3)	SFL	NYSE	3/6/2007	0.00##	27.26	HOLD	8.17%	<a href="http://www.shipfinance.org">www.shipfinance.org</a>
Silver Standard	SSRI	OTC	1/4/2007	30.00	21.79	28.00	n/a	<a href="http://silverstandard.com">silverstandard.com</a>
<b>Silver Wheaton</b>	<b>SLW</b>	<b>NYSE</b>	3/10/2006	8.40	10.17	<b>12.00</b>	n/a	<a href="http://silverwheaton.com">silverwheaton.com</a>
Spdr Gold Trust	GLD	NYSE	9/11/2006	58.85	78.89	83.00	n/a	n/a
TIPS iShares ETF	TIP	NYSE	5/28/2008	106.00	105.31	106.00	9.30%	n/a
Transocean (4)	RIG	NYSE	1/4/2007	75.00	122.12	120.00	n/a	<a href="http://deepwater.com">deepwater.com</a>
Yamana	AUY	NYSE	4/14/2005	2.90	9.67	12.50	1.23%	<a href="http://yamana.com">yamana.com</a>
Valero	VLO	NYSE	4/26/2005	36.63	34.77	HOLD	1.72%	<a href="http://valero.com">valero.com</a>
<b>Canadian Dollars</b>								
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	6.39	HOLD	n/a	<a href="http://altiusminerals.com">altiusminerals.com</a>
ARC Energy	CA:AET.UN	TSX	Buy at	25.85	28.28	25.85	12.20%	<a href="http://arcresources.com">arcresources.com</a>
Crescent Point En.	CA:CPG.UN	TSX	Buy at	30.20	35.34	30.20	7.77%	<a href="http://crescentpointenergy.com">crescentpointenergy.com</a>
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	16.17	HOLD	11.08%	<a href="http://peyto.com">peyto.com</a>
Silvercorp Metals	CA:SVM	TSX	1/21/2008	8.00	3.62	8.00	0.51%	<a href="http://silvercorp.ca">silvercorp.ca</a>

(1) Frontline dividend based on regular payment of \$0.625 per quarter. Extras have been paid, bringing the dividend on the past 12 months' payments to 13.38%. (2) On 2/27/07, Kinross acquired by exchange for Bema, originally purchased at \$1.06 on 6/6/02. (3) Ship Finance Intl. was acquired as a spinoff from Frontline on 3/6/07. (4) Transocean merged with Global Santa Fe on 11/27/07, receiving .6996 shares in the new Transocean plus \$33.03 in cash.

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

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 9/03/08 U.S. \$	Downside Buy Price	Div	Target-T/ Stop-S	Web Site
Coeur d' Alene	CDE	NYSE	9/2/2003	3.19	1.80	3.35	n/a	<a href="http://coeur.com">coeur.com</a>
Endeavor Silver	EXK	AMEX	7/26/2007	4.60	2.00	3.00	n/a	<a href="http://edrsilver.com">edrsilver.com</a>
Great Basin Gold	GBN	AMEX	12/21/2007	2.45	2.14	3.25	n/a	<a href="http://greatbasingold.com">greatbasingold.com</a>
Nova Gold	NG	AMEX	2/29/2008	11.50	5.86	HOLD	n/a	<a href="http://novagold.com">novagold.com</a>
Taseko Mines	TGB	AMEX	7/24/2006	2.40	2.68	4.50	n/a	<a href="http://tasekominer.com">tasekominer.com</a>
US Gold Corp	UXG	AMEX	9/9/2005	1.70	1.28	HOLD	n/a	<a href="http://usgold.com">usgold.com</a>
<b>Canadian Dollars</b>								
Everton Res.	CA:EVR	TSX	1/4/2007	1.30	0.19	HOLD	n/a	<a href="http://evertonresources.com">evertonresources.com</a>
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.24	HOLD	n/a	<a href="http://goldenvalleymines.com">goldenvalleymines.com</a>
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	2.64	HOLD	n/a	<a href="http://laramide.com">laramide.com</a>
Mega Uranium	CA:MGA	TSX	5/1/2007	6.75	1.36	3.00	n/a	<a href="http://mega uranium.com">mega uranium.com</a>
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	3.76	HOLD	n/a	<a href="http://uts.ca">uts.ca</a>
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	1.04	1.20	n/a	<a href="http://minandes.com">minandes.com</a>

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 .99 to see if the OTC quote looks correct. You can access these OTCBB quotes by using [www.barchart.com](http://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.