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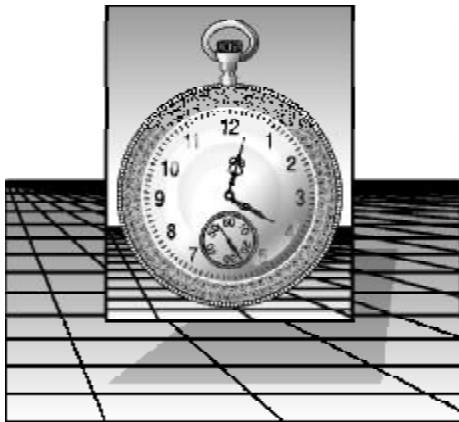
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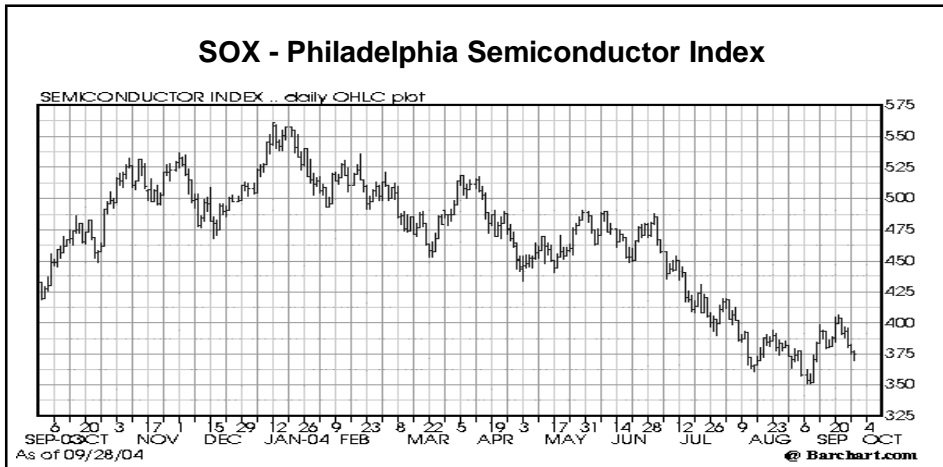
The next issue will be published October 14.

- **Set up a Treasury Direct account.** Page 4
- **Stock recommendation: Alliance Resource Partners.** Page 5
- **October shopping list of stocks to purchase.** Page 5-6



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GET SET TO GO SHOPPING



We are heading into the most exciting month of the year—October. October is the month of past stock market massacres. The king of crashes was in October 1987; but there have been plenty of nasty Octobers in the past. This one warrants caution as well. We have spent a good deal of time warning you about this, and you should be situated accordingly.

Now for the good news. Although October declines have been devastating, they have also produced the very best buying opportunities. Our plan will be to take this a step at a time. First, be prepared for weakness; and second, get set to buy into the coming lows. On Page 5-6 of this letter, I share with you my personal shopping list.

The scariest sector of the stock market going into the dreaded month of October is the SOX (Philadelphia Semiconductor Index). I presented the opinion in the September monthly

letter that the SOX would have a difficult time moving higher than 390; and if it broke 365, it would crash and burn.

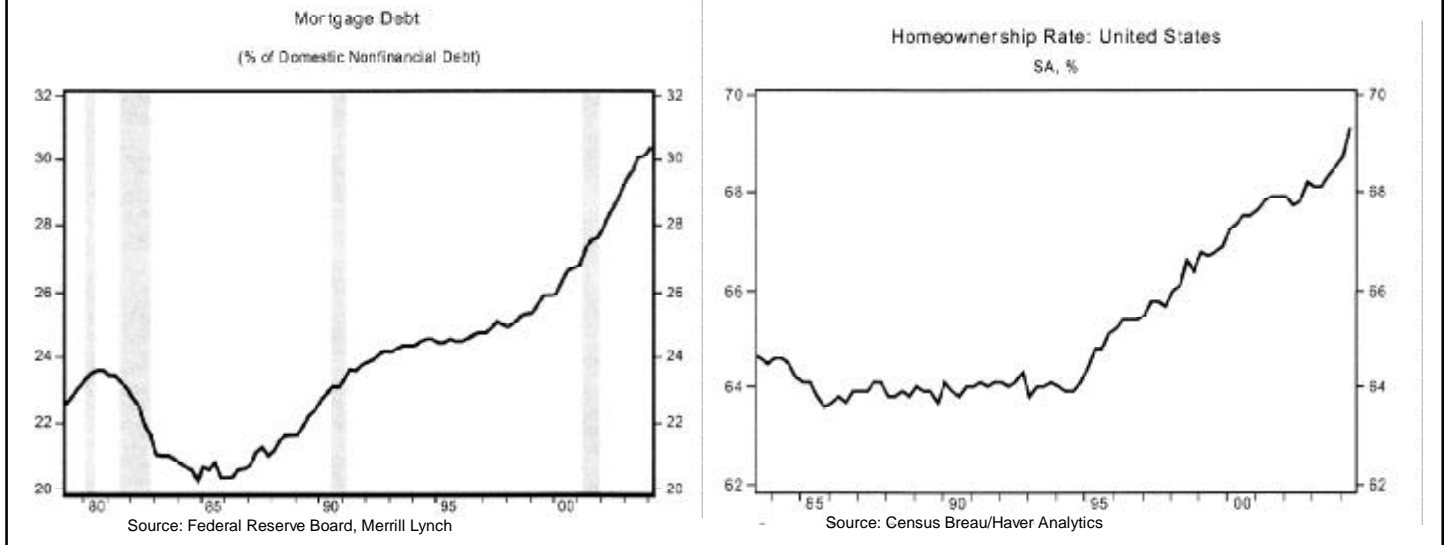
The market loves to humble us, or at least it loves to humble me. The SOX broke the 365 level, and it looked like it was poised to crash. It then reversed and zoomed to 400. Nevertheless, the SOX Index is still the weakest sector in the market. This is important because the SOX is the heart of the Nasdaq. There can be no recovery in the Nasdaq until the SOX turns bullish.

Here is the current situation. The moves below 360 and then over 390 look like a “head fake” to me. Once hitting 406.66 intraday on September 21, the index collapsed. I think short covering pushed the index to the 406 level, but the true trend is down. If the market weakens in October, the weakest sectors - the SOX and the Nasdaq - will suffer the most.

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 © 2004 by Professional Timing Service.

Mortgage Debt & Home Ownership

Charts excerpted from "Housing: If Not a Bubble, Then an Oversized Sud" - Merrill Lynch



I want to discuss real estate for a moment first.

I firmly believe that inflation is beginning to intensify, which is a direct reflection of the weakness in the U.S. dollar. Inflation can be confusing during this era of cheap, imported goods. However, when one considers the cost of energy, insurance, education, and food, all budgets become hard to manage.

The inflation question over simplistically boils down to the fact that "things" are inexpensive to buy, but costly to own. Service is expensive, and we haven't even begun to talk about taxes. Combined state, local, and federal taxes are higher as a percentage of GDP than they have ever been.

During inflationary times, real estate should look attractive as an investment. This time, real estate appears overpriced by a wide margin, and the real estate market looks like it is finally beginning to roll over.

Real estate brokers tell me that they are finding themselves with precious few folks interested in buying. On the other hand, the phone is ringing off the hook with people wanting to list their properties for sale.

Merrill Lynch published an "Economic Commentary" on August 6, 2004 entitled "Housing: If Not a Bubble, Then an Oversized Sud." If you are a real estate investor, you might contact your local Merrill office and get a copy. Or send an e-mail to me at info@protiming.com and I will send you a copy.

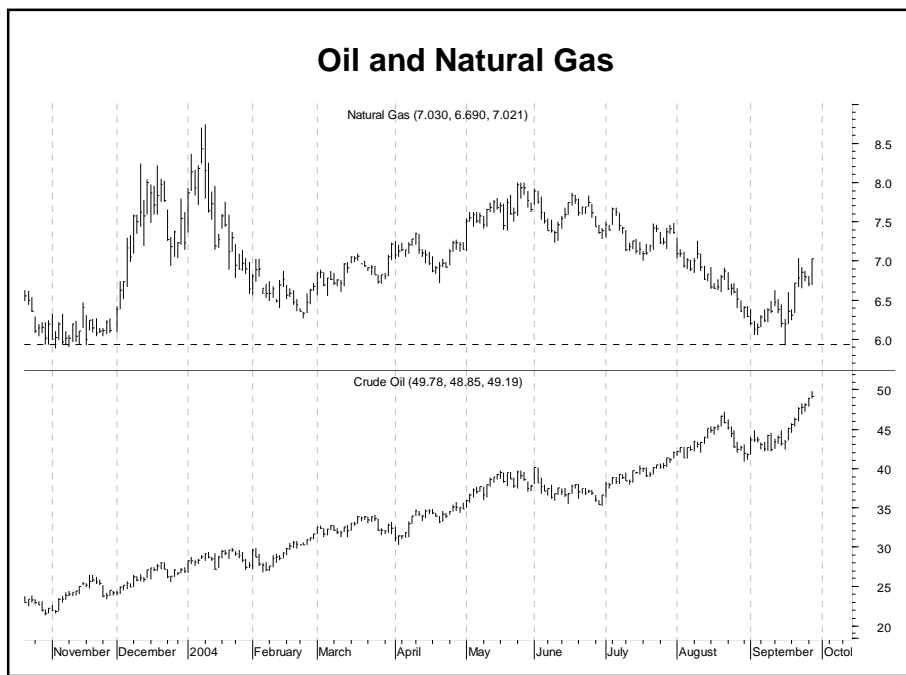
Bottom line is that real estate is not a good place to be investing, at least not right now. Although I am a firm believer that we will be seeing the inflation rate continue to rise, and real estate normally does well during inflationary periods, the current state of the real estate market is an exception to the norm.

The problem with real estate, of course, can be centered on a single

factor – debt. Too much of it. Home ownership is now nearly 70%. That is higher than ever before in our history, and it is all financed with excessive leverage. These two charts tell most of the story.

My emphasis on inflation and investing in tangible assets is predicated on my Annual Asset Allocation Model (AAAM), which we calculate each year in late October. In 2001, the model shifted from bonds to tangible assets, alerting us to the probability that inflation would once again come to the forefront in the investment world. Since that shift in the model, commodities have been increasing in price after many years of decline.

The CRB Index of commodity prices bottomed in 1999 and then tested that low again in 2001. Since then, it has moved smartly higher from 190 to 280. Gold - a prime reflection of inflation - produced the same double bottom formation, making final lows in 2001 at \$250/ounce.



I will come back to the gold issue presently, but it, too, has moved strongly higher, hovering over \$400/ounce today. I believe that tangibles will continue to outperform other asset classes until our Annual Asset Allocation Model says otherwise.

I calculate the model in late October, and I will share this year's final results with you in the November monthly letter and on the Web site hotline once the results are in. Preliminary figures indicate that there will be no change for this year. The model continues to suggest tangible assets as the asset class with the largest potential reward with the lowest risk.

When it is all said and done, being in the correct asset class accounts for 85% of investment profit. Being in the right vehicle within that class only accounts for 15% of investment profit.

The exception to investing in tangible assets in 2004 is real estate. Real estate prices are going to fall until the

over investment and excessive leverage is corrected. Most experts estimate that this will require prices to fall 15% to 20%. In another 18 months, we will see some extremely attractive bargains in real estate.

If you own income property, you need to be unleveraged, and you best own unique properties. Generic properties like standard, big box apartment houses will suffer the greatest price decline. Multiplexes are overbuilt in most areas, and vacancies will be higher than usual in the years ahead.

I prefer single family houses for rentals, and this market will pick up some once interest rates rise and more folks find that they cannot afford to buy. The best area of the country will remain the Rocky Mountains - from Mexico to Canada.

Just realize that the rest of this decade will be difficult in real estate, and those with too much debt and too many vacancies will be in big

trouble. Those with cash and a bit of patience will find some fire sale bargains in the next few years.

This advice also extends to REIT's. REIT's are difficult to pin down as they are not homogenous. Some are diversified, and some are specific to a type of property; i.e., commercial rental, etc. My favorite is **Shurgard** (SHU-NYSE-\$38.92), even though I cannot recommend buying it at this time. They rent mini warehouse storage units. If you hold REIT's, be prepared for some problems down the road. REIT's in general are weakening, just as the overall real estate market is.

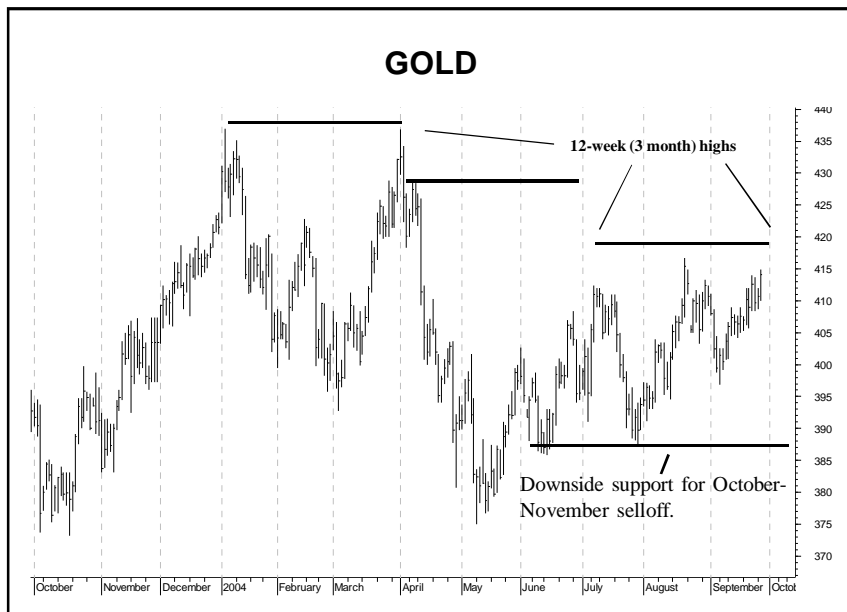
Bonds are another asset class you should avoid.

The AAAM concurs with this opinion. The long bond has done better lately than I and some of my colleagues expected. We do still have a position in the Rydex Juno Fund, which is short the 30-year Treasury, and I remain bearish.

The long bond seems to be close to making a double top here. Our indicators are telling us that the long bond is overbought, and I expect to see a reversal to the down side soon.

Meanwhile, the Fed is nudging short term rates up with their steady, "measured" adjustments. I think we can expect another quarter point hike at the November 10 FOMC meeting.

They need to get short rates up to 2.5% to 3%, basically in order to have ammunition with which to ease again as the recession gets worse. This is tricky business, for sure; but



as I have said, until they raise rates over the real rate of inflation (likely about 5.7% to 6%), inflation will continue to be evident in the prices of necessities that you buy (like energy).

There is an economic cost in raising short rates, however. The prime rate immediately jumped to 4.75% after the Fed's last hike. This, in turn, increased the interest rate charged on debts like credit card balances and home equity lines of credit. Even though long rates are staying low, the consumer is going to feel the pinch from the Fed's recent policies.

Crude oil looks like it is going higher sooner rather than later.

It did not settle back quite as far as I had anticipated - \$39-\$40 a barrel - but it came close before resuming its march to higher prices. A more important development in the energy pit is that natural gas looks like it has made a bottom and will be moving

higher from here. By this time next year, we will all wax nostalgic about \$45.00 crude oil.

Natural gas has been holding back earnings at our Canadian energy trusts for the last several months because they all have significant natural gas production. Gains in the price of crude oil have been offset by declines in the price of natural gas - as the chart on Page 3 shows. Once gas and oil both begin to move higher, we should see some dividend increases.

Keep your eye on natural gas.

There is a traditional ratio between the prices of crude oil to natural gas of 6 to 1. Therefore, \$45.00 crude oil should equate to \$7.50 natural gas. Today, crude closed at \$49.19. So, if we divide by 6, we find that natural gas should sell for \$8.20. Natural gas closed at \$7.02 today, up from its recent lows. Gas is still cheap, and this will prompt an increase in demand - especially this winter.

The U.S. Dollar Index continues to meander within the trading range between 92.00 and 87.00, which has confined it for the last 7 months. In general, gold and the dollar trade inversely. As the dollar falls, gold rises. Over the last couple of months, gold has been acting better although the dollar has been flat.

We are still looking for a 12-week cyclical high in early October, followed by a decline into November. This should complete the correction gold has been in since completing a double top this past April.

You should own some gold.

My advice is to hold the positions you have, and get set to buy more at the November lows. I will keep you posted in the letters and Web site hotlines as this excellent buying opportunity nears.

I will soon publish new downside buy prices for the gold issues on our buy-and-hold list. You will find this list in text format in the subscriber services section of our Web site www.protiming.com or on Page 3 of the PDF version of the hotline we e-mail to you.

I have found my most successful investments in the stock market were positions that I accumulated over time. This has been a comfortable strategy, as well as successful. The idea is to buy an initial position - I usually suggest 20% of what you intend to invest. Then wait for weakness and buy more. It is not unreasonable to add

to a position at higher prices, but you have to be mindful of your average cost. If you add to a position at higher prices, you will, of course, raise your average cost.

If you bought a stock – say, Shiningbank - at \$17.00 and it is now \$21.00, adding another 20% will not raise your average cost that much. Let's say you bought 1,000 shares at \$17.00, for an investment of \$17,000. Now you buy another 20% (or 200 shares) at \$21.00. Your total investment is \$21,200 for 1,200 shares, or only \$17.67 a share. This has not increased your average price that much, and thus your risk level has not changed that much either.

It still helps if you wait for weakness before buying, and I have a shopping list for October. Where is the best place for money today? There is nothing wrong with T-bills for liquidity.

You can set up your own account directly at the Treasury by going to www.publicdebt.treas.gov. Click on the Treasury Direct tab and go from there. As the Fed raises interest rates, you get a better return on your T-bills each time you roll them over. Plus, with Treasury Direct, there is no commission. If you would like a low risk approach to the precious metals, you might buy T-bills and spend the interest on some of the junior gold stocks on our buy-and-hold list.

As gold sells off into November, gold coins will become attractive. My suggestion is to buy what we

call bullion coins like Krugerrands, American Eagles, Canadian Maple Leafs, etc. I can't suggest a coin dealer, but there should be some in your area. The key is to shop around - and definitely take delivery of your coins. Don't let the dealer store them for you.

October Shopping List:

First on my October shopping list is **Novagold** (NG-AMEX-\$6.46). This excellent little gold mining concern has outperformed the pack this year, but I want to pay \$5.00 or less for this one.

One of my favorite gold mining companies is **Goldcorp** (GG-NYSE-\$13.50). They operate the richest mining property on the planet, they have no debt, they have been hoarding some of their production in the form of bullion gold, and they have plenty of cash.

What they don't have is deep mining expertise, and they need it at Red Lake. I suspect the solution will be a merger with someone with the talent they lack. On my October buy list, I have Goldcorp at \$11.00 or better.

As far as the gold mines are concerned, we cannot overlook **Newmont Mining** (NEM-NYSE-\$44.29). Newmont is the largest precious metals mining concern in the world, and it is going to be a "must have" stock in all portfolios when gold becomes more popular. It is on my shopping list to buy at \$38.00 or better.

Here is an interesting new energy idea passed on to me from one of

our subscribers - **Alliance Resource Partners L.P.** (ARLP-OTC-\$55.21). Alliance is in the coal mining business and operates mines in Kentucky, Illinois, Indiana, and Maryland. I have been looking for a decent coal investment with a dividend.

The stock has been very strong like the other energy issues, but I would start with a small pilot position here (again, perhaps 20% of what you intend to invest), and then look to buy more if the stock sells off to \$48.00. The last dividend was \$0.65, but the dividend has increased with every payment over the last year. It has gone from \$0.525 in November 2002 to \$0.65 last August.

The dividends in the past have fluctuated with earnings which have fluctuated with the price of coal. If the last dividend holds for the next year, they would be paying about 4.7% on today's price. If the price of coal rises, I expect dividends will do likewise. Of course, if the price of coal falls, the dividend will fall also, but I am not particularly worried about that in the longer run.

They have nice reserves, and I especially like the fact that management owns about 45% of the equity interest in the company. You should check them out further at www.arlp.com. You might want to request one of their "Investor Packets," which you can do online.

I certainly want to add to my **Shiningbank** (CA:SHNUN-TSX-C\$21.82) position this month if I

can get some at C\$19.10 or better Canadian. **Enerplus** has recently hit \$33.00, which brings their current yield down under 10%. Shiningbank still pays 12.5%. I don't recommend selling your Enerplus, but I think Shiningbank offers a better buy at today's price.

If you are saying to yourself, Hesler is all wet on this October decline idea of his, and you want to buy something right or wrong, Shiningbank would be the one. If you jump in and buy here, hold back a few dollars and buy more if it drops to C\$19.10.

Another stock that belongs on your list is **Kinder Morgan Limited Partners** (KMP-NYSE-\$46.68). They are fast becoming the dominant energy pipeline and storage company in the country. They have a remarkable history of increasing dividends, and they pay a very nice 6% at today's price. If you can snag a little of this in a market selloff, you will be quite pleased a year or two from now. I have a note on my shopping list to add to my Kinder Morgan position at \$43.00 or better.

My final purchase candidate is **Suncor** (SU-NYSE-\$32.56). This one surprises me. It has been constantly climbing, but it has become quite overbought with an RSI of 80. It is also poking through its top Bollinger band. Prices will decline from these readings. I am hoping that it will pull back to \$28.00 where I have it circled as a buy on my shopping list.

I have other stocks on the buy-and-hold list, including **Baytex Energy** (CA:BTEUN-TSX-C\$13.00). They all show accompanying downside buy prices. I recommend them at their respective prices, but above are my very favorite picks for purchase during any weakness October has to offer.

Don't chase these stocks. All my favorite energy stocks are sporting very high RSI numbers right now (some at 80, which is extremely overbought). They are all hitting their upper Bollinger bands as well. The upper band is a serious warning that prices are overblown. The fact that our stocks are doing well is good since we bought them to go up, but cycles persist in the market. We can do better than buy more at currently high levels.

It is very possible that we could see a "panic rush to cash," as has occurred in past Octobers. If so, we are in a position to welcome such a "crash" with open arms.

If you want to get quotes on Canadian stocks, go to www.bigcharts.com. Use the symbols I have listed in the letter and on the buy-and-hold list to bring up the quotes. You can convert from Canadian dollars to U.S. dollars by multiplying the Canadian quote by .78 to get a U.S. dollar equivalent.

I want to extend a special welcome to our new subscribers. If you need anything that I can help you with, please e-mail me at info@protiming.com. I am difficult (some say impossible) to reach by phone; but wherever I am, I am always on top of my e-mail.

Next, settle back and take a little time to get to know us. We do a lot of things at Professional Timing Service, and not all of it will necessarily interest you. Start with our recommendations on the buy-and-hold list and in the newsletter. Then explore the Hyperion model and Rydex programs to see what is best for you. If you are not getting the hotlines in your e-mail and would like to get them, send me an e-mail. Tell me your name and your e-mail address, and I will set it up for you.

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