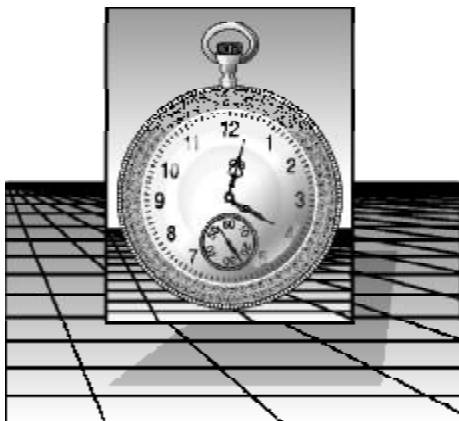


The next issue will be published October 20.

- **You should pick up a copy of Twilight in the Desert by Matthew Simmons.** Page 3
- **As you select investments, remember these facts.** Page 4
- **Stock recommendations.** Page 4-5



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## COMMODITY BULL MARKET FAR FROM OVER

During late September, the Canadian government took up the issue of whether it was a good idea to allow income trusts. The income trust is a special type of organization that allows income to be passed on to “unit holders” without being taxed at the organization level.

There are many ways, of course, to set up a business entity. There are limited partnerships, corporations, etc. The income trust is but one of those ... but you need to know that income trusts are not corporations.

In the past, there have been two principal topics involved with this type of business organization. First was a theoretical issue regarding the question of whether unit holders in a trust might be liable for the trust’s debts in the event the trust were to go broke. This was a rather ethereal, but unanswered - and, I might say, legally untested - question. The second problem (which we have discussed in the past) involved the requirement that Canadian trusts have at least 50% Canadian ownership in order to retain their special tax exempt earnings passed through to unit holders.

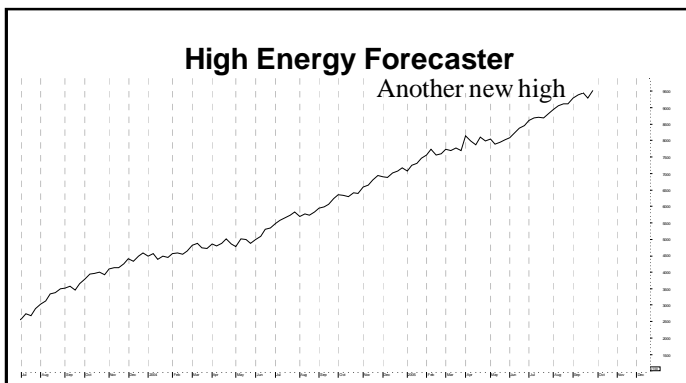
The first matter has been laid to rest in Alberta, Ontario, and Quebec. They have passed limited liability legislation to overcome this problem. The other providences are

expected to do so soon. This overcomes some institutional fiduciary fears and makes the trusts more interesting to them. The second problem of percentage ownership was tabled by the Canadian government and thus, for now, is no longer an impediment.

These two moves in particular seemed to signal that the Canadian government was encouraging the trust form of ownership. Therefore, the announcement last month that Ottawa was reconsidering a tax clampdown on income trusts came as a surprise to investors and to Bay Street as well.

Canadian Finance Minister Ralph Goodale said that the recent flurry of corporate interest in starting tax-advantageous income trusts played a part in his decision “to halt advance tax rulings that help pave the way for trust formations.” The real issue here may be one of abuse.

The trust form of organization was originally deemed appropriate to encourage mineral extraction - especially oil and gas. We have had trusts in the United States for some time. There is the Mesabi Trust (MSB) which has to do with iron ore mining in Minnesota. There are many oil and gas trusts such as San Juan (SJT) and Permian Basin (PBT).



The principal difference between those in the U.S. and Canada is that the U.S. trusts are typically limited to a specific piece of real estate. Of course, we also have real estate investment trusts (REIT's).

### The Canadians have run hog wild lately with this concept.

There are Canadian trusts in every aspect of business you can imagine. The real kicker here is that virtually all of the IPO's this year in Canada were trusts of one kind or another.

The second kicker was a gathering momentum for companies to change from their present form – say, corporate - to the income trust arrangement. In fact, Peyto, one of my favorite exploration and development oil companies, did just that. They had been very successful in the exploration and development business. This success left them with a great deal of operating oil production.

Peyto reorganized as an energy trust, and they pass on 15 cents Canadian per unit per month. They invest the balance of their income in further exploration and development. You get a company that is able to grow their reserves if their exploration efforts are successful and one that has

tax free pass through of income as well.

Everyone in business in Canada has now caught on and is trying to join the fray. In my estimation, this is

abusive. It really gets away from the original reasons for allowing the trust form of organization.

I have no doubt there will be some changes. However, Massimo Pacetti, the Liberal MP who chairs the Commons Finance Committee, said "Ottawa shouldn't force existing trusts to live by rule changes it enacts, but instead grandfather them. You can't penalize businesses when they have been acting in good faith."

So, after dispersing a couple of clouds hanging over the Canadian trust form of organization, Ottawa has produced another. This may be why we have seen some institutional investors selling their trusts.

Any new tax rulings may be a benefit to our trusts if Ottawa, in effect, does grandfather the existing trusts, thus limiting the supply of these dividend-paying gems. Consider also that Bay Street, Canada's Wall Street, must be placated. Nothing happens without the consent of big money - not in the U.S. or in Canada.

Bay Street and Wall Street are two wasps politicians don't want to stir, but retired seniors are another. Goodale has his hands full on this front as Canadian seniors and soon to be retired baby boomers are all

over this issue. Advocacy groups are being deluged with mail from their members; and in a word, those enjoying the income from Canadian trusts are outraged, to say the least. Any issue threatening the income of seniors is always a political loser.

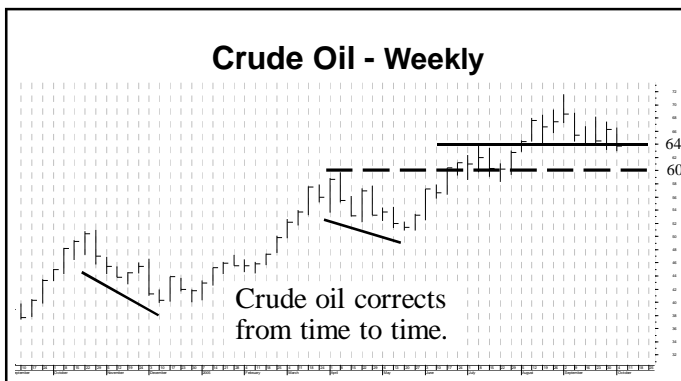
*Questions and unknowns like these are basically fundamental musings. Most important, technicals trump fundamentals every time.*

Fundamentals can be slow to manifest themselves, I admit. However, price will reflect the fundamentals early - thus the timing aspect of technical analysis. Technically, our energy trusts are doing just fine in light of the recent stir in Ottawa. The Energy Trust Forecaster (which I introduced a while back) is still looking good.

Canadian energy trusts do not pass through 100% of their cash flow. They hold back a portion of their income to pay for acquisitions, etc., but there are legal limitations on how much they can hold back and still retain their trust status.

Since business is booming, their bank accounts are growing, and most are going to be forced to increase their payouts. This means that you should see dividend increases over the next year. **Paramount** just raised their dividend 2 cents, which is 9%. The prospect of dividend increases during 2006 may be why these our trusts have been holding up so well in the face of softer crude prices.

I never expected so many investors to whine about success. I get all these e-mails saying so and so sold his



energy trusts. I get reports saying the energy move is a bubble and everyone should get out. Well, if you are uncomfortable, you should sell down to your comfort level.

### **I am not ready to bail just yet.**

Yes, there will be periods of profit-taking, but I like the income. Diversification is important as well, and I am more inclined to add to my positions in weakness than I am to sell and try to buy back in later. That is a great theory on paper; but in over 40 years of investing in the markets, I have found that investors just won't buy their positions back.

Perhaps being anxious to sell at the recent highs is a sign that we are not at the top yet. When you can't find a bear anywhere is normally when the highs set in. Hopefully, you have followed our advice to wait for our downside buy prices and have not chased strength. I, for one, am hanging on to my positions.

*If you want to be a trader, stick with the stocks and instructions on our Hyperion trading list.*

There is the problem of depleting reserves and declining production in the oil patch. This is just the way things are going to be. The world is

probable reserves become proven reserves. Production rates are a function of many variables as well. One can accelerate production, for example, but that can damage the well and actually reduce recoverable reserves. This is why we have petroleum engineers - to determine the optimum operation of a field.

If you haven't already done so, you should pick up a copy of Twilight in the Desert by Matthew Simmons. This could be the most important work published since Hulbert's Peak. It will give you a detailed understanding of how the oil and gas business works, as well as some disturbing information about Saudi Arabia, the world's most important source of oil.

Bottom line – crude oil and natural gas prices are going much higher in the next 18 months. I still stand by my forecast for \$76 oil - I think by spring. However, we have been due for a correction in crude prices, and you can see on the chart above that this process is under way.

You can see the support at \$64, but I wouldn't be surprised if we saw a quick dip to \$60. I am a bit hesitant to get too adamant about a break of the \$64 level because the surprises in the oil sector tend to be bullish.

running out of oil and gas. That is why energy prices are going to continue rising.

Reserves are somewhat a function of price; so as price rises,

All it takes is some outside event to launch prices to new highs.

The reason for my pointing out the possibility of a drop to \$60 is two-fold. First, as Doug Adams would say, "Don't Panic!" Second, that dip would be a wonderful buying opportunity. If it avails itself, take it. We have downside buy prices updated on Page 6 of this letter.

I am not sure if you noticed, but **Provident (PVX-AMEX-\$12.25)** hit its downside previous buy price on a dip in August at C\$10.60. **Peyto (PEYUN-TSX-C\$30.15)** hit its downside buy price of C\$29.50 in September. Patience will win out.

You need to diversify, not only among energy companies and industries; i.e., production refining, coal, etc., but also within the commodity sector itself. This is just good money management.

I have a macro forecasting model called the Annual Asset Allocation Model (AAAM) to tell us where to find the best risk-to-reward opportunities. For those of you new to us, the AAAM model will have one of three results - stocks, bonds, or tangibles. There are no other outcomes from this model, only these three macro results.

In October 2001, it shifted out of bonds and into tangibles. This change was doubly significant in that the model told us to move away from financial assets (stocks and bonds) and into real assets (commodities).

The official calculation of the model is done at the end of October. Unless

there are some amazing changes in the market between now and then, it looks like the AAAM will stick with commodities. I will, of course, confirm this next month.

As you select investments, remember these facts. Commodity bull markets last 15 to 25 years. I think 15 years was the shortest on record. We are but 5 years into the current one.

Donald Cox in his research at Jones Heward found that the best asset class in the first five years of the decade will be the best asset class in the last five years. Also, 85% of investment success is being in the right asset class. We are in the right place, and the commodity bull market is not over yet.

China is a big market for commodities, especially raw materials ... but don't discount India. According to *The Daily Reckoning* and Sala Kannan (their resident expert on India) India is projected to be the most populous nation on Earth in 40 years. India's middle class is projected to be 983 million by 2015. One-half of India is under the age of 25. India's net income has doubled in the last 10 years. They will be vying with China and the U.S. for increasing amounts of the world's resources.

Hang on to your energy trusts, and look at diversifying into broader, commodity-related investments. I have written about **Blackrock Global Energy and Resource Trust (BGR-NYSE-\$26.95)**. It is basically a closed-end fund of commodity-related investments.

They have pipelines, etc., and you can get a detailed breakdown at [www.blackrock.com/funds/cefunds/BGR.pdf](http://www.blackrock.com/funds/cefunds/BGR.pdf).

If I had to spend some money today, I would buy some BGR and accept the short term risk that it may correct some from these levels. Of course, I would buy more at its downside buy price of \$24.95. It has a decent 5.57% dividend at this price also.

Another broader based commodity investment I like here is the **Pimco Commodity Real Return Strategy Fund (PCRBX-\$17.44)**. This is the symbol and quote for the B shares (which I prefer). However, there are other share classes which you should investigate. Their prospectus will give you the details on different share classes. Which is best suited for you will depend on your individual circumstances.

This fund essentially puts up interest-bearing paper against commodity positions. It works this way. If you were to "buy" a commodity contract of December gold, you are actually promising to buy 100 ounces of gold in December. At today's price of \$469.30, you will have to come up with \$46,930 in December to take delivery of the 100 ounces of gold.

Normally, this process involves a lot of leverage, which is where commodities get their reputation for being high-risk investments. However, you can put up Treasuries - most commonly T-bills - instead of cash for the

"margin" required. If you put up the full value of the position, the \$46,930 in, say, T-bills, you end up with no leverage and thus eliminate the high risk due to the normal high leverage. You have essentially bought 100 ounces of gold and are making a 3.75% return (on the T-bills) as well.

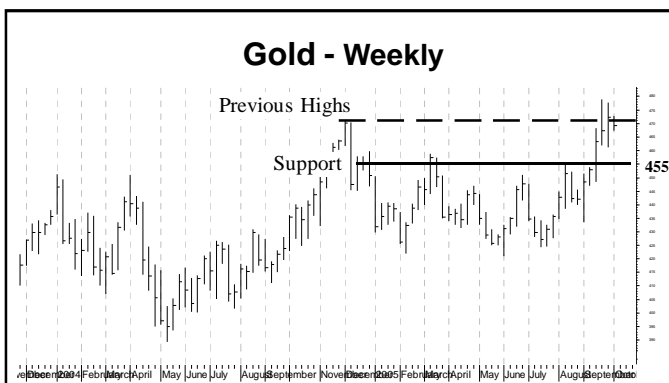
This is an excellent, sane way to invest in tangibles (commodities), and it is the approach that the Pimco Commodity Fund uses. The fund shows a yield of 6.21% on the last 12 months of dividends.

They fluctuate a great deal, and thus I hesitate to state a definite dividend here. However, I think it looks like you will be getting a decent return on your money while you wait for the commodity bull market to run its course.

I think you can buy some here, acknowledging that there may be some short term weakness, but this commodity bull market has a good 5 to 10 years yet to go ... at least. As long as our AAAM model sticks with tangibles, commodities will give you the best risk-to-reward position in the market.

Rydex also has a commodity fund, but it is rather new and it has no yield. It is also volatile and perhaps better suited to a trading program than longer term investment.

Gold has also been doing well for us lately. The impressive technical aspect recently is that it has been strong in the face of a rising U.S. dollar. This may well be technical evidence that the negative



fundamentals in the dollar are soon to surface and the dollar is due to fall hard soon.

### Gold is looking good.

It is touching old highs here, and that usually produces some profit-taking. Gold's RSI oscillator is overbought, and negative divergences are appearing in my work. MACD is also in overbought territory, although there has not been a sell from MACD yet.

Nevertheless, I don't look for any extreme or long-lasting weakness. Perhaps we will see the December contract settle back to support at \$455, but I don't expect any long term trend reversal here - only a trading correction.

The mining stocks have also been performing quite well, but they are in need of some consolidation. The long term key is to watch Simplicity (the gold/XAU ratio) for any indications that the gold stocks are out of line with gold bullion. It has been right at 4.25 lately, which is still bullish.

If I were to buy an investment position in gold today and were willing to risk a short term dip, I would buy **Goldcorp (GG-**

**NYSE-\$19.95).** Their second quarter results were fantastic. They are now an official million ounce producer.

**Goldcorp's** revenue rose

800% in the second quarter, and cash flow increased 1,000%. Now, I am talking about the *second quarter* here. Their cash costs dropped 50%, and they produced 280,000 ounces for the period at a cash cost of \$52 an ounce. They also produced 39.6 million ounces of copper as a by-product.

As you know, copper has been trading at all-time highs. With this kind of performance, you can afford to take a short term risk that the stock will correct. If it does, buy more at our downside buy price of \$17.75.

On the junior list, I like **Whiteknight Resources (WKR-AMEX-\$1.58).** I also like **U.S. Gold Corporation (USGL-OTCBB-\$2.13).** Both of these should be viewed as long term speculations on higher gold prices. Both are super gold mining operations and are relatively inexpensive.

My strategy with these is to look at them as call options on the price of gold with no expiration. This means being prudent as to how much you invest in them and pasting the word "PATIENCE" in big letters somewhere to remind yourself that it will take time for

these to come to fruition. You can be patient in buying them as well, using weakness to accumulate your positions. Buy WKR at C\$1.30 or less and USGL at \$1.70 or less.

All of our longer term technical work continues to indicate future trouble for the popular stock market averages. There are crosscurrents between the tendency for years ending in 5 to be up years and the tendency of the first years in a presidential term to be losers. This may end up resulting in a flat year for 2005.

Since the last day of December 2004, the Dow has lost 2%, the Nasdaq Composite has lost 1%, and the S&P has gained 1%. There is still a potential for some ugliness by the end of the year, but 2005 has really not had any trading opportunities in the averages worth taking. The stocks as financial assets are about as flat as Kansas, but I caution against letting this lead you to a false sense of security.

Long term cyclical studies indicate that the secular bear market that began in the early days of 2000 is not over yet and that the cyclical bull market off the lows in October 2002 is breathing its last. We may see some short term strength here as the pros feed their positions to the crowd, but 2006 looks like a devastating year for financial assets (including bonds) and a huge boon for tangibles.

If you not getting hotlines by e-mail and would like to, let me know. Just send me an e-mail and I will set you up.

## Recommended Stocks For Buy And Hold

**Note:** If you go to [www.bigcharts.com](http://www.bigcharts.com), you can get quotes on Canadian stocks in Canadian dollars by using the symbols we have listed, preceded by CA: For example, if you want a quote for Shiningbank, go to [www.bigcharts.com](http://www.bigcharts.com) and type in CA:SHNUN. You can approximate the price in U.S. dollars by multiplying the Canadian dollar quote by .855. 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.

Last Updated 10/04/05						
Company	Symbol/ Exchange	Initial Recom. Date & Price	Price 10/04/05	Div.	Downside Buy Price	Target Web Site
Enerplus Resources	ERF-NYSE	4/20/01@ \$18.00	\$47.48	7.99%	<b>\$39.75</b>	<a href="http://www.enerplus.com">www.enerplus.com</a>
Peyto Energy	PEYUN-TSX	7/18/03@ \$C8.75	C\$30.15	4.78%	\$C29.50	<a href="http://www.peyto.com">www.peyto.com</a>
Primewest Energy	PWI-NYSE	2/07/03@ \$17.00	\$31.60	9.64%	<b>\$27.50</b>	<a href="http://www.primewestenergy.com">www.primewestenergy.com</a>
Provident Energy	PVX-AMEX	6/16/03@ \$7.50	\$12.25	9.94%	<b>\$11.10</b>	<a href="http://www.providentenergy.com">www.providentenergy.com</a>
Shiningbank	SHNUN-TSX	1/02/03@ C\$15.15	C\$26.75	10.32%	<b>C\$23.05</b>	<a href="http://www.shiningbank.com">www.shiningbank.com</a>
Suncor Energy	SU-NYSE	2/07/03@ \$16.8	\$56.88	0.36%	<b>\$52.90</b>	<a href="http://www.suncor.com">www.suncor.com</a>
Anglogold	AU-NYSE	2/25/03@ \$32.00	\$41.61	n/a	<b>\$36.05</b>	<a href="http://www.anglogold.com">www.anglogold.com</a>
ASA Ltd.	ASA-NYSE	11/19/02@ \$31.00	\$45.67	0.88%	<b>\$39.95</b>	<a href="http://www.asaltd.com">www.asaltd.com</a>
Goldcorp	GG-NYSE	8/15/03@ \$13.00	\$19.95	0.90%	<b>\$17.75</b>	<a href="http://www.goldcorp.com">www.goldcorp.com</a>
Newmont Mining	NEM-NYSE	9/05/03@ \$39.10	\$46.20	0.87%	<b>\$40.00</b>	<a href="http://www.newmont.com">www.newmont.com</a>
Barrick Gold	ABX-NYSE	1/05/03@ \$22.85	\$28.34	0.78%	<b>\$26.05</b>	<a href="http://www.barrick.com">www.barrick.com</a>
Baytex Energy	BTEUN-TSX	05/18/04@ C\$11.90	C\$18.02	9.99%	<b>C\$16.00</b>	<a href="http://www.baytex.ab.ca">www.baytex.ab.ca</a>
Alliance Res. Part.	ARLP-OTC	9/29/04@ 27.98	\$46.18	6.33%	<b>\$40.50</b>	<a href="http://www.arlp.com">www.arlp.com</a>
Fording Coal	FDG-NYSE	11/16/04@ 22.74	\$41.59	8.65%	<b>\$35.20</b>	<a href="http://www.fording.ca">www.fording.ca</a>
Paramount En. Tr.	PMTUN-TSX	12/20/04@ C\$16.44	C\$23.00	12.52%	<b>C\$20.10</b>	<a href="http://www.paramountenergy.com">www.paramountenergy.com</a>
Pimco Comod RR Str Fnd	PCRBX	3/02/05@ \$15.95	\$17.44	6.21%	<b>\$16.50</b>	<a href="http://www.pimcofunds.com">www.pimcofunds.com</a>
Valero Energy	VLO-NYSE	4/26/05@ \$73.25	\$112.52	0.36%	<b>\$89.50</b>	<a href="http://www.valero.com">www.valero.com</a>
Blk Rk Glb En & Res	BGR-NYSE	8/03/05@ \$25.99	\$26.95	5.57%	<b>\$24.95</b>	<a href="http://www.blackrock.com">www.blackrock.com</a>
Frontier Oil	FTO-NYSE	8/03/05@ 28.75	\$42.98	0.37%	\$31.50	<a href="http://www.frontieroil.com">www.frontieroil.com</a>

Fording had a 3 for 1 split on 9/13, and Alliance split 2 for 1 on 9/16.

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

Company	Symbol/Exchange	Initl. Recom. Date & Price	Price 10/04/05	Downside Buy Price	Target	Web Site
Bema Gold Corp.	BGO-AMEX	6/6/02@ \$1.06	\$2.52	\$2.20		<a href="http://www.bema.com">www.bema.com</a>
Coeur d'Alene	CDE-NYSE	9/2/03@ \$3.19	\$4.08	\$3.40		<a href="http://www.coeur.com">www.coeur.com</a>
Western Silver	WTZ-AMEX	9/2/03@ \$3.50	\$8.05	\$8.10		<a href="http://www.westernsilvercorp.com">www.westernsilvercorp.com</a>
American Bonanza	BZA-TSX	10/2/02@ C\$0.60*	C\$0.62	HOLD		<a href="http://www.americanbonanza.com">www.americanbonanza.com</a>
Ivanhoe Mines	IVN-NYSE	6/4/04@ \$6.00	\$8.22	<b>\$6.90</b>		<a href="http://www.ivanhoe-mines.com">www.ivanhoe-mines.com</a>
International Wayside	WGM-TSX	4/26/04@ C\$1.40	C\$0.38	HOLD		<a href="http://www.wayside-gold.com">www.wayside-gold.com</a>
Novagold Resources	NG-AMEX	12/8/04@ 6.50	\$7.93	\$7.00		<a href="http://www.novagold.net">www.novagold.net</a>
Yamana Gold	AUY-AMEX	4/14/05@ 2.90	\$4.14	\$3.60		<a href="http://www.yamana.com">www.yamana.com</a>
Mines Management	MGN-AMEX	5/13/05@ \$4.50	\$6.70	<b>\$5.00</b>		<a href="http://www.minesmanagement.com">www.minesmanagement.com</a>
White Knight Res.	WKR-TSX	7/20/05@ C\$1.25	C\$1.58	<b>C\$1.30</b>		<a href="http://www.whiteknightres.com">www.whiteknightres.com</a>
U S Gold Corp.	USGL-OTCBB	9/9/05@ \$1.70	\$2.13	\$1.70		<a href="http://www.usgoldmining.com">www.usgoldmining.com</a>

American Bonanza had a 4 for 1 reverse split on 3/31/05 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 .855 to see if the OTC quote looks correct. You can access these OTCBB quotes by using [www.barchart.com](http://www.barchart.com). I don't have OTCBB symbols for American Bonanza or International Wayside.

Shiningbank SBKEF    Peyto Energy PEYUF    Baytex Energy BAYXF    Paramount Energy PMGYF

**Target** The "Target" column represents the price at which you should liquidate the position and take profits. Do not reverse on the target price. There will not always be a target price. You should only reverse on the reversal stop price,

**Our Web site:** [www.protiming.com](http://www.protiming.com)

**E-mail:** [info@protiming.com](mailto:info@protiming.com)