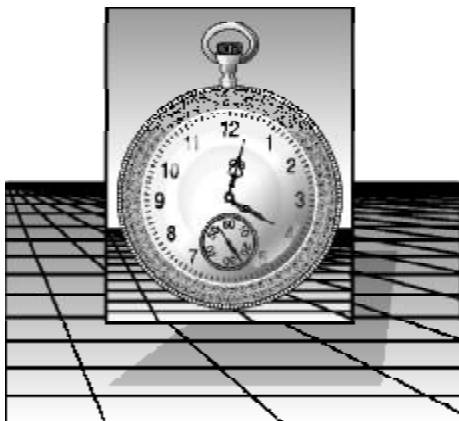


The next issue will be published October 16.

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Page 3
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Some Important Relationships Worth Considering

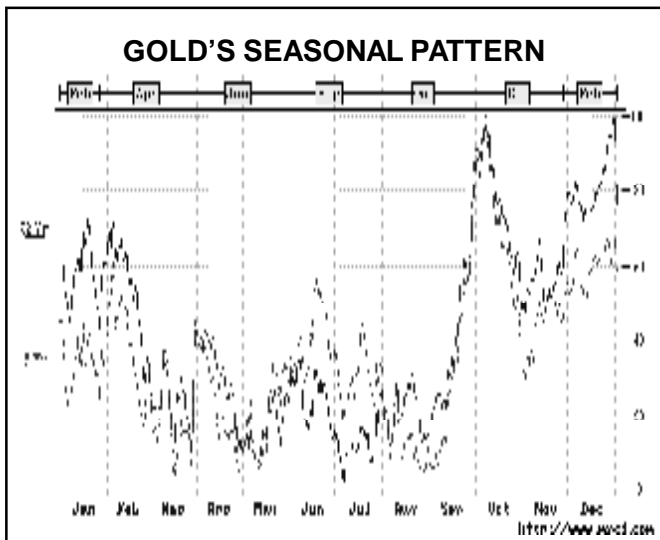
The key element in determining what is in store for 2008 is the U.S. dollar. The Dollar Index has officially reached a new, all-time low - you can refer to the chart in the September mid-month letter. This means that your money has hit an all-time low in purchasing power. It also means that the price of buying things and the price of owning things are going to be higher this time next year.

Higher prices in U.S. dollars will particularly impact basic materials, as well as virtually all commodities. The dollar is going lower yet, and this should be the focus of your investment strategy. Now that the dollar is in uncharted, new low territory, there is no support level to look forward to. Buckle up and watch it slide.

There is nothing you can do about the direction of the U.S. dollar, but there is something you can do to prevent, or at least mitigate, the damage that is being done to your wealth. The first step is to consider the Dow/gold ratio. The Q-ratio is the brain child of Dr. James Tobin, a Nobel prize winner in economics. His concept is to compare the market value of all companies on the stock market with the replacement value of their assets. If the market value of all companies exceeds their replacement value by a wide margin, the stock market is overvalued. Conversely, if the market value of all corporate assets is less than their replacement cost, stocks are underpriced.

The Q-ratio runs from highs over 1.2 to lows of 0.4 or less. When the ratio is 1.2 or higher, stocks are overvalued; and when it's under 0.4, stocks are undervalued. The key here, however, is "replacement cost." The market value of all stocks is a measure of paper or financial assets while the "replacement cost" is a measure of real or tangible assets. The stock certificate has no intrinsic value, but "replacement" does. Replacement is bricks, mortar, land, machinery - infrastructure and raw materials.

It would be difficult for any of us to keep track of the Q-ratio, but there is a simple substitute in the Dow/gold ratio. This ratio will follow the general path of the Q-ratio, and it will give us the same perspective on the value difference between financial assets and real assets. The Dow Industrial Average is the quintessential financial asset. Gold, though, is the ultimate real asset.



The Dow/gold ratio will run from highs of 35 or higher to lows of 5 or less. The important aspect of the Q-ratio and the Dow/gold ratio is that they are long cycle measures. The distance between peak and valley is about 15 to 20 years. This means that financial assets will gain on tangible assets for about 20 years until they become overvalued, and then an asset shift occurs where tangible assets will gain on financial assets for the next 20 years or so.

Furthermore, once a peak has been reached, the ratio has always fallen to 5 or less before the next turn has occurred. The Dow/gold ratio peaked out in 1966 and began falling. Prior to that high, stocks were in a bull market.

Once the ratio began to fall, financial assets shifted into a bear market. Commodities - which were undervalued in 1966 - entered a powerful bull market that lasted until the 1980's. At that point, the ratio fell under 5.0, indicating that the commodity bull was over. Financial assets had been depressed to amazingly low valuations by then while commodities had appreciated beyond reason.

Once the Dow/gold ratio fell under 5 in the early 80's, another shift occurred from real assets to financials, and the stock market bull began. That cycle lasted until 2000 when, once again, financial assets were priced well beyond their replacement cost. The Dow/gold ratio hit 42 in 2000 and began to descend. At that point, the next bull phase in commodities ensued. The return on tangible assets has outpaced the stock market ever since.

Commodities will continue to outperform financial assets until the Dow/gold ratio again falls below 5. We can speculate what these numbers may be at that point. Perhaps the Dow will simply sit at 14,000 for the next 10 years while gold rises. When the ratio falls to 5, gold will sell for \$2,800. This would be the best of possible scenarios. More likely, the Dow will fall to some extent. Pick a number. Say the Dow falls to 10,000, gold will still sell for \$2,000 if the Dow/gold ratio is 5.

Some analysts believe that the Dow/gold ratio will fall to 1 before this is all over. Play with that number for a while. Wow - 14,000 Dow and \$14,000 gold, or even 5,000 Dow and \$5,000 gold! Perhaps a reading of 1 is a bit over the top. It is not the exact price objective for gold that is important here. The bottom line is that the current commodity bull market will last for another 10 years or more, and it will not be over until the Dow/gold ratio, currently at 19, falls to at least 5. In the meantime, commodity (real asset) investments will outperform financial (paper) assets by a wide margin.

Gold has risen from \$250 to \$750 during this bull market because the dollar has been falling, and the Dow/gold ratio is telling us that we will see gold prices much higher in the future than they are now. One way to protect yourself from further erosion in the value of the U.S. dollar is, of course, to own gold. Gold is doing quite well of late, having surpassed the highs it set last April. I thoroughly expect to see new, all-time highs in gold (over \$850) during the first quarter of 2008. We had plenty of opportunity to buy gold in August when our Simplicity gold model model was punching over 5.00. Simplicity, coupled with seasonal lows due at that time, led the way for our advice in the monthly newsletter that month, "August - A Month For Buying Gold."

Simplicity is also a ratio worth considering, and it is explained in our booklet, "Buying Gold With Simplicity." It is the ratio between gold and the XAU (Philadelphia Gold and Silver Index). This ratio measures the relative

value between gold itself and precious metal mining shares represented by the XAU. It measures the degree of speculation going on in the mining shares. Readings over 5.00 are buy points, indicating that the mining shares have lagged too far behind the bullion. Readings under 3.20 indicate it's time to sell. Currently, the reading is about 4.35. Basically, that is a neutral reading, indicating that gold shares are not cheap enough in relation to gold to be bargains, and yet the stocks are not overpriced enough to sell.

Gold has moved smartly off its forecast seasonal August low, as expected. However, it is time to begin anticipating the next seasonal high, which is due this month. Simplicity is not telling us to sell, so I think you should hold your positions. Look for a drop into the next seasonal low, which is due in November (see chart on Page 2). The rally that occurs from lows in November to highs during the first quarter of the New Year is typically the best of the seasonal rallies. I expect to see gold hit \$850 during this move.

If you are looking to increase your precious metal holdings, wait for the November lows. We will see Simplicity move back to at least 4.80 during this decline. Currently, gold is overbought, with its RSI well over 70. The XAU as a representative for the mining shares is also stretched out here, and it's in need of a rest. I look for gold to settle back to about \$700 basis December and for the XAU to pull back to 150.00. Our Rydex trading program may issue a trading sell for those following that program; but overall, I recommend that you hold your non-trading, buy-and-hold positions. Gird for a selloff, steel your mind against the bears that inevitably come out of the woodwork when gold sells down, and look forward to the rally into the first quarter of 2008.

The rally off the August lows has been very good for gold bullion and for the top tier gold producers. Top producers like **Agnico-Eagle** (AEM-NYSE-\$51.08), **Barrick** (ABX-NYSE-\$41.23), **ASA** (ASA-NYSE-\$75.06), **Kinross** (KGC-NYSE-\$15.48), etc. have done very well from the August lows. The second tier stocks like **Yamana** (AUY-NYSE-\$11.99), **Gammon Gold** (GRS-AMEX-\$11.74), etc. and the smaller, tier III stocks that are on our list of juniors have not done as well. This rally did not benefit the up-and-comers like it did the big kids.

There are a couple reasons for this anomaly. One, the August meltdown in the broad market added a conservative bent to investors' outlooks. They suddenly discovered "risk" where they saw none previously. Second, companies that are in the exploration phase - as so many secondary and tertiary tier issues are - will struggle. The Yamana merger has put a temporary light of uncertainty on them, although I think this merger is going to be a good deal for both Yamana and Meridian. Overall, investors have become a little risk averse right now; but once gold starts marching toward \$850 and beyond, the crowd will throw caution to the winds and pile on anything remotely connected to precious metals. I fully expect to see the gold market eventually end with a speculative blowoff like the dot-com mania of the late 1990's.

As gold drops into November, take a look at your portfolio and see if you need to diversify and balance your holdings. If you haven't purchased **StreetTracks Gold ETF** (GLD-NYSE-\$73.90), a few shares of this pure gold bullion play makes sense. I am adjusting the downside buy price to \$68.00, and it should pull back to that level if you are patient. Another interesting gold play, if you don't own any, is **Gabelli Global Gold and Natural Resources** (GGN-AMEX-\$28.90). I think your chances of picking some up at our downside buy price of \$26.00 are fairly good. It pays monthly; and at \$26.00, it yields about 6.4%.

The dollar is important, gold is important, and crude oil is important. With the commodity market destined to climb higher until we see the relative value between financial assets and real assets produce a Dow/gold ratio of 5, crude has to be the sweet spot in the commodity mega trend. Globally, crude oil production is in trouble. Mat Simmons, the chairman of the world's largest energy investment banking company and author of [Twilight](#)

in the Desert, revealed in a recent interview that the 12-month moving average of world oil supply peaked out in May 2005 at 74,252,000 barrels per day. Since then, production has essentially been flat while world demand has been increasing. Hence, we saw \$84.00 oil recently.

The global appetite for crude has been increasing at a rate of about 1.5 million barrels a day per year, so we are definitely close to where the rubber meets the road. Large, national users are nailing down supplies by making deals with producing countries. China, for example, is in bed big time with the Iranians and Venezuelans. They are also actively sequestering supplies in Africa. They (unlike us) are under no delusions about the limited quantities of crude available, and they (unlike us) are proactive in trying to guarantee that they have their share when supplies get tight. They know there is no more easy oil.

I look for some countries, like Mexico, to begin limiting exports in order to hold back production for their own domestic use. With the production declines we are seeing in Mexico, they may cease to be a source for U.S. supply in the not too distant future. A drop in available supplies of crude for the U.S. market will cause a recession. There is nothing the Fed can do about that. It is still up in the air as to the effect of the sub-prime mess and the housing slump on the economy with the Fed at the money spigot. However, if America goes hungry for crude supplies - like they did in the 1970's during the Arab oil embargo - there will be a recession.

On the other hand, a recession in the U.S. will not change the imbalance between the global supply of crude and world demand. Global demand will continue to outpace supply, and prices are going to go higher. The sacrificial lamb in the Fed's efforts to keep the economy humming, to get the "ins" elected, and to borrow for our war machine will be the dollar. As the dollar falls, gold and crude oil prices will rise.

There have been a lot of articles in the mainstream print media lately about Iran. It sounds like the powers that be are softening up the public for an extension of the Iraqi-Afghan war. I expect to see military action taken against Iran, regardless of who ends up in the White House. The casus belli is rooted in the argument that Iran is responsible for training and equipping anti-West factions fighting in Iraq and, therefore, are responsible for the murder of hundreds of Americans and thousands of Iraqis. U.S. Central Command has detailed plans drawn up, and a U.S. aircraft battle group, along with two expeditionary strike groups that include submarines and amphibious assault ships, are stationed in the Persian Gulf. Couple this with increasingly heated rhetoric about "confronting this danger before it is too late" (sound familiar?), and it adds up to the West (us) chomping at the bit - if not to stage a full scale invasion, to at least strike Iranian targets. I mention this because once Iran is overtly involved in the Middle Eastern foray, crude prices will go up.

The short term, technical outlook is that crude, like gold, is overbought and needs a rest, but the caveat is that this assumes ceteris paribus - everything being equal. A surprise, geopolitical event will set the technical aspects on their ear. Your approach should be to expect some profit-taking in crude. Crude should be able to hold \$72.00 basis December at the worst in a selloff. Use weakness to buy; and in the meantime, hang on to what you have. Gold and crude are not good trading markets because the surprises will always be on the up side. Shorting energy or precious metals is reckless, and not holding a position is equally as unwise.

One more ratio worth a brief mention is the gold/oil ratio. Currently, it stands at 9. Although that is higher than the 6 of a couple of years ago, it is relatively low nonetheless. The average for the ratio is 16, and it has been as high as 50. I think we are in a brave, new world, and we will not see 50 again ... but who knows? If the ratio rises to 16 and crude just holds here - say, averaging \$80 - gold will sell for \$1,280. If crude were \$100, you would be looking at \$1,600 gold, which has always been my minimum target. Gold could easily double its old 1980 high. When gold hits \$850, crude equates to \$94, assuming the ratio stays at 9.

As crude makes its next correction, you should target **Apache Corp** (APA-NYSE-\$91.96), if you haven't already. I am moving the downside buy price up to \$82.00. Apache should be a core energy holding, and it should be the only major in your stable.

For a little income, consider **Blackrock Global Energy** (BGR-NYSE-\$30.45) and a few shares of **Peyto** (PEYUN-TSX-C\$17.73). Blackrock should be bought at our downside buy price of \$28.00 or less (we have had several chances to do that this summer). Put your orders in, and be patient. Blackrock will pay about 5.3% at that price. Peyto is one of the few Canadian energy trusts that can stand on its own and grow as a corporation. I think purchases can be made up to C\$18.50; but if you are looking to put your orders in a little deeper, C\$17.00 looks like a reasonable possibility. It pays a little over 9% in Canadian money.

We wrote up **Altius Minerals** (ALS-TSX-C\$23.73) a few issues back and targeted our purchases at C\$18.00 or better. The great August stock market swoon brought that to fruition. I suggest sticking with the C\$18.00 downside price target for now if you are considering buying Altius. This company is an exciting blend of raw materials and energy refining. Check them out at www.altiusminerals.com

It has been easy over the last six weeks to buy **Nordic American Tankers** (NAT-NYSE-\$40.04) below our \$38.50 buy price, but it is beginning to perk up. The dividend will vary quarter to quarter (as it does with tanker companies), but I expect to see at least 10%. If you don't own this one yet, you should still be able to pick it up under \$38.50. If you want to target a deeper buy price, put an order in at \$36.00. Just be sure not to pay over \$38.50.

Uranium is underexposed and overlooked on the Street, but this is slowly changing. There is now a uranium ETF from Van Eck Global - the **Market Vectors Nuclear Energy ETF** (NLR-AMEX-\$41.65). This was launched on August 15, so it is a bit early to jump in. At this point, it does give uranium some needed exposure in the investment community. The ETF is designed to mirror the DAXglobal® Nuclear Energy Index (DXNE), which is a basket of 38 nuclear energy companies listed on global exchanges. Once this settles out and becomes a little more fluid, we will consider adding it to our recommended list. In the meantime, NLR gives you a reference point concerning nuclear energy stocks.

We have two uranium stocks on our list of juniors - **Laramide Resources** (LAM-TSX-C\$7.55) and **Mega Uranium** (MGA-TSX-C\$4.45). Both have moved smartly off their August lows, in line with the movement in the nuclear ETF. I would limit Laramide purchases to C\$8.00 or less now, and buy Mega up to C\$5.00. These are speculative issues, and it will take some time for them to play out. I think they are both excellent plays on the future of uranium.

Our Rydex bond trading program is sitting on the sidelines, and that looks prudent. I can't get bullish on bonds with the dollar as weak as it is. The signals are included in the Tuesday and Thursday online updates; but as it stands, the program will issue a sell for the 30-year Treasury if the December future trades at 108-18/32 or lower. I expect to see this sell point raised soon, so watch the updates for changes.

The stock market continues to work laboriously higher, and our broad market timing tool, Palio, is still on the buy it issued on August 23. It is not possible to predict the signals, and there is nothing to prevent a sell at any time. The averages look precarious, and we may be seeing double tops forming. We will simply stick with our long trading positions in the Rydex Nova Fund and the Rydex OTC Fund until the model tells us to bail out. The next Palio signal will be announced in the online updates when it happens. With October - the "killer month" - already here, this sell could be rather significant.

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: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 10/01/07 U.S. \$	Downside Buy Price	Div 10/01/07	Target-T Stop-S	Web Site
Agnico-Eagle	AEM	NYSE	1/10/2007 36.00	51.08	36.00	0.24%		agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004 27.98	33.28	39.00	6.73%		arlp.com
Apache Corp	APA	NYSE	3/5/2007 68.00	91.96	82.00	0.66%		apachecorp.com
ASA	ASA	NYSE	11/19/2002 31.00	75.06	60.00	0.80%		asald.com
Barrick Gold	ABX	NYSE	1/5/2003 22.85	41.23	29.00	0.73%		barrick.com
Baytex Energy	BTE	NYSE	5/18/2004 9.00	20.44	HOLD	10.30%		www.baytex.ab.ca
Black Rock	BGR	NYSE	8/3/2005 25.99	30.45	28.00	4.93%		blackrock.com
Canetic Energy	CNE	NYSE	4/19/2006 22.25	15.26	HOLD	14.64%	S = 12.00	canetictrust.com
Fording Coal	FDG	NYSE	11/16/2004 22.74	38.28	HOLD	6.15%		fording.ca
Frontline Ltd.	FRO	NYSE	1/4/2007 31.00	49.21	36.00	5.08%!!!	S = 27.70	frontline.bm
Frontier Oil	FTO	NYSE	8/3/2005 14.38	42.51	36.00	0.48%		frontieroil.com
Gabelli Glb. Gld.	GGN	AMEX	1/3/2005 22.10	28.90	26.00	5.82%		gabelli.com
Gammon Gold	GRS	AMEX	1/4/2007 15.00	11.74	HOLD	n/a		gammonlake.com
Headwaters	HW	NYSE	3/10/2006 36.30	15.13	14.00	n/a		headwaters.com
Kinder Morgan LP	KMP	NYSE	6/8/2007 52.50	49.10	52.50	6.90%		kindermorgan.com
Kinross Gold***	KGC	NYSE	6/6/2002 2.39	15.48	12.00	n/a		kinross.com
Kinross Gold	KGC	NYSE	1/4/2007 11.00	15.48	12.00	n/a		kinross.com
Mkt. Vectors, ETF	GDX	AMEX	9/11/2006 37.00	45.82	37.00	1.01%		n/a
Nordic American	NAT	NYSE	7/26/2007 38.50	40.04	38.50	11.71%		nat.bm
Pimco Comod Fund	PCRA	NYSE	3/2/2005 13.97	15.12	14.00	5.25%		pimcofunds.com
Ship Finance Int. ##	SFL	NYSE	3/6/2007 0.00##	27.27	HOLD	8.15%		www.shipfinance.org
Silver Standard	SSRI	OTC	1/4/2007 30.00	37.46	32.00	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006 8.40	14.05	11.00	n/a		silverwheaton.com
St. Trs. Gold, ETF	GLD	NYSE	9/11/2006 58.85	73.90	68.00	n/a		n/a
Transocean Inc.	RIG	NYSE	1/4/2007 75.00	114.21	100.00	n/a	S = 64.50	deepwater.com
Yamana	AUY	NYSE	4/14/2005 2.90	11.99	13.00	0.34%		yamana.com
Valero	VLO	NYSE	4/26/2005 36.63	67.44	65.00	0.72%		valero.com
Canadian Dollars								
Altius Minerals	CA:ALS	TSX	8/9/2007 17.88	23.73	18.00	n/a		altiusminerals.com
Energy Split II	CA:EN	TSX	9/11/2006 17.00	11.00	HOLD	18.55%		scotiamanagedcompanies.com
Pembina Pipeline	CA:PIFUN	TSX	Buy at 15.50	17.06	15.50	8.36%		pembina.com
Peyto Energy	CA:PEYUN	TSX	7/18/2003 8.75	17.73	18.50	9.55%		peyto.com

Ship Finance Intl. was acquired as a spinoff from Frontline on 3/6/07

!!! Frontline dividend based on regular payment of \$0.625 per quarter. Extras have been paid bringing the dividend on past 12 months payments to 13.38%

***The dividends for the coal trusts depend on cash flow and the price of coal in the preceding quarter. For further details on their past dividend histories, you should visit www.fording.ca, and www.arlp.com.

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

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 10/01/07 U.S. \$	Downside Buy Price	Div 10/01/07	Target-T/ Stop-S	Web Site
Coeur d'Alene	CDE	NYSE	9/2/2003 3.19	3.90	4.50	n/a		coeur.com
Endeavor Silver	EXK	AMEX	7/26/2007 4.60	3.27	4.60	n/a		edrsilver.com
Taseko Mines	TGB	AMEX	7/24/2006 2.40	5.33	2.60	n/a		tasekomines.com
US Gold Corp	UXG	AMEX	9/9/2005 1.70	5.94	5.00	n/a		usgold.com
Canadian Dollars								
Baja Mining	CA:BAJ	TSX	Buy at 1.50	2.00	1.50	n/a		bajamining.com
Everton Res.	CA:EVR	TSX	1/4/2007 1.30	0.79	0.80	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007 0.50	0.47	0.50	n/a		goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006 5.20	7.55	8.00	n/a		laramide.com
Mega Uranium	CA:MGA	TSX	5/1/2007 6.75	4.45	5.00	n/a		mega uranium.com
UTS Energy	CA:UTS	TSX	5/15/2006 6.50	5.63	Hold	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006 1.20	1.93	1.60	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 1.01 to see if the OTC quote looks correct. You can access these OTCBB quotes by using 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.