

The next issue will be published October 22.

- **The technical picture is looking good.**

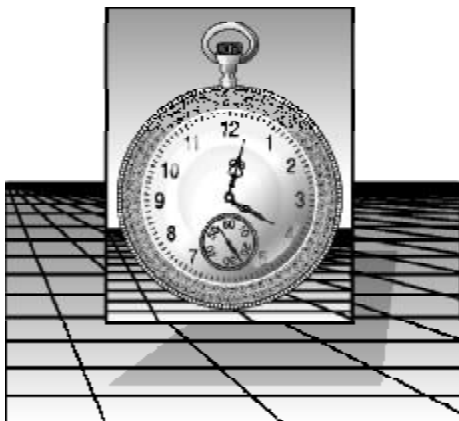
Page 2

- **Here is a caveat for these volatile and unpredictable times.**

Page 4

- **Three favorite energy stocks ... plus Innergex.**

Page 5



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## “OOPS, ARMAGEDDON”

I was amused at this headline. It was leading into a story about the Large Hadron Collider. The fear was that when the giant atom smasher was turned on, it would create minute black holes which would consume the planet and end life as we know it. The headline may be more appropriate for the current conditions in finance, credit, and the American economy. The LHC was turned on, and we are all still here. However, the future state of the credit markets and economy is not known yet, but public confidence must be restored, and soon.

The “bailout package” that started out as 3 pages ended up as 110 pages before passing the Senate. It seems the House didn’t get a chance to add their pet projects and pork (sorry - earmarks) to it, and they turned it down. Another liquidity panic ensued, and the Dow lost over 700 points, its largest point loss ever, but not its largest one-day percentage loss. That was in October 1987.

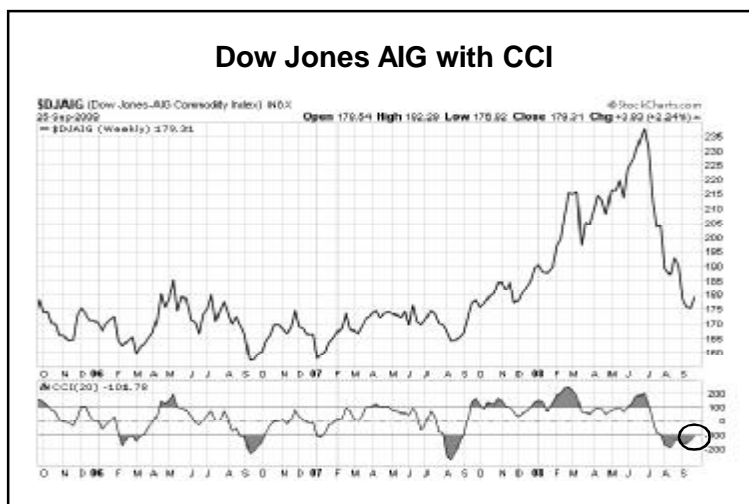
You need to gird for more liquidity panics in the market. October is famous for hosting stock market massacres. Beyond this seasonal tendency to crash, there are further warnings. PE multiples of the popular averages are still way too high. The S&P 500 sports a multiple of 23. That’s more often seen at highs rather than bear market lows. Couple this with the nearly assured expectation of a decline in corporate earnings next year, and current PE multiples are a red flag.

The TED spread (the euro dollar spread) is the difference between yields on the three-month LIBOR (euro dollars) and three-month U.S. Treasury bills. Typically, the spread is ½% or less (50 basis points). Recently, the TED spread spiked sharply higher, and it closed on September 29 at 3.25 basis points. This is a major warning. The last time we saw the TED spread at this level was just prior to the market crash in *October* 1987. You can follow the TED spread and play with the charts at [www.bloomberg.com/apps/quote?ticker=.TEDSP:IND](http://www.bloomberg.com/apps/quote?ticker=.TEDSP:IND).

As we tiptoe through October, you should be prepared for further routs. I have preached for the last nine years that investors should not hold financial/paper assets, with the exception of those stocks that are advantaged by higher commodity prices. I still strongly hold this opinion. I expect the Dow will fall to 7,000 and the S&P 500 will see 800. That may happen more quickly than one would expect. The potential is there, so act accordingly. Once passed, the so-called bailout could create a brief rally. If so, take advantage of it and lighten up.

The problem when everyone tries to raise cash at the same time is that selling becomes indiscriminate, and all the ships fall with the tide. If we see a steep decline in the popular averages, the commodity stocks will be taken down as well. The difference is that the commodity stocks will recover and the financial

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 © 2008 by Professional Timing Service.



stocks will not, at least not for several years ... not until the Dow/gold ratio falls under 5 and the commodity bull tops out.

It is time for the government to fix the problem, after which they can fix the blame. I think there is no doubt that the blame sits squarely with Greenspan, but the causes of the current excesses must be addressed soon.

The commodity market is vulnerable to liquidity panics - as are all other markets - and I have placed stops on some of our positions, including the ishares

TIP ETF. If we are stopped out of any positions, we'll buy them back at lower prices. If you are stopped out, I advise you to keep up with the online updates as they are the fastest way for me to communicate as things develop.

Although the commodity market could suffer with the general market in October, the technical picture looks better by the day. Gold was up on that 700-point drop in the Dow, and the mining share indexes (XAU & HUI) recovered well off their lows by the close. Shown above and on Page 3 are three charts I have been referring to in the online updates and recent letters. The first is a weekly presentation of the DJ AIG Commodity Futures Index along with its weekly CCI. The Dow Jones AIG gives you a broad perspective on the commodity market. Shown on Page 3 are gold and crude oil with their associated Commodity Channel Indexes.

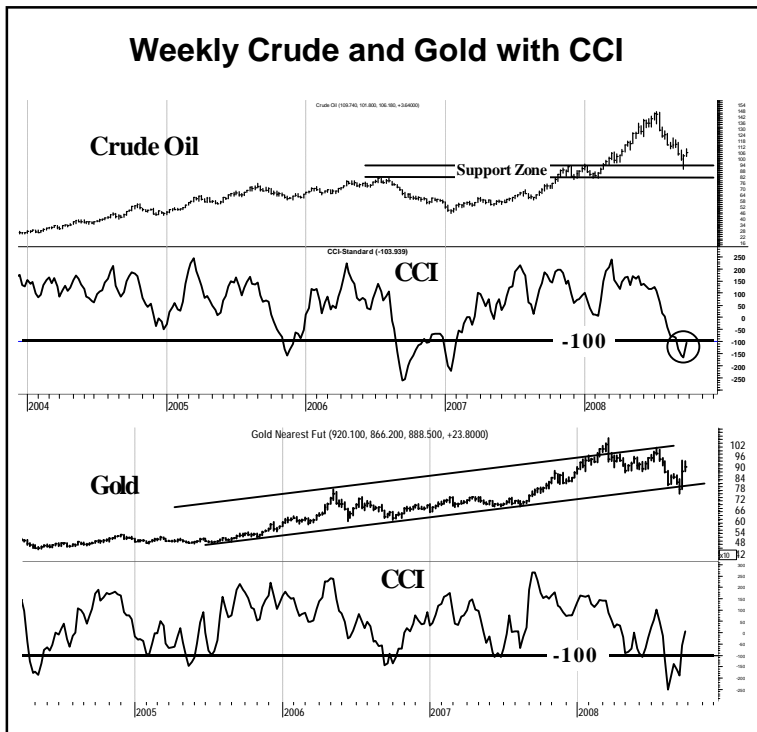
The Commodity Channel Index (CCI), developed by Donald R. Lambert, is essentially an oscillator. You can Google it and get deep into the math if that appeals to you; but succinctly, you get buy signals when the index first falls below -100 and then recovers back over -100. The charts give you a perspective on prior signals.

We are at the cusp as the DJ AIG is close to breaking through with a buy. Crude oil has not quite triggered the buy yet either, but it's very close. Gold, on the other hand, has clearly punched over -100. My take is that gold is taking the lead; and although commodity stocks are vulnerable during any liquidity panic, we are close to the beginning of the next leg in the commodity bull market that began in 1999.

The technical picture is looking good. The last couple of months have been harrowing, to say the least, but there has been ample opportunity to place extra cash in our recommended stocks. Minding any published stops, you should continue to hold your commodity/tangible related investments and continue to use strength in financial/paper based assets to sell. If stopped out, be sure to check the online updates for new buying instructions.

I calculate the Annual Asset Allocation Model (AAAM) at the end of October, and I will give you a pre-calculation update in the October mid-month letter. Although it's a more crude approach, the Dow/gold ratio will do just as good a job of guiding you into and out of the best asset classes. The ratio topped out in 2000 at 43, and it has since fallen a very long way, to about 12.5 currently. Nevertheless, the ratio will fall under 5 before the next bull market in financial assets begins. Once under 5, we will begin to reassess where our next shift will be, and we will begin making plans for liquidating our tangible assets. Once under 5, we will be in the "heads up" warning period. I suspect the commodity bull will not end completely until the ratio falls to 2, which will most likely occur during the next decade.

The U.S. dollar is at the root of the commodity bull. Frankly, it is a miracle of central bank intervention and other monkey business afoot that first produced the dollar rally off its July lows and that is keeping it from a total rout. Given



the economic news and the government's eventual "bailout" solution, the sacrificial lamb will be the dollar. You just can't have it all. There is a cost to create \$700 billion plus a bunch of dollars out of nothing at all. The penalty is a cheaper dollar and higher prices for commodities in dollar terms. Incidentally, after hitting overhead resistance at 80.00, the Dollar Index is showing a sell signal on a weekly basis in its CCI - a mirror image of what we are seeing in the commodity complex.

The **CurrencyShares Euro ETF** (FXE-NYSE-\$144.65), which we introduced to our buy-and-hold list in August, is holding its own. If you would like to take a pilot position, do so under \$148.50 or better, and then shoot for more if it drops to \$135.00.

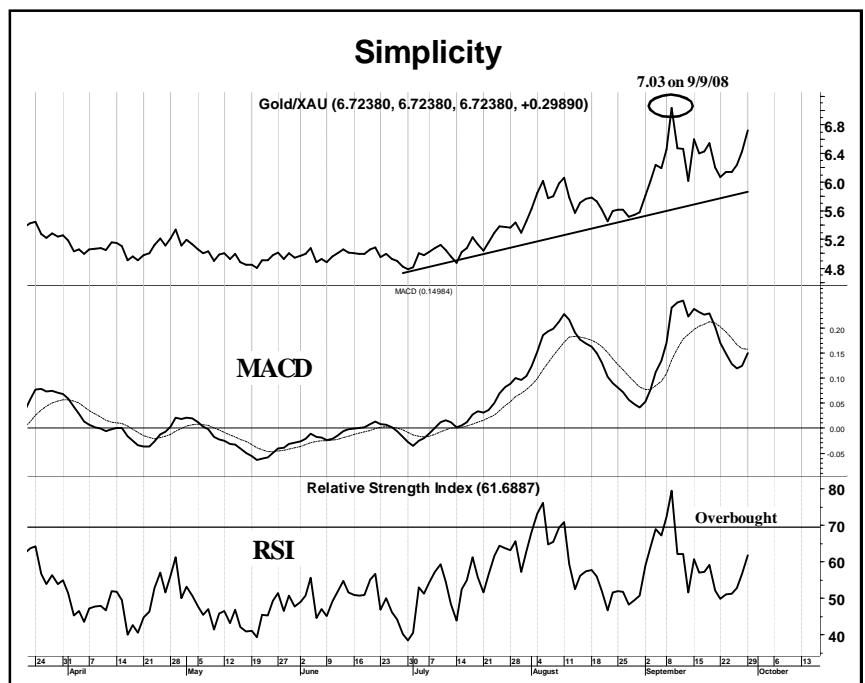
Simplicity, our basic gold model, is still giving us readings over 6.00. In the past, buying when the

index was over 5.00 had a high probability for profit, but the readings we are seeing are relatively unprecedented. I have been updating Simplicity with comments in the Tuesday and Thursday Web site updates. Essentially, here is what I am looking for right now.

On the chart below, note that the index hit a historic high of 7.03 in early September, meaning that gold stocks have never in the past sold as cheaply relative to bullion. There is a trend line under the index which has yet to be broken. That is important in identifying the beginning of the next sustained up move in gold stocks.

MACD is moving up, and the solid line should soon cross over the dashed line as Simplicity continues to work above its trend line. I am suspicious that we might see this next crossing followed by an intervening signal and then a second signal, as described in our Simplicity booklet. This is likely to happen within a short time frame. The second signal will be extremely important. All of this would, of course, be accompanied by a return in the RSI to overbought levels.

Bottom line, I look for some further selling in gold, which will be accompanied by the above-described behavior in Simplicity. The market has become very risk averse, and precious metals have not been cocktail party conversation as yet. That is one reason that you should keep the bulk of your precious metals' exposure in the majors for now. Review the last mid-month letter. Hold what you have, but be patient and wait for weakness before buying more.



Here is a caveat for these volatile and unpredictable times. There is at least a 50/50 chance that some exogenous event could spark a sudden stampede into gold and silver, and you need to have positions ahead of that possibility. A surprise exit from U.S. Treasuries, for example, would drop the bottom out of the dollar, and gold would likely open \$100 higher and go from there. Nevertheless, I think we have some time yet while gold establishes a long term bottom - probably near \$800 - but you should hold your positions. Don't let the media and volatility scare you out of them.

You might want to buy some bullion coins if that appeals to you. They are getting difficult to obtain since several mints (including the U.S. Mint) are either not producing coins or are well behind current orders. Check on line and deal with reputable firms that have been in business for a long time. Always take delivery of your coins.

In the last mid-month letter, I listed my top gold picks along with new downside buy prices. They are still my favorites at this time. That is not to say I don't like the others - I do. However, if you want a ranking, **Goldcorp** (GG), **Gabelli** (GGN), **Kinross** (KGC), and **Yamana** (AUY) are my favorites at this time.

The juniors look very enticing, but they are still going to take some time to catch the spotlight. The problem is that investors have become very risk averse. Nevertheless, the junior miners are severely discounted. They are in the right business with gold production world wide declining and significant discoveries a thing of the past. The biggest problem they face is financing. It is hard to go to the bank these days and get a loan for anything unless you are borrowing your own money. Rob McEwen, of U.S. Goldcorp, said recently that "gold is easier to find than financing."

These are the conditions that create big advantages for those who are willing to take a managed risk and who have the patience to wait it out. It's going to take time. The juniors are not going to rocket from current levels immediately. Once gold breaks to new highs and slowing global production continues to cause supply shortages, the fever will return. It would not surprise me to see waiting lists for gold bullion next year as demand for actual gold begins to feed on itself. This will be when the juniors will take off. When they do, you can expect to see them double in days, and then double again. When bullion moves over \$1,200, I expect a buying panic will set in. You will see \$100 up days in gold, and that excitement will carry the juniors to extreme highs - and very quickly - once the excitement begins.

I have always pitched the juniors as "the option alternative," and that is how you should consider them. The best part is that they are like options on the future of gold; and although they are currently on the outs with investors, they do not expire. They will take time, and you will have to be patient ... but there is a big reward in the future. Just be sure to diversify among them, and mind your individual capacities for risk.

Crude has been swept up in the latest liquidity panic, but there are further reasons to buy energy other than seeing the dollar fall some 30% to 50% from current levels over the next couple of years. Production in the North Sea, U.S., Middle East, Mexico, Africa, and other major producing regions is declining now, not later. America, with its seemingly insatiable appetite, is going to have trouble obtaining supplies soon as producing nations begin to hold back production for their own growing domestic use. The balance is delicate; and even if a serious recession were to dampen demand, imports may still fall short of our domestic requirements.

Investment in the industry has been woefully lacking, especially in countries controlled by tyrants. They tend to use the revenues for their personal interests with little eye to future exploration or production. This is further complicated by global shortages of drilling rigs and materials needed for drilling and production. Add to this a lack of skilled talent - a condition made worse by the difficulty of attracting available talent to remote and dangerous environments.

There is no total substitute for crude oil, and finding replacements for its component uses - fuel, plastics, etc. - will be too little, too late. It takes 7 to 10 years to bring a new field on line, and it has been a long time since there has been a significant new discovery. Opening the U.S. offshore fields to drilling will still require several years to bring on line.

The much ballyhooed Bakken Field is not a new discovery. It is a relatively thin layer of oil-bearing shale that is very deep and horizontally spread out. Yes, new technologies make recovery viable through horizontal drilling; but at the depths required and the demanding technology necessary, the recovery process is very expensive.

The easy oil is simply gone. Alternatives are out there, but they will not make an impact until things get much worse. At that point, crude and its derivative products will be more scarce and more expensive than they are currently.

OPEC still produces 75% of the world's supply. Interestingly enough, Indonesia was asked to leave the organization as they are no longer an exporter. Regardless of what you hear, OPEC is not going to produce oil and sell it under \$100.00 U.S. Sure, panic selling of large speculative futures positions can bring crude prices under that level short term. However, long term, the global fundamentals are still bullish.

It is fascinating to me how prices affect the psychology of the consumer. When gasoline first moved to \$3.00 a gallon, everyone cried and moaned that they were somehow entitled to cheap gasoline and were being maligned. Then gasoline moved to \$4.00, and the outrage increased. Gasoline has now pulled back to \$3.50, and everyone is sighing relief and thinking they are getting a bargain. Such is the management of expectations. You can get set for new highs in the price of gasoline in 2009, regardless of the recession. It is all about the value of the U.S. dollar.

I listed three favorite energy stocks in the mid-month letter – **Apache** (APA), **Blackrock** (BGR), and **Headwaters** (HW). Again, the others on the list are also buy candidates, but just be sure to diversify and balance. Apache, Blackrock, and Headwaters are buys at or below \$90.00, \$26.00, and \$15.00, respectively.

In alternative energy, Headwaters is the one with the most growth potential. They are involved with coal to oil technologies, but they are also on the forefront in clean coal technologies. They clean coal before it is burned and prepare it for maximum energy output when used in electrical power plants. They also are involved with the other end of the process - cleaning the waste in the burning process.

Coal is, indeed, a problematic energy source, but Headwaters is foremost in the business of making the burning of coal ecologically friendly and more efficient. Everyone talks up electricity, especially in terms of electric cars, but you still have to get electricity from somewhere. The U.S. is highly dependent on electricity; and although we may see carbon and other emission taxes in the future, the country is not going to cut its use of electricity any time soon.

If you would like an energy diversification from fossil fuels, take a look at **Innergex Renewable Energy** (IEFUN-TSX-C\$12.42). They develop and operate renewable power generating facilities, including hydroelectric power production as well as wind power sites. Innergex is on a growth path as well. They recently reported acquiring interests in 18 hydro projects in British Columbia. They are pollution free, and they are a good bet to reap the benefit of greater electrical consumption in North America.

Innergex is a Canadian trust, but they do business both in Canada and the U.S. You do need to try and nab this at a decent price, though. General weakness in the markets during October may well give you the chance. Buy at C\$12.00 or better, and put a stop on the position at C\$10.90. At C\$12.00, the indicated yield is about 8.3%, and a good chunk of that should end up being tax sheltered.

Since our last letter, we were able to nab **Crescent Point** (CPGUN-TSX-C\$30.25) at our buy price of C\$30.20 by simply lying in wait with open orders and letting the liquidity panic do its work for us. Crescent Point is a play for the development of the Bakken Field in Montana, North Dakota, and Saskatchewan, and they are sitting on some delicious reserves. They have recently increased their dividend by 15%. Buy at C\$30.20 or better.

## 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 0.96. 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 9/29/08 U.S. \$	Downside Buy Price	Div 9/29/08	Target-T Stop-S	Web Site
Agnico-Eagle	AEM	NYSE	1/10/2007	36.00	58.36	55.00	0.31%	<a href="http://agnico-eagle.com">agnico-eagle.com</a>
Alliance Res	ARLP	OTC	9/29/2004	27.98	29.52	39.85	8.94%	<a href="http://arlp.com">arlp.com</a>
Apache Corp	APA	NYSE	3/5/2007	68.00	98.87	90.00	0.61%	<a href="http://apachecorp.com">apachecorp.com</a>
Baker Hughes	BHI	NYSE	2/5/2008	64.63	58.06	65.00	1.03%	<a href="http://bakerhughes.com">bakerhughes.com</a>
Baytex Energy	BTE	NYSE	5/18/2004	9.00	23.85	26.00	11.75%	<a href="http://www.baytex.ab.ca">www.baytex.ab.ca</a>
Blackrock	BGR	NYSE	8/3/2005	25.99	22.88	26.00	7.08%	<a href="http://blackrock.com">blackrock.com</a>
<b>Central Fnd. Of Can.</b>	<b>CEF</b>	<b>AMEX</b>	<b>8/8/2008</b>	<b>11.98</b>	<b>11.47</b>	<b>10.00</b>	<b>0.09%</b>	<b>S=8.50</b> <a href="http://centralfund.com">centralfund.com</a>
CurrShrs. Eruo ETF	FXE	NYSE	8/22/2008	148.57	144.65	135.00	3.81%	<a href="http://currencyshares.com">currencyshares.com</a>
Fording Coal	FDG	NYSE	11/16/2004	22.74	9/17/2008	Sold on stopat \$70		<a href="http://fording.ca">fording.ca</a>
Frontline Ltd. (1)	FRO	NYSE	1/4/2007	31.00	44.38	49.50	5.63%	<b>S=33.90</b> <a href="http://frontline.bm">frontline.bm</a>
Frontier Oil	FTO	NYSE	8/3/2005	14.38	18.23	HOLD	1.32%	<b>S=16.40</b> <a href="http://frontieroil.com">frontieroil.com</a>
Gabelli Glb. Gld.	GGN	AMEX	1/3/2006	22.10	20.97	21.00	8.01%	<a href="http://gabelli.com">gabelli.com</a>
Goldcorp	GG	NYSE	7/24/2008	40.00	33.39	30.00	0.54%	<a href="http://goldcorp.com">goldcorp.com</a>
Headwaters	HW	NYSE	3/10/2006	36.30	12.42	15.00	n/a	S = 8.95 <a href="http://headwaters.com">headwaters.com</a>
Kinder Morgan LP	KMP	NYSE	6/8/2007	52.50	49.35	HOLD	8.02%	S = 48.40 <a href="http://kindermorgan.com">kindermorgan.com</a>
Kinross Gold (2)	KGC	NYSE	6/6/2002	2.39	16.40	14.00	0.49%	<a href="http://kinross.com">kinross.com</a>
Kinross Gold	KGC	NYSE	1/4/2007	11.00	16.40	14.00	0.49%	<a href="http://kinross.com">kinross.com</a>
Mkt. Vectors, ETF	GDV	AMEX	9/11/2006	37.00	34.00	31.00	8.76%	<a href="http://n/a">n/a</a>
Pimco Com. Fund	PCFAX		3/2/2005	13.97	13.75	17.00	8.07%	<a href="http://pimcofunds.com">pimcofunds.com</a>
Schlumberger	SLB	NYSE	1/18/2008	75.00	73.75	80.75	1.14%	<a href="http://nat.bm">nat.bm</a>
Ship Finance (3)	SFL	NYSE	3/6/2007	0.00##	19.55	HOLD	11.87%	<a href="http://www.shipfinance.org">www.shipfinance.org</a>
Silver Standard	SSRI	OTC	1/4/2007	30.00	17.05	16.00	n/a	<a href="http://silverstandard.com">silverstandard.com</a>
Silver Wheaton	SLW	NYSE	3/10/2006	8.40	8.62	9.00	n/a	<a href="http://silverwheaton.com">silverwheaton.com</a>
Spdr Gold Trust	GLD	NYSE	9/11/2006	58.85	89.57	79.00	n/a	<a href="http://n/a">n/a</a>
<b>TIPS iShares ETF</b>	<b>TIP</b>	<b>NYSE</b>	<b>5/28/2008</b>	<b>106.00</b>	<b>103.07</b>	<b>106.00</b>	<b>9.49%</b>	<b>S = 100.50</b> <a href="http://n/a">n/a</a>
Transocean (4)	RIG	NYSE	1/4/2007	75.00	107.26	120.00	n/a	<a href="http://deepwater.com">deepwater.com</a>
Yamana	AUY	NYSE	4/14/2005	2.90	8.54	9.00	1.41%	<a href="http://yamana.com">yamana.com</a>
Valero	VLO	NYSE	4/26/2005	36.63	29.98	HOLD	2.00%	<a href="http://valero.com">valero.com</a>
<b>Canadian Dollars</b>								
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	5.34	HOLD	n/a	<a href="http://altiusminerals.com">altiusminerals.com</a>
ARC Energy	CA:AET.UN	TSX	9/8/2008	25.85	22.85	25.85	12.60%	<a href="http://arcresources.com">arcresources.com</a>
Crescent Point En.	CA:CPG.UN	TSX	9/16/2008	30.20	30.25	30.20	9.12%	<a href="http://crescentpointenergy.com">crescentpointenergy.com</a>
<b>Innervex Renew. En.</b>	<b>CA:IEF.UN</b>	<b>TSX</b>	<b>Buy at</b>	<b>12.00</b>	12.42	<b>12.00</b>	8.05%	<b>S=C\$10.00</b> <a href="http://innervex.com">innervex.com</a>
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	14.80	HOLD	12.16%	<a href="http://peyto.com">peyto.com</a>
Silvercorp Metals	CA:SVM	TSX	1/21/2008	8.00	3.34	HOLD	0.60%	<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 9/29/08 U.S. \$	Downside Buy Price	Div	Target-T/ Stop-S	Web Site
Coeur d' Alene	CDE	NYSE	9/2/2003	3.19	1.48	HOLD	n/a	<a href="http://coeur.com">coeur.com</a>
Endeavor Silver	EXK	AMEX	7/26/2007	4.60	2.01	HOLD	n/a	<a href="http://edrsilver.com">edrsilver.com</a>
Great Basin Gold	GBN	AMEX	12/21/2007	2.45	2.05	1.60	n/a	<a href="http://greatbasingold.com">greatbasingold.com</a>
Nova Gold	NG	AMEX	2/29/2008	11.50	6.83	HOLD	n/a	<a href="http://novagold.com">novagold.com</a>
Taseko Mines	TGB	AMEX	7/24/2006	2.40	1.87	2.50	n/a	<a href="http://tasekomines.com">tasekomines.com</a>
US Gold Corp	UXG	AMEX	9/9/2005	1.70	1.42	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	0.13	HOLD	n/a	<a href="http://evertonresources.com">evertonresources.com</a>
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.14	HOLD	n/a	<a href="http://goldenvalleymines.com">goldenvalleymines.com</a>
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	1.31	HOLD	n/a	<a href="http://laramide.com">laramide.com</a>
<b>Mega Uranium</b>	<b>CA:MGA</b>	<b>TSX</b>	<b>5/1/2007</b>	<b>6.75</b>	1.04	<b>HOLD</b>	n/a	<a href="http://megauranium.com">megauranium.com</a>
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	1.41	HOLD	n/a	<a href="http://uts.ca">uts.ca</a>
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	1.05	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 0.96 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.