

The next issue will be
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THE STOCK MARKET AT LARGE

One might wonder why we should care about the Dow Industrials or the S&P 500. I have advised subscribers to avoid financial/paper assets for several years. The reason we are interested in a general stock market rally is this. Due to the indiscriminate, forced liquidation by individuals, hedge funds, and institutions over the last couple of months, all asset classes across the board were sold off. The panic supported the old adage that all the ships will fall with the tide; and as we see a recovery in the popular averages, we will see all the ships rise with the tide as well. This rally may also be quite spirited because volatility is a two-edged sword. Recoveries are often as dynamic as the previous decline.

October is finally behind us. Many years ago, *The Stock Trader's Almanac* began pointing out the immense difference between being invested during the six “bad” months of the year (May through October) and being invested during the six “good” months (November through April). The difference is staggering. If you had invested \$10,000 in the Dow Industrials during the bad months only - from 1950 through 2006 - your investment would have grown to \$10,341. That is a 57-year gain of \$341, and it is caused by the fact that on average, the worst declines usually occur during that period. Focusing closer, most massacres occur in October. This October was certainly true to form.

The Almanac study also reveals that October is often a bear killer in that once the October slaughter has run its course, important lows typically form. October has been the month where past panics have ended; and once the market has progressed into the good six-month period, prices have recovered. The Almanac study further shows that \$10,000 invested only during the good months (from 1950 through 2006) grew to \$578,413. You can get a copy of *The Stock Trader's Almanac* at www.stocktradersalmanac.com.

We have gotten green lights recently from some of the models that I follow, including our old Palio model. These shorter term signals are supported by positive indications from new high/new low data, MACD, and RSI studies. Welcome to the better half of the trading year. I expect to see a decent recovery in the popular averages, lasting into the end of the year. This will offer those of you overinvested in financial/paper type investments to clean up your portfolios. I expect to see the Dow approach 11,000 and the S&P 500 to seek 1,200.

This rally will be encountering some strong headwinds, however. As I said, volatility works both ways - up and down - and I don't look for an easy rally. Bear market rallies are flashy, but labored. There are a lot of investors and

traders who are anxious to sell and hide their investment cash in the mattress. We will encounter the “woulda, coulda, shoulda” crowd who are waiting to get even as the averages struggle higher. Some of these people will be sellers who are still overleveraged and cannot afford to be patient. The difficult decisions for investors will come once prices approach our Dow 11,000 and S&P 500 1,200 upside objectives. The crowd will be feeling good at those levels, but that is where the biggest sellers will be lurking.

Commodity stocks will also improve during this bear market rally; but once into 2009, I look for a transformation to occur. I look for the popular averages to turn back down, but I expect the commodity-related issues to first hold and then continue higher through the year. The S&P 500 will revisit 800, and perhaps break lower next year. You will hear a lot about the S&P 500 and its PE multiple. Currently, the S&P 500 sells for about 19 times earnings. It will eventually fall under 10 times earnings. Ten times current earnings of \$51.37 would, of course, put the index at 513, but I don't expect it to get quite that bad. Interestingly, the 10 times earnings point will come *after* earnings begin to recover. The average will find a low point - likely around the 700 to 800 level - but it will not respond on the up side as earnings climb. At that point, PE's will fall under 10 against improving earnings. That's when you can look for the bear to end.

It will be some time yet before all that happens. As bear markets progress, more and more players leave the market - never to return. It takes some time for another generation - a generation still inexperienced with bulls and bears - to find an interest in stocks and create the next bull market. That is why financial bear markets typically last about 20 years, and, by the way, they are always accompanied by bull markets in tangible assets.

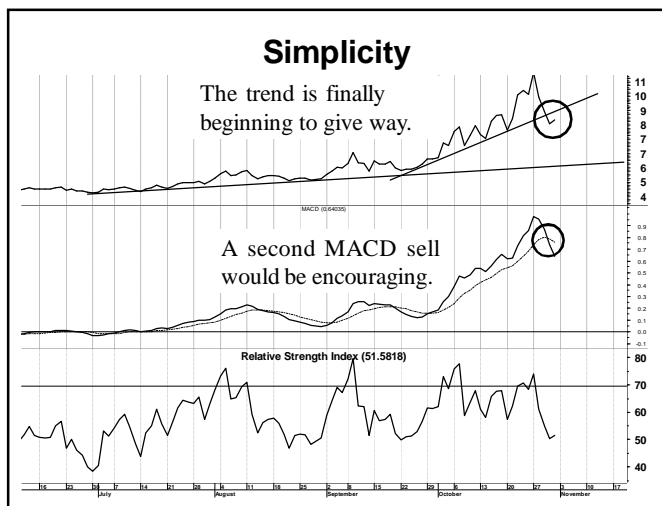
The commodity bull is not over. Commodities were unexpectedly swept up with everything else in the recent liquidity panic, and this has produced a momentary illusion of deflation. Fundamentals are unchanged, however. Production of raw materials and energy is declining worldwide - a condition actually augmented by the current credit crisis ... yet demand is increasing, notably in developing countries. Unlike the U.S., which is to a greater extent a service based economy, China, Asia, and the rest of the developing world (sitting on an enormous cash horde) is hell bent to continue constructing factories and infrastructure. China has announced they are going to begin building four new cities. Thailand reports intentions to increase fiscal spending by \$2.9 billion. South Korea stated that it is budgeting \$5.7 billion for construction. I expect to see hundreds of billions of dollars in fiscal spending announced next year in Asia, and most of it will be going into infrastructure.

I further expect to see the U.S. embark on an infrastructure spending push to help counter the serious recession we are entering. This recession is not going to abate quickly, and our domestic infrastructure agenda will grow dramatically over the next several years as a stimulus program. This will put added pressure on commodity prices.

The U.S. dollar has been screaming on the up side all during the liquidity panic. The reasons are several. One primary cause for the dollar demand is due to foreign hedge funds and institutions being forced to liquidate assets. They had borrowed U.S. dollars heavily from U.S. banks because the interest rate was low, and they had invested the money in higher yielding foreign assets. The credit crunch forced those assets to fall to the point of causing losses as well as margin calls for many. This is now exacerbated by the fact that the lending banks are not willing to renew the loans.

The funds and institutions have no choice but to sell positions that were principally invested in foreign assets, sell the local currencies they received from those asset sales, and buy dollars in order to pay back the U.S. loans. This is what is known as “unwinding the carry trade.”

Some funds and institutions saw the handwriting on the wall and headed for safety before they got into serious trouble and were forced out. Along with much of the carry trade, they have also headed to the perceived safety of U.S. T-bills. Foreign investors, however, still had to sell their assets and convert to dollars before buying the T-bills.



This leaves us with a group of money managers who are earning less than 1% on their client's money, and they do not want to end up at the close of the year reporting 1% returns before their fees. They are most anxious to find a better home for their money. Given the poor outlook for corporate earnings next year and the fundamentally bullish supply/demand aspects in most commodities, a good deal of this money will gravitate to commodities.

The strong dollar caused by the forced liquidation and unwinding of carry trade positions has depressed commodity prices to a greater extent in U.S. dollar terms than in terms of other currencies. Gold, for example, has come off about

25% in October. The decline in other currencies like the euro has not been as dynamic. Gold was down about 16% in euros during October. As we see some recovery in hard asset prices and the shift out of low-yielding managed positions into more promising opportunities, I look for the dollar to fall back to earth. This will provide a big impetus to gold and the rest of the commodity market.

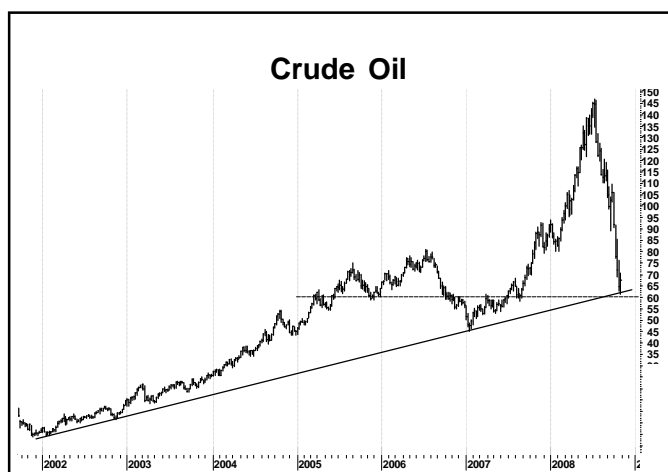
Most of what I am talking about here has to do with technical problems in the market. Assets are being sold due to margin calls, loans not being renewed, etc. In many cases, asset prices declined due to these technical factors well below their intrinsic values and certainly below their future values - especially with regard to commodities. There is going to be a return to fundamentals. That is why once this recovery rally runs its course, commodities will continue higher next year as the popular averages fall.

We are presented then with a rare opportunity to invest in commodity-related assets. Precious metals are forefront because they will be the first to reflect the dollar's decline once it resumes. You have to stand back from the dollar picture and get a grand view. A long term chart shows that the dollar's strength this year has been but a bear market rally - nothing more. The eye catcher is the speed of the move - not so much the extent of the move - caused primarily by the unwinding of the carry trade. The dollar is still in a firmly entrenched long term bear market. I expect to see new lows in the Dollar Index during 2009.

Simplicity (above) is the ratio between gold and the XAU. The XAU is an index of precious metal mining stocks, much as the Dow Industrials is an index of industrial stocks. There is a long term relationship between these two values. Typically, the ratio will be about 4.00. It will run over and under that level to the extent that when it approaches 3.00, the mining stocks will be too expensive relative to bullion. In the past when it has moved much over 5.00, the mining stocks were too cheap and were low risk buys. Once the liquidity panic has run its course, we will see Simplicity return to normal values.

The unprecedented liquidation spiral that unfolded this year threw the indicator into a chaotic rise and produced readings never before seen. The ratio went as high as 11.54 on October 27. That reading was incredible. At that point, mining stocks were extraordinarily inexpensive. The problem is that as Simplicity was rising, it was also telling us that mining shares were historically cheap at 7.00, 8.00, 9.00, and 10.00 along the way. The solution, as explained in the Simplicity booklet, is finding where this trend will end.

The booklet explains several techniques in defining the trend change, including a simple trend line under the index. If you need a copy, send me an e-mail. You can see on the chart that the trend is beginning to break down. However, there are still pent-up sellers in the market and a more important trend line below this one.



We have also only seen one MACD signal here, and the possibility is high we will see an intervening signal caused by another rise in the Simplicity index followed by a second signal, as outlined in the Simplicity booklet. Bottom line, the metals stocks are very inexpensive in relation to gold, but we may see a bit more selling near term. The best strategy will be to hold what you have and use further weakness to add if you are underinvested. The profit potential in gold and the mining shares is enormous.

Consider if you bought the XAU today at 85.00 and the price of gold went nowhere - stayed right at \$740 - and the ratio returned to its long standard of 4.00. That would mean the XAU would be $740/4$, or 185.00. That is a 117% gain with no appreciation in the price of gold.

Let's consider that gold moves to \$1,200, as I fully believe it will in 2009. The gain in the XAU as the ratio normalizes is 250%. At \$1,600 gold - well, you do the math. Folks, there is a ton of future profit locked up in the mining stocks. There is more potential than you will find anywhere else in the market, regardless of where gold goes short term.

Nevertheless, I still think that you should gear to the major producers. The juniors will have their day; but in the mood of conservatism, stick to the majors with any new money you have to invest. I like the juniors on our list; and in time, they will find their footing. They have been beaten up, but **Coeur d'Alene (CDE)**, **Endeavor (EXK)**, **U.S. Gold Corp. (UXG)**, etc. are all keepers in my book. In time, I will once again aggressively pursue them; but at this point in the game, the majors will give you the best return going forward with the least risk.

The top of my personal buy list is **Goldcorp (GG-NYSE-\$18.66)**. Their earnings are doing well, and they sit on one of the richest properties on the planet. Go with the best.

Any of the others are candidates for purchase. **Kinross (KGC-NYSE-\$10.43)** and **Yamana (AUY-NYSE-\$4.63)** are my second choices. For income, don't overlook **Gabelli Global (GGN-NYSE-\$12.25)**.

It appears that although energy growth is slowing, the world will still actually use more energy this year and next than in the year previous. This is supported by IEA estimates, and they tend to be conservative. I have repeatedly reviewed numbers with you concerning the depletion of energy reserves around the world. From a recent Financial Times front page article headlined *World Will Struggle to Meet Oil Demand* - "The International Energy Agency authored a report entitled *World Energy Output* which states that "the natural annual rate of output decline is 9.1%." I don't think global demand will fall that much, under any circumstances. The net difference indicates future shortages.

Enough of fundamentals. Take a look at this chart. Crude oil has touched the bottom of its long term uptrend line here, which coincides with support at \$60 a barrel. I realize that prices pushed through every support level on the way down (a once in a lifetime panic will trump support levels); but as the markets all improve going into year end, it looks like the energy bears should be covering their shorts.

I like all the energy issues on our list, and I have adjusted some of the downside buy prices (in the precious metals issues also) to reflect current conditions. If an issue is trading under its downside buy price, consider that price the maximum you should pay. **Apache Corp (APA-NYSE-\$82.33)**, **Blackrock Energy (BGR-NYSE-\$17.99)**, and **Baytex (BTE-NYSE-\$17.30)** are all purchase candidates up to their respective listed buy prices.



I had recommended the purchase of **Enerplus Resources** (ERF-NYSE-\$26.71) in the last letter. It is still a buy, but only at \$19.00 or better. Another new recommendation that has not yet hit our buy price is **Great Lakes Hydro** (GLHUN-TSX-C\$17.30). It is a buy at C\$15.00 or better. Be patient. I want to buy these right or not at all. Let's try and take advantage of any selling panics which may still be ahead. Although I look for the averages to work higher, the headwinds I am talking about can come in the form of some nasty down days along the way.

The Canadian trusts look like the best way to approach energy right now and take advantage of the mindless selling

we have seen over the last couple of months. They give you a great dividend at current prices, even if they were to cut them. I don't expect cuts with Enerplus, Baytex, or Great Lakes Hydro. Enerplus and Baytex have recently increased their dividends in Canadian dollar terms, and I think all of the trusts have adjusted to the prospects of the new tax being levied in 2011. The Canadian government has slowly watered down the bill since it was introduced. I doubt if the managed money parked in T-bills mentioned above will be able to ignore the lure of buying into the Canadian trust sector.

Great Lakes Hydro will give you an energy position apart from crude oil. They are a Canadian trust; and as their name implies, they operate hydroelectric properties. They are in a position to gain from future anti-carbon taxes and legislation. Great Lakes will make for a nice diversification in your holdings.

Again, the dollar is a key element in buying the Canadian trusts. The Canadian dollar has been beaten back to 83 cents versus the U.S. dollar. I have no doubt it will recover to parity in the next year or two at the most.

You will see crude at \$160/barrel - most likely next year. We cannot rule out the fact that some sudden "Black Swan" event might accelerate the rise. For example, if Pakistan blows up, crude will jump to \$160 in a heartbeat.

The Annual Asset Allocation Model (AAAM) is not a timing model, but it is designed as a guide to where the best potential lies on a risk-to-reward basis for the next 12 months. With this year's calculation, it has not changed. Commodities look like the best bet for the next year.

Someone asked if it could be wrong. The answer is, of course. Nothing in the market is guaranteed. However, the current reading is confirmed by the simpler and equally useful Dow/gold ratio. After touching 9.5 in early October, it is presently at 13.0. Regardless of this severe correction, the commodity bull will not end until the Dow/gold ratio falls under 5.0. Betting against the Dow/gold ratio over the long run is like betting against the house. You might win a few hands and feel good about it, but the house has the odds and will take your money if you stay long enough.

Let me leave you with something to ponder. In 1990, the U.S. government took over the Mustang Ranch in Nevada because of tax evasion. The government tried to run this entity, which at the time was the largest brothel in Nevada, and they lost money. Should we be surprised that the folks that run the post office could not make a profit selling sex and booze? Consider that the government has recently acquired an equity stake in and will provide operating guidance for some banking and insurance businesses. I suspect the next to get snarled up in this fiasco will be auto manufacturing, followed closely by the airlines. Can you imagine the government manufacturing cars? Remember the Yugo? Don't ask me to have faith in a strong dollar as well as believe the fairy tale that foreign investors will always continue to stake our politics and lifestyle. It is a good time to begin betting against the U.S. dollar.

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 .83. 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 10/31/08 U.S. \$	Downside Buy Price	Div 10/31/08	Target-T/ Stop-S	Web Site
Agnico-Eagle	AEM	NYSE	1/10/2007	36.00	27.65	29.90	0.65%		agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004	27.98	32.00	35.00	8.75%		arlp.com
Apache Corp	APA	NYSE	3/5/2007	68.00	82.33	90.00	0.73%		apachecorp.com
Baker Hughes	BHI	NYSE	2/5/2008	64.63	34.95	35.00	1.72%		bakerhughes.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	17.30	18.00	14.69%		www.baytex.ab.ca
Blackrock	BGR	NYSE	8/3/2005	25.99	17.99	19.50	9.01%		blackrock.com
Central Fnd. Of Can.	CEF	AMEX	8/8/2008	11.98	10/22/2008	Sold on stop at 8.50			centralfund.com
CurrShrs. Eruo ETF	FXE	NYSE	8/22/2008	148.57	127.69	132.50	3.97%		currencyshares.com
Enerplus Res.	ERF	NYSE	Buy at	19.00	26.71	19.00	17.70%		enerplus.com
Frontline Ltd.	FRO	NYSE	1/4/2007	31.00	10/8/2008	Sold on stop at 33.90			frontline.bm
Frontier Oil	FTO	NYSE	8/3/2005	14.38	10/2/2008	Sold on stop at 16.40			frontieroil.com
Gabelli Glb. Gld.	GGN	AMEX	1/3/2006	22.10	12.25	13.10	13.71%		gabelli.com
Goldcorp	GG	NYSE	7/24/2008	40.00	18.66	20.00	0.96%		goldcorp.com
Headwaters	HW	NYSE	3/10/2006	36.30	10/9/2008	Sold on stop at 8.95			headwaters.com
Kinder Morgan LP	KMP	NYSE	6/8/2007	52.50	10/6/2008	Sold on stop at 48.4			kindermorgan.com
Kinross Gold	KGC	NYSE	6/6/2002	2.39	10.43	11.30	0.77%		kinross.com
Kinross Gold	KGC	NYSE	1/4/2007	11.00	10.43	11.30	0.77%		kinross.com
Mkt. Vectors, ETF	GDV	AMEX	9/11/2006	37.00	20.95	22.15	14.22%		n/a
Pimco Com. Fund	PCRA	NYSE	3/2/2005	13.97	9.61	11.00	11.55%		pimcofunds.com
Schlumberger	SLB	NYSE	1/18/2008	75.00	51.65	55.00	1.14%		nat.bm
Ship Finance	SFL	NYSE	3/6/2007	0.00##	13.65	HOLD	11.87%		www.shipfinance.org
Silver Standard	SSRI	OTC	1/4/2007	30.00	8.45	9.10	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006	8.40	3.60	4.00	n/a		silverwheaton.com
Spdr Gold Trust	GLD	NYSE	9/11/2006	58.85	71.34	65.00	n/a		n/a
TIPS iShares ETF	TIP	NYSE	5/28/2008	106.00	10/6/2008	Sold on stop at 100.50			n/a
Transocean	RIG	NYSE	1/4/2007	75.00	82.33	85.00	n/a		deepwater.com
Yamana	AUY	NYSE	4/14/2005	2.90	4.63	5.15	2.59%		yamana.com
Valero	VLO	NYSE	4/26/2005	36.63	20.58	HOLD	4.32%		valero.com
Canadian Dollars									
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	5.08	HOLD	n/a		altiusminerals.com
ARC Energy	CA:AET.UN	TSX	9/8/2008	25.85	18.28	18.75	15.75%		arcresources.com
Crescent Point En.	CA:CPG.UN	TSX	9/16/2008	30.20	27.91	30.20	8.96%		crescentpointenergy.com
Great Lakes Hydro	CA:GLH.UN	TSX	Buy at	15.00	17.30	15.00	9.12%		greatlakeshydro.com
Innergex Pow	CA:IEF.UN	TSX	10/6/2008	12.00	10/8/2008	Sold on stop at C\$10.80			innergex.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	11.75	HOLD	12.16%		peyto.com
Silvercorp Metals	CA:SVM	TSX	1/21/2008	8.00	2.34	HOLD	0.60%		silvercorp.ca

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

Company	Symbol	Exchange	Initial Recom. Date and	Price	Price 10/31/08 U.S. \$	Downside Buy Price	Div	Target-T/ Stop-S	Web Site
Coeur d' Alene	CDE	NYSE	9/2/2003	3.19	0.72	HOLD	n/a		coeur.com
Endeavor Silver	EXK	AMEX	7/26/2007	4.60	0.93	HOLD	n/a		edrsilver.com
Great Basin Gold	GBN	AMEX	12/21/2007	2.45	1.07	HOLD	n/a		greatbasin.gold.com
Nova Gold	NG	AMEX	2/29/2008	11.50	2.81	HOLD	n/a		novagold.com
Taseko Mines	TGB	AMEX	7/24/2006	2.40	0.93	HOLD	n/a		tasekomines.com
US Gold Corp	UXG	AMEX	9/9/2005	1.70	0.70	HOLD	n/a		usgold.com
Canadian Dollars									
Everton Res.	CA:EVR	TSX	1/4/2007	1.30	0.06	HOLD	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.07	HOLD	n/a		goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	1.22	HOLD	n/a		laramide.com
Mega Uranium	CA:MGA	TSX	5/1/2007	6.75	0.85	HOLD	n/a		megauranium.com
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	0.92	HOLD	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006	1.20	0.68	HOLD	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 .83 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.