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**PROFESSIONAL TIMING SERVICE**

*Curtis Hester*

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## DOLLAR PROBLEMS AND OPPORTUNITIES

The stock market looks tired, but perhaps the rally will continue a little while longer. The problem is that there is not going to be much progress on the up side from here. The market will hang, tease, and bump into overhead resistance until it finally begins a serious correction.

That translates into a very poor risk-to-reward situation. The risk in buying here is very high, and the reward potential, very low. Investing in such an environment is not wise.

Benjamin Graham and his protégés, Warren Buffett and John Templeton, did not get rich by buying into high risk markets. In fact, their whole strategy was to do exactly the opposite - buy into undervalued, low risk markets. They got rich buying stocks at half of what they were worth rather than 10 times their worth.

More recent success stories following the low risk approach can be found with Jimmy Rodgers and George Soros. Both are extremely successful market investors. Both are currently bearish - as are Buffett and Templeton.

### Should we perhaps take a hint from the masters?

I am talking about investing, of course - not trading. Trading is another matter, and we have been doing very

well overall in the Hyperion program with individual stocks. I have just added Yahoo to the list as it qualifies as a high potential Hyperion trader.

I am working on adjusting the list to include more "Amazon-like" stocks which can bring the trader higher reward potential for his trading effort. We just closed a long side trade in Amazon with an 87% profit in 6-1/2 months!

### Stay tuned.

### There will be more stocks added to the Hyperion list in the future.

The news is disturbing; and unlike Greenspan's rather sub-rosa comment about domestic natural gas production declining 27% a year, the news lately has been more up front and on the surface. I wonder if the public and the investment community are listening.

For example, the November 24<sup>th</sup> issue of *The Wall Street Journal* stated that in October, insiders sold \$59 worth of insider stock for every \$1 insiders bought. Perhaps they have been reading Benjamin Graham's book?

The article also said that when insiders have sold \$20 for every \$1 bought, it has presaged important bear markets in the past. The rest of

the story is that the ratio has been over 20 to 1 for the last six months.

Another bit of news which seems to have escaped the common man is that Citibank recently closed all of its long dollar positions. They have been one of the Street's biggest dollar bulls. Apparently, the reasons they cited were technical factors with the dollar not being able to hold support levels, the failure of the dollar to strengthen following positive economic reports, and (this is the kicker) the recent U.S. decision to impose temporary quotas on certain textile imports from China.

### **What is up with this new fervor to get into a global trade snit?**

Steel tariffs ... and now this! These shots across the bow could escalate into a full blown trade war.

Dollar bears (of which I am certainly one) should also consider the ballooning U.S. Current Account Deficit and the fact that the dollar's trend has been bearish for two years. Research reveals that bear markets in the dollar have continued for at least twice this long. There is certainly more weakness in store for the dollar.

The official U.S. government stand on the dollar is that it should fall in order to improve our international competitiveness. A cheaper dollar will improve our export business, they tell us.

The problem with this argument is that our exports are much smaller than our imports, resulting in the mushrooming Current Account

Deficit. A weaker dollar will not help this relationship. What we will gain in export advantage will be overshadowed by what we will lose in paying higher prices for imports.

China will hold the price line on certain consumer goods, assuming they don't get extremely upset about a few restrictions on textiles (a big assumption). The relationship between a weak dollar and the price of energy and precious metals will be another matter.

The powers that be will be cheering on the decline in the value of your hard-earned and overly taxed dollars during the next two years. However, they are fully aware of how one cooks a frog. If you throw a frog into very hot water, it will panic and jump out of the pot. On the other hand, if you put the frog in a pot of water ever so comfortable and slowly turn up the heat, he will be cooked before he is aware anything is wrong.

### **So it is with the dollar.**

The Fed would like to avoid a dollar panic, but they are in favor of gradual erosion. This is one reason that the dollar declines in the past have lasted more than two years. This all discounts the possibility that some surprise event might occur which would panic dollar holders, causing them all to jump out of the pot.

When will the stock market finally wake up and begin discounting all of these problems? Don't look at the guy on the street for an answer. Wall Street has successfully seduced him back into believing in the bull market, and solidly sucked in he is.

Those insiders, after all, need someone to sell all their stock to. Someone has to hold the bag, and you can bet that it will not be the pros. One thing that stands the test of time is that the longer a trend stays in place, fewer people will believe it will ever end.

Recent statistics on bulls versus bears seem to support this view since nearly everyone these days is a bull, and yet the market hasn't had any sort of correction for eight months. That combination will not entice the likes of Buffet, Templeton, Rodgers, et al.

### **The most important technical signal will be from the Nasdaq Slow Tracker.**

It has certainly been in sync with the market better than my other models. When it issues its next sell, we should attach more than normal importance to the signal. That signal will currently kick in if the Nasdaq Composite falls to 1,878 or lower.

Another important indicator I am keeping a close eye on is Gerry Appel's new high/new low ratio. You calculate this by taking the 10-day moving average of the daily number of new highs divided by the daily total of new highs plus new lows. Presently, this ratio is about 95%.

I have some preliminary warnings popping up in some massaging I like to do with this index, but the official sell will come when it falls below 70%. I will keep you posted on the hotline.

There is no need to put your financial future at risk. There is no need to end



have the list at the end of the monthly letters on Page 6.

There is a popular gold stock that several folks have asked me about, but I would like to recommend that you **not** buy **Ivanhoe Mines** (CA:IVN-TVX-

about \$400 an ounce. This stock is not going anywhere for now; but once gold moves decidedly over \$400, it will begin to gain attention.

If you haven't bought any gold yet, you don't have to just run out and jump in. You should involve some sanity to your approach. My recommendation is to buy some **Goldcorp** (GG-NYSE-\$18.23) for \$18.60 or less and then double up at \$15.00 if given the opportunity.

up like all those tech investors after the crash of 2000-2001. There are better places where you should be putting your money - where the risk-to-reward balance is in your favor.

This does not include the stock market in general, but some stocks should be in your portfolio. These would be stocks and other investments that will benefit from a falling dollar.

If you want to make an absolute fortune in the next several years - likely over the next 16 years - you need to start by getting some money into gold. All of our gold recommendations are doing very well. We have advised that you continue to hold what you have, although we have been expecting a correction. That opinion stands.

Next, keep open orders (good 'til canceled) in at the downside target prices indicated on our buy-and-hold list... and wait. That is what investing is really all about ... waiting.

You will find the buy-and-hold list after the Hyperion page on the PDF version of the "Hotline and Hyperion List" on the Web site hotline. This will be the current version. We also

C\$11.21). On looking into this, I find that Ivanhoe's big play is in Mongolia. The story is that the mines there - which are definitely rich - will be a big money maker, selling copper and gold to the Chinese.

There is the rub. The Chinese economy is definitely humming, and they are putting pressure on world commodity prices ... but investing in China doesn't set well with me. They are still communists, and they are still totalitarian. I don't think investors putting money into China - that is, those financing actual plants and equipment in China - have a very good chance of ever getting their money back out.

Think early 20<sup>th</sup> Century Russia. If you want to trade on the hype in this stock, fine. As an investment, though, I don't like it. There's too much risk, too little reward.

On the other hand, if you want a flyer, take a look at **Durban Deep** (DROOY-OTC-\$2.62). This is an old South African company that was supposed to go broke years ago because, as the name implies, their mining activities are very deep. They have high production costs as well -

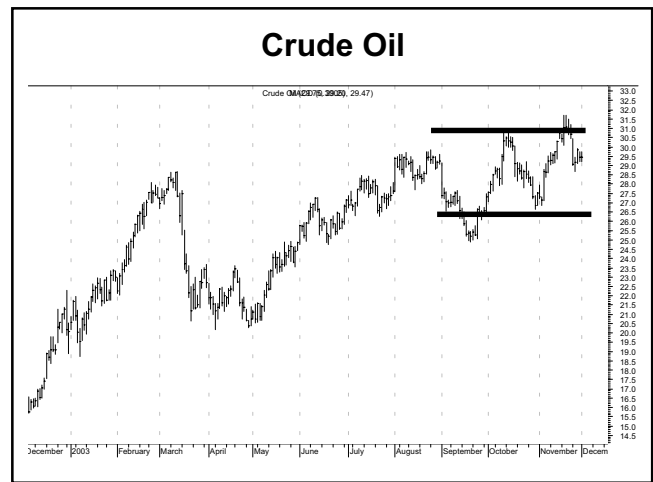
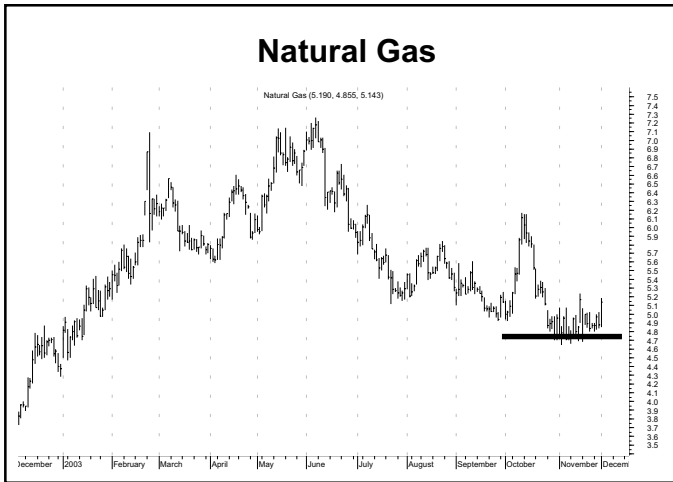
Then put some open orders in for some of the other gold stocks on our list at the listed downside prices. Top choices would be **Newmont** (NEM-NYSE-\$49.99) at \$41.50 and **Anglogold** (AU-NYSE-\$49.28) at \$39.00.

As for the stocks on the junior stock list, I am especially interested in acquiring more **Western Silver** (WTZ-AMEX-\$5.43). If you don't own any Western Silver and would like a more speculative position in silver, buy some at \$5.60 or less and then double up at \$3.80.

As the next correction in gold unfolds, we will have more aggressive advice for you. The key right now is to have a stake, but be ready to add to positions during a spate of profit-taking.

**The next high reward potential with low risk areas are crude oil and natural gas.**

Some of you are new readers, so I will repeat. I want to own oil and gas in the ground and get paid for it when it is pumped out and sold. By and large, I am not interested in domestic situations because they are all near



the end of their productive life. I also want to get paid in something other than depreciating dollars.

You can do this by investing in Canadian energy trusts. They produce oil and gas, and they pay you in Canadian dollars - which are appreciating ... and you get paid monthly. As the price of oil and gas increases over the next several years, your dividends will increase as well.

Currently, my work in crude oil and natural gas is a bit neutral. Natural gas is still forming a base - as you can see on the chart above. It will soon be moving higher.

Crude is drifting lower and seems to be trading in a range of 26.00 to 31.00. This is a nice, quiet time to keep your attention focused on the downside targets for our favorite energy stocks.

If I had to pick a couple of energy stocks to invest in today, they would be **Peyto Energy** (CA:PEYUN-TVX-C\$25.25) and **Primewest** (PWI-AMEX-\$20.01). Buy some Peyto at C\$25.50 or less and then double up at the downside target of

C\$23.00. Buy some Primewest at \$20.00 and double up at \$19.35.

I have my eye on another energy trust - **Pengrowth** (PGH-NYSE-\$14.58), but it is rather ahead of itself in price. I know you may feel that we will never see the downside prices that we list on Page 6; but believe me, buying low beats buying high every time. It definitely puts the risk-to-reward balance on your side. If Pengrowth falls to \$13.60, I am going to pick some up. If it doesn't, I will buy something else.

Another bit of news that was all but swept under the rug recently was that housing sales are down. This is worth watching. Housing starts and construction numbers are still strong. The question is whether the house-buying binge has cooled off. If that is so and yet inventory of new housing continues to increase ... well, you can see where that will lead.

Bonds are in a neutral posture with my work right now. Our Hyperion model is long bond futures, but my Rydex bond work is standing by waiting for an opportunity. My

hunch is we will see a brief rally in bonds here - likely as a consequence of the stock market rolling over. Once the market turns down, money will temporarily move from stocks into bonds as traders seek a haven of safety.

Longer term, it is difficult to imagine long term interest rates remaining low as the dollar continues falling. We are likely seeing the lowest interest rates we will see for a generation right now. Everyone expects the Fed to keep rates low, and the Fed has clearly stated that they have no intention of raising rates any time soon.

I think they will wait too long to raise rates - to the detriment of the dollar. There is an election coming up, and it wouldn't be nice to raise rates and spoil things for the incumbents. The public cares about interest rates, but they haven't a clue about the dollar.

We saw one break this year in the bond market, with short rates near zero. There can be another. Don't rely on the Fed to keep interest rates down, and don't count on government-protected prosperity.

## **I want to warn you about some pitfalls in investing in mutual funds.**

I have been actively trading funds for some 25 years, and I have traded within many of the major fund families. They have been excellent vehicles for market timing, and I believe only a fool would argue against market timing being a valuable, if not necessary, investment strategy.

Yes, there are times when you can “buy and hold,” much like we are encouraging you do now in precious metals and energy. However, our advice in this regard still involves timing. We think the time is right in the present market to make some long term commitments in these areas.

A year from now, this opportunity may be gone, and we will no longer be making the recommendations we are today. If you begin a buy-and-hold program at the top of a market (like buying and holding tech stocks beginning in March, 2001), you will be in for a long and disappointing ride. In fact, you will not hold. You will sell, and you will sell at the lows.

*Timing is still everything, even if you are a buy-and-hold investor.*

Talk about front page news. The big mutual fund companies have been caught doing those greedy things that you are not supposed to do. They have been front-running, trading after hours for the big kids, etc. It appears they will get a slap on the wrist for their sins, but their

ultimate goal is to get your money and never give it back.

The current strategy in the mutual fund industry is to use this opportunity to put a spin on the scandal and turn it to their advantage. They are throwing up a smoke screen to convince the public that the problems within the mutual fund industry are the fault of market timers. The major mutual fund companies are going to use this excuse to begin severely restricting exchanges.

### **You should never buy any market investment that you can't sell.**

Liquidity has always been the key to the success of the markets. Restricting exchanges will make it appear to the naive public that the fund industry is addressing the hanky panky. The abuses will continue, I suspect; but the coming restrictions will affect mutual fund trading programs - whether you trade at the fund or through a broker like Scottrade or Schwab.

Skip Viragh is my hero. I met him when I was trading (timing) the Rushmore Nova Fund. He was the guy I would call to make the exchanges. The idea of the Nova Fund was to have a fund which was indexed to the S&P 500 and could be freely timed (exchanged).

Rushmore decided they didn't care for that approach, so Skip took the Nova Fund and opened Rydex. The concept was to have a fund family specifically for timers. Rydex has accomplished that goal; and in the

process, it has grown to include a variety of funds. There are index funds on the Nasdaq 100, reverse funds that rise when the market falls, etc. All of these funds have virtually unrestricted exchange privileges and are designed specifically for timers.

What more could one want? My recommendation is to forget the other funds out there for timing purposes. Put your money in Rydex. There are other fund families like ProFunds and Potomac that are also timing funds, but I have had the best experience with Rydex.

As the market approaches one of its most dangerous times in its history, the Street would like you to believe that you should just give them your money and forget your future; i.e., to buy and hold. The only advantage will be to those insiders who are appreciative of having investors who are unconcerned with risk and reward to sell to.

*We are going to discontinue the telephone hotline on January 1, 2004. There are only about six calls on each update. The Web site is better, and that is the future.*

I am going to begin e-mailing the hotlines, so be sure your e-mail is up to date. I will post the PDF version of the hotline and Hyperion list to the Web site and e-mail the text version.

I am working on improving the presentation of the hotlines so that I can e-mail them to you replete with graphics, etc. However, you will not receive the e-mailed

hotlines or the links to the letters when they are ready unless your e-mail address is correct. You can check this by clicking the “view/edit your profile” on the subscriber’s services page ... or you can e-mail me your current address and I can make sure it is correct.

### Recommended Stocks For Buy And Hold

<b>Company</b>	<b>Symbol/ Exchange</b>	<b>Initial Recom. Date &amp; Price</b>	<b>Price 12/03/03</b>	<b>Div.</b>	<b>Downside Buy Price (support)</b>	<b>Web Site</b>
Enerplus Resources	ERF-NYSE	4/20/01@\$18.00	\$29.12	11.06%	\$25.10	www.enerplus.com
Peyto Energy	PEYUN-TVX	7/18/03@\$17.50	C\$25.25	7.30%	C\$23.00	www.peyto.com
Primewest Energy	PWI-NYSE	2/7/03@\$17.00	\$20.01	14.77%	\$19.35	www.primewestenergy.com
Provident Energy	PVX-AMEX	6/16/03@\$7.50	\$8.46	12.86%	\$8.10	www.providentenergy.com
Shiningbank	SHNUN-TVX	1/2/03@C\$15.15	C\$17.18	16.07%	C\$16.62	www.shiningbank.com
Kinder Morgan Ptrs.	KMP-NYSE	6/11/02@\$32.50	\$44.25	5.97%	\$43.10	www.kindermorgan.com
Suncor Energy	SU-NYSE	2/7/03@\$16.8	\$22.43	0.69%	\$20.90	www.suncor.com
Anglogold	AU-NYSE	2/25/03@\$32.00	\$49.28	n/a	\$39.00	www.anglogold.com
ASA Ltd.	ASA-NYSE	11/19/02@\$31.00	\$46.90	1.28%	\$42.50	www.asaltd.com
Goldcorp	GG-NYSE	8/15/03@\$13.00	\$18.23	0.99%	\$15.00	www.goldcorp.com
Newmont Mining	NEM-NYSE	9/5/03@\$39.10	\$49.99	0.40%	\$41.50	www.newmont.com
Knightsbridge	VLCCF-OTC	5/16/03@\$13.65	\$10.49	17.16%	HOLD	www.knightsbridgetankers.com
Nordic Tankers	NAT-AMEX	6/6/03@\$15.50	\$13.88	10.66%	HOLD	No Web Site

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

<b>Company</b>	<b>Symbol/Exchange</b>	<b>Price 10/2/02</b>	<b>Price 12/03/03</b>	<b>Downside Buy Price</b>	<b>Web Site</b>
Kinross Gold Corp	KGC-AMEX	\$6.30	\$9.17	\$7.40	www.kinross.com
Golden Star Resources	GSS-AMEX	\$1.30	\$7.91	\$5.06	www.gsr.com
Bema Gold Corp.	BGO-AMEX	\$1.06	\$4.17	\$2.80	www.bema.com
Coeur d’Alene	CDE-NYSE	\$3.19##	\$5.43	\$3.05	www.coeur.com
Western Silver	WTZ-AMEX	\$3.50##	\$5.32	\$3.80	www.westernsilver.com
Cumberland Resources	CBD-TSX	C\$2.10	C\$4.66	C\$3.80	www.cumberlandresources.com
American Bonanza	BZA-V	C\$0.15	C\$0.415	C\$0.34	No Web Site
American Bonanza Wts.	BZAWT-V	C\$0.06	C\$0.235	C\$0.19	

C\$ Denotes Canadian Dollar

## Initial Recommendation was 9/2/03

**Our Web site: [www.protiming.com](http://www.protiming.com)  
e-mail: [protiming@hotmail.com](mailto:protiming@hotmail.com)**