#0812/12-3-08

PROFESSIONAL TIMING SERVICE

How To Prosper During A Crisis of Confidence

Gold holds great promise, regardless of whether we see inflation or deflation in the future. In times of deflation, by definition, cash is scarce. During such times, debt is an albatross because it is difficult to maintain payments if you have no money. If you are out of work and your bank account is empty, the last thing you need is debt payments. Richard Russell, author of the esteemed *Dow Theory Letters*, dowtheoryletters.com, aptly explained this recently.

"Deflation renders debt increasingly dangerous since in deflation, debt becomes more and more difficult to carry. The only item of intrinsic wealth that is free of debt is gold. Thus, in a time of deflation, one might see a panic for the safest item of undisputed wealth ... gold."

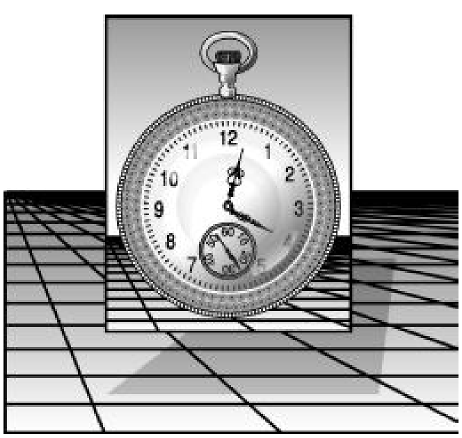
I think we may already be seeing the beginnings of a movement by savvy investors toward "the safest item of undisputed wealth." Gold came off its November lows, but another wave of panmarket liquidation on December 1 pushed it back to support at $750 December basis. Nevertheless, interest is building on the Street. During a two-week period last month, the Saudis quietly invested $3.5 billion in the kingly metal, and there were reports of other such transactions over the last several weeks. As you well know, some mints have suspended deliveries due to lack of material. I checked with my local precious metal dealer, and he said gold deliveries were out 13 to 16 weeks for bullion coins and bars.

Richard Russell's comments went on, and I would like to share them with you. He has been successful in this business longer than my 30 years, and his wisdom is worth listening to regarding the U.S. government's gold horde and the possibility that I see of an out-of-control crash in the U.S. dollar.

He states, "Furthermore, if the government wants to inflate in a time of deflation and the dollar's viability is under attack, the government could back the dollar with gold. The government could unilaterally raise the price of the gold it owns to, say, $5,000 an ounce. The government could then say the dollar is partly backed by gold and every dollar is worth one five thousandth of an ounce of gold. In other words, if the dollar falls under suspicion, the U.S. might find it expedient to return to a version of the gold standard."

Traditionally, gold has done very well during deflationary times. Although debt is the current financial millstone in the global network, governments all seem bent on increasing the load. Estimates of the cost of the "bailout" are now running in

The next issue will be published December 17.



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excess of $8 trillion, and it is all being done with fiat money and more debt. The Federal Reserve's reported Adjusted Monetary Base has zoomed straight up from about $875 billion to over $1.5 trillion since the middle of September. As this works into the system, you will see an increase in velocity and commensurate increase in traditional money supply figures like MZM and M2.

Deflation is a low probability outcome as the powers that be address the multi-faceted crisis we are in. The more likely outcome is inflation. I am seeing both sides of this issue being addressed intelligently, but one thing that is not being stressed strong enough is the possibility of good old-fashioned Weimar-style hyperinflation. Frankly, hyperinflation is what I fear the most and what is not being seriously considered.

The credit crisis we are enmeshed in is not over. There are more giant bankruptcies in the wings. If GM is left to go the way of Lehman Brothers, there is going to be another wave of asset liquidation. Usually during bankruptcy, bridge loans called debtor-in-possession, or DIP, loans are taken. These debts are senior to other debts, and thus they bridge the time period it takes to straighten the mess out … but there is no money available for a giant DIP in this market. Collateral will have to be raised. Then, who will be next? The airlines have to be in line, and the deleveraging continues. The stock market as measured by the popular averages is not going to have a good year in 2009.

What to do? As I have been harping on for so long now, get out of financial/paper based assets. Get out of any stocks and bonds that are not advantaged by higher commodity prices. Because of the global scale of the demand for raw materials and the long range focus that most Asian countries have, the demand for raw materials is going to continue to grow at a healthy pace outside the U.S. The Chinese approach to capitalism is much different that the short-sighted way we go about planning. Along with their neighbors, they will be using their cash hordes to nail down resources they will need 5 and 10 years from now as we struggle to get through tomorrow.

An important aspect of the current credit crisis and an important reason that we will see higher commodity prices over the next several years is diminishing supply. The IEA just completed a study of the 800 largest producing oil fields, which they found are depleting at a rate in excess of 9%. One year ago, the oil fields were depleting at a rate of just under 7%. There is a trend here. The IEA estimated that it would take an annual investment of $350 billion in the industry just to hold the depletion rate at 6%. This is not going to happen. The money is not available.

The credit freeze also has ground most exploration and development projects to a halt. Only those with internal cash flow and big cash reserves are progressing with development, and most of them are being extremely cautious. This lack of investment coupled with diminishing proven reserves and declining output is setting the stage for serious shortages in raw materials and energy. With depletion rates running well ahead of any demand slowdowns we can expect due to the recession, the rubber is going to hit the road. The shock will be sudden and soon. For these reasons, I believe that we will see the popular averages, such as the Dow Industrials and S&P 500, part ways from the commodity market. The broad liquidation across all sectors this past summer has peaked There will be continued panics for cash, but commodities will become more immune as time progresses.

Own some gold. If you already have gold in your portfolios, hang on tight. I realize you are uncomfortable after the recent pummeling the market handed out, but I firmly believe we will see new highs in gold next year. Gold will do well regardless of inflation or deflation, and you will wish you held more if we see the economy develop into a hyperinflationary scenario. If you do not own gold, there has not been a better time in years to be a buyer. Gold shares remain historically undervalued in relation to bullion, and several of our recommended gold miners hit their respective downside buy prices recently. We were able to accumulate **Kinross** (KGC-NYSE-$13.61) at less than $11.30. **Goldcorp** (GG-NYSE-$23.21) was easy to buy under $20.00, and **Yamana** (AUY-NYSE-$4.87) is still under our buy price $5.15 buy limit. Buy into weakness and diversify. Hang on tight to your precious metals.

I added **Central Fund of Canada** (CEF-NYSE-$9.19) to our list on the November 25 online update. The recommendation is to buy it at $9.50 or better with a sell stop at $7.99. CEF dropped under our buy price on December 1.

We owned CEF previously and were stopped out. It is time to buy it back. This is a closed-end mutual fund - not an ETF. They hold physical gold and silver, and each share represents an equity ownership in that stash. There is no leverage involved. The fund currently holds 59.6% in gold and 37.0% in silver, plus a little cash. This is on the basis of value, not ounces. You can get more details at www.centralfund.com.

The difference between this fund and ETF's like GLD and SLV is that it is taxed as an equity investment rather than as a commodity investment. Gains and losses in commodity-based ETF's are taxed at a disadvantage to equities. You should check with your tax advisor if you have any qualms; but essentially, long term gains in GLD (gold ETF) and SLV (silver ETF) are taxed at 28%, and gains in CEF should be about 15%.

That said, I am adding **iShares Silver Trust** (SLV-NYSE-$9.18) to our list. I am going to approach this one a little differently, though. I want to buy it in strength. If SLV trades at $10.56 or higher, I want to be a buyer. I know I may lose some of you with this, but follow along. Here is a mini-lesson for those of you unfamiliar with the types of orders you are entitled to enter when buying or selling your stocks.

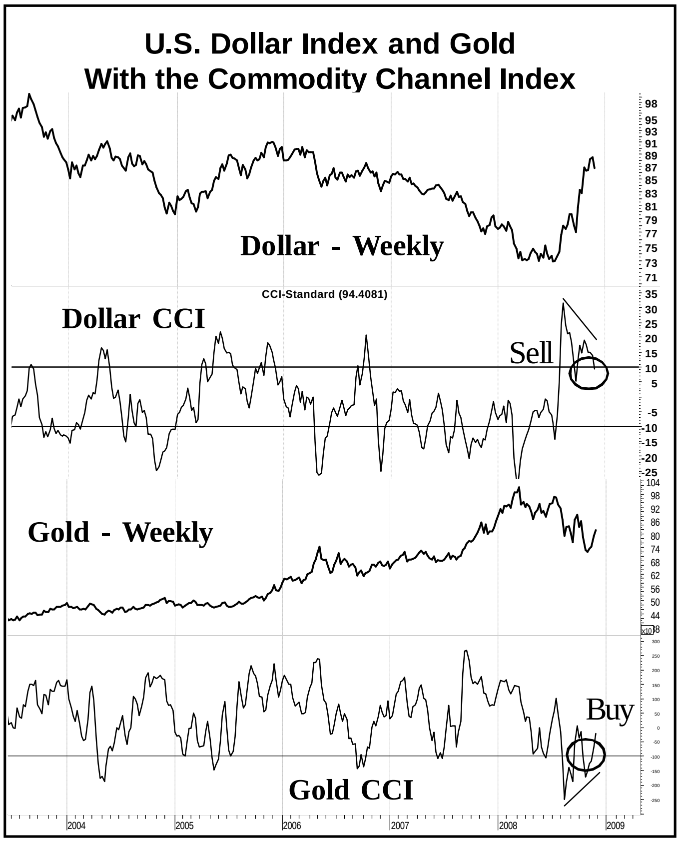
You can enter this purchase using a "good 'til cancelled" (GTC) buy stop order. Just tell your broker - or preferably, enter your online order to buy whatever number of shares you want of SLV at $10.56 "buy stop." If the price rises to $10.56, you will have a market order to buy the stock at that point. Since it is a market order, your fill may be higher than $10.56.

You can enter this as a "stop limit" order if you wish and limit the price you pay to $10.56. The order would be to buy X number of shares of SLV at $10.56 "stop limit" GTC. The tradeoff is that you may not get a fill since once the price initially hits $10.56 and puts your market order in place, prices have to stay at $10.56 or fall back to that level or lower. Otherwise, you will not get your order filled.

I apologize if this all seems a bit complicated, but this is the way it is done. If you are unsure about all of this, I suggest you forget taking the position and just follow this on paper to see how it all works. You will gain some insight into the workings of the day-to-day stock market, even if you don't take the trade. Of course, if you want, you can wait for the $10.56 price to be reached and then enter your order at that price. I will follow up on the Tuesday and Thursday online updates and guide you through the process.

A simpler shot at silver would be to buy **Silver Wheaton** (SLW-NYSE-$2.96). This is an excellent pure play in silver. The beauty of this is that Silver Wheaton contracts to buy the silver produced by other mines. They don't actually mine anything. The silver is then sold. Don't pay over $4.00 for SLW. I would put in a stink bid at $2.35 and see what goes.

Silver is looking better here and will probably appreciate by a greater percentage than gold next year. The gold/silver ratio is currently about 80, but it's moving higher again. The key to the current silver market is the trend of the ratio. If it is falling, silver will gain on gold. Note on the chart that the ratio has broken the trend line



from the summer low in the index. It has since recovered back to the trend line. This is most likely a test of the trend line break. Watch for the gold/silver ratio to fall below the low set during the week of November 17 to signal that the ratio is ready for a retreat to the 50 level. Such nuances aside, however, the gold/silver ratio looks bullish for silver here.

I still believe you should put new money into the majors on our list or directly into gold and silver if you can accept the tax issues with commodity ETF's. Incidentally, I have changed the downside buy price for the Gold ETF to 72.00 or better.

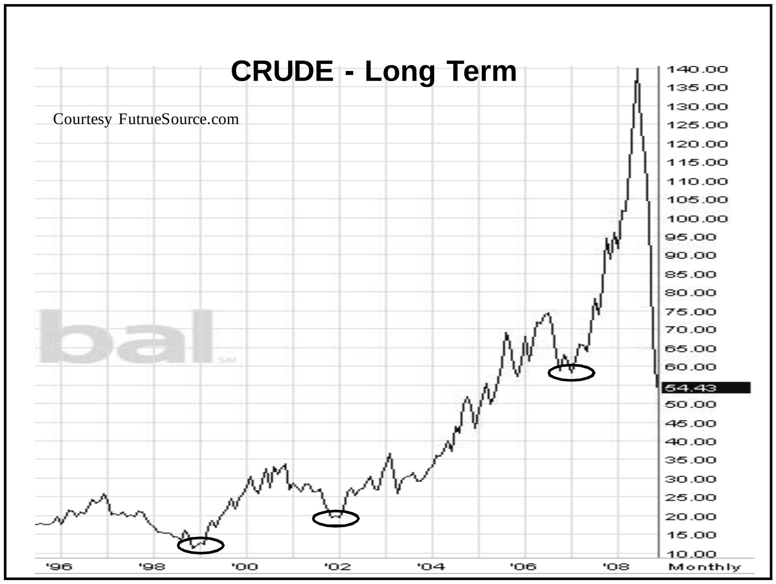
You will see the most immediate appreciation from the major producers on our list. I expect the next leg of the commodity bull to run strong for another three years. As this gets underway and investors see the money they are *not* making by being out of the commodity sector, they will stampede back into commodities. As prices work to new highs, they will begin buying lower in the food chain, so to speak, and the better juniors will come to the forefront. In most cases, I think the October cash panic wrung any excesses and more out of them; and in most cases, we are looking at their nadir prices now. The problem is that most of the juniors will stay at current levels until the commodity market begins to attract sidelined investors. This may take a while.

I am leaving the juniors on our list on hold, including, **Nova Gold** (NG-NYSE-$0.50). Nova was blindsided with an announcement that they were shutting down some operations due to cash deficiencies. They have strong partners, but they are going to have difficulty making partnership cash commitments as required. They are in trouble, no question about it. The up side is that they own significant properties with enormous reserves. It remains to be seen just how this will play out; but at this point, I can't see selling it. Nova did bounce off its low of 37 cents, and it will likely languish there. Frankly, I would expect some sort of buyout or merger deal. I doubt it will be equal to what we paid for the stock, but it will likely be better than the current price.

I should mention that **U.S. Goldcorp** (UXG-NYSE-$0.92) looks relatively strong technically compared to the overall group of juniors. My recommendation is to continue to hold your juniors, and I am keeping a close watch on them. I have been following them with techniques similar to the Critical Price Point (CPP) techniques we introduced recently in the online updates. The CPP approach is a trading approach explained on Page 2 of the Tuesday and Thursday updates. If our juniors begin tripping their respective Critical Price Points, you will be alerted. I will consider a more aggressive approach to them at that time. In the meantime, hold them.

Gold looks like the least risky place to be invested considering the growing crisis of confidence surrounding global financial markets and panic selling waves. We stand to win big in either a deflationary or inflationary environment with gold, although hyperinflation is the outcome with the greatest probability and profit potential.

We briefly alluded above to the vulnerability of the U.S. dollar and what the government might do with their gold horde to defend it. I doubt seriously they will defend it without a very strong reason. As it is, the U.S. has the best of all worlds as long as we can buy desperately needed energy, and all we have to do is print whatever it takes to buy it.



So far, the "print all the dollars you need" scheme has allowed the government to seemingly address the credit crisis and failing economy. Although our economic woes likely won't be solved and will, indeed, grow worse, confidence is shored up. The real threat is the loss of this confidence – hence, the true crisis we are facing.

There are reasons for the dollar's rise since July, and they are all technical. There are no fundamental factors shoring up the dollar. Investors and institutions have been forced to sell foreign assets and take the proceeds in the local currency. The currencies then have to be sold and U.S. dollars purchased so that U.S. loans that financed the overleveraged foreign investments can be paid off. The result has been the decline in the price of all asset classes, with the exception of U.S. dollars.

This process may not be entirely over, but the worst of the storm has passed. All those dollars now parked in very low-yielding U.S. Treasuries are anxiously looking for somewhere else to go. I think they will move to tangible-based assets for the reasons listed above – diminishing supplies, underinvestment in new reserves and production, and a solid global demand structure. One key to timing this shift will be evidence that the dollar rally is ending.

The two charts on Page 4 are an early warning. The Commodity Channel Index (CCI) on the weekly Dollar Index has broken under +100 a second time. Note the negative divergence in the CCI as well. This is a big flag that the rally is fading. Conversely, the CCI on weekly gold has just broken over -100 - also a second signal. This is a buy signal replete with positive divergence. It is time to be looking for an end to the dollar rally and a resumption of the long term decline it has been in. As the dollar falls, gold and other commodity prices will rise - not the least of which is crude oil.

Gerald Appel has an excellent service called Systems and Forecasts, systemsandforecasts.com, in which he recently related an interesting study done by Ned Davis, one of the finest analysts there is. Ned reports that the spread between the nearby crude futures and distant contracts is exceptionally wide. As you go out on the calendar, each month should be higher than the nearer one to reflect carrying charges and the like, but the current spread between the nearby and the contract six years out is disproportionately wide, indicating unusual buying interest for future supplies. This makes it impossible to lock in current prices for distant deliveries. At any rate, Mr. Davis reports that on November 14, the spread was at its highest level since 1998. It has expanded further since. The last time spreads were this wide was commensurate with major lows in crude in 1998, 2001, and 2007. Got oil?

We were able to easily buy **Enerplus** (ERF-NYSE-$20.44) at our $19.00 buy price. Our recommendation to buy **Great Lakes Hydro** (GLHUN-TSX-$C16.86) has not filled. Keep your orders in to buy at C$15.00 or better. I am also recommending **Frontline Ltd.** (FRO-NYSE-$25.10). This is an excellent shipping company that has a great dividend history. It is quite volatile, though, so be stingy on the price you pay. My recommendation is to pay $20.00 or less and scale down from there during any weakness.

Enerplus is my current favorite, but don't ignore the others on our list. Diversity and balance is important. **Baytex** (BTE-NYSE-$13.32) is a buy at or below $14.00, but **ARC Energy** (AETUN-TSX-C$18.65) needs to come off some to C$18.00. **Crescent Point** (CPGUN-TSX-C$22.99) is currently under our maximum buy price of C$27.00.

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 12/01/08 U.S. $	Downside Buy Price	Div 12/01/08	Target-T Stop-S	Web Site
Agnico-Eagle	AEM	NYSE	1/10/2007	36.00	32.06	29.90	0.56%		agnico-eagle.com
Alliance Res	**ARLP**	**OTC**	9/29/2004	27.98	23.82	**25.00**	11.75%		arlp.com
Apache Corp	**APA**	**NYSE**	3/5/2007	68.00	69.46	**80.00**	0.86%		apachecorp.com
Baker Hughes	BHI	NYSE	2/5/2008	64.63	28.70	35.00	2.09%		bakerhughes.com
Baytex Energy	BTE	NYSE	5/18/2004	9.00	13.32	14.00	18.29%		www.baytex.ab.ca
Blackrock	BGR	NYSE	8/3/2005	25.99	12.77	19.50	12.69%		blackrock.com
Central Fund Can.	**CEF**	**NYSE**	**12/1/2008**	**9.50**	9.19	**9.50**	0.11%	**S=$7.99**	centralfund.com
CurrShrs. Eruo ETF	FXE	NYSE	8/22/2008	148.57	125.93	132.50	3.29%		currencyshares.com
Enerplus Res.	**ERF**	**NYSE**	**11/20/2009**	**19.00**	20.44	**19.00**	17.26%		enerplus.com
Frontline (1)	**FRO**	**NYSE**	**Buy at**	**20.00**	25.10	**20.00**	10.00%		frontline.bm
Gabelli Glb. Gld.	GGN	AMEX	1/3/2006	22.10	10.00	13.10	16.80%		gabelli.com
Goldcorp	GG	NYSE	7/24/2008	40.00	23.21	20.00	0.78%		goldcorp.com
iShares Silver ETF	**SLV**	**NYSE**	**buy on buy stop at 10.56**		9.18		n/a		ishares.com
Kinross Gold (2)	KGC	NYSE	6/6/2002	2.39	13.61	11.30	0.59%		kinross.com
Kinross Gold	KGC	NYSE	1/4/2007	11.00	13.61	11.30	0.59%		kinross.com
Mkt. Vectors, ETF	GDX	AMEX	9/11/2006	37.00	22.50	22.15	13.24%		n/a
Pimco Com. Fund	**PCRAX**		3/2/2005	13.97	8.60	**10.00**	12.91%		pimcofunds.com
Schlumberger	SLB	NYSE	1/18/2008	75.00	42.08	55.00	2.00%		nat.bm
Ship Finance (3)	SFL	NYSE	3/6/2007	0.00##	10.71	HOLD	11.90%		www.shipfinance.org
Silver Standard	SSRI	OTC	1/4/2007	30.00	8.66	9.10	n/a		silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006	8.40	2.96	4.00	n/a		silverwheaton.com
Spdr Gold Trust	**GLD**	**NYSE**	9/11/2006	58.85	75.65	**72.00**	n/a		n/a
Transocean (4)	**RIG**	**NYSE**	1/4/2007	75.00	57.85	**70.00**	n/a		deepwater.com
Yamana	AUY	NYSE	4/14/2005	2.90	4.87	5.15	2.46%		yamana.com
Valero	VLO	NYSE	4/26/2005	36.63	16.23	HOLD	3.70%		valero.com
					Canadian Dollars				
Altius Minerals	CA:ALS	TSX	8/9/2007	17.88	3.74	HOLD	n/a		altiusminerals.com
ARC Energy	**CA:AET.UN**	**TSX**	9/8/2008	25.85	18.65	**18.00**	12.87%		arcresources.com
Crescent Point En.	**CA:CPG.UN**	**TSX**	9/16/2008	30.20	22.99	**27.00**	12.01%		crescentpointenergy.com
Great Lakes Hydro	**CA:GLH.UN**	**TSX**	**Buy at**	**15.00**	16.86	**15.00**	7.41%		greatlakeshydro.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003	8.75	9.67	HOLD	18.61%		peyto.com
Silvercorp Metals	CA:SVM	TSX	1/21/2008	8.00	1.80	HOLD	0.60%		silvercorp.ca

(1) Frontline dividend based on regular payment of $0.625 per quarter.
(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 12/01/08	Downside Buy Price	Div	Target-T/ Stop-S	Web Site
					U.S. $				
Coeur d'Alene	CDE	NYSE	9/2/2003	3.19	0.51	HOLD	n/a		coeur.com
Endeavor Silver	EXK	AMEX	7/26/2007	4.60	1.12	HOLD	n/a		edrsilver.com
Great Basin Gold	**GBN**	**AMEX**	12/21/2007	2.45	0.82	**HOLD**	n/a		greatbasingold.com
Nova Gold	NG	AMEX	2/29/2008	11.50	0.50	HOLD	n/a		novagold.com
Taseko Mines	**TGB**	**AMEX**	7/24/2006	2.40	0.68	**HOLD**	n/a		tasekomines.com
US Gold Corp	UXG	AMEX	9/9/2005	1.70	0.92	HOLD	n/a		usgold.com
					Canadian Dollars				
Everton Res.	CA:EVR	TSX	1/4/2007	1.30	0.05	HOLD	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007	0.50	0.05	HOLD	n/a		goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006	5.20	0.93	HOLD	n/a		laramide.com
Mega Uranium	CA:MGA	TSX	5/1/2007	6.75	0.67	HOLD	n/a		megauranium.com
UTS Energy	CA:UTS	TSX	5/15/2006	6.50	0.83	HOLD	n/a		uts.ca
Minera Andes	**CA:MAI**	**TSX**	9/11/2006	1.20	0.54	**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 .99 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.