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HOW TO PLAY THE DOLLAR RALLY

Who in the world thinks the dollar is going to rally? The consensus is clearly bearish, and I, too, am a dollar bear ... for the long term. However, when the consensus runs this far to one side of the boat, it is time to look for a change.

No one can argue that the fundamentals are still bearish, but there are some important factors in play (along with traditional technical indications) that should put dollar bears on the defensive. Furthermore, a dollar rally would be symptomatic of a serious adjustment in equities as well as in other asset classes.

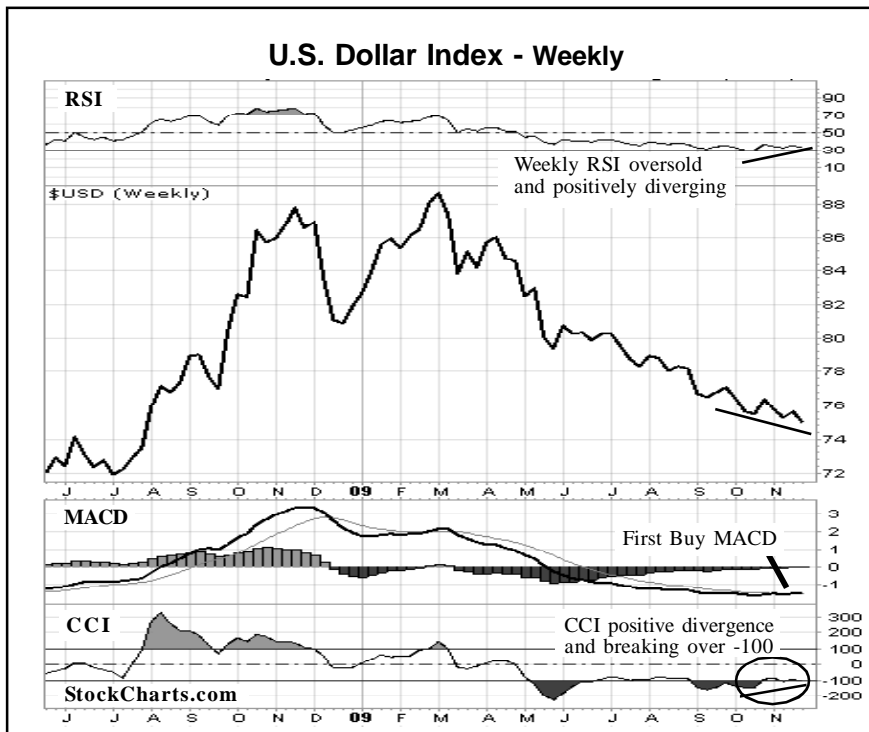
Let me explain. When the Fed pushes the interest rate on U.S. dollars to near zero, the big kids, especially foreign big kids, borrow dollars and buy higher yielding assets. One might borrow at one percent or less in the U.S. and then buy foreign bonds yielding more, thus picking up the difference. This is a fairly conservative and relatively safe bet as markets go. However, greed rules, and the more speculative money will go into what is hot and on a tear. Currently, that is gold and the U.S. stock market. Eventually, though, the speculative guys usually “blow up.” Emotion and greed are poor investment motivators.

A potential dollar rally - even if temporary - will put all asset classes in jeopardy. At some point, the dollar carry trades will begin to unwind; and once that process begins, it will be difficult to stop. It is hard to predict just what event might be the trigger. Last year, it was a problem with sub-prime loans. This time, it might be European banks - or more likely, eastern European banks that are on much shakier ground than their American cousins. UBS is reported to be levered 70 to 1. That is fine until something happens to upset the balance. Likely, the triggering event will be a true “black swan.” By definition, we can’t predict exactly what that event will be, but we do know for sure it is coming.

The bullish technical signs in the dollar are beginning to accumulate. The weekly chart is showing positive divergence in the RSI and a first buy signal in MACD. More eye-catching is the pattern in the Commodity Channel Index (CCI). It is showing positive divergence, and it’s attempting to break the all-important minus 100 level. The dollar chart on Page 2 is certainly not bearish.

At any rate, the more aggressive carry traders tend to margin their positions to the max - and that would be those who are presently winning the biggest and are “on a roll.” In order to manage risk, they sit on the razor’s edge, anxious to move out at the first sign of trouble.

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 © 2009 by Professional Timing Service.



The result is a very volatile market and one that gets extended beyond reason - as the current market is. Since a good deal of the carry trades are done outside of the country, as they unwind, assets will be sold and dollars will be purchased to pay back the loans. The result will be a surprisingly sharp correction in all asset classes commensurate with a sharp rally in the dollar. The dollar is the key.

Markets are not one-way affairs, and the approaching adjustment is due ... in fact, overdue. Perhaps the most definitive "number in a nutshell" I can offer is from our Rydex dollar trading program model. You need not trade the program to appreciate that the next dollar buy signal may be more important than usual. As we

go to press, the dollar program will trigger a buy if the March U.S. Dollar Index (DXH0-74.85) trades at 76.51 or higher. This program is reported on Page 2 of the Tuesday and Thursday online updates (hotlines).

Regardless of the prospects of a strong technical rally in the dollar, the fundamentals surrounding the stock market and the economy are not good. I just cannot see anything that will fuel a real recovery. To the contrary, I see a lot of bad policy decisions and negative dynamics in the economy that will fuel further economic deterioration. I am very concerned about the condition of the commercial real estate market and the likelihood of mounting commercial loan defaults. Residential real estate is not improving, although in some areas, the rate of devastation has abated.

Meanwhile, unemployment is increasing. The unemployment reports are being twisted with all sorts of statistical mechanizations, but the truth is easy to see in just one number ... state sales tax receipts. Sales tax receipts are declining in every state - in some states, dynamically. When sales tax receipts fall, it means the consumer is not spending and the economy is not recovering.

Where is the recovery going to come from? It will not come from small and medium-sized businesses. Combined, they account for 85% of job growth. We will likely see the government take up a little slack, but everyone cannot work for the government. It would be nice to see the unemployment situation stabilize, but don't lose sight of the fact that due to population growth alone, it is estimated that between 130,000 and 150,000 new jobs are required monthly just to keep unemployment steady. Employment looks like a steep uphill battle to me, and I doubt that Obama's promise of job growth by next Thanksgiving will bear fruit.

In the meantime, small business owners are being shackled by increased taxes from their states and the Feds. It is obvious that they cannot afford the new health care bill, and energy costs are going to double next year from today's levels. The next shoe to drop on them will be increased merchant costs from the credit card companies as card vendors try and recoup losses from consumer defaults.

The economic death spiral has a ways to go, yet the stock market is factoring in GDP growth of 5% for 2010. Folks, fundamentally, it just isn't in the cards. The stock market's traditional technical measures are bearish as well. The

engines pushing the current rally are the dollar carry trade (as outlined above) and the media. The press essentially mirrors the immediate sentiment of the public. They mouth the moment, flipping through either their bullish or bearish Rolodexes to find “expert” voices echoing the day’s trend. You can forget trying to find investment advice on the evening news or in the morning paper.

Five signs that the top is in. They are the new high/new low ratio that I wrote about in the last letter, the Nasdaq Slow Tracker, Palio, RSI, and MACD with negative divergences. Let’s start with MACD and RSI. The daily charts show multiple MACD sells replete with negative divergence. RSI also has tipped down from overbought readings set in September, and it has not been confirming highs in the averages since. The weekly charts are just as bad, showing negative divergences and a first sell in MACD. There is no way you can paint a bullish picture from these tried and true technical indicators. There is also a potential double top in the Nasdaq.

The NYSE new high/new low ratio is still at 90%. We need to see a reading under 70% for this to fall negative. This is an important indicator in the current market, and it bears watching. The Nasdaq Slow Tracker is also hanging on to its positive reading, but it will issue a sell if the Nasdaq Composite falls to 2,024 or lower. This model has the potential to move the sell point up soon; and when it does, I will announce the new number on the Tuesday/Thursday updates.

Palio is a splendid timing model, and it is currently on a buy. As I have mentioned in the past, it is not possible to forecast a sell point like I can do with the Nasdaq Slow Tracker. When the next signal occurs, I will announce it on the updates or by special online alert if the signal occurs on a day other than when we are publishing a regular update. Nothing in the market is perfect; but due to the aforementioned technical negatives and the potential for the carry trade to unwind, I believe the next Palio signal will be of more than average importance.

I look for all asset classes to come off as the carry trades unwind, but I think we will see gold bullion hold up as well as it did in 2008. The reason for this outlook is that gold did well in the last go-around, and that will encourage frightened investors to seek gold as a safe haven again. Gold has also been breaking from its dollar ties of late. This is due to investors - likely foreign investors by and large - investing in gold as a crisis hedge as well as a fiat currency alternative.

Remember, it is not only a weak dollar that buoys gold, but weakness in other currencies as well. As the dollar carry trade rallies the dollar, other currencies will fall relative to the dollar. Globally, investors are going to seek some exposure to gold rather than hold their local currencies.

Gold has finally broken above its long term ceiling at \$1,000, and the December contract recently breached \$1,200. I cannot advise chasing strength, and I have been recommending a “hold” stance with your precious metals. Once the carry trade unwinds and the dollar rallies, gold will correct. Typically, one would expect a correction back to the breakout point of \$1,000. That is 20%. Frankly, I can still see gold coming back to my longer held opinion of \$950.

A correction in the mining shares is another matter. The gold/XAU ratio, or Simplicity, measures the relationship between gold and the mining shares as represented by the XAU. Normally, the mining shares are more volatile, which is the reason I like to invest in them. However, this is a two-edged sword, and they are likely to correct back more than gold bullion. I don’t expect to see that much of a pullback, but the XAU could easily come back to 120.00 from its recent high of 194.00. That potentially amounts to a 35% correction. I still look for Simplicity to move up at least to 7.00 -7.25 before we see a good buying opportunity. With the prospect of a serious carry trade effect on the next correction, it is worth putting in some stops here. I have listed sell stops on some of our positions on Page 6.

In particular, I want to put sell stops on **Kinross** (KGC-\$21.10) and on **Agnico-Eagle** (AEM-\$65.46) at \$18.50 and \$60.00, respectively. I recommend selling KGC at \$25.00 or better and AEM at \$70.00 or better if not stopped out

first. These two have become weak sisters compared to the rest, and they are good places to take a little money off the table. You will note other sell stops, including the **Spyder Gold Trust** (GLD-\$117.38) at \$110.65 and **Silver Wheaton** (SLW-\$17.00) at \$11.80. Review the list on Page 6.

I have also put some issues on hold. **Gabelli Global Gold and Natural Resources Income Fund** (GGN-\$16.85), for example, should be held here. Some have asked why it hasn't done better in the recent gold rally, and the answer is that it also holds non-gold natural resource investments that have not performed as well as gold. Another on hold is **Silver Standard Resources** (SSRI-OTC-\$23.63). I am maintaining our previous sell stop at \$11.60, although I do not expect to see that price hit. Silver Standard has been lagging the pack, and I think we will find better purchases elsewhere. I also think we will find a better place to sell this in the future. Finally you should hold your physical gold and silver if you have any.

A word about these stops. You will note that some are deeper than others. Don't let that bother you. The stops are intended to protect our profits at this juncture. They are "just in case" the market breaks suddenly and sharply away from us. The closer stops and targets are on stocks that are underperforming here, and they carry the greatest potential to correct. If stopped out, we will reinvest those funds in stronger issues.

Since the market has run away here, some of the issues previously recommended have not reached their buy prices, and I have removed them from the list for the time being. These include **American Superconductor** (AMSC) and three on the junior list - **Eldorado Gold** (EGO), **Rubicon Minerals** (RBY), and **Northern Oil and Gas** (NOG). Once we see the nature of the next correction, I will make new recommendations.

In line with a potential dollar rally, I have raised the sell stop on the **Euro Shares ETF** (FXE-\$150.66) to \$146.06. Obviously, if the dollar rallies, the euro will take a hit. I think if stopped out, we will be able to reposition this to much better advantage.

The approaching correction in the stock market will end up being the next leg in the secular bear market that began in March 2000 when the Nasdaq peaked at 5,000. Although the commodity sector is going to be swept up in the next phase of carry trade adjustment and subsequent deleveraging, the correction in commodities will not last long. Make no mistake, the gold bull is not over, and I fully expect to see \$1,600 gold next year. However, the gold market is a bit dicey here, and you might want to take some money off the table and protect profits built up in this rally.

Just to clarify this and avoid any confusion, I have preached against turning investment accounts into *trading* accounts in the past, and I still follow that philosophy. If you are willing to ignore your emotions, though, which will become quite bearish once the selling begins, you can safely ride out the coming storm. I am not advocating a wholesale liquidation - just stops on some positions that I am confident can be replaced at better prices or in stronger issues later.

Here is a short gold trade for you if you have a mind to hedge your longs or simply take a shot at the down side. Buy **PowerShares Gold Double Short ETN** (DZZ-\$11.92) at \$13.25. This will be a trade like the trade in the ProShares Short S&P 500 ETF that is listed on Page 2 of the bi-weekly updates. You can buy DZZ on a buy stop if you wish. In any event, buy DZZ if it rallies up to \$13.25. I will announce a sell stop for this trade once it fills as well as any adjustments to this entry price on the updates.

I have looked over the juniors on our list, and the best strategy is to continue to hold them. I had anticipated better results once gold broke over \$1,000, but deleveraging has put extra pressure on the junior miners and has chased the risk takers elsewhere - at least for the time being. Once we see a correction, we will consolidate the weaker issues into those that hold up relatively well against the rest. Gold is just beginning to get public attention. That does not mean that

a correction back to \$1,000 in bullion or 120.00 in the XAU is out of the question, but it does mean that the mania phase of the gold market is yet come. Gold has been exciting and profitable, but investors are still only dabbling. They are simply chasing higher prices. They do not yet “believe.” There has not yet been a universal call from the Street for everyone to hold gold regardless of individual suitability. That phase of the market is ahead of us; and I believe that once we see our way through the next correction, juniors will start to come into their own again.

I expect all asset classes will be affected in the coming decline, and that includes energy. The mining shares look more vulnerable than energy issues, simply because of the exuberance they have enjoyed during the current rally. Crude oil is caught in a trading range, but it should continue soft through the year. The key level is \$72.30 March basis. That will produce a sell in our Critical Price Point model in crude. There is a downside potential in crude to fall back to \$60.00.

Longer term, I look for a recovery in crude to well over \$120.00 next year. We could see that price by next summer, but the exact timing is not as important at this point as holding off any further buying until we see better prices. In order to introduce some downside protection, I have listed sell stops for some of our energy positions on Page 6. These are selected on the basis of comparative strength and weakness as well as other technical factors.

In particular, I have raised the sell stop on **Alliance Resources** (ARLP-OTC-\$39.07) from \$30.75 to \$36.20. The stock has been holding its own, but the outlook for coal is not as positive as it once was. I would rather own the **Brookfield Renewable Power Fund** (BRCUN-TSX-C\$19.00). Brookfield (being hydroelectric) has a great advantage competing against coal, especially if “cap in trade” measures are enacted.

We recently bought a pilot position in **Linn Energy LLC** (LINE-OTC-\$25.04) at \$24.72. Our instructions in the November mid-monthly letter were to purchase 25% of your intended investment at that price or better. The acquisition was to be scaled down with the next 25% purchased at \$24.00 or better. This second purchase has not been filled yet, but you should keep your open orders in at \$24.00. The final half of the position is to be purchased at \$23.00 or better.

Stick with the strategy. Linn is a great energy producer, and it pays well. The indicated dividend at today’s price is over 10%. Although dividends are a percentage per annum perhaps, Linn has had a good track record maintaining production growth while paying generous dividends.

I am also leaving our recommendation to buy **Kinder Morgan** (KMP-\$57.10) at \$54.00 on the list. Kinder Morgan has also had a good track record in growing their business and paying handsome dividends. If the buy prices of these two end up being a little early, I don’t expect them to overshoot by much and the generous dividends will carry us through any correction.

The dollar carry trade has the risk takers making a pile this year, but it is good to keep in mind that the biggest risk takers are those who have won in the short run. The odds have to be assessed from the perspective of all of the players, not just one. If you were to win on six winning numbers in a row at roulette, you might think you know what you are doing and that you actually have a system. The truth is, the streak was due only to luck, and it’s unsustainable.

I will have more details on the new Professional Timing letter for you after the first of the year. I can tell you that it will be a monthly “online only” publication with periodic updates during each month designed to announce important signals like Palio and to address vital changes in the market that may occur between online letters. The monthly letter will address strategic asset allocation as per our models, and it will include specific recommendations replete with downside buy prices, as we are doing now. I intend to also include an instructive segment that will describe uncomplicated technical tools with their calculation and application. Forbes will continue to market the letter for those of you who subscribe through them.

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 .958. This 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 12/01/09 U.S. \$	Downside Buy Price	Div 11/30/09	Target-T Stop-S	Web Site
Agnico-Eagle	AEM	NYSE	1/10/2007 36.00	65.46	HOLD	0.29%	T=\$70/S=\$60	agnico-eagle.com
Alliance Res	ARLP	OTC	9/29/2004 27.98	39.07	HOLD	7.81%	S=\$36.20	arlp.com
Apache Corp	APA	NYSE	3/5/2007 68.00	97.72	70.00	0.63%		apachecorp.com
Baytex Energy	BTE	NYSE	5/18/2004 9.00	27.28	HOLD	5.35%		www.baytex.ab.ca
Blackrock	BGR	NYSE	8/3/2005 25.99	24.25	18.00	6.78%		blackrock.com
CurrShrs. Eruo ETF	FXE	NYSE	8/22/2008 148.57	150.66	HOLD	0.02%	S=\$146.05	currencyshares.com
Enerplus Res.	ERF	NYSE	11/20/2008 19.00	23.06	HOLD	9.47%	S=\$19.50	enerplus.com
Gabelli Glb. Gld.	GGN	NYSE	1/3/2006 22.10	16.85	HOLD	11.05%		gabelli.com
Goldcorp	GG	NYSE	7/24/2008 40.00	44.76	34.50	0.49%		goldcorp.com
IRR Rsk Mg Nat Res	IRR	NYSE	10/2/2009 16.25	17.18	16.25	10.08%		infunds.com
Kinder Morgan LP	KMP	NYSE	Buy at \$54.00	57.10	54.00	7.40%		kindermorgan.com
Kinross Gold (1)	KGC	NYSE	6/6/2002 2.39	21.10	HOLD	0.50%	T=\$25/S=\$18.50	kinross.com
Kinross Gold	KGC	NYSE	1/4/2007 11.00	21.10	HOLD	0.50%	T=\$25/S=\$18.50	kinross.com
Linn Energy LLC	LINE	OTC	11/18/2009 24.72	25.04	24.00	10.16%		linnenergy.com
Pimco Com. Fund (2)	PCRAX		3/2/2005 11.89	8.41	6.50	6.83%		pimcofunds.com
Royal Gold	RGLD	NYSE	7/8/2009 38.00	54.72	HOLD	0.72%	S=\$42.85	royalgold.com
Schlumberger	SLB	NYSE	1/18/2008 75.00	64.65	HOLD	1.35%		slb.com
Silver Standard	SSRI	OTC	1/4/2007 30.00	23.63	HOLD	n/a	S=\$11.60	silverstandard.com
Silver Wheaton	SLW	NYSE	3/10/2006 8.40	17.00	HOLD	n/a	S=\$11.80	silverwheaton.com
Spdr Gold Trust	GLD	NYSE	9/11/2006 58.85	117.38	HOLD	n/a	S=\$110.65	n/a
Transocean (3)	RIG	NYSE	1/4/2007 75.00	86.60	HOLD	n/a	S=\$82.50	deepwater.com
Yamana	AUY	NYSE	4/14/2005 2.90	13.86	9.00	0.38%		yamana.com
Canadian Dollars								
Altius Minerals	CA:ALS	TSX	8/9/2007 17.88	7.84	HOLD	n/a		altiusminerals.com
ARC Energy	CA:AET.UN	TSX	9/8/2008 25.85	20.34	HOLD	5.98%		arcresources.com
Crescent Point En.	CA:CPG	TSX	9/16/2008 30.20	39.27	HOLD	6.99%		crescentpointenergy.com
Brookfld Ren Pw (4)	CA:BRC.UN	TSX	12/17/2008 15.99	19.00	17.00	6.56%		greatlakeshydro.com
Peyto Energy	CA:PEY.UN	TSX	7/18/2003 8.75	12.04	HOLD	12.18%		peyto.com
Silvercorp Metals	CA:SVM	TSX	1/21/2008 8.00	8.07	HOLD	1.02%		silvercorp.ca

(1) On 2/27/07 Kinross acquired by exchange for Bema originally purchased at \$1.06 on 6/6/02

(2) PCRAX paid a distribution of \$2.08931 on Dec 08, 2008 thus reducing our purchase price by this amount.

(3) Ship Finance Intl. was acquired as a spinoff from Frontline 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.

(6) Great Lakes Hyro Income Fund is now named Brookfield Renewable Resources Fund

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

Company	Symbol	Exchange	Initial Recom. Date and Price	Price 12/01/09 U.S. \$	Downside Buy Price	Div	Target-T Stop-S	Web Site
Coeur d'Alene (5)	CDE	NYSE	9/2/2003 31.90	23.29	HOLD	n/a		coeur.com
Endeavor Silver	EXK	NYSE	7/26/2007 4.60	3.95	HOLD	n/a		edrsilver.com
Great Basin Gold	GBG	NYSE	12/21/2007 2.45	1.61	HOLD	n/a		greatbasingold.com
Nova Gold	NG	NYSE	2/29/2008 11.50	5.97	HOLD	n/a		novagold.com
Taseko Mines	TGB	NYSE	7/24/2006 2.40	3.54	HOLD	n/a		tasekomines.com
US Gold Corp	UXG	NYSE	9/9/2005 1.70	2.90	HOLD	n/a		usgold.com
Canadian Dollars								
Everton Res.	CA:EVR	TSX	1/4/2007 1.30	0.21	HOLD	n/a		evertonresources.com
Golden Valley	CA:GZZ	TSX	2/20/2007 0.50	0.35	HOLD	n/a		goldenvalleymines.com
Laramide Res.	CA:LAM	TSX	3/16/2006 5.20	1.40	HOLD	n/a		laramide.com
Mega Uranium	CA:MGA	TSX	5/1/2007 6.75	0.76	HOLD	n/a		mega uranium.com
UTS Energy	CA:UTS	TSX	5/15/2006 6.50	2.08	HOLD	n/a		uts.ca
Minera Andes	CA:MAI	TSX	9/11/2006 1.20	0.88	HOLD	n/a		minandes.com

(5) On 5/27/09 Coeur d'Alene had a 10 for 1 reverse split. All prices have been adjusted accordingly.

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 .958 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.