THE
ADEN FORECAST
MONEY • METALS • MARKETS

JANUARY, 2009 *in our 28th year!*

2009: A YEAR FOR BARGAIN HUNTING

It's a new year and that usually breeds some optimism. Following a very tough 2008, we could all use some optimism but the news isn't cooperating, at least not yet.

WANTED: OPTIMISM

The good news, however, is that despite what you hear, things are looking better. The markets are improving and this alone is a good sign and a leading indication.

In fact, we're actually feeling more optimistic than we have in months. The main reason why is because we're starting to see the light at the end of the tunnel, based on several factors. If this proves to be true, it will have far reaching repercussions for both the economy and the markets, and it'll affect all of us in a positive way.

For now though, the news remains bleak, the economy is getting worse and unemployment is becoming a huge problem. People are extremely pessimistic and if we look back for a moment, you can understand why.

INSIDE

GOOD RIDDANCE 2008

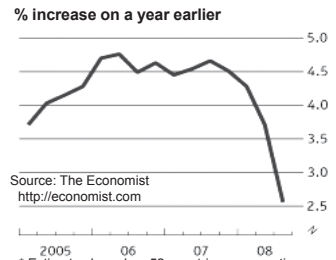
The year 2008 was the worst in 120 years, with the exception of 1931. In 2008, stocks suffered their biggest drops since the Great Depression. The Dow Industrials, for instance, plunged 35%, Nasdaq lost 42% and it was the same story in the rest of the world. The global economy then went into a free fall as panic and fear gripped the globe (see **Chart 1**).

The end result is that few investments were spared. Most markets dropped quickly and sharply and it was one of the few times in history when nearly all of the markets and investments fell together (see **Chart 2**). The destruction of wealth was massive with global stock markets alone losing about $30 trillion.

So what's to be optimistic about? Even though some feel we're on the brink of the next Great Depression, if we look under the surface, a different story is emerging. We know the economy is going to get even worse before it gets better and we know housing prices are plunging. More corporate collapses or defaults are still likely and it's also well known that everyone is deeply in debt, from the government to the average citizen.

But we also know that the government and the Fed have been going all out to turn this deflationary spiraling nightmare around.

CHART 1



The rest of the world is doing the same. They're slashing interest rates, pouring tons of money into the system, bailing out all they feel are important, including banks, auto companies, government agencies, insurance groups… and the list goes on.

SAVE THE SYSTEM AT ALL COSTS

The bottom line is that the Fed is simply not going to let everyone go broke, and take the economy with it, without ongoing intervention to turn the tide around, and neither is Obama. It's reported that the government will end up spending about $8.5 trillion to rescue the financial system. To give you an idea of how much this is, it amounts to about half of everything that was produced in the U.S. last year.

It's an unprecedented amount of money and the biggest rescue in history. It's going to mean ongoing massive money creation, and it'll eventually result in massive inflation.

That is obviously not the concern now, especially since inflation recently had its biggest drop in 60 years. The main concern right now is recession, deflation and depression. So the prevailing policy is, do whatever has to be done to turn that around and then deal with the other repercussions later.

OBAMA RALLY

Obama is moving full speed on this front and that's probably the one bright spot on the horizon for most people. They feel change is coming and a new "take action" president will indeed be instrumental in helping to restore confidence, both within the U.S. and internationally.

The stock market seems to agree. So far, the Dow has risen about 1000 points since its low in November. This Obama rally is starting to gain momentum and as the stock market rises, this too will help restore overall confidence. That in turn will help ease the credit crisis and alleviate many of the other negative factors now making headlines. It's a chain reaction with one element fueling the next, until finally the overall situation will start to look better.

TIME IS ALL WE NEED

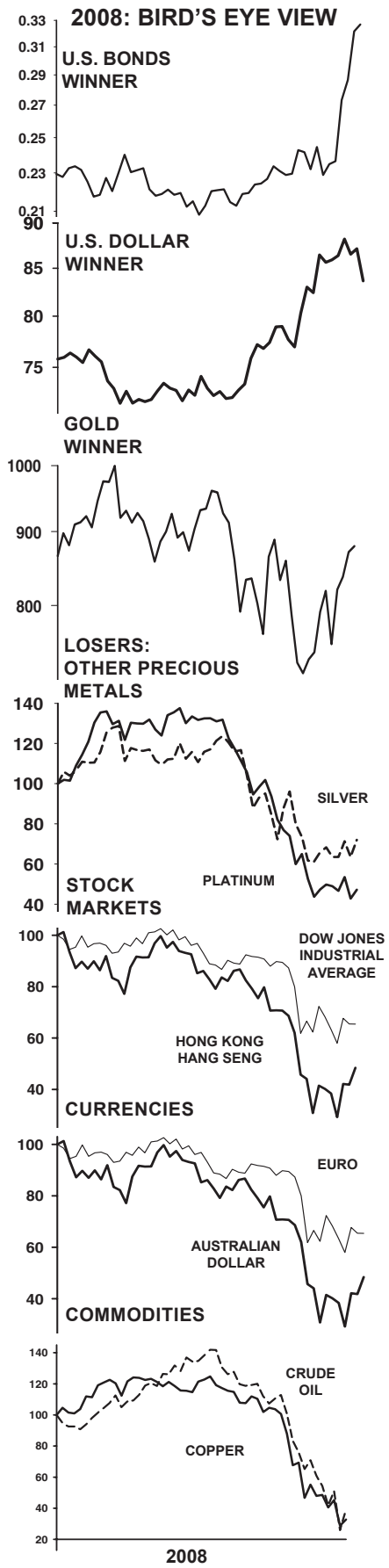
This is not going to happen from one day to the next. It will take time, but the wheels are in motion and they're beginning to pick up steam.

As we've said so many times before, the stock market leads, and so do many of the other markets. Currently, they're pointing in the right direction and that's very important because they're telling us that the Fed will ultimately be successful and the economy is going to get better. That includes real estate, jobs, and stability in the banking sector. We're not there yet. But increasingly, it looks like it's coming, at least based on the action in the markets, which have been at a major crossroads for the past few months.

So whether you agree with the spending or not, the way the financial system currently stands, there's really very little choice. What's the option? Depression. No one is going to stand back and let that happen.

Infrastructure spending, tax cuts, zero interest rates, massive stimulus plans… you name it. It's happening and it's going to mean big inflation and a huge rise in most assets in the years ahead. It'll also mean a big drop in the dollar, as well as bonds, and you should be prepared for that.

CHART 2



MARKETS TELL A STORY...

Already we're seeing signs of this. These are more of the early warning signs we're monitoring, and that's the beauty of the markets. They'll tell you well ahead of time what's likely coming. Sometimes we'll see volatile surprises, like in the last quarter of 2008, but that's unusual. Now that the markets have calmed down, we can again count on them to point the way, which is normally the case, nine times out of 10. So what are some of these signs?

... And they're bottoming

As you'll see in this month's issue, nearly all of the markets are bottoming or starting to move up. That goes for the world stock markets, precious metals, other commodities, currencies and so on. At the same time, the so called safe havens, which have recently been the U.S. dollar, the Japanese yen and U.S. bonds, have been topping and/or declining. Plus, our own indicators and other factors show that these moves will likely continue.

The Ted spread, for instance, is still moving lower (see Chart 9 in our November, 2008 issue). This tells us that there's far more liquidity in the banking system and most important, that the Fed has so far been successful in dealing with the massive credit crisis.

Also important, gold has held up well. Despite its volatility in 2008, it ended the year with a 5½% gain. Although that may not seem exciting, it's much better than most of the other markets. It's also a good sign that gold's major bull market remains intact, signaling that the economy will pull through and eventually inflation will become the big issue, which will push gold up far higher.

So these are some of the things we're watching. And this month we'll provide what to keep an eye on and some ways to start taking advantage of these emerging rises in the different sectors.

U.S. & WORLD STOCK MARKETS

Bottoming and poised to rise

Over the past month, the stock market has been steadily improving. Interestingly, this improvement has coincided with the government's bail outs or action.

The stock market, for instance, hit bottom on November 20. It then rose sharply in its biggest weekly gain in 33 years following the Citigroup bail out. The market continued higher after the Fed slashed interest rates to a record low. The auto company rescue provided a boost as well. Next came the bail out of GMAC and that too pushed stocks higher. The sentiment being that these actions will help revive the economy, and that's probably right based on what the stock market is starting to signal.

SOME LEADING THE WAY

Note that all of the stock indices are bottoming (see **Chart 3**). The same is true of the international stock markets.

So far, Mexico is leading the way up and since the global stock markets generally move together, the U.S. and the rest of the world markets will likely soon follow.

CHART 4

If that seems strange, remember that Mexico and Brazil were two of the strongest world stock markets for several years, leading up to the 2007 peak (see **Chart 4**). As you can see, Brazil is still much stronger than the Dow Industrials, despite its fall in 2008.

So it would make sense that the strongest world markets would be the first to rise and lead the way. It's the domino effect we've often referred to in the past. It now appears to be happening again and that's a very positive sign. But there are other positive signs we're seeing and when you put them all together the picture becomes a bit brighter.

BRIGHTER SIGNS

√ Investors, for example, have generally stopped selling and buyers are starting to come into the market.

√ This is coinciding with the fact that the stock market is the most oversold it's been in decades (see **Chart 5**). It's clearly at an extreme, which is a strong signal that the market is indeed bottoming and it'll soon head higher. It's the same story for the global stock markets (see Hong Kong as an example on **Chart 6**).

√ It's also a good sign that the Dow Industrials has continued to

CHART 3

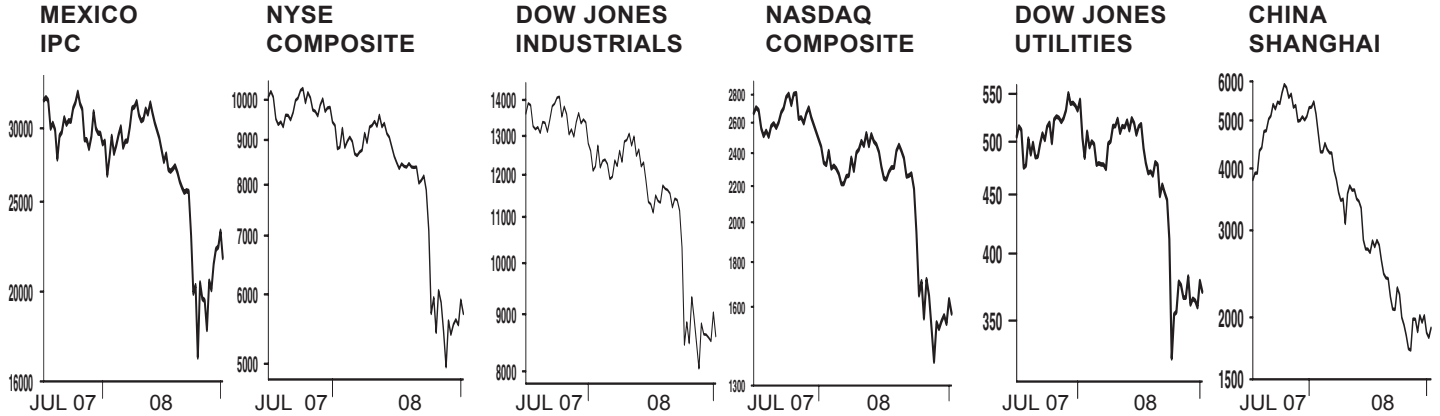


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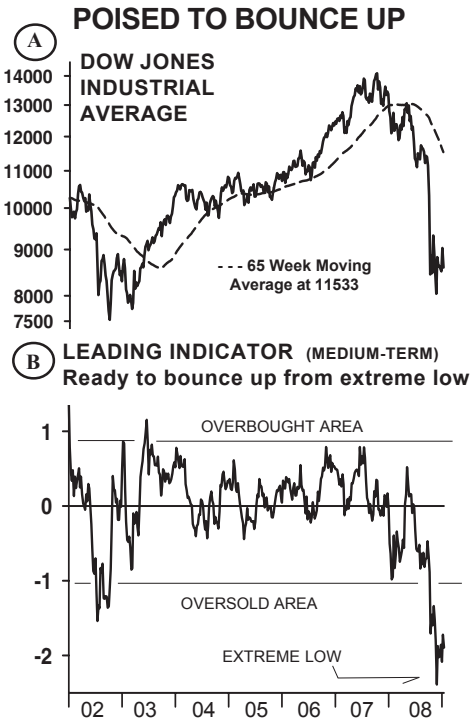
CHART 5



hold above the 7500 area. This marks the 50% level of the bull market rise that started in 1982 and ended in 2007. In bear market declines, a return to the 50% level is normal. So far, the Dow did that, halting its decline just above 7500 in November and it's been moving up since then.

√ Another interesting point in recent years is how closely the Dow has tracked the action leading up to its last big bear market in 1973-74, and the actual drop itself (see **Chart 7**). At that time, the Dow fell 45%. This time it dropped nearly 50%. So this too is an indication that the bear market has likely run its course, reinforced by a large number of panic down days.

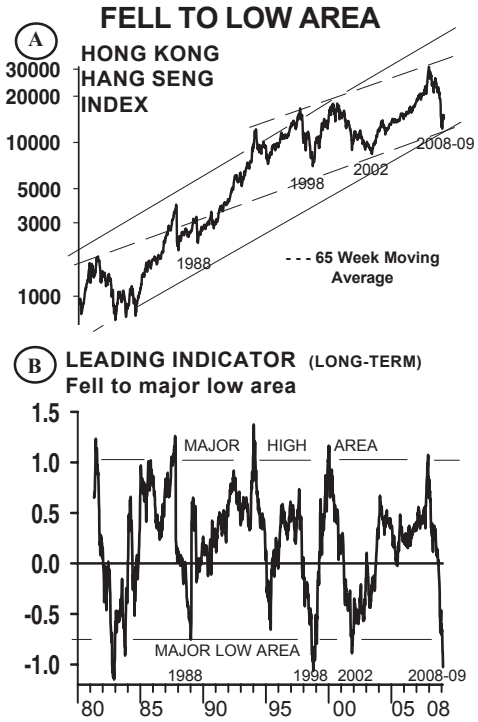
√ At the 1974 bottom, the news was horrible and it's the same story today. Keep it mind, that's fairly typical at major market bottoms because the stock market is forward looking. That is, it will begin a new bull market rise when the news is at its worst. Again, the stock market will lead, and the economy and news will follow, normally a few months later.

√ Yet another positive are the seasonal factors. The stock market generally moves higher in the first four months of the year and it often declines in the Summer and into the Fall.

√ Low interest rates are also normally very good for stocks. And with T-Bills at zero, rates can't get any lower (see **Chart 8**). That was certainly the case in 2002 when super low interest rates helped fuel the 2002-07 stock rise. But note that since 2000, stocks have also moved with interest rates.

Currently, interest rates are extremely bombed out and they'll likely move up this year. If this pattern continues, stocks will rise too, along with interest rates, which would be reasonable as this would coincide with better economic conditions.

CHART 6



WATCH THE MARKET

Okay, so what should we be watching to be more certain that a substantial rise is actually underway? We're watching the Dow Industrials. If it can rise and stay above 9040, and especially above 9600, it'll be a strong indication that it's going much higher. And if it's able to rise above 10750 it will turn outright bullish.

For now, keep the stocks you have and do not sell. If this proves to be just a rebound rise in the ongoing bear market, then we'll sell the stocks we're currently holding at a better price. But if the market turns bullish, we'll stay with our positions. As for new positions, we recommend buying a small position in the ETF for the Dow Industrials (DIA). It will move up, along with the Dow and whether the market turns bullish or not, it should do well in the months ahead.

CHART 7

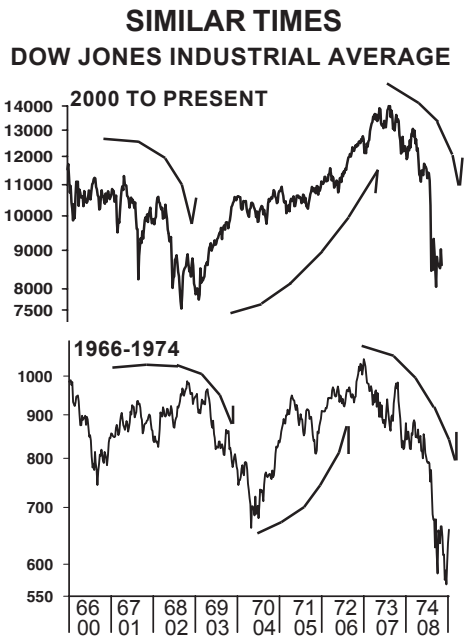
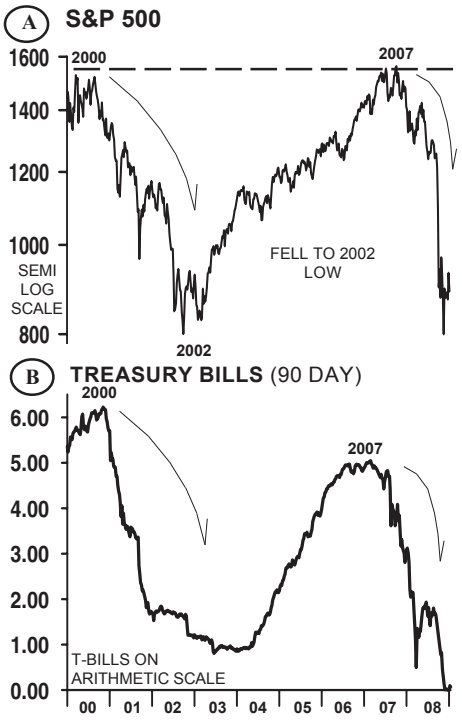


CHART 8

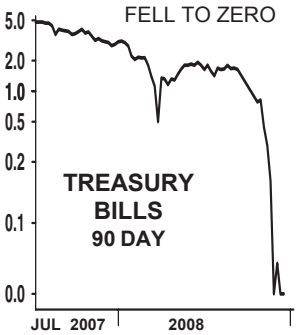


U.S. INTEREST RATES AND BONDS

Zero is as low as rates can go

As we discussed last month, what's been happening in the world of interest rates has been absolutely fascinating. And this month, the drama continued.

CHART 9



FED SLASHES RATES

The Federal Reserve literally slashed its interest rate to the lowest level ever. The official rate is now zero to .25%, making it the lowest rate in the industrialized world. That's right. U.S. interest rates are now lower than rates in Japan, which for years has been known for its extremely low interest rates.

This alone is going to make the U.S. dollar very unattractive but for now, savers don't care. They're far more concerned about safety as the biggest financial crisis since the Great Depression continued to drag on, in what has now become the longest recession in a quarter century.

Interestingly, T-Bills, which are the most liquid, have been in greater demand than Treasury bonds. That was the case both domestically and with foreigners. This is amazing considering that T-Bills are still paying no interest but again, it clearly illustrates how nervous global investors are (see **Chart 9**). And there's good reason for this…

UNCERTAIN ECONOMY

More jobs were lost in 2008 than in the past 63 years and home prices recently experienced another record drop. As you'd expect, this is affecting consumer spending, which is suffering its biggest slump in 66 years. Retail sales are basically following home prices (see **Chart 10**). That is not good news because consumer spending is essentially what fuels economic growth. And if consumers aren't spending, it's going to prolong the recession.

This also explains why U.S. auto sales plunged to a 49 year low last year, bringing the auto companies to the verge of collapse, and why Toyota forecast its first loss in 71 years.

Making matters worse, the U.S. is up to its eyeballs in debt (see **Chart 11**). So of course, people aren't spending. Overall, they're in debt, they're either out of work or afraid of losing their jobs, and they've seen home and stock prices plunge. This is why consumer confidence is at an all time low, which means that the government will have to do all the spending, and that's what it's doing.

Meanwhile, we're also beginning to see more tragedy associated with this financial crisis. Scandals, suicides and rip offs have become common.

EXCESS BREEDS SCANDALS & TRAGEDY

The most dramatic was the $50 billion Ponzi pyramid run by the highly respected financier, Bernard Madoff. His scheme reeled in some of the world's biggest banks, well known names in global finance, charities and celebrities. In the end, it was one big farce. Madoff's fund manager committed suicide. So did the richest man in Germany, who threw himself under a train due to losses unrelated to Madoff and, unfortunately, we're hearing more stories like this, which is reminiscent of the Great Depression era.

CHART 10

First housing, now consumers

US house prices, retail sales, % change on previous year

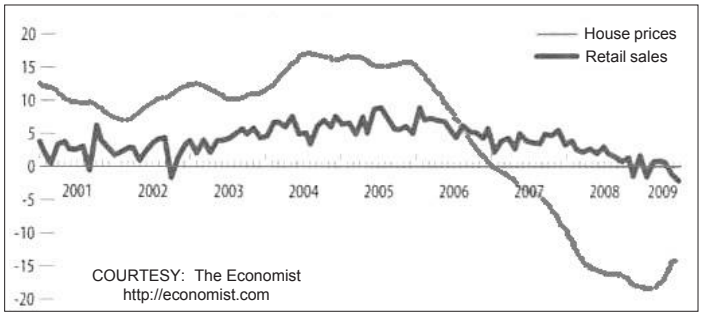
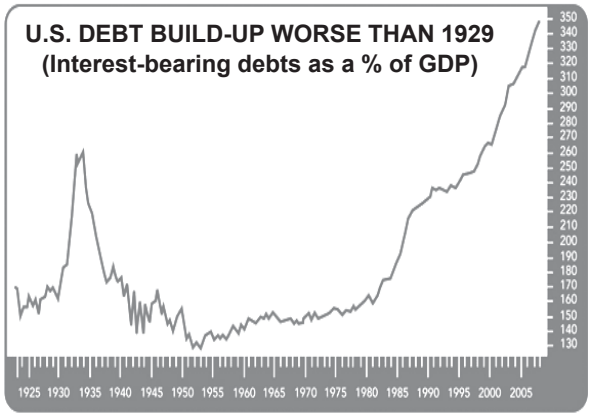


CHART 11



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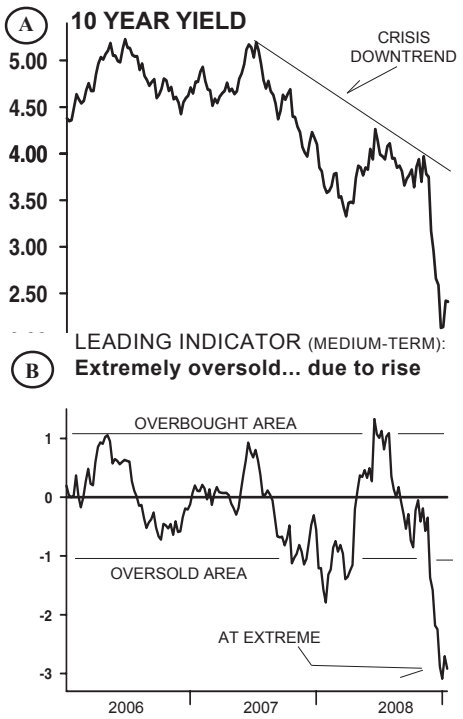
There's no question that this crisis has been horrible for many people and if you're lucky, it's just been tough. That's what the Fed's been monitoring and why it's taking such drastic measures to turn things around. No one wants this to get worse.

FED: Ready at every turn

But now that the Fed has dropped its interest rate to near zero, pumped trillions of dollars into the banking system and it's bailed out so many entities that we're beginning to lose count, its options are running thin. Nevertheless, the Fed

CHART 12

POISED FOR REBOUND RISE



says it will use all of its available tools to contain the financial crisis with the next step being the buying of Treasury bonds. This will add more reserves to the banking system, fueling even greater money creation. That of course will be very inflationary, looking over the valley once this recession has run its course.

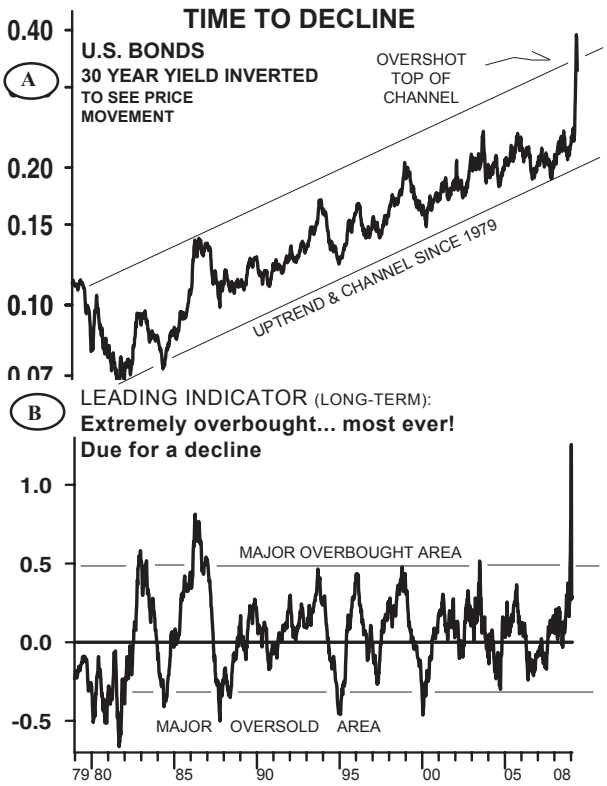
BONDS: Extremely overbought

The very early stages of this shift may just be getting started. As you can see on **Charts 12** and **13**, the 10 year yield has collapsed and it's extremely oversold. At the same time, bond prices have soared and they are at the most overbought levels ever. This tells us that bonds are now headed lower and interest rates are going higher, perhaps not quickly but rather steadily higher.

In fact, that's what's been happening in recent weeks and we expect these moves have a lot further to go, especially since these markets reached such extreme levels. This could be in response to a general feeling that the crisis is being contained, it's not going to get worse, optimism over Obama, the willingness to take on a little more risk, too much supply, less demand for safety, concern about future inflation, knowing the cause has already kicked in big time, and so on.

Whatever the reason, it looks like the days of soaring bond prices are over. As you know, the huge surge at the end of 2008 was in reaction to the global financial meltdown and it was a panic spike. But, if you have bonds, continue to hold them for now. They're still a good investment and they probably will be as long as the economy remains weak. If that changes, you'll be the first to know.

CHART 13



CURRENCIES

U.S. Dollar: Renewed decline

Well, it finally happened and it's yet another sign that the worst of the crisis may soon be coming to an end.

The U.S. dollar fell this month, after rising strongly in recent months as the credit crisis intensified. Last month we discussed that the "bad-news-is-good for the dollar" was an abnormal situation. It couldn't last and eventually the dollar would again trade based on its very negative fundamentals. That's now starting to happen.

The dollar fell the most against the euro since its debut 10 years ago. It also experienced its largest one week decline ever, again versus the euro. But it wasn't just the euro... the dollar fell against all of the major currencies and we believe this will continue. Why?

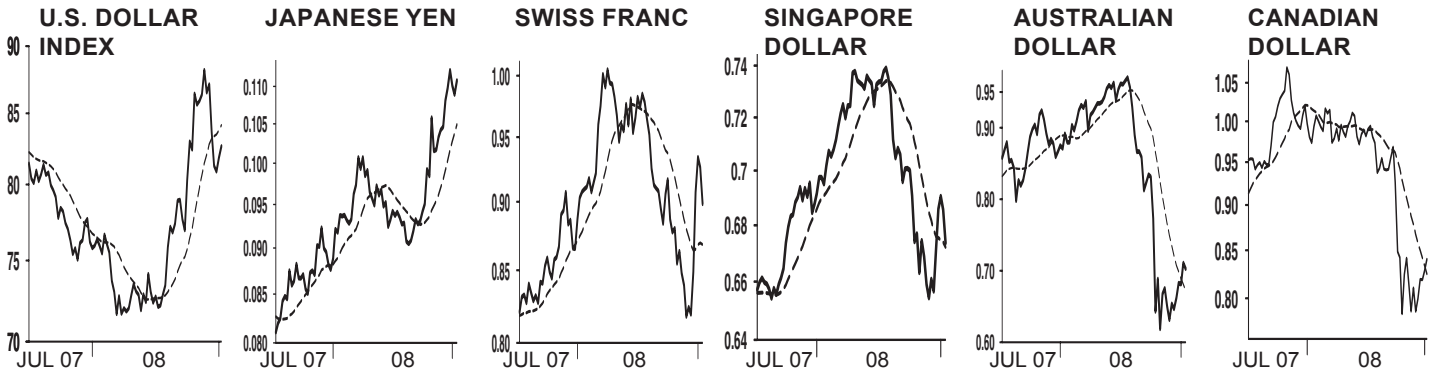
LOW INTEREST RATES = WEAK DOLLAR

One important reason is interest rates. The U.S. now has the lowest interest rates ever, and they're much lower than the other major countries. The Fed's latest interest rate cut to between the zero and .25% range pushed the dollar lower, providing more downward momentum.

Even though investors are still nervous, it's obvious that many are starting to abandon the dollar ship. They're again looking at fundamentals, like the mind boggling debt, deficits, and the massive money creation

CHART 15

HEADED HIGHER



- - - 15 Week Moving Average is key medium-term trend

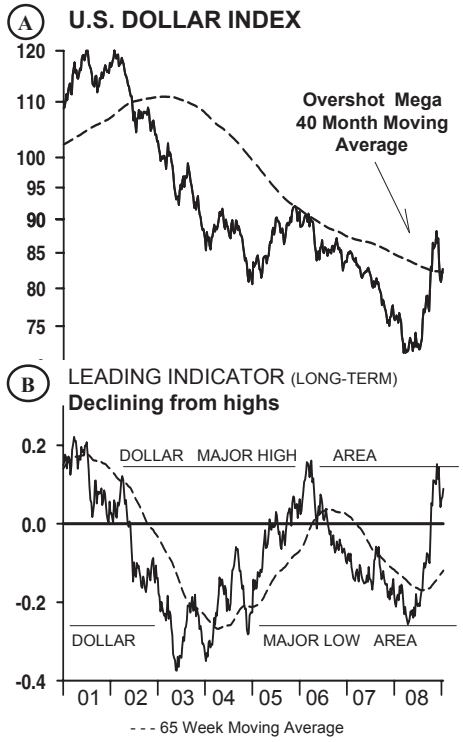
that's going on to save the economy, and they know that, combined with a zero interest rate return, the dollar really has nowhere to go but down. So they're taking action.

You can see this on **Chart 14**, which shows the U.S. dollar index, along with its (long-term) leading indicator. Most important, the dollar index is near its mega moving average. Once it stays below this level, it will reconfirm the bearish trend, meaning that the dollar is headed much lower. And since the leading indicator is just starting to decline from a major high, this tells us that the dollar has plenty of room to fall further and it reinforces this bearish scenario.

It's interesting to note that the dollar index actually hit its peak on November 21. We don't think it's a coincidence that T-Bills fell to zero the day before. That was also the same day the stock market hit bottom, so we've got all these key factors coinciding with one another, which is also an overall positive for both the markets and the economy.

CHART 14

POISED TO DECLINE FURTHER



CURRENCIES RISING

Meanwhile, as the dollar weakens, the currencies are showing some positive signs (see **Chart 15**). Some currencies are obviously stronger than others. With the exception of the Japanese yen, which has been a special case, the Swiss franc has been leading the way up for the others as they bottom.

Even though all of the major countries have also been cutting their interest rates, it hasn't put a damper on the currencies. In the U.K., for instance, interest rates shockingly hit a 315 year low. The main reason why it hasn't made a difference is because rates in these countries are still higher than those in the U.S., which gives them an interest rate advantage and makes them more attractive.

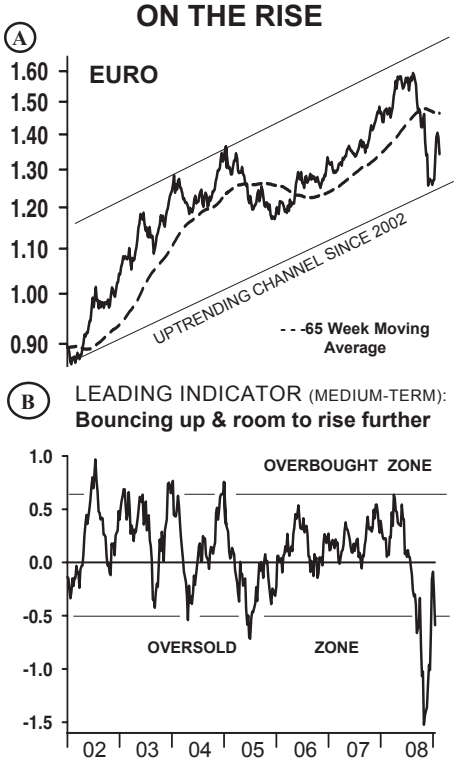
The fighting in the Gaza strip has also put downward pressure on the dollar and it's boosted the Swiss franc, which remains a safe haven. The gradual move back to higher risk trades has helped the Australian dollar as it's still considered a high yielding currency. Rising commodity prices will also be positive for the Aussie and Canadian dollars.

The Japanese yen is in the opposite camp. The rush out of high risk trades pushed the yen up sharply in 2008 but it's now clearly overbought and with the markets beginning to normalize, the yen will likely follow the U.S. dollar down, so we'd avoid the yen for now.

The other currencies are a different story. They remain oversold, they all have room to rise further and they're headed higher (see the euro on **Chart 16** as an example). So keep the currencies you have.

CHART 16

ON THE RISE



METALS, NATURAL RESOURCES & ENERGY

Gold ended year with gain… stands alone

The battered commodity market ended 2008 licking its wounds, while the gold market ended the year with a 5½% gain. During the global credit crisis and recession gold proved to be a good investment as it nearly stood alone in strength. Bonds, the dollar and the yen were the only winners outside of gold, but their rises were clearly a result of the credit crisis.

This makes gold's strength special because 2008 now marks the eighth consecutive year that gold has closed higher since 2001. This means if gold closes above $884 in 2009, we'll see yet one more year added to the bull market.

GOLD IN DEMAND

Physical gold is in great demand, which is why it's been scarce in recent months. Store of value… survival… these have been some of the key words surrounding gold. In a world that won't lend, where nobody trusts anyone and most asset classes are in danger, people have been turning to gold, which is why we see a premium tagged to it. Any uncertainties that arise, be it economic or geopolitical in any form, have also caused a rush to gold.

Plus, with the T-Bill rate (90 day) at zero, it is no competition for gold. (**Chart 17** shows the close relationship between the U.S. dollar and the gold price since the subprime problem first hit in the Summer of 2007.)

Last November 20, for example, was the first time the 90-day T-Bill rate reached zero, which coincided with a peak in the dollar index and a fast rise in the gold price from the lows. Low interest rates hurt the dollar and, therefore, gave gold a boost, which ended up being the rise that caused gold to end the year with a gain.

CHART 17

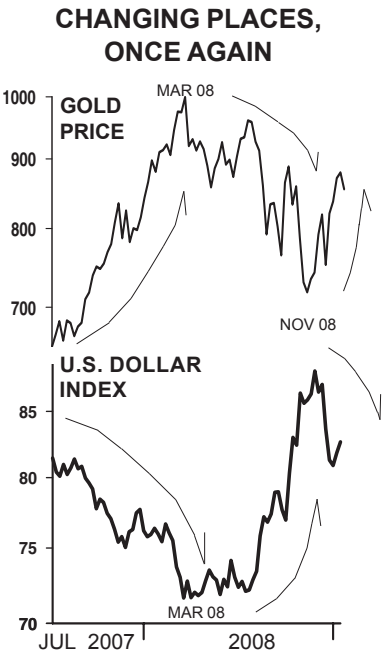
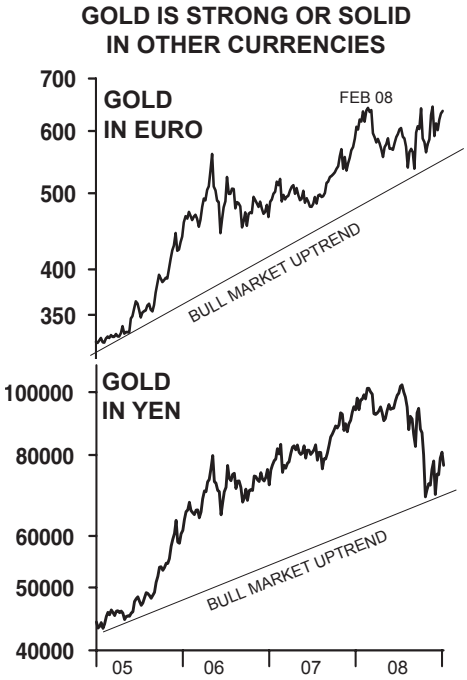


CHART 18



GOLD BULLISH IN MOST CURRENCIES

Gold has also been holding firmly near the highs this year in euro terms. And while it declined in yen terms last year during the crisis when the yen was strong, the trend is still clearly up (see **Chart 18**). This is powerful because gold is in an uptrend in all currencies. It is the ultimate currency.

The mountain of cash being created by the U.S. and the world to fight off the global crisis is probably the main reason to be bullish on gold going forward and it's why gold is in a major uptrend in all currencies. Once the recession and crisis is over, inflation will become the major threat, and gold has always risen together with higher inflation.

The inflation-deflation debate has gone on for years. Since September, however, the threat of the current recession falling into deflation has become more of a reality. But with the Fed, the Obama team and the world's central banks doing all they can to ward off a deflation, it looks like it will be avoided.

Chart 19 provides a good example of this. It shows the ratio of gold to bonds, which is the best inflation-deflation barometer, with its mega moving average. When the ratio rises and it's above the average, like it's been since 2003, gold is a better investment than bonds and it's an inflationary sign.

The ratio has been declining since March and it recently dipped below the mega moving average, which reflects the heavy deflation-

CHART 19

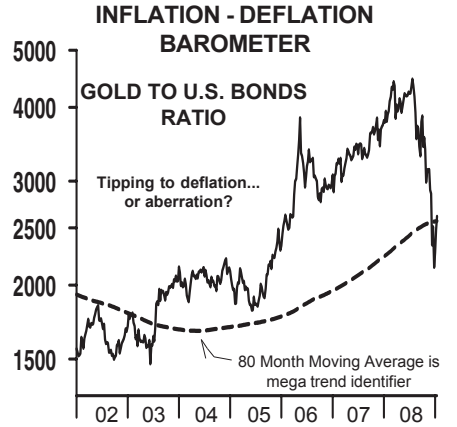


CHART 20

ary environment we've been in. But considering that bonds are extremely overbought and poised to decline, this dip is likely an aberration of the major uptrend, which favors gold. Time will tell. For now, this indicator is at a major crossroads and we'll be watching it closely.

It's also interesting to see that the deflationary impact of recent months hasn't hurt gold that much.

GOLD: MEASURING THE BULL MARKET

Chart 20 shows a good example of gold's strength on a bigger picture basis since 1979. You'll remember gold's steps since the bull market started in 2001. The steps were completed a year ago December when gold broke above its 1980 record high. It surged upward from there until reaching a record high in March, 2008. It has since been moving around this peak area.

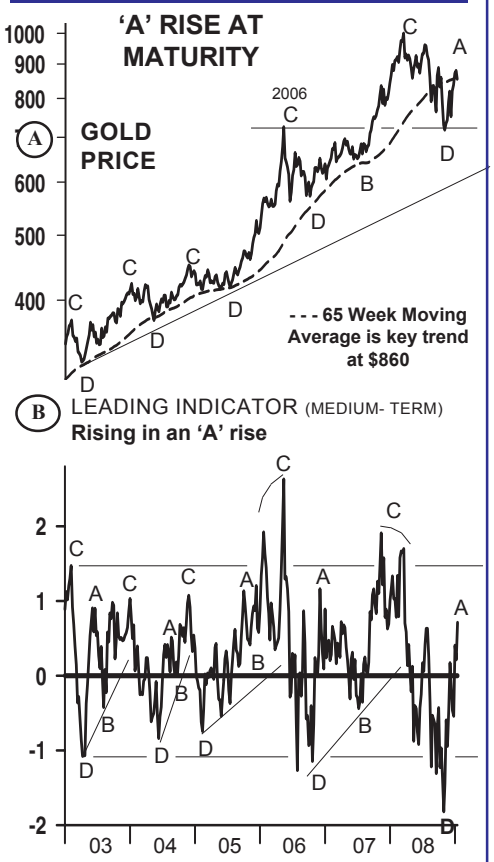
Gold reached a low last November at $705, which was near the 2006 C peak in gold (see **Chart 21A**). This also showed strength because once gold broke above that peak in the Summer of 2007 it stayed above it. This is good because the highs and lows have remained higher as this bull market has unfolded.

Gold's D decline ended with that low on November 13 and a rise we call "A" has been underway since then. Gold shot up, surpassing its 65-week moving average in December, thereby performing like a normal "A" rise. This rise is now at maturity and if gold stays below $835 the A rise will be over.

Currently, a 'B' decline is beginning and under normal circumstances, gold could consolidate for a few months while the B decline forms. Keep in mind, a moderate A rise and B decline would be normal at this time. In other words, the B decline low should hold well above the $705 low reached in November.

In a worst case, gold could decline to as low as the $645 level (the June 2007 low, as well as the uptrend since 2001) but it would still be strong in the big picture.

CHART 21



Once this B decline is over, the low will likely coincide with the 8 year cycle low we showed you on Chart 18 in our November issue.

On the upside, the strength of the next C rise in the months ahead will tell us the overall strength in gold's bull market. At that time, it'll be important to see if a new record high is attained, like gold's been doing during its C rises since 2002.

Gold shares led gold in the run up. After reaching a super low in late October, they shot up and they've been rising in a rebound rise since then. **Chart 27** shows that they generally appear to be leading the other precious metals and the base metals as well.

Gold shares were truly bombed out versus just about everything. **Chart 22B** shows how much weaker they've been compared to gold. For now, gold shares have been recoup-

CHART 22

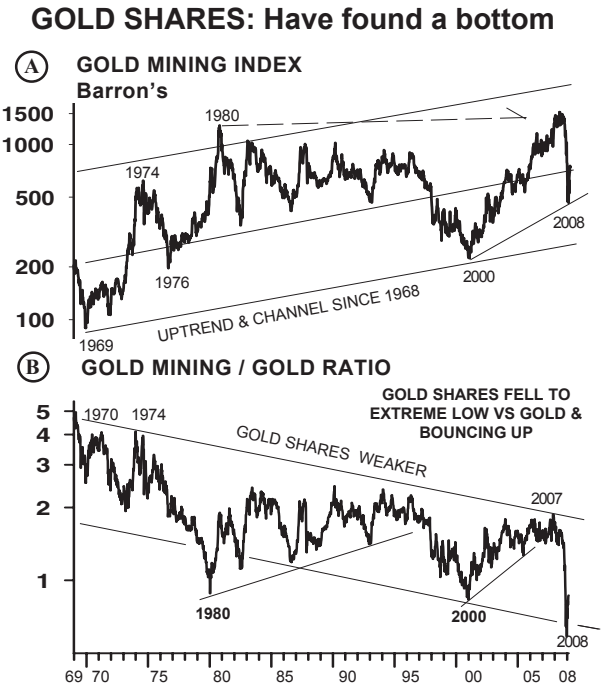
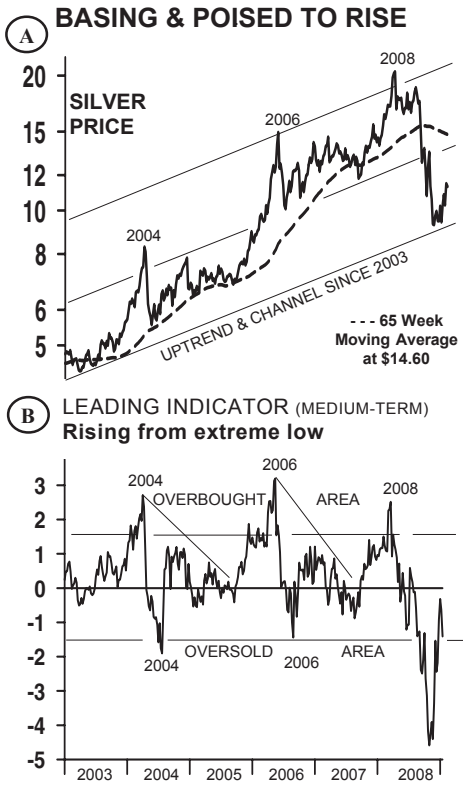


CHART 23



ing ground and outpacing gold. But a further rise will depend on the strength in gold and the stock market. Gold shares are not overbought on a medium-term basis and they've found strong support. They have room to rise further and this may be a sign that gold's B decline is going to be moderate. For now, keep what you have but wait to buy more new positions.

SILVER: Moving like an industrial metal

Silver continues to bottom and so far its rise has been moderate. It's been much weaker than gold since the crisis hit last year, but it's been stabilizing since reaching a low in October and November. Silver is moving with the base metals and since they all look poised to rise, silver should catch up to gold in a stronger rebound rise.

Chart 23A shows that silver is poised to rise to possibly its 65-week moving average at $14.60. Its indicator (B) is rising and it has room to rise further, which means if silver now stays above $10.60, it could rise to $13.50, and possibly $14.60 in an easy rebound rise. It's to be seen if more than this is possible and much will depend on the global economy.

Platinum is looking good, rising from the lows and reaching a 12 week high (see **Chart 27**). It has solid support at $900 but it has some stepping stones to overcome during a rebound rise, which are: $1045, $1220 and $1490.

RESOURCE & ENERGY: Mixed

Commodities across the board have been hit over the past year, and the heavy recessionary environment around the world has kept commodities low. Be it oil, gas, wheat, corn, copper, nickel or zinc, commodities in general will remain soft near the lows as long as the global recession remains intact.

Commodities, with copper at the forefront, are the barometer for world economic growth. The CRB Commodity index provides a good example of this (see **Chart 24A**). It gained 233% from 2001 to 2008 when the world was growing and the emerging countries were developing. After reaching a record high, the index rose to the top of a mega channel where it peaked and it's fallen 47% since then as the credit crisis and housing bust worsened.

CHART 24

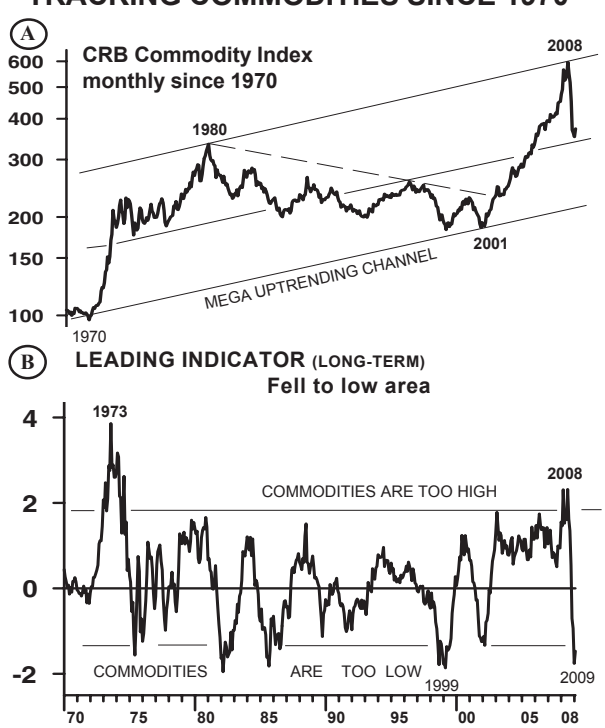
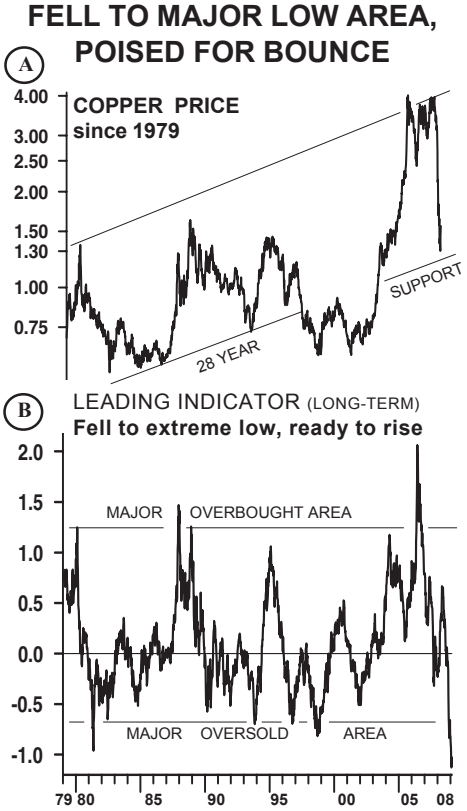


CHART 25



The good news is that it looks like a bottom area is now forming. On a big picture basis, the rise since 2001 still looks good as the index (A) is holding within the upper half of the mega upchannel, while the indicator has now declined to a low area for the first time since 1999 (see **Chart 24B**). This means the lows are near or at hand.

We are just starting to see the base metals rise since the start of the new year. Copper is completely bombed out and it's holding at an important support (see **Chart 25A** and **B**). This is saying that the rise we are starting to see in copper, the base metals, silver, platinum and the commodity currencies, like the Australian and Cana-

dian dollars, are indirectly saying that the global recession will probably stabilize somewhat due to the efforts by the Fed and other central banks.

The infrastructure plan pledged by Obama, to create the biggest public works program to revive the economy since the 1950s, gave most of the commodities a boost. This together with China's ongoing building plans will guarantee that the bull market in commodities will continue for years to come, and we'll want to be well positioned for the next leg up.

China's wealth and influence are essential to rescue the world economy and this could be the trigger for the rise that's just getting started. Once the economic downturn is clearly over, commodities will be the place to be as a lack of new supply will also lead to shortages.

OIL: Dragging its heels

Oil is the weakest commodity of them all as it has yet to find a bottom. The deflationary environment and the oil glut in the U.S., due to the slowdown is keeping pressure on the oil price.

Oil is the last holdout but it's starting to look like it may soon find a bottom. Oil continued to fall this past month, reaching a low in December. **Chart 26A** shows that oil has fallen to its 23 year support while its leading indicator (B) is now also finally oversold for the first time since 2001. You'll remember, oil was the only commodity that was not technically oversold. It had room to fall further, whereas the other commodities did not. This means the downside is now limited for the oil price.

It also means that oil is poised to outperform gold. **Chart 26C** shows oil's relationship to gold. When the ratio rises, oil is stronger than gold and when it declines, oil is weaker than gold. The marked years and lined arrows on the oil price (A) and the ratio (C) clearly show that when oil falls, it's clearly weaker than gold and vice versa. Also interesting is that oil is more volatile than gold. When they both rise, oil rises more and when both decline, oil falls more.

The ratio has fallen sharply since last July when oil peaked. It's now declined to a solid support area while oil itself is oversold (see **Charts 26B** and **C**). This means oil is ready for a rise and when it does rise it will probably be much stronger than gold.

The energy and resource sectors have great rebound potential but it's premature to buy new positions yet. Keep the stocks you have and we'll be watching this area closely.

CHART 26

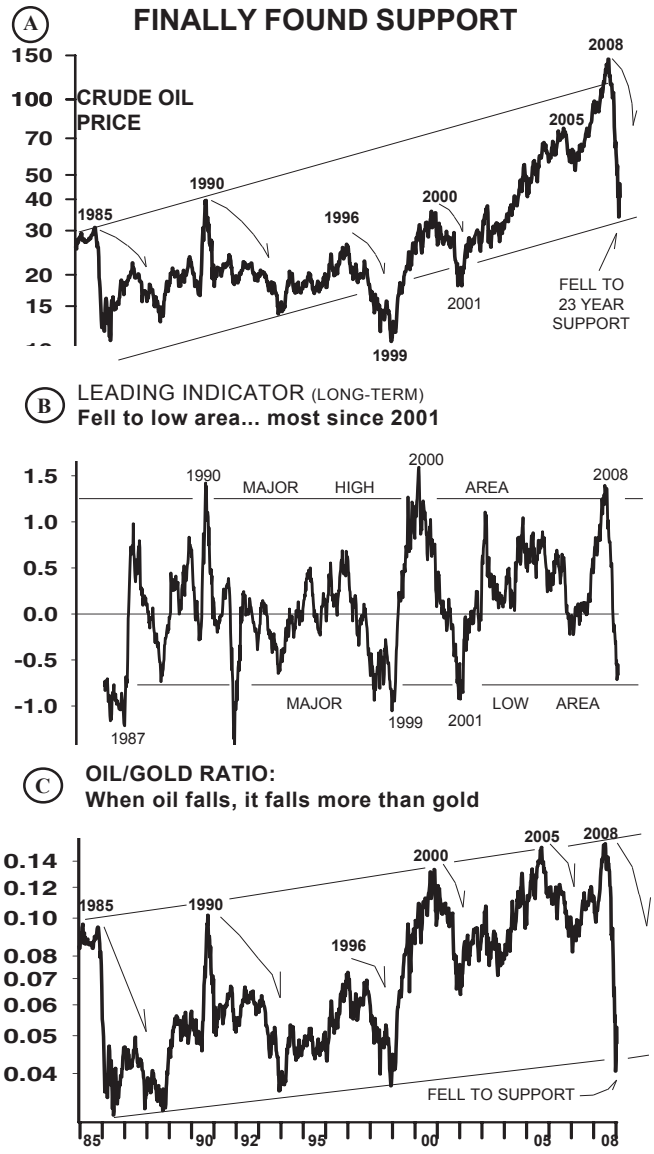
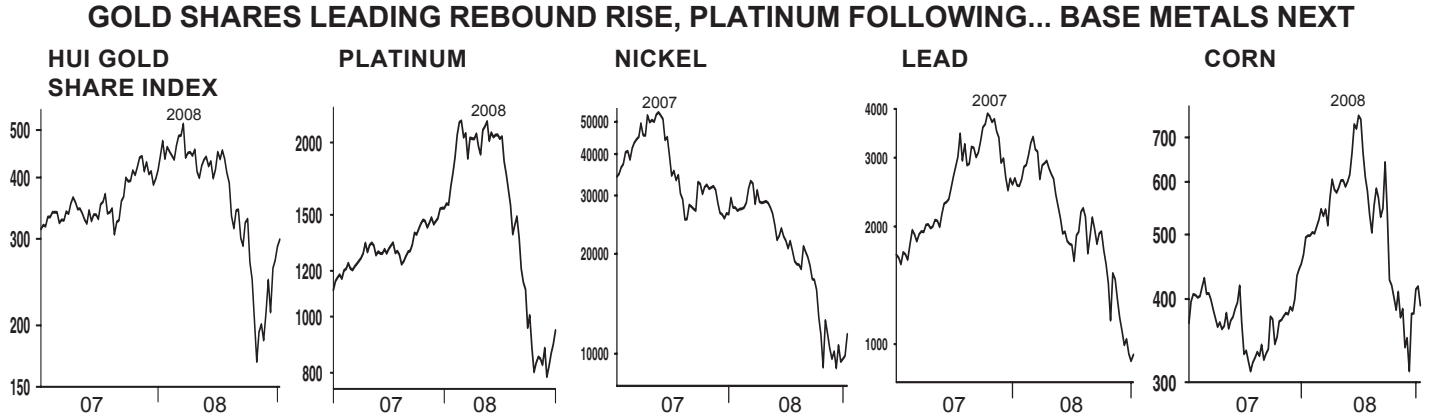


CHART 27



OVERALL PORTFOLIO RECOMMENDATION

The year 2009 is starting off on a better note for the markets. Gold and gold shares have been leading the other markets in a rebound rise, while stocks, the other precious metals, resource and energy shares, and currencies have been bottoming at extremely oversold levels. It looks like this first quarter, and possibly the second, could see many assets rise in a decent rebound rise. Meanwhile, U.S. bonds, the U.S. dollar and Japanese yen are poised to decline.

What to do now to take advantage of the rebound rises...

√ First, we continue to recommend keeping the positions you have, which are listed on the right, including the new gold positions you bought last month.

√ For new positions, we recommend buying a small position in the following stocks, which currently represent the sectors that have the most potential for a good rebound rise. They are: Dow Diamonds ETF (DIA), and Proshares TR (TBT). We'll be adding more as new developments unfold. It's still premature to buy new energy and resource stocks but that may change soon.

STOCK MARKET RECOMMENDATION

The stock market is bottoming and it's showing steady improvement. It's extremely oversold, signaling it'll soon head higher. Keep the stocks you have and do not sell. If this proves to be a rebound rise, then we'll sell at a better price. But if the stock market turns bullish, we'll keep our energy and resource stocks, and/or adjust our positions. For now, buy a small position in Dow Diamonds ETF (DIA) as it will move up along with the Dow. Hold off on other new positions as it's still premature and/or the leaders like Mexico are currently near-term overbought. Watch the Dow. If it can rise and stay above 9040, it'll be a strong sign that it's going much higher.

PRECIOUS METALS AND THEIR SHARES RECOMMENDATION

The gold price has been rising in a rise we call 'A' since reaching its low last November. Gold ended the year with a 5½% gain, which was unique compared to the other metals and commodities. Gold shares rose more than gold in the rebound rise so far. Silver and silver shares, however, are set to catch up, and so are the resource and energy shares. Keep your positions but wait to buy more new positions.

Gold's 'A' rise is at maturity, and a 'B' decline is underway if gold now stays below $835. Gold could likely move in a consolidation band as the B decline develops.

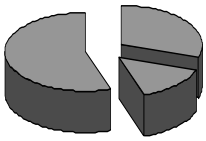
INTEREST RATE & BOND RECOMMENDATION

The Fed slashed its interest rate to the lowest level ever, making U.S. rates the lowest in the industrialized world. Bond prices have risen sharply but they're now the most overbought ever and they're poised to decline. Keep bonds if you have them as they'll continue to be a good investment as long as the economy remains weak. To profit as bonds decline, we recommend buying a small position in the Proshares TR (TBT) fund.

CURRENCIES RECOMMENDATION

The U.S. dollar fell this month and this will likely continue. The lowest interest rates ever, an overbought dollar and very negative economic fundamentals are the main reasons why. For now, keep your 35% position in U.S. dollars, but that may not be the case for long. The currencies are bottoming and they're showing some positive signs. The Swiss franc has been leading the way up and the currencies will likely soon follow as they head higher. Continue to hold the currencies you have and we may be buying new positions soon.

30% Metals
20% Gold & silver physical & ETFs, & gold shares
10% Gold only



15% Energy, resource & other stocks

55% Cash: 35% in US dollar T-Bills; 20% in euro, Swiss Franc, Singapore and Australian dollars, or currency funds

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Eldorado Gold	EGO-AMEX
Agnico Eagle	AEM-NYSE
SPDR Gold Trust	**GLD-NYSE**
GoldCorp	GG-NYSE
iShares Comex Gold	**IAU-AMEX**
Mkt Vectors ETF	GDX-AMEX
Central Fd of Can	CEF-AMEX
iShares Silver Trust	**SLV-AMEX**

RESOURCE, ENERGY & OTHER SHARES

BHP Billiton	BHP-NYSE
Apache Corp	APA-NYSE
Dow Diamonds	DIA-NYSEArca
Proshares Tr	TBT-NYSEArca
DB Commodity Ind	DBC-AMEX
Suncor Energy	SU-NYSE
Transocean	RIG-NYSE
Rio Tinto	RTP-NYSE

CURRENCY ETFs & FUNDS

Swiss Franc Tr	FXF-NYSE
Euro Currency Tr	FXE-NYSE
Merk HD Cur Inv	MERKX-NSDQ
Australian Dl Tr	FXA-NYSE
Franklin Temp Hard	ICPHX-NSDQ

Note: The gold and silver ETFs are listed above in bold. All of the shares, funds and ETFs are listed in order of strength.

