THE
ADEN FORECAST
MONEY • METALS • MARKETS

JANUARY 2011 *our 30th year*

NEW YEAR - NEW OPPORTUNITIES

WELCOME...

First off, we'd like to extend a warm welcome to all of our new former HSL subscribers. We are very happy to have you onboard.

We have admired the legendary Harry Schultz ever since we started in this business, over 30 years ago. We became better friends over the past decade and we not only greatly respect him but cherish his trust and friendship as well. We are truly honored we were asked to take over your subscription to his letter because we know you mean so much to him.

Rest assured that we'll do our best to maintain the high standards Harry Schultz has always provided. That is, good market advice and recommendations, information, continuity and the service you are used to and deserve.

We wish Harry the best of everything as he embarks on this new chapter in his life. And of course, he'll be keeping us all posted.

In essence, we hope you find this transition smooth and we look forward to working for you, and all of our wonderful subscribers in what's sure to be an exciting and profitable year ahead.

INSIDE

2010 WAS A GREAT YEAR

As you know, 2010 ended with a bang. It was indeed a very good year. Gold hit a new all time record high on December 31, resulting in a 30% gain for the year. Silver was even better closing out the year with an 83½% gain.

The big winner was palladium, which soared a very impressive 94%. Happily, we were invested in these markets throughout 2010 (see **Chart 1**).

While not as exciting as the metals markets, stocks also moved up nicely in 2010. Nasdaq ended the year up 17%, while the Dow Industrials gained 11%. The HUI gold share index was up 33% and again, we're glad to report that we were invested in these markets all year as well.

On a personal note, the year ended with more good news... *The Aden Forecast* was named Letter of the Year by MarketWatch, which is an honor we very much appreciate, and we thank you for making it possible. We're sincerely grateful and we'll do our best to keep you on the right side of the trends as the bull markets in gold, silver and the other markets continue to evolve.

2011 ANOTHER INTERESTING YEAR TO COME

Okay, what about the other markets?

This year is going to be challenging and we're fairly certain it's going to be a fascinating one. If nothing else, it'll be most interesting to see how all of the crosscurrents that are currently taking place work out.

As you know, the markets lead and so far they're telling us that better economic times are coming. That'll be good for stocks, commodities, the precious metals and most of the currencies.

Like always though, interest rates will be the key. If the U.S. dollar keeps falling and the bond bubble bursts as we anticipate, then the rise in stocks will probably be cut short sometime during this year, as interest rates rise.

This would also likely coincide with more obvious signs of inflation picking up as a result of all the spending and unprecedented money creation that's happened over the past couple of years.

As for the precious metals, they'll be the most interesting. For instance, 2010 marked the tenth year of consecutive gains in gold, yet few investors seem to be aware of the mega bull market that's been unfolding year after year because the rise has been relatively slow and steady.

But, gold is picking up steam. Despite the recent decline, it has become much stronger. It hasn't had more than a 14% downward correction in over two years, while gaining 100% during that time. This is now starting to attract some

attention, including more traders, which is increasing the volatility in the gold price.

Most impressive, however, is some research our dear friend Chris Weber recently completed. Chris is truly brilliant, he knows history and he has a great track record (www.weberglobal.net).

As Chris points out, gold's 10 years of consecutive gains is the longest he could find in any major market going back to 1800. This would include the roaring 20s, the tech boom in the 90s and all the rest.

He believes this was the biggest story of 2010 and, "the quiet nature of this consistent performance in a decade of turmoil portends something very important for the future: the gradual fall of all paper currencies unbacked by gold."

AVERAGE IN AND BUY ON WEAKNESS

We'll soon see what happens. But as we've often noted, no market goes straight up or straight down, and downward corrections are normal. Considering the steep rise gold just had, a correction is starting and it'll provide a good buying opportunity.

In mega bull markets, however, your best bet is to buy new positions gradually and just average in over the upcoming months. The perfect time may not happen and you don't want to be left behind. That's our best advice and it applies to gold, silver, palladium and the metals related shares.

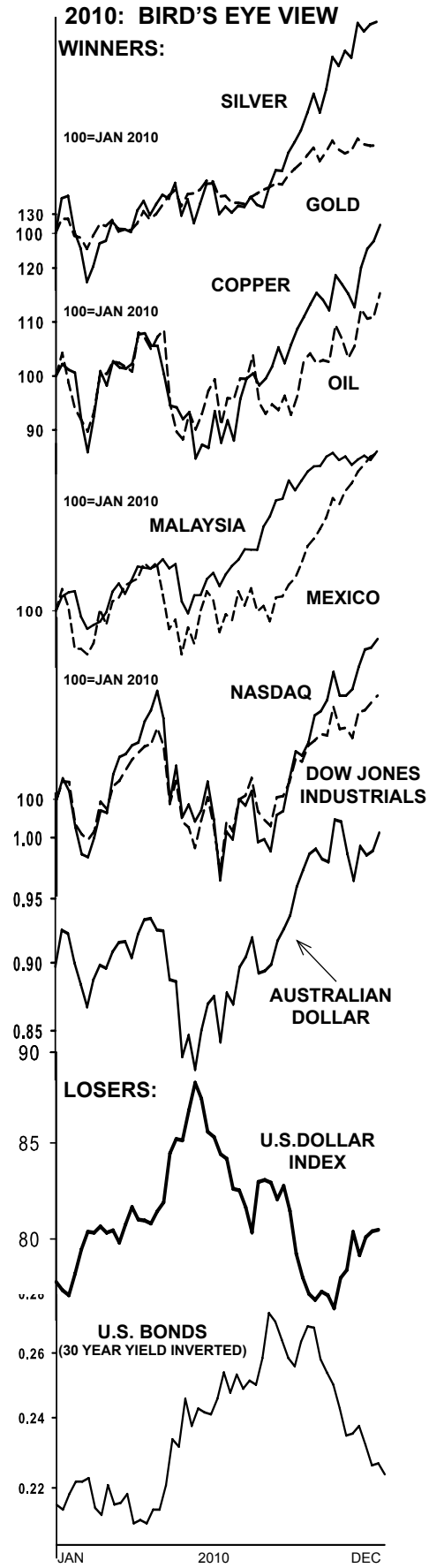
INVEST IN MAJOR UPTRENDS

As our older subscribers know, and to recap as we enter the new year, we believe it's most important to invest in the major market trends. That is, trends that will last at least six months to a year and maybe longer.

The point is, let your profits run for as long as the bull market lasts. Just sit tight and remember, if a major trend is in your favor, you will profit over the long run.

Equally important is to avoid big losses. This sounds simple enough

CHART 1



but it's sometimes hard to implement due to preconceived ideas, scenarios, opinions and so on.

The rule here is, **don't fight the major trend**. If a market turns against you, be quick to sell even if it means taking a loss. Small losses are okay but big ones aren't.

This brings up our next point, which is to diversify. No matter how good a market looks, don't put all of your eggs in one basket. By doing this, you'll automatically avoid the big loss by spreading your risk.

That's why our total recommended portfolio is broken down the way it is. It's based on risk and reward and here's how it works...

STRATEGY

Let's say a market is lower risk and the profit potential is high, then we'll recommend putting a larger percentage of your total portfolio into that market. On the other hand, if a market is higher risk, but still has upside potential, we'll advise investing a smaller percentage in that market.

This has worked well over the years and it's our basic strategy in a nutshell.

Our individual recommendations, and our percentage breakdown of your total investing portfolio for each sector, are always listed on page 12 of each monthly issue. The strongest of our recommended stocks are always at the top of each sector list and those are the ones new buyers should buy, or investors who want to add to their positions. But if it's on the list, we still like it. If not, we'll advise selling.

That's where our weekly updates come in. They'll alert you to any changes in-between your monthly issues.

So that's the bottom line. It's been a result of experience over the years and these rules were established many years ago by former greats in this business. These rules work and we want them to work for you. As we enter this new year, we're ready and again, we'll do our best for you.

Happy New Year and we thank you for your trust and support.

ADEN 2010 SCORE CARD

SYMBOL	NAME	12/31/09 PRICE OR 2010 PURCHASE PRICE	12/31/10 PRICE	% GAIN FOR 2010
	GOLD Physical	1096.20	1421.40	29.67
	SILVER Physical	16.85	30.94	83.66
SLW	Silver Wheaton	15.79	39.04	147.25
NGD	NewGold	5.13	9.76	90.25
PALL	Palladium ETF	44.84	79.86	78.10
SLV	iShares Silver Trust	17.23	30.18	75.16
CEF	Central Fd of Canada	14.05	20.73	47.54
SWC	Stillwater Mining	15.33	21.35	39.27
IAU	iShares Gold Trust	10.99	13.9	26.48
GLD	SPDR Gold Trust	109.8	138.72	26.34
GTU	Central Gold Trust	45.32	54.35	19.92
NATURAL RESOURCE & ENERGY				
FCX	Freeport McMoran	83.46	120.09	43.89
BTU	Peabody Energy	48.76	63.98	31.21
RIO	Rio Tinto	56.03	71.66	27.90
BHP	BHP Billiton	79.57	92.92	16.78
IXC	iShares S&P Glbl Energy	36.78	39.06	6.20
SU	Suncor Energy	36.76	38.29	4.16
CAT	Caterpillar	89.94	93.66	4.14
USO	US Oil ETF	40.93	39	-4.72
X	U.S. Steel	62.93	58.42	-7.17
MT	Arcelor Mittal	47.98	38.13	-20.53
CURRENCIES				
FXA	Australian Dollar	91.29	102.31	12.07
FXF	Swiss Franc	97.39	106.25	9.10
FXE	Euro	126.66	133.09	5.08
FXC	Canadian Dollar	95.72	99.53	3.98
ICPHX	Franklin Templeton	9.64	9.77	1.35
MERKX	Merk Currency	12.1	12.24	1.16
US & Global STOCKS				
EWM	iShares MSCI Malaysia	10.94	14.38	31.44
XLY	SPDR Consumer	30	37.41	24.70
EWW	iShares Mexico	51	61.92	21.41
PSJ	Prshrs Dynamic Soft	21.26	24.96	17.40
QQQQ	Nasdaq ETF	46.42	54.46	17.32
EMF	Templeton Emg	20.7	23.57	13.86
PEJ	Prshrs Leisure	16.37	18.47	12.83
IGM	iShares S&P Tech	54.99	60.45	9.93
DIA	Dow Diamonds	105.66	115.63	9.44
IXN	iShares S&P Glbl Tech	57.13	61.42	7.51
BKF	iShares MSCI BRIC	47.39	49.13	3.67
XBI	SPDR S&P Bio	60.91	63.08	3.56
PFI	Prshrs Financial	18.58	19.01	2.31
JOF	Japan Small Cap	9.4	8.97	-4.57
INTEREST RATES				
RRPIX	Rising Rates	14.6	12.47	-14.59
TBT	Ultra Short	48.22	37.04	-23.19

These are open positions... closed position during year not included.

Let's now take a look at our score card and see what it tells us... Here are the stocks we've been holding through 2010, as well as new ones that were added during the year.

By far, the biggest **winner** was our 40% position in the precious metals and their stocks. Leading the pack with the biggest gains were Silver Wheaton, NewGold, silver, palladium ETF and iShares Silver Trust, which were up 147%, 90%, 83½%, 78% and 75%, respectively. This sector has been consistent over the years. Silver Wheaton has especially been a shining star, gaining 235% in just the past 15 months.

The natural resource group, which made up 20% of the portfolio, came in second with Freeport McMoran in the top spot, gaining 44%. It too has been consistently good, along with BHP Billiton, which has gained 431% over the past 6½ years. The big disappointment was Arcelor Mittal, which we're selling and buying a couple of others with better potential.

Peabody Energy was the top energy performer gaining 31%.

As a group, we held 25% of our portfolio in U.S. and global stocks, which outperformed the energy sector. iShares Malaysia, SPDR Consumer and iShares Mexico were the strongest, rising 31%, 25% and 21%, respectively. Most of the stocks did pretty well. The only exception was Japan Small Cap, which was down, but it's now making up for lost time.

Over the past 1½ years, the emerging markets have held their top stock positions. Mexico has been our #1 stock in this group, with the Templeton Emerging Markets coming in second, scoring gains of 68% and 53%, respectively.

As for the currencies, the Australian dollar was the best as it continues to benefit from the growth in China. It was up 12%.

We avoided bonds, which was fine, but we were premature buying a small 5% position in the rising interest rate investments as they're both down. But they've been rebounding and we'll likely see rising rates this year.

LOOKING FORWARD TO 2011

As for the other major market trends, we believe these will generally continue in 2011. If we see a change, you'll be the first to know and we'll adjust our recommendations accordingly.

In the end, most of our 2010 recommendations moved higher, some obviously more than others, and we hope you're pleased with the results. We look forward to another good year in 2011.

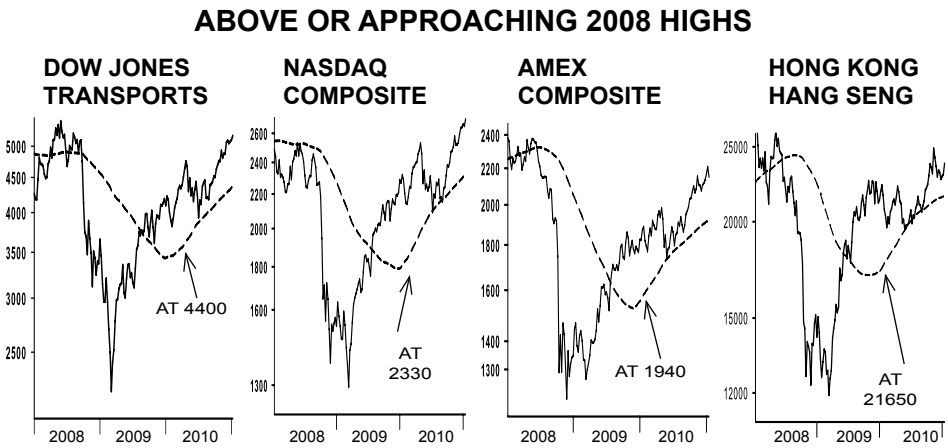
U.S. & WORLD STOCK MARKETS

New highs for the new year!

The stock market has been on a roll. Not only did it rise throughout most of 2010, ending the year with double digit gains, but the new year is off to a great start too.

The bull market is on solid ground, at least so far. The rise has been in force for two years and with the global economy growing by about 5%, the worst case hasn't happened... no double dip or depression. On the contrary, things are looking up and stocks are poised for further gains (see **Chart 2**).

CHART 2



TWO YEAR HIGHS

As the new year kicks off, stocks are hitting more than two year bull market highs. They've essentially recovered the lost ground following the financial meltdown and stock market plunge in 2008. And since stocks look ahead, that's good news for the economy.

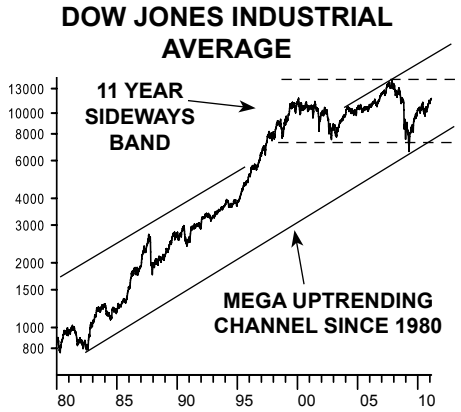
Topping off the year, U.S. stocks experienced their best December rise in almost 20 years. In the end, the Nasdaq and the Dow Transportations were the strongest, gaining 17% and 24%, respectively. But the others did well too with the Dow Industrials and S&P500 both up 11%.

With the new year now getting underway, many of the international stock markets are again leading the way. They're either at new record or bull market highs.

In Asia, Europe and around the world, stocks are not only being boosted by better global economic growth prospects, but by rising commodity prices, which are also helping their economies.

Overall, a more positive and optimistic sentiment is taking hold. As a result, individual investors and traders are very bullish. They see better times coming and they're especially bullish on the emerging markets.

CHART 3



EMERGING MARKET BOOM

As the biggest upmove in 16 years continues, individual investors are flocking into the emerging markets. As we've shown before, these markets have generally outperformed the U.S. stock market by a wide margin.

With the exception of a few, the superior gains in countries like Mexico, Malaysia, Russia and Indonesia have attracted a lot of attention.

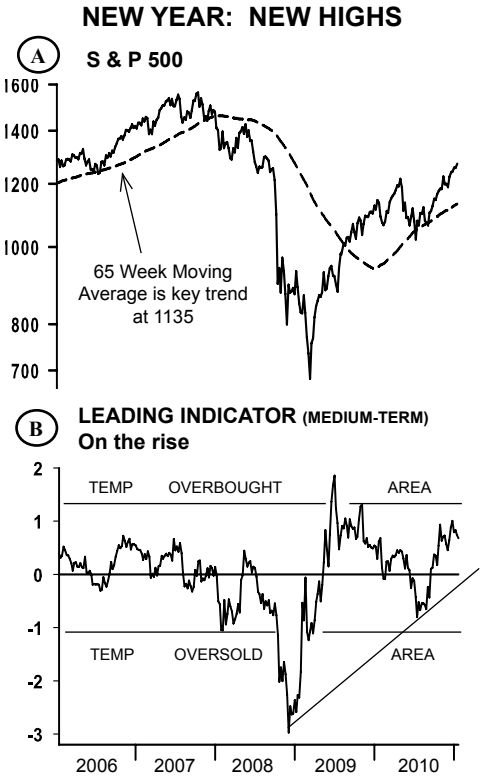
Since 2003, for example, Brazil has risen 447% while the Dow Industrials has only gained 35%. So it's no wonder that investors are now moving into these markets at the fastest pace in over three years.

We've often explained why these markets are outperforming the U.S., but to briefly review...

Started with globalization

Once these countries moved to a more free market economy, either

CHART 4



because of the fall of communism, to pull themselves out of poverty, and/or due to general globalization, these countries started to boom. Over the past couple of decades, they've been catching up with the rest of the world and this year, they were the greatest contributors to global growth. This is expected to continue over the next five years.

Starting from scratch, many of the emerging countries had to build roads, rebuild or expand their infrastructure, provide jobs and so on. Some of these countries were rich in natural sources and this helped too.

The bottom line is that millions of people have been lifted out of poverty. This has increased demand for commodities and other goods, which have all boosted their economies. That's why their stock markets have done so well.

Meanwhile, the old developed nations have been taking on too much debt. They're now growing, but not as fast as the emerging nations. Plus, they've lost many jobs to emerging countries, since wages there are far lower, which has kept unemployment high.

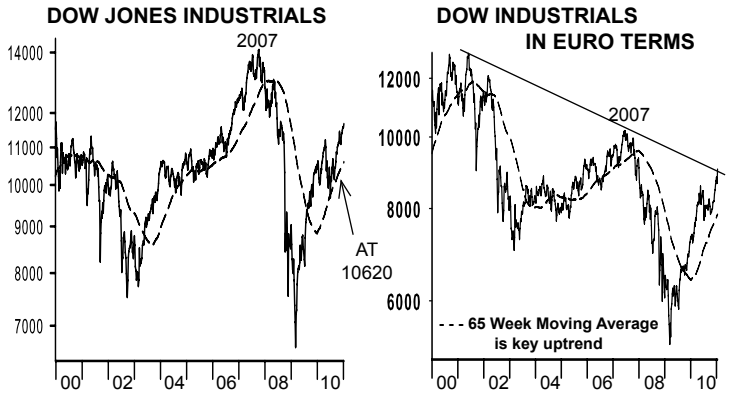
NOT SO GREAT SINCE 2000...

Looking at the big picture of the Dow Industrials, it tells the story...

As you can see, the stock market rose strongly in the 1980-90s (see **Chart 3**). This is essentially when many of the emerging countries were starting to emerge. On the other hand, the U.S. was booming during that time, thanks in large part to revolutionary developments like internet and the technology boom.

CHART 5

NOT SO GREAT FOR FOREIGN INVESTORS



But that all changed around 2000 when the tech bubble burst. Stocks have been going sideways since then and in the end, the Dow Industrials only gained 7% for the entire decade. As for the S&P500, it actually ended the decade down by 5%.

...BUT FOR NOW, IT'S GOOD

Nevertheless, things are looking good for the time being. Taking a closer view, note that the S&P is on the rise, along with most of the other stock markets (see **Chart 4A**).

Plus, its leading indicator is not yet in the overbought area. In other words, stocks could still rise further in the weeks and months ahead, especially considering that the coming four months are normally a time when stocks tend to rise. The same is true during the last two years of a presidential term, which is now the case.

Obviously, that doesn't mean it has to happen. But combined with better economic prospects and bullish sentiment, the odds favor the market moving higher.

Our guess is that the Dow Industrials could still reach its 2007 levels near 14000 (see **Chart 5,** left). But even if it does, that wouldn't make much difference to investors in Europe or other countries where their currencies have been far stronger than the U.S. dollar. As you can see on the chart, their investment gains have been inferior.

This is one big reason why foreign investors haven't been so attracted to U.S. investments lately. And since stocks have been much stronger than bonds, you can also understand why foreign investors haven't been buying many bonds either (see **Chart 6**).

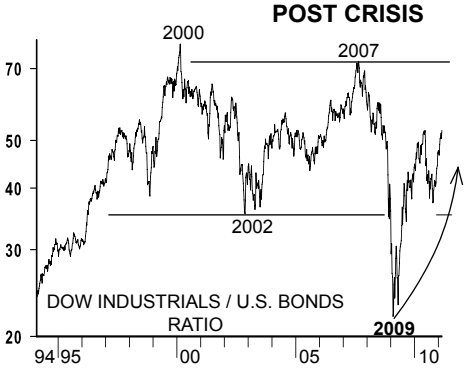
Here you see the ratio of stocks compared to bonds. Stocks have been much stronger than bonds over the past couple of years and we believe this trend will continue into the new year. So for now, an investor would be much better off holding stocks rather than bonds.

If you are holding the U.S. and global stocks we've been recommending, keep them.

For new buyers, or those who want to add to their positions, we'd buy the stocks shown at the top of the U.S. & Global Stocks list on page 12. These are the strongest and they're showing the best potential.

CHART 6

STOCKS STRONGER THAN BONDS... POST CRISIS



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U.S. INTEREST RATES AND BONDS

Interest rates: Poised to rise in 2011

Interest rates held at their highs this month. Inflationary concerns were the main reason why and that'll likely keep upward pressure on interest rates. Why?

As you know, the Fed has been pumping money into the system to keep the economy going. So far, so good but it's come at a very high price.

HISTORICAL MONEY CREATION

Under the Fed's quantitative easing (QE) plans, it bought $1.75 trillion of bonds during QE1. Now QE2 is in force and the Fed has already spent $170 billion with more coming until unemployment gets better, which could take years.

The bottom line... Bernanke has created three times as much money as all of the other Fed heads combined, which is extremely inflationary. And since 10,000 people will turn 65 every day for the next 19 years, it's going to mean ongoing spending and money creation. The bond market knows this and that's why interest rates are rising.

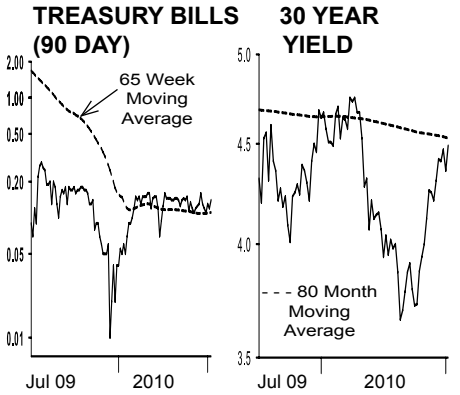
Some argue that the Fed doesn't print or create money and technically, this is true. But the end result is the same. Our friend Bill Bonner recently provided a great explanation of how the process works...

"The days of printing money are long gone. Now, the Fed doesn't do anything of the sort. Instead, it merely buys U.S. government debt (bonds) from banks. But wait. How does it pay for the bonds it buys? It simply credits the banks with the money... electronically. No printing involved. The banks then have money that didn't exist before. The banks are supposed to lend it out. For every dollar they get from the Fed they can lend out 10. That's how it works. So, if anyone wanted to borrow the money, and if the Fed had bought, say $1 trillion worth of government debt, the banks could lend 10 times that amount... thus increasing the supply of money in circulation by $10 trillion. Does that sound like printing money to you? Does it sound like it might cause inflation? Well yes... it would be rather surprising if it didn't."

Reinforcing this sentiment, foreign investors cut way back on their bond buying according to the latest report, investing not even enough to pay for one day of deficit spending. Plus, bond mutual funds recently suffered the biggest withdrawals in over two years. This clearly reflects the growing nervousness among bond investors.

For the first time, we're hearing more talk that hyperinflation will be the final effect of all this massive money creation. And this would be strongly signaled if the 30 year yield rises and stays above 4.53% (see **Chart 7**).

CHART 7



MEGA TREND DOWN... FOR LONG?

As we've often pointed out, this level identifies the mega interest rate trend. That is, a trend that's been in force for nearly 30 years (see **Chart 8**). Currently, the mega trend is clearly down. That's because it's been a time of relatively low inflation.

The bond market is very sensitive to inflation, more than other markets. So looking at the big picture, if this mega trend turns up, it'll mean rising interest rates for years to come. It would also mean the bond bubble has finally burst, a big increase in inflation is on the way and perhaps eventually hyperinflation.

We believe this is going to happen, sooner or later. The cause has already happened, now we're just waiting to see how bad the effect will be. But since the cause has been truly unprecedented, we're in

CHART 8

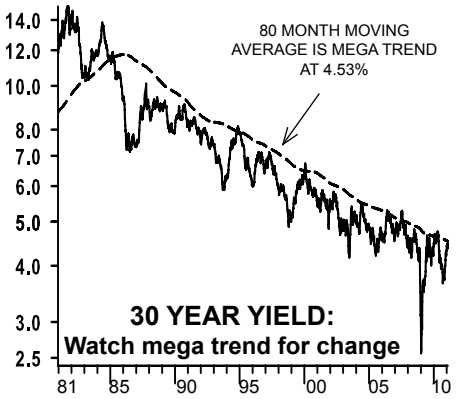
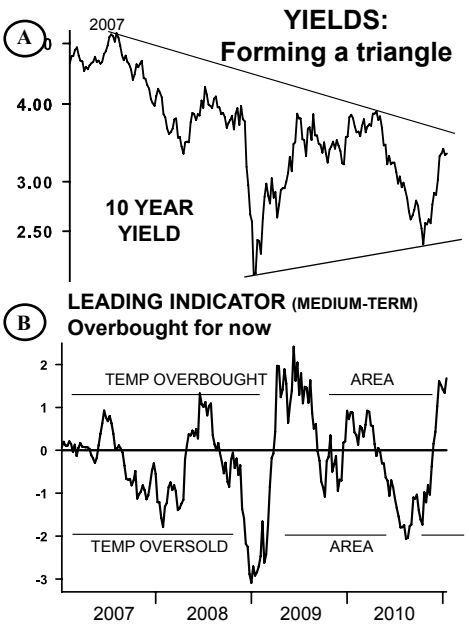


CHART 9



uncharted waters and anything is possible, which is likely why gold has been soaring.

That's why we do not recommend buying bonds. If the 30 year yield rises and stays above 4.53%, however, we'd advise even long-term bond holders to get out. Remember, bond prices plunged in the 1970s and it could happen again.

For now though, the leading indicator for the 10 year yield is temporarily overbought (see **Chart 9**). This tells us that rates have risen far and fast, and they'll probably resist at the mega trend before they head higher. That could happen in the months just ahead, but 2011 will probably be the year that marks the beginning of the end of the low interest rate era.

Think about it… if few investors are buying, except the Fed, there's no other choice. The market will demand higher rates and there won't be much anyone can do about it. We'll see what happens, but stay tuned…

CURRENCIES

U.S. dollar: Stabilizing... for now

As you know, the U.S. dollar has been very weak. It hit all time record lows against several currencies as 2010 came to a close. But as the new year began the dollar bounced up, so what's going on?

SPIRIT OF OPTIMISM, FOR NOW

The U.S. is the world's largest economy and what happens in the U.S. affects the rest of the world. The improving U.S. economy is just starting to attract global investors to the dollar, especially since Europe's problems in some of the debt ridden countries keep resurfacing.

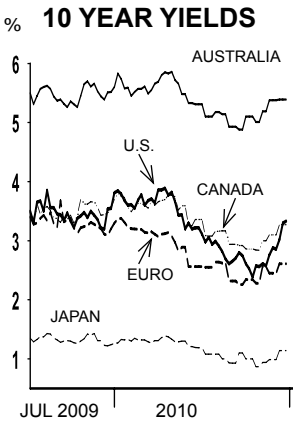
But the U.S. is in the same boat. It too is loaded in debt. The U.S. deficit, for instance, is now at $14 trillion. Remember, it took 200 years to reach the $1 trillion mark. That was only 11 years ago and debt has been soaring since then. The tax cut agreement and ongoing spending means debt will continue to spiral, but for now these fundamentals don't seem to matter…

The markets have decided to take an optimistic view. Even though Germany was the fastest growing developed country in 2010, the U.S. is being viewed as a better option than the Eurozone, which is another reason why the U.S. dollar is stabilizing.

Plus, U.S. interest rates have been moving up. So far, that hasn't attracted many investors, but it could.

Interest rates are starting to rise globally (see **Chart 10**). With world food prices at record highs, we believe this emerging trend will continue in an effort to keep inflation in check. That too will be good for the dollar, at least for the time being.

CHART 10



MEGA TREND IS DOWN

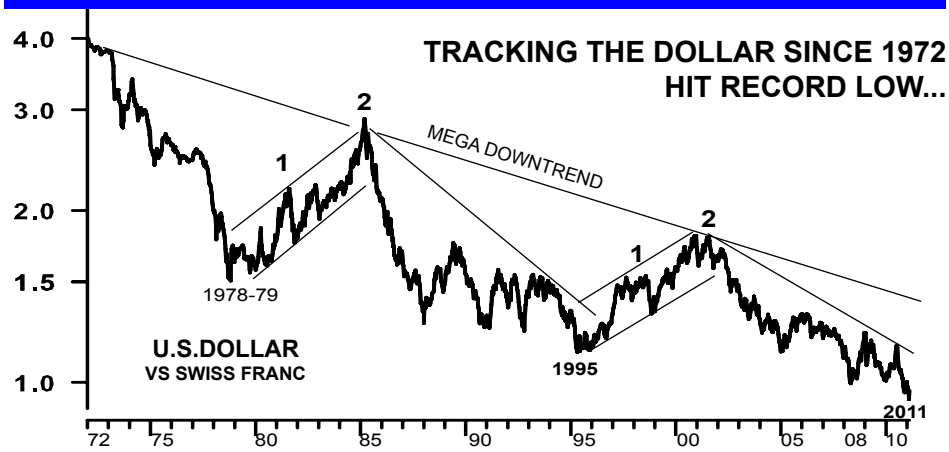
Despite these near-term positives, it's important to keep in mind, the dollar's been falling for four decades. The mega trend is clearly down and that's not going to change (see **Chart 11**).

Nevertheless, within this decline, there are times when the dollar rises, or corrects. This may be one of those times, like in the early 80s and late 90s, but we'll see.

Currently, the dollar will remain in a mega bear market decline unless the U.S. dollar index rises and stays above 82.50. If it does, then a significant dollar rebound would be underway. If not, we'll likely continue to see more of the same.

Regardless of what happens in the near term, foreign central banks are still generally easing out of dollars. They're adding other currencies and gold to their reserves. Plus, many countries are also taking more action to remove the dollar from their trade agreements. This

CHART 11



month, India joined in following China's example.

Pressure on currencies

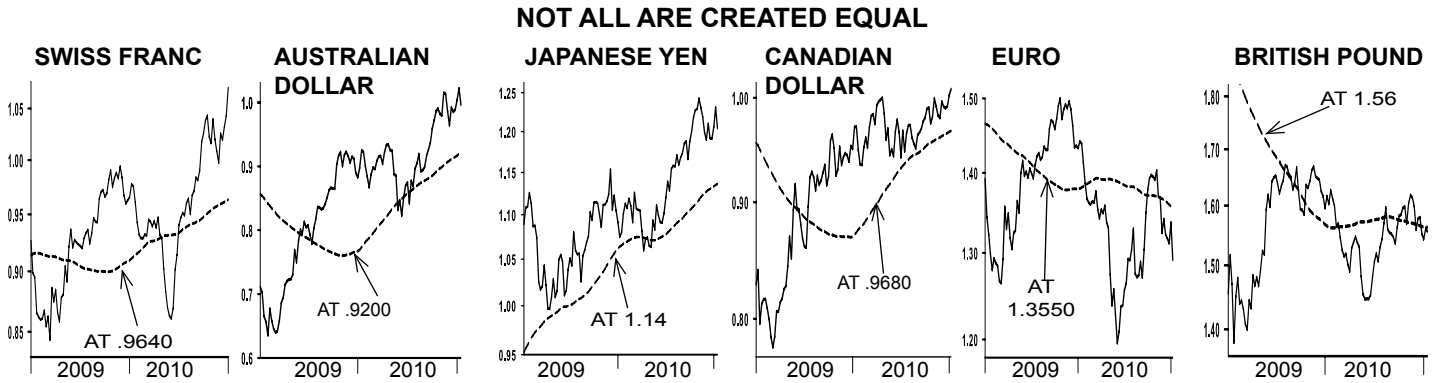
Meanwhile, the currency markets are starting to feel the heat. As the dollar stabilizes, they've been struggling since the new year began (see **Chart 12**).

For now, the makets are focusing on the negatives...lower commodity prices, the terrible floods in Australia, concern that Portugal may be next in the debt crisis, and so on. And while it's true that these factors obviously will affect the currencies, we also have to look at the basics...

Most of these currencies have risen far and fast over the past two years. They're due for a downward correction, which will likely coincide with gold's temporary decline.

That being the case, we now recommend keeping your cash in U.S. and Canadian dollars. We may rebuy some of the other currencies in the months ahead but risk has increased and it's now best to stand aside.

CHART 12



METALS, NATURAL RESOURCES & ENERGY

Gold's bull market: 10 years old

The year ended with a bang... record or multi-year highs in gold, copper, silver, palladium, cotton, tin, cattle... Yes, 2010 was a great year for the precious metals and commodities, as they beat stocks, bonds and the dollar.

Gold has now closed in on 10 years of consistent yearly rises, gaining 30% in 2010. Silver and palladium were more impressive, gaining 83½% and 94%. Yet with all this bullishness, Americans are just realizing the existence of this powerful bull market. Disbelief has turned to awareness.

NO BUBBLE YET

A year ago when writing our January issue, many were worried about a gold bubble in the making. Now here we are, one year later, 30% higher and no bubble in sight. In fact, when we see a bull market developing as strong as this one, with moderate public awareness, we know the blow off stage is still far into the future.

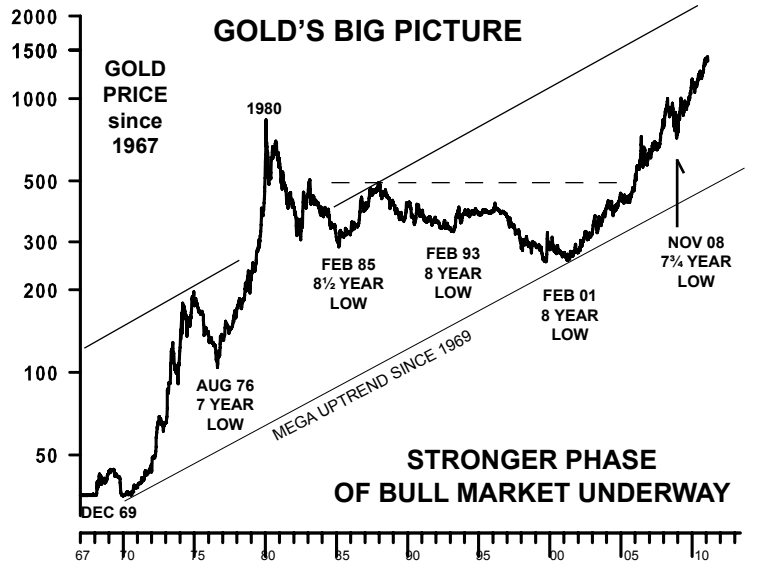
The wise words... the trend is your friend... as trite as they may sound, are today's powerful investing words. And especially since gold and many commodities fell this week from their record highs.

Profit taking took over in a market that went higher than most expected this past year. Plus, with the economy looking better and the dollar stabilizing, gold's safe haven status has taken a back seat... for now.

The last several years have taught us to expect the unexpected. But even when you are expecting it, it's still a surprise when it comes.

The national debt, for instance, just reached the $14 trillion mark... jumping up from the already high $9 trillion level just three years ago. That's a 55% rise, which

CHART 13



is moving in tandem with the jump in gold and silver. They are rising together… .

Buying and accumulating gold and silver is insurance and protection against financial uncertainty. The lack of fiscal discipline, along with inflation concerns over QE2 and the European debt crisis was the latest (yet ongoing) worry this new year.

STRONG DEMAND

Demand is very strong. For the first time, gold is being bought more for investment purposes than for jewelry. Physical demand from consumers is a main reason why gold is up.

The IMF sold gold directly to central banks this past month. India bought most of it at 300 tons (remember a year ago in November when India bought at $1000), but a few other developing countries bought as well. Central banks overall are buying more gold than they're selling according to the World Gold Council.

CHART 15

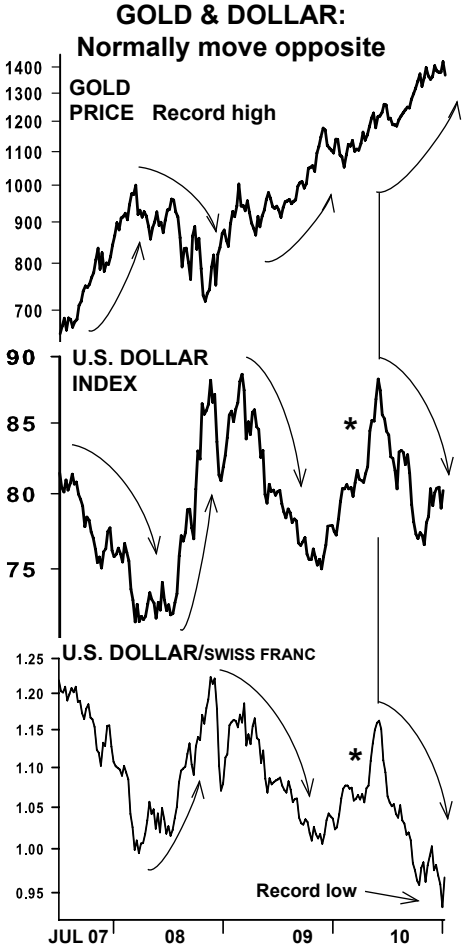
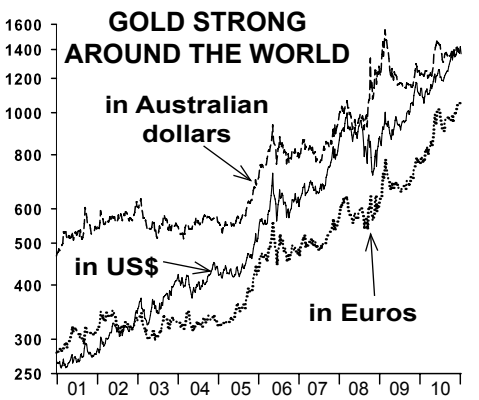


CHART 14



Physical demand for gold is growing around the world with investors and central banks alike. In fact, this trend is intensifying with each passing month.

GOLD'S BULL MARKET

If we had to pinpoint a time during the last 10 years when the gold price broke out into a full on bull market, it was in 2005 when the $500 level was clearly broken (see **Charts 13 & 16A**). That was a key level at the time and this break out coincided with the launching of gold's ETF, GLD.

It was also clearly a break away from the dollar as gold began jumping up in all currencies (see **Chart 14**). This is when the bull market started heating up and gold never looked back until it surpassed the 1980 record high in 2008.

The financial crisis pushed the gold price down in the sharpest correction in the bull market, yet gold closed 2008 up on the year, which was only bettered by bonds at the time. Most impressive, it didn't take gold but a few months to reach a new high once again.

Most important and the reason why we are going over the bull market is because the gold price has been on a tear with not even a 14% decline since the crisis low in Nov 2008. Gold entered a stronger phase of the bull market along the way in September 2009, and once again it never looked back.

Interestingly, the Nov 2008 crisis low was near the recurring 8 year lows that gold has followed since the 1970s. That is, gold tends to reach a low every 8 years (see **Chart 13**). If this pattern continues, this means that gold has several more years ahead for an exciting bull rise to develop. In many ways it feels like 1976 again… only this time around the world is more complex and involved. The emerging world is carrying the load, while the developed world strangles on debt.

Bull: time for a rest

For now, however, the strong rise is starting a downward correction. Will it be a decline similar to the one last February when gold fell 13.30%, or will it be milder, like in the summer when gold lost about 8%? We'll soon find out, but a correction at this point is not at all unusual. In fact, gold's strong rise was overdue for a normal correction.

Gold tends to move opposite to

CHART 16

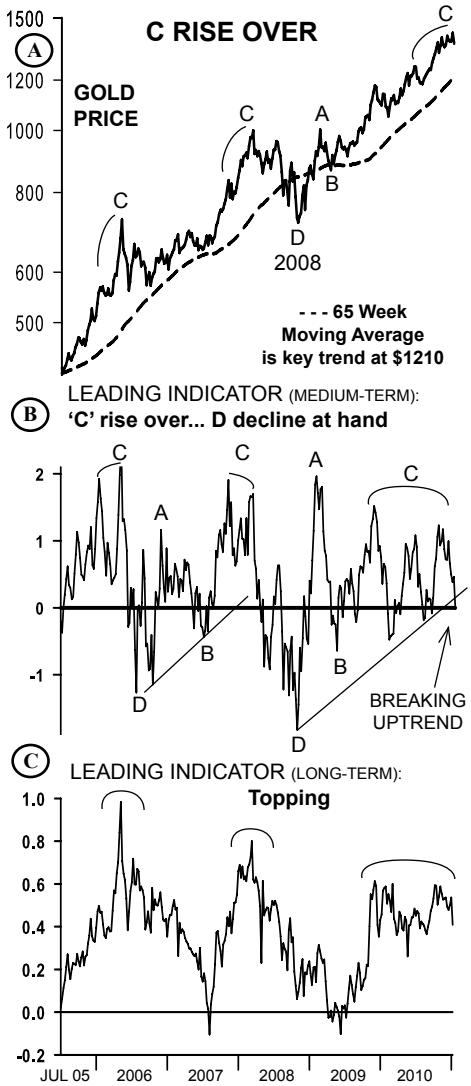
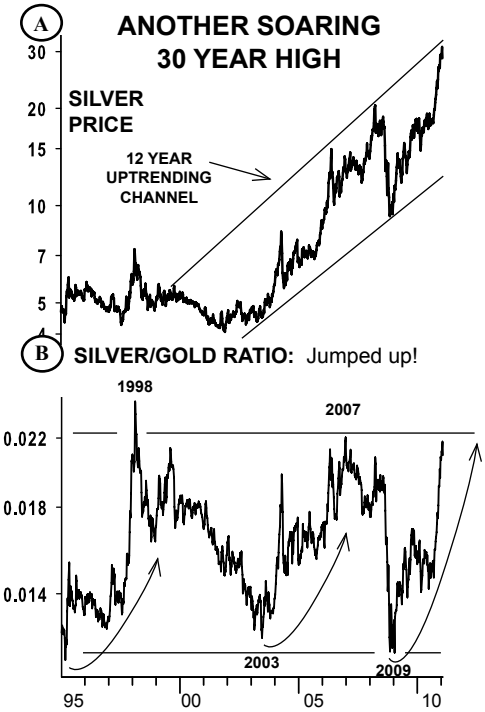


CHART 17



the dollar, as you can see on **Chart 15**. The dollar and currencies have been volatile compared to gold's steady rise of the last two years.

Note about a year ago the dollar rose with the gold price (see asterisk). But actually it wasn't a strong dollar at all, it was due to a collapsing euro during the January–June time period. The dollar then went on to fall sharply, especially versus the Swiss franc when it fell to a record low.

This is suggesting that gold could correct further now while the dollar bounces up.

There is a twist... the Fed's bond buying is very bullish for gold because it'll eventually lead to inflation. Meanwhile though, the Fed's bond buying is stabilizing the economy, which in the short-term is good for the dollar, and most interesting, this will likely tie in with the downward correction in gold.

GOLD TIMING

The key now is to watch the guidelines to measure gold's weakness. Our best guideline is shown on **Chart 16**. This indicator, as we explained last month, is our favorite in helping to time intermediate moves in the gold price. It's currently telling us that the wonderful intermediate rise of 2009-10 is maturing (see **B**).

The best rise in gold's bull market is a rise we call "C" which has been in process since April 2009. This current rise more likely peaked on January 3rd. This means gold rose almost 64% in this 21 month time period... a super rise indeed and the strongest C rise of the last 10 years.

Our focus now is on the upcoming decline, we call D and to measure its likely depth.

A 10% - 15% decline would be a healthy one and it would show overall bull market strength. This means a decline to the $1280-$1200 level would be a normal decline within gold's strong bull market. This level also coincides with the 65-week moving average, the major support level, now at $1210. D declines tend to fall to this average, but the exception was the 2008 extreme.

Discarding this 30% extreme in 2008, the worst decline in this 10 year old bull market was in 2006 when gold fell 22%. A similar decline could take gold down to the unlikely $1110 level. But even so, it's important to keep in mind that the rule of thumb is for the price to stay above the prior C peak.

Overall, we think the 65-week moving average could be tested but last July's low at $1158 is unlikely to be violated. Use upcoming weakness to buy with both hands.

SILVER: Amazing

Silver is the shining star as it just completed its biggest yearly advance since 1979. **Chart 17A** shows the over 50% jump in silver just since September when it broke above its 2008 high at that time. Major support for silver is now higher, at $20.50, than the highs were then.

Silver essentially reached close to a record high with the new year because, historically, it was only above $31 for a couple of weeks in 1979-80. That was a blow off bubble level then while today those levels are being reached in a different form of strength.

Chart 17B shows silver compared to gold (the ratio) since 1995. Note the times silver clearly outperformed gold... in 1998 when the tech boom was in full bloom and during the real estate and emerging country boom in 2003-07.

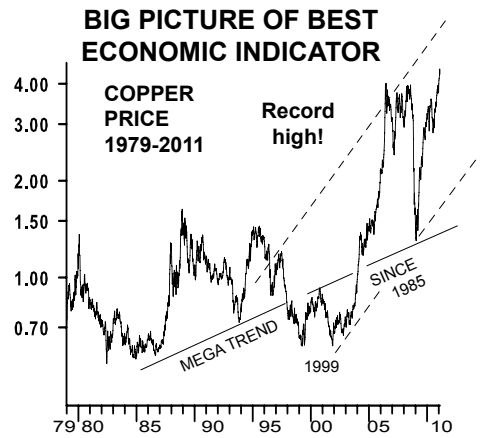
Silver is better than gold when both gold and copper are rising together... gold being the precious metal leader and copper being the resource representative. Silver is both a precious and an industrial metal, which is why it jumps up when both are strong.

Since the summer, we've seen global growth pick up and the dangers to the financial markets subside. The U.S. mid-year slump did not become a double dip recession. This gave a big boost to the commodity arena, which is why silver shot up more than gold.

Silver has now reached a high level compared to gold. This is saying that silver has risen enough versus gold for the time being, and it's coinciding with an overbought situation in gold and silver. In es-

CHART 18

CHART 20



sence, gold is set to outperform silver by declining less during weakness. This is normal since silver is more volatile than gold.

Keep an eye on $27 as silver will remain strong even if it declines to this level. In a worst case, its rising major uptrend is at $20.50 which could be tested **if** the $25 level is violated.

Palladium is on a tear, rising even more than silver, and reaching another 10 year high on January 13. We bought palladium's ETF a year ago when it was first launched and while it too is due for some down time, it will remain very strong above $700 (see **Chart 19**).

GOLD SHARES HIT RECORDS

Gold and silver shares have been great as well. The gold share index reached record highs, as you can see on **Chart 18A,** which shows the big picture. Gold shares have been in a mega uptrend since 1968 and the upside potential tells us to stay the course in spite of weakness.

Also, on a big picture basis, you can see that gold shares are weaker than gold (see **Chart 18B**). But there are important times when gold shares are better… during the 1980-95 bear market, gold shares held up better than gold did. Also from 2000-07 gold shares outperformed gold. And following the financial meltdown, they rose from bombed out levels versus gold.

The ratio is still poised to rise… favoring gold shares. Meanwhile, gold shares are declining and they seem to be leading gold's decline. If the HUI index declines to possibly 495, the market would still be very bullish providing a great buying time.

ENERGY & RESOURCES: OFF LIKE A BANDIT

Global economic growth is the key to higher resources, energy and commodities in general. The fact that copper is at a record high, while oil is at an over two year high, as well as many other commodities, is proof that the global economic recovery is on track (see **Charts 19 & 20** as a sample).

The U.S. economy grew more than estimated in Q3, while China looks good too, along with many countries. Global output is close to 5%.

And now with Europe trying to solve their debt crisis, with China and Japan helping them, it's giving an additional boost to resources. In fact, world food prices are exceeding the levels reached in 2008!

The terrible floods in Australia are causing coal and its stocks to soar. And with the global climate being so violent, from Brazil to Australia to the Northern countries, most of the globe is being affected by extreme weather, which will also keep upward pressure on commodities.

We had a version of this in Costa Rica this year, with floods, landslides and freak storms.

CHART 21

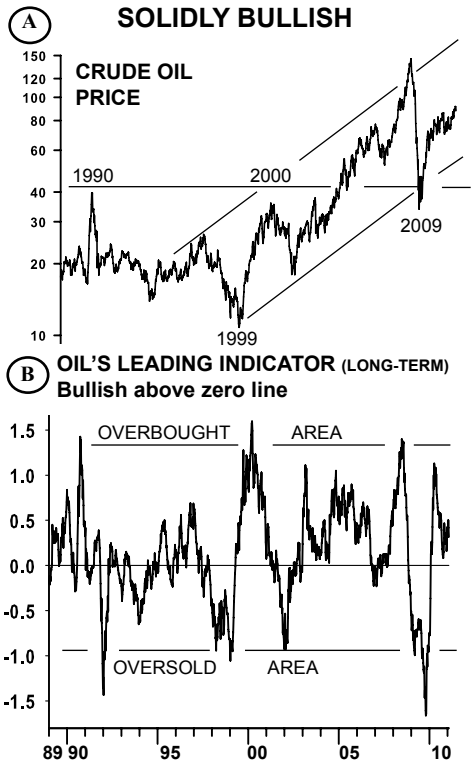
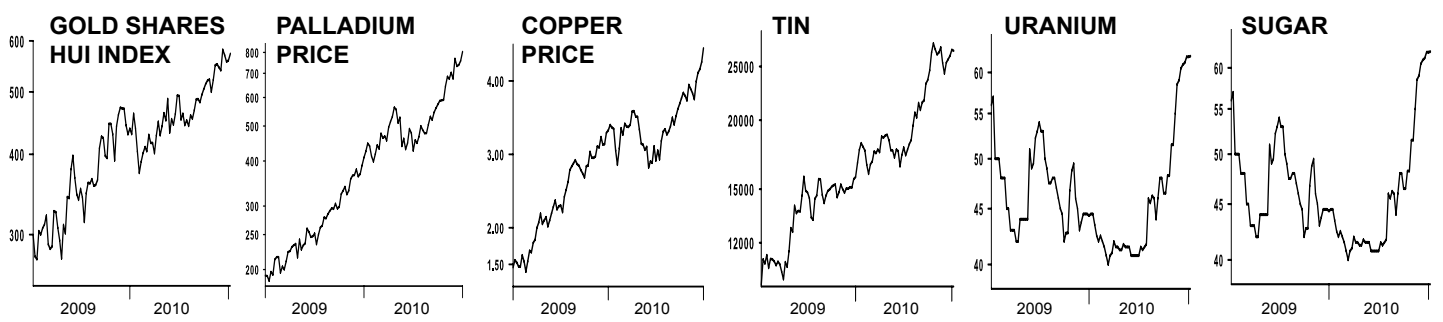


Chart 20 shows **copper's** wild move to a record high. It may be making a change into a stronger bull market but the point is, copper is solidly strong by staying above $4.

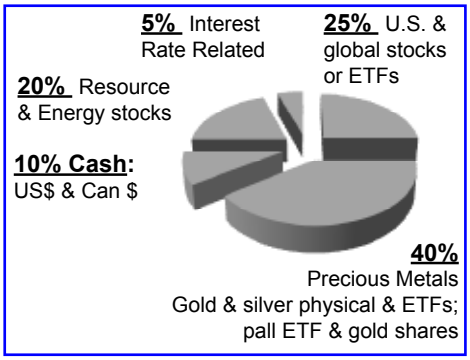
Crude oil has been the laggard but it's now catching up. **Chart 21A** shows that the 1990 peak near $40 is clearly the rock bottom price for oil today (see horizontal line). Like most assets, oil's been rising since the crisis and it has room to rise further (see **B**). If oil now stays above $87, its next target could be $100. The energy shares are surging and we are making some adjustments to our portfolio (see page 12).

CHART 19



OVERALL PORTFOLIO RECOMMENDATION

The new year is starting off on a good note. Stocks are hitting new bull market highs. The same is true of palladium, oil and the CRB commodity index. Metals are coming down from their highs, the dollar is stabilizing and the currencies have been volatile. While this could continue, the metals remain bullish, but some of the currencies are showing sluggish signs. We'll see what happens, but for now we've made a few adjustments in our recommendations, as you'll see below...



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

The year ended with a bang. Gold, silver, palladium, copper and the CRB commodity index all reached record or multi-year highs, outperforming all other markets. These markets remain very bullish but as we move into the new year, downward corrections are getting started. This is normal following the steep rises and it'll provide a good buying opportunity in the months just ahead.

If you're holding for the long haul, keep your gold, silver and the gold and silver shares you're currently holding. For new buyers or those who want to add to their positions, we recommend buying gradually by averaging in over the coming months.

The resource and energy shares are doing well. And with oil poised to rise further, the energy stocks are showing upward momentum. Keep the stocks you have, but sell Arcelor Mittal (MT) as it's been a laggard. Instead, we now recommend buying Ultra Oil & Gas (DIG) and Apache (APA). Buy new positions in these, as well as Freeport McMoran (FCX).

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market is bullish, in the U.S. and globally. Stocks continue hitting new bull market highs, fueled by better economic signs and they're poised to rise further. Keep the stocks you have. For new buyers or those who want to add to their positions, we recommend buying Nasdaq (QQQQ), iShares S&P Glbl Tech (IXN), Dow Diamonds (DIA), iShares Malaysia (EWM) and iShares Mexico (EWW).

CURRENCIES RECOMMENDATION

The U.S. dollar remains bearish, but lately it's been stabilizing. Resurfacing debt problems in the Eurozone, downward corrections in some of the commodities and floods in Australia have put downward pressure on some of the currencies. So the dollar is starting to be viewed as a better option. For now, the markets are volatile but risk has increased. That being the case, we recommend selling the currencies you have, except for the Canadian dollar, and keep the rest of your cash in U.S. dollars for the time being... but this could change in the months ahead.

INTEREST RATE & BOND RECOMMENDATION

Interest rates held at the highs this month. So far, the 30 year yield is resisting at the important 4.53% level and this could continue for a while before rates head higher. But sooner or later, the mega interest rate trend will turn up, signaling rising rates and inflation for years to come. If you have the interest rate related investments, keep them but don't buy new positions for now.

Note: All of the shares, funds and ETFs are listed in order of strength in each section. Keep the ones you have on the list. Buy new positions in the strongest ones listed at the top of each section.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Physical Palladium	PALL-NYSEArca
iShares Silver Trust	SLV-AMEX
New Gold	NGD-AMEX
Silver Wheaton	SLW-NYSE
Central Fd of Can	CEF-AMEX
SPDR Gold Shares	GLD-NYSE
iShares Comex Gold	IAU-AMEX
Stillwater Mining	SWC-Nasdaq
Central Gold Trust	GTU-NYSE

RESOURCE & ENERGY SHARES

Freeport McMoran	FCX-NYSE
Ultra Oil & Gas *	DIG-AMEX
Apache *	APA-NYSE
Peabody Energy	BTU-NYSE
Caterpillar Inc.	CAT-NYSE
BHP Billiton	BHP-NYSE
US Steel	X-NYSE
Suncor Energy	SU-NYSE
RioTinto	RIO-NYSE
US Oil Fund	USO-Nasdaq
iShares Tr Glbl En	IXC-NYSEArca

U.S. & GLOBAL STOCKS

Nasdaq ETF	QQQQ-Nasdaq
iShares S&P Glbl Tech	IXN-NYSEArca
Dow Diamonds	DIA-NYSEArca
iShares Malaysia	EWM-NYSEArca
iShares Mexico	EWW-NYSEArca
Prshrs Dynamic Soft	PSJ-NYSEArca
PowerShrs Finan	PFI-NYSEArca
SPDR Consumer Dis	XLY-NYSEArca
iShares S&P Tech	IGM-NYSEArca
SPDR S&P Bio	XBI-NYSEArca
Japan Small Cap	JOF-NYSE
PowerShrs Leisure	PEJ-NYSEArca
Templeton Emg Mkts	EMF-NYSE
iShares BRIC	BKF-NYSEArca

CURRENCY ETFs & FUNDS

Canadian DL Tr	FXC-NYSE
U.S. Dollar	

INTEREST RATES

Proshrs Ultra Short20+	TBT-NYSEArca
Profunds Rising Rates	RRPIX-NYSE

*** New Position**

Big Picture

By *Uncle Harry Schultz*- Jan 16, 2011 Dear Reader, Welcome back to Hslm's & welcome to Aden sisters' readers. We all meet on common ground here. Ironically, this joining means I have more readers, by double, than before. Likewise, so do the sisters. May it bear fruit for all. ••••

I am returning to (& expanding) my former forecast that of all the possible outlooks, it seems quite likely we're **already** well into that future-zone & the name of it is: ***inflationary depression***. The inflation will range from high to devastating, depending on geographic locations. & the depression will be extreme (I define that as worse than 1930's Great Depression I). Inflation is almost out of control in several countries, Brazil & China included & they're raising interest rates to compensate (a never ending process during high inflation). Inflation is the same in USA, but govt lies & uses false data—which everyone knows but mass media ignores (as it's elite-controlled). For proof, see: www.shadowstats.com •But US inflation will likely soon be higher even in the false govt numbers. Why doesn't Congress demand honest numbers on inflation---& include food&fuel? It doesn't suit them. Like not auditing the Fed & the gold reserves suits them or their string-pullers. The depression side of this equation is already well underway; just count the homeless, the massive home foreclosures, the 5mil empty houses, & the jobless & the projections by everyone that the job numbers won't get better for years (it suits them to admit this as it "justifies" big spending. And the continued fall in house prices. Multi-lateral corp. profits come mainly from overseas sales & benefit from job cutting! Big corp. profits are not an indication of economic health or trend. Neither is the stk mkt, propped up by Quantitative Easing—which is eroding the purchasing power of income & savings. Yes, Virginia, there is a Santa Claus clone, but under his beard is govt, trying to buy votes with promises/bribes, subsidies/tax cuts, fake statistics. Coming soon: tax rises & special fees at every level—to pay interest on the debt, but deepen the depression.

I forgot to mention that rising inflation guarantees the depression becomes fixed in place, entrenched. For the unemployed & underemployed, it's a disaster. The middleclass will struggle. My friend Bill Sardi gives my kind of advice. I call it the *6-shoes principle.* He sees huge inflation. He suggests we all buy 6 pairs of shoes to tide us over the price inflation. In other words, stock up on things U would otherwise buy over the next 7-10 years, as they'll become price inflated. A new car, computer, TV, clothes, longlife food items, tinned pet food, medicines, whatever. Booze for barter. Even some distressed real estate, especially if rentable. A farm. Also stockpile cash, enough for a year at least! And, of course, half of your net worth, not just stocks/bonds must be in gold shares/bullion, silver, palladium, rare earths, fertilizers. Some of the gold in your "pocket." Some in wafers or 1/10th oz coins. The real price of labour will drop, but the price of things of real value will rise. U can see the squeeze factor in that. Hopefully all the above is a "prudent word."

STOPRESS—Since writing the above (& in support of my forecast) 4 news blasts: IMF warns of dangerous rise in food prices. And Germany's banker Herr Weber warns *"Inflation could move higher"* which is German underspeak for Achtung, lookout above! And China raised its bank reserve requirement by 50pts—which smacks of its zipping inflation. And US gasoline prices rose to an inflation-adjusted $3 a gallon. I reckon U get my point.

"The strength of a civilization is not measured by its ability to fight wars, but rather by its ability to prevent them." Gene Roddenberry

••••• *"War is legalized mass murder; it is rightly relegated to the measure of last resort by civilized people the world over. Thus the majority of the civilized world was horrified when the US {govt} launched a preemptive war on Iraq without the authorization of the United Nations."* Thom Hartmann

Invisible Bank Runs *"Facing facts like these, each morning when I wake up I wonder, 'Why is today not a good day for a wholesale run on the Irish banking system?'"* asks Scott Minerd, chief investment officer at Guggenheim Partners. *"And if there is a wholesale run on the Irish banking system, then what stops the same scenario from cascading into Portugal, Greece, Italy, & most importantly, Spain?"* And only Europe? U jest!

Friend Bill Sardi comments: I check Yahoo Finance 4 times a day to see if THIS is the day a run on banks around the world will occur. And it appears a quiet run on the banks has started in Ireland & could sweep through Europe & around the globe. The paper money systems are bogus. Buying Swiss francs is not a total answer. Just where will people put their money? There is only so much gold, & if the price rises to $1700 an ounce, gold will become a parallel currency with paper money & the world will become a gold economy, & then gold will rise incredibly to the point where only the rich can buy & the rest will sell (their jewelry). Then govts will have to take action, but they can only declare a bank holiday for a short while, & may be forced into gold-backed currency {in order to reopen the banks}. But if the banksters own most of the physical gold, paper money will become a sham again. If we only knew how much real gold is in Ft. Knox. And how much real gold COMEX & other precious metal exchanges really have in their vaults. As these are revealed, gold soars beyond belief. The definition of rich will be gold, & the definition of poor will be no gold. India is prepared, people there own scads of gold jewelry.

So, ***is 2011 the year of the bank run?*** Read the view of Colin Barr at: <http://finance.fortune.cnn.com/author/colinbarr/> and <http://financefortune.cnn.com/2011/01/

03/2011-year-of-the-bank-run/> He (& a few others) ask: Is a bank run about to bring Europe to its knees? Some market watchers say yes, pointing ominously to the torrents of money pouring out of Ireland. <http://fortunewallstreet.files.wordpress.com/2011/01/sroberts_broomhill_03.jpg>

The solutions policymakers slapped together in the fall of 2008 helped in some cases to create even bigger problems -- ones that are now coming due. Unconditionally guaranteeing bank deposits is just such a policy, in a country where loan losses made the banks insolvent, job loss left many taxpayers penniless & bank deposits now at least double annual economic output. ***Bottom line***: The fear is: will bank runs, already underway under the surface, spread & break above the surface throughout the West? My advice: make sure U have spread your risks, eg, use several banks & in diff countries, have assets outside banks, assume your bank (if not all banks) may close. The "crisis" is only in early stages.

It's fitting to give space in this initial column to *HSL* readers who wrote me upon the closing down of *HSL*-- an emotional moment in time. Here's a few: *"At the ripe age of 87 myself, & a life long subscriber of HSL, I find myself already feeling the withdrawal effects of not having an HSL to read. How will I possibly pass the time without something worthy to read? Thanks for all U have done for me, but I am so saddened I must go now & weep! Thomas V. Bumbarger, Lifetimer."*

"Dear Uncle Harry. We only met once - in Paris where we spent a wonderful evening dining at the Tour d"Argent! I remember it like it was yesterday. Even more so as U picked up the check. Last night when I read your last letter - & realized it will be your last letter I became very sad! U have been a companion to me & so many others; more than a companion I think of it like a buoy which acts like a guiding light but also a place where U can hang onto when it gets really rough out there in the economic ocean. And it has been rough & maybe getting rougher. Hopefully U will have instilled in me & others an economic & market sense that will continue to guide us & to keep our head clear amongst all the nonsense that is being spouted. My hat off to U for having done a great job & having performed an essential & important service to us investors & mankind! Your wisdom will be sorely missed. Thank God I will still be receiving bits of it via the Aden Sisters letters. With great affection. Frank (Burgel)"

From Marvin, the Sage of LV: *"U never lose your touch. It's been 45 years of reading HSL & the quality has never gone backwards. Your mind & wisdom have always been extremely valuable. U are one person that no regular reader will ever forget, & will always wish the next HSL will be coming any day. Good luck, good health."* •••• "The Force will always be with you Harry…..forever. The new adventure is waiting. You will do great. ML, Ken. Kenneth J. Gerbino & Co."

"Dear Uncle Harry, I am so sorry your health is not so good & I can only wish that with less stress U will weather the storm more easily. Senior age is not a comfortable place to be without good health so U must look after yourself as much as possible & look to your own needs rather than those of others. I must thank U most sincerely for the good advice & lessons learned through your newsletters; they have been invaluable in helping me understand markets & charts. But, it takes experience of long standing & intuition to read the markets, & U of all people are a master of the art. May U enjoy your well earned retirement, I shall be sad not to be the recipient of your weekly GCRU & monthly HSL, but I am sure the Aden sisters will do their best to keep the flambeau alight. Take care Harry & God bless. Wishing U a very happy New Year. And many more to come. Susan Forbes."

"Dear Uncle Harry & Paul, I'm very grateful to being on the receiving end of your wise insight & guidance over the past decade. U will be missed. I'm praying the good Lord will restore your health & strength so U may continue to be a blessing to others & that U may enjoy the fruits of your labor in your twilight years. May your twilight be even brighter! Blessings to U & your family, Jesse HSLM Lifer." •••• *"I knew folks wud rally around U as u go on to the next chapter of life. Over the years U have not just been a great guru, but U have inspired a lot of love & affection in your following & in the investment industry. PKM"*

"Please tell Uncle Harry he will be sorely missed, & if health/travel permits to the Los Angeles or Palm Springs/Rancho Mirage areas, I hope he will visit us. He is family & will always have progeny throughout the world. Dan Peters."

•••• *"Harry, do us all a favor. Find some automated way to send your final HSL683 out into the future, maybe 20 years from now. Then we will know U are scouting heaven prior to our arrival. Bill Sardi."* OK, Bill, I'll get Paul on it.

"Uncle Harry, Happy new Year. Hope U & Paul feel better. The Aden sisters have some very large shoes to fill. By your recommendation I'm sure they will. Thank U for your wonderful service & dedication. U have changed me & my families life for the better with your commodity, stock recoms & special info. May your 'retirement' be blessed with good health & happiness. I could never thank U enough for the knowledge U have passed onto me. All The Best, Ralph Cecere."

My Starship size thank U to all of U who wrote. We are indeed a family & always have been. Uncle Harry

Potpourri: thoughts ON WORLD POLITICS Diplomacy is the art of saying "nice doggy" until U can find a rock. ••• ON DRUGS & DEVELOPMENT There are 2 major products to come out of Berkeley: LSD and UNIX. We don't believe this to be a coincidence. ••• ON: A day without sunshine is like.....night. ••• TEACHER: Winnie, name one important thing we have today that we didn't have 10 years ago. Winnie: Me! ••• TEACHER: Glen, why do you always get so dirty? GLEN: Well, I'm closer to the ground than U are.