THE
ADEN FORECAST
MONEY • METALS • MARKETS

JANUARY 2012 *our 31st year*

NEW YEAR, NEW OPPORTUNITIES

Happy New Year and welcome to 2012. So far, this year is getting off to a pretty good start, with new opportunities emerging...

2011: A tough year

As you know, the past year was a difficult one. Uncertainty, fear and lots of volatility were the dominating factors. Some market veterans have said it was the worst year they've experienced in more than 30 years.

We didn't think it was that bad, but it was a tough one. The main reason why was high volatility. This always makes the markets more challenging. And a few months ago it got tiring as the markets jerked up and down on the news of the hour.

But as the year drew to a close, it was all quite interesting...

The big winner for 2011 was long-term U.S. government bonds, which surged 26%, based on a composite of over 10 year bonds (see **Chart 1**).

INSIDE

Despite its volatility, **gold came in second**, gaining 10%. The overall U.S. stock market, global stocks, silver and metals shares were down for the year. The U.S. dollar was up slightly and so was the Japanese yen.

In the end, we did well. And considering all of the volatility, we're happy with the results and we hope you are too.

WHAT'S AHEAD FOR 2012?

More volatility seems to be a given. But there are also more signs U.S. growth is picking up.

The Eurozone's serious problems will likely persist. Other signs indicate terrible times ahead due to the debt crisis.

The point is, **we have to be prepared for whatever comes**.

As for the markets, the major trends remain up for gold, U.S. bonds, the U.S. dollar, oil and now U.S. stocks. But the trends are down for most of the global stock markets and the currencies.

We recommend staying with the bullish markets and avoiding the bearish ones. As we've often noted, **the markets will always tell the story** and we strongly advise going along with whatever they're saying.

Currently, there are so many factors brewing around the world, any number of events could trigger sharp reactions in the markets...

MANY HOT SPOTS...

The world has changed dramatically over the past couple of decades and it's still changing at a very rapid pace. We've recently talked a lot about the Eurozone, because it was the event moving the markets in 2011, and it still is.

On its 10 year anniversary, the risk of a euro breakup is high, and if this happens, it'll likely start with Greece.

Since Europe's economy is about the same size as the U.S., this would clearly affect the rest of the world as Bernanke and others have acknowledged.

The big concern now is Italy because it's the third largest economy in Europe and its debt is massive, right behind Greece (as a percentage of GDP).

Italy is on very thin ice. Germany and other lenders of last resort probably don't have the means to save it.

... AND MORE

But that's just one trouble spot... There are also many others. Economic shifts are underway and this will play a role in the direction of the world and the markets in 2012. Following are some of the highlights we're watching...

We all know, a couple of decades ago, China emerged from poverty to consistently become one of the

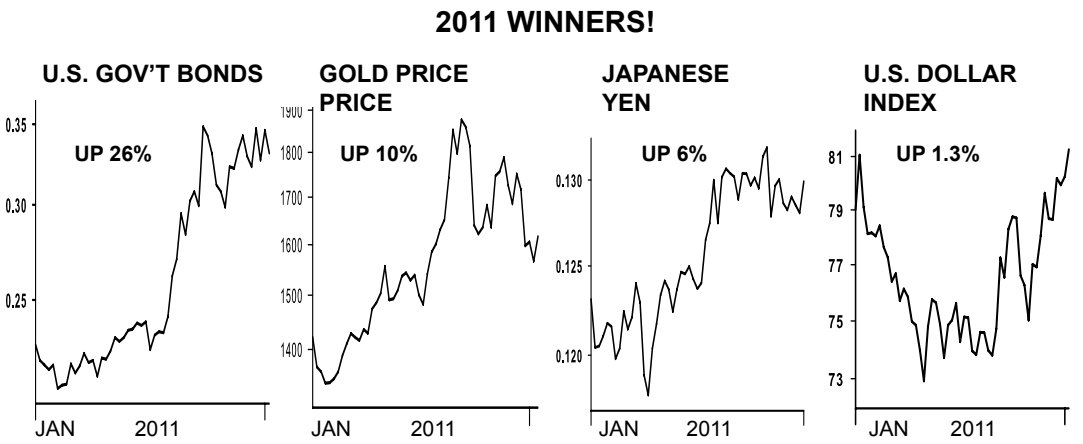
fastest growing countries in the world.This changed global trends… trade, the economic balance, and it created a massive new reality in dozens of ways.

Other countries, like India and Brazil, followed suit and soon a huge emerging world was driving demand for commodities and other goods.

The middle class in the emerging countries was growing by leaps and bounds. And as people became more affluent, they simply bought more things. The biggest boost came from Asia, followed by Latin America.

This in turn changed the world's dynamics. The emerging countries became the booming ones, while the Western countries barely grew at all. Power began to shift from West to East, which is where the money was rapidly accumulating.

CHART 1



CHINA & THE U.S.

China, for example, became the world's largest lender and the U.S. became the biggest debtor. During this process, standards of living increased in the East and they decreased in the West.

This has clearly affected the markets and all signs indicate this will continue, with China expected to take over the U.S.'s #1 spot by 2018-2020.

Debt in the U.S. is now greater than its GDP, and this has been taking a toll.

Will the U.S. follow in the Eurozone's footsteps? It looks like it will, but time will tell and this too will surely have an impact on the markets.

Meanwhile, you'll never guess where growth is currently the fastest? …Africa… and that's been the case for several years now.

Like China and India before, the middle class is growing and some experts believe that Africa could be on the verge of a similar economic boom.

This may seem strange, but again, **the world has undergone huge changes and they're still in process.**

Currently, for example, some of the top 10 strongest economies in the world are in Mongolia, Libya, Iraq, Angola, Ethiopia, Rwanda and Laos. Who would've known, but you can bet this will likely result in some opportunities that're currently not evident, one way or another.

GEOPOLITICAL UNCERTAINTIES

That's the basic story on the economic front but the geopolitical front is also an uncertainty we have to be prepared for.

As this new year unfolds, tensions are growing in Iran as they threaten to block the Strait of Hormuz in reaction to economic sanctions.

Trouble is brewing in Russia too as people take to the streets in the biggest protests against corruption since 1999.

The Middle East remains a powder keg with Pakistan at the forefront.

Again, this area is one big unknown. The fact that many of the post revolution countries in Northern Africa have opted for Islamic governments adds even more uncertainty.

Then there's China again…

They're now modernizing their army. It's widely believed they may be preparing for war in response to veiled U.S. threats and comments, and Obama's plan to send U.S. troops to Australia to monitor the area.

There's no question, tensions have been building between the U.S. and China, and this will be a key area to keep an eye on.

BE FLEXIBLE, AVOID POT HOLES

So that's why we say, anything could happen in 2012. There are so many wild cards out there, it's hard to determine how many of these issues will evolve.

The market, however, will give us a good idea and it'll be important to watch all of them closely.

We look forward to working with you this year and benefitting from new opportunities as they arise.

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U.S. & WORLD STOCK MARKETS

Cautious optimism

The U.S. stock market ended the year on a bright note, reaching a five+ month high. The Dow Industrials led the way and the other U.S. stock indices are now following.

YEAR END SHIFT IN SENTIMENT

This coincided with a shift in sentiment. Instead of focusing on the daily menu of bad news out of Europe, the market turned more optimistic around Christmas time as better economic news began to surface.

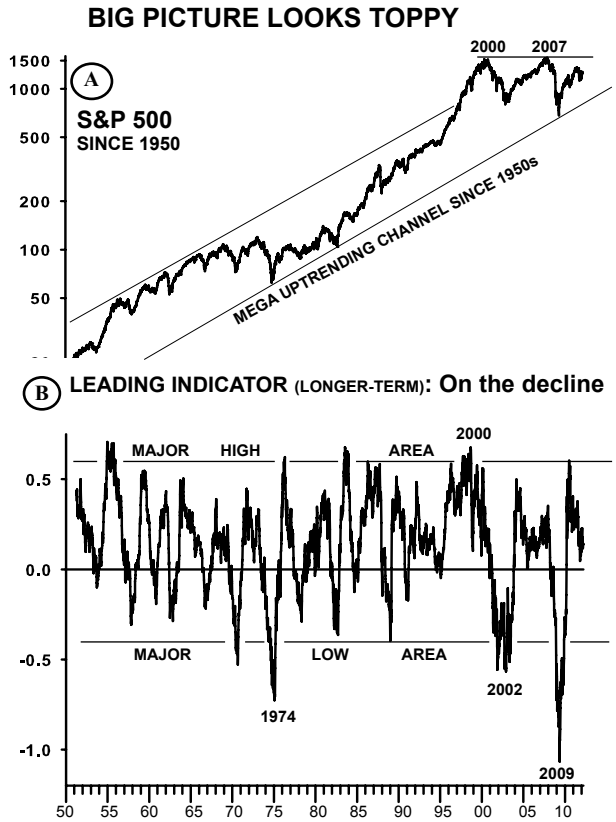
The housing numbers, manufacturing, durable goods orders and consumer confidence were all strong. Unemployment declined again to a three year low. These were all signs the economy could finally be pulling out of its slump, and the markets reacted accordingly.

LOOKING BETTER... FOR NOW

All of the U.S. stock indices have now risen back above their moving averages, which is technically bullish (see **Chart 2**). Based on the current market action they're signaling higher stocks ahead... perhaps at least up to their 2007 resistance levels as a next target.

Could this be a false breakout? Yes... Are all systems go? No... In other words, despite this bullish action, risk is still high.

CHART 3



One important factor, we've often shown you is the declining (longer-term) indicator for the S&P500 (see **Chart 3B**). It's still telling us that the S&P (**A**) hit an important major high in 2007 and stocks are likely headed lower over the long haul. That is, this rise is probably not the beginning of a big bull market and it won't last long.

In fact, taking a look at the S&P 500's big picture you can see there's a good possibility a giant top in the stock market has been forming since 2000 and the record bears this out.

A DECADE LONG SIDEWAYS MARKET

The stock market has essentially broken even over the past decade. The S&P has declined 2%, while the Dow Industrials has only gained 14.7% since then. And 2011 was not an exception.

This past year, for instance, the S&P lost 1% and Nasdaq was down 3%. But the Dow Industrials gained 4.6%.

The situation, however, was **far worse for the global stock markets**. China and Hong Kong suffered their biggest drops since the

CHART 2

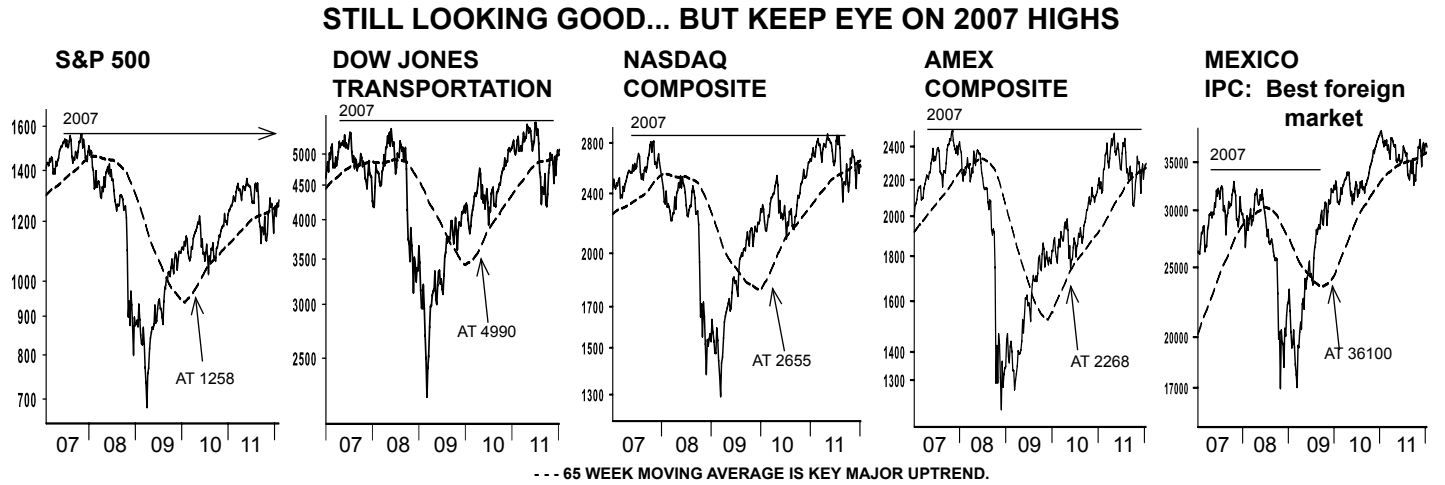
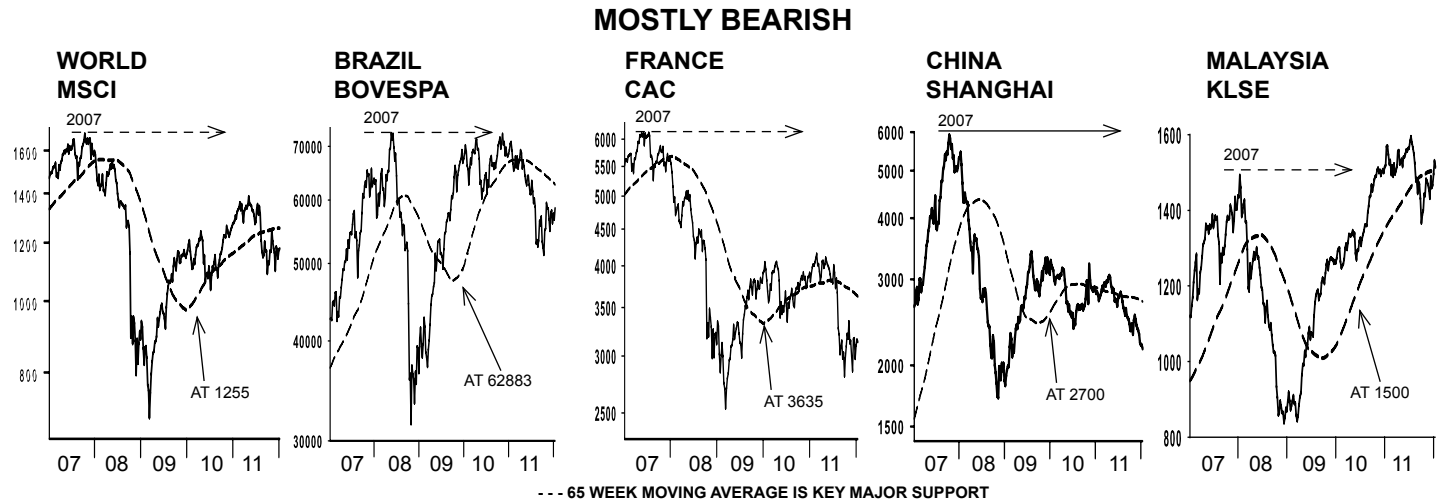


CHART 4



2008 crisis and overall, the world stock markets declined 12%.

So the big picture tendency has been on the downside and it would take a sustained rise above the 2000 and 2007 highs on the S&P500 to change this big picture outlook.

A TRADER'S MARKET?

That doesn't mean stocks can't rise. They can. The rise from 2002 to 2007, for example, was a good one and well worth taking advantage of. The same was true of the rise in 2009-2011.

But at this point, we want to illustrate why caution is still warranted. This overall picture makes us uncomfortable and we don't like the fact that **nearly all of the global stock markets remain bearish** (see **Chart 4**).

A couple of them are starting to turn up, like Mexico and Malaysia, but they're clearly in the minority. The vast majority are still being overpowered by events in Europe.

Since the world stock markets generally move together, this means one of two things… Either the U.S. stock markets are leading the rest of the world up, or the global stock markets will eventually pull the U.S. stock market back down.

Do the U.S. markets see something positive ahead that the rest of the world doesn't? It's possible and if so, it'll probably be stronger global economic growth in the months ahead.

This would come as a surprise since most people are still focusing on the Eurozone and its negative repercussions. But whatever the final outcome, time will soon tell and the markets will point the way.

EUROPE STILL DOMINATING?

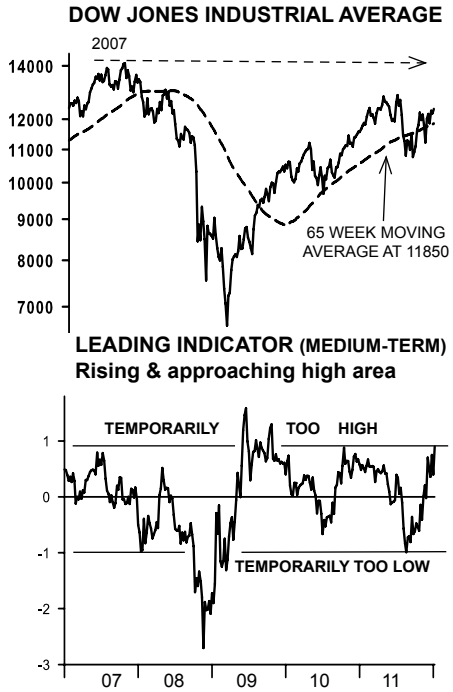
In the meantime though, don't underestimate Europe. It's been dominating the world stock markets for many months now.

All innuendos, statements, auctions and so on are being watched closely. It's also noteworthy that the stock markets and events in Europe have recently been the most in synch with one another than at any other time in 12 years.

All it would take to drive the markets down sharply, for instance, would be some downgrades by the credit agencies, a few terrible auctions, or simply some unexpected surprises.

This is one of the risks we're referring to, along with other financial fundamentals within the U.S. that continue to intensify. Basically there's a tug-of-war going on. As the new year starts, between what's happening in Europe versus better U.S. economic news.

CHART 5



MEANWHILE... THEY'RE UP

Meanwhile, U.S. stocks will likely move higher. That's what the technicals are telling us and we recommend buying a 15% position in several stocks listed on page 12. We especially like the Dow Diamonds (DIA). It tracks the Dow and it's been outperforming most of the other stocks or ETFs.

For now, the Dow Industrials will remain bullish by staying above 11850 (see **Chart 5A**). It could reach the 14000 level, its 2007 high, once the 2011 high is surpassed.

But please note, the leading indicator for the Dow is nearing a high area. This suggests stocks could stall or weaken in the upcoming weeks.

That's another reason why we're only recommending a small position at this time, but this could change depending on how things unfold. Stay tuned.

U.S. INTEREST RATES AND BONDS

Will bonds continue to soar in 2012?

Who would've imagined just a year ago that U.S. government bonds were going to be the big winners in 2011? Not many of us.

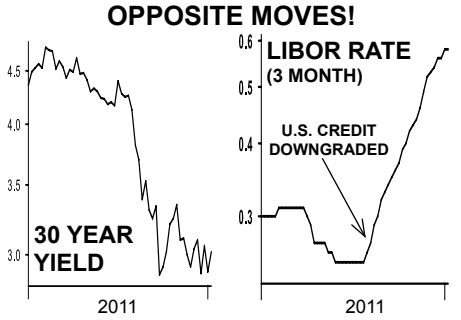
You'll remember that last year at this time, gold, commodities, stocks and currencies were all rising. Bonds were falling and everyone was concerned about the U.S. debt piling up.

There were also concerns of a double dip recession, the economy was sluggish, and housing and unemployment were not responding to the QE efforts.

SAFETY FIRST

But what a difference a year makes. Bonds started rising slowly and then they shot up in the second half of the year as the 30 year yield fell sharply (see **Chart 6**).

CHART 6



With the global financial crisis worsening, investors only cared about safety and the U.S. bond market became the #1 beneficiary. It was the safe place to be.

Even the downgrade of the U.S.'s triple A credit rating in August didn't stop investors. They were nervous and uncertain, which drove the bond market sharply higher in its best year since 1995.

In the end, U.S. government bonds gained 52%, based on the 30 year yield, outperforming all other assets by a wide margin. This provides a great example of an important point we've often discussed.

GO WITH THE FLOW

Markets look ahead and when any market starts to "take off," all of the reasons why are almost always unknown. This often takes fundamental investors by surprise, and it's why technical indicators are key in making decisions, especially early on. Combining the two is the ideal way to go, but the technicals will usually lead the way.

In the case of U.S. bonds, it was only natural to wonder… why should I buy them when the fundamentals of massive U.S. debt are so negative? But our technical indicators told us to buy, which was initially why we recommended buying and/or holding bonds for most of the past nearly two years.

Now of course we know the reasons why. The crisis in the Eurozone began to take center stage, again bringing the financial world close to the brink, resulting in one of the most volatile years for all of the markets in many years. **This is what drove investors to the safety of U.S. bonds.**

Those are the basic fundamentals. But if you wait for the fundamentals to become obvious, you'll usually be late to the party, or in some cases way too early.

WHAT BONDS ARE NOW TELLING US...

They're saying the bull market continues (see **Chart 7A**). That is, bonds are likely headed higher.

Note that the leading indicator, while at a high area, is not as extreme as it was in 2008. But this also suggests the upside in bonds is limited and the rise could end soon. For now though, the bull market remains intact with the 30 year yield below 3.94%.

CHART 7

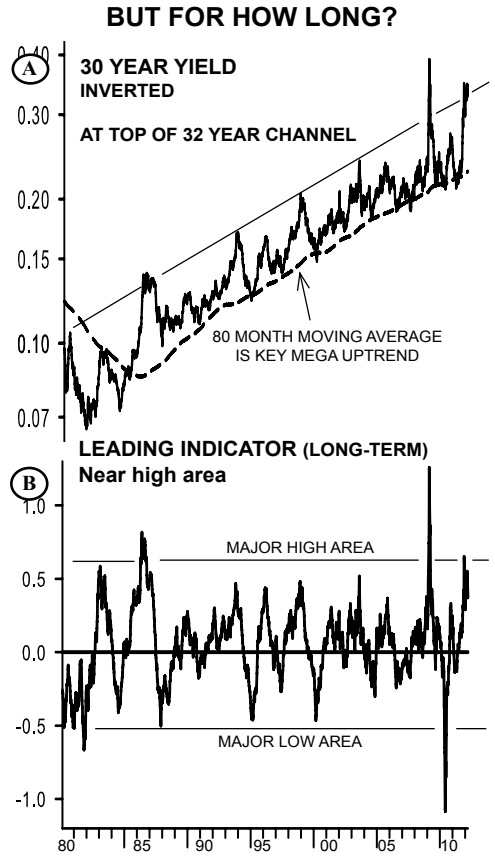
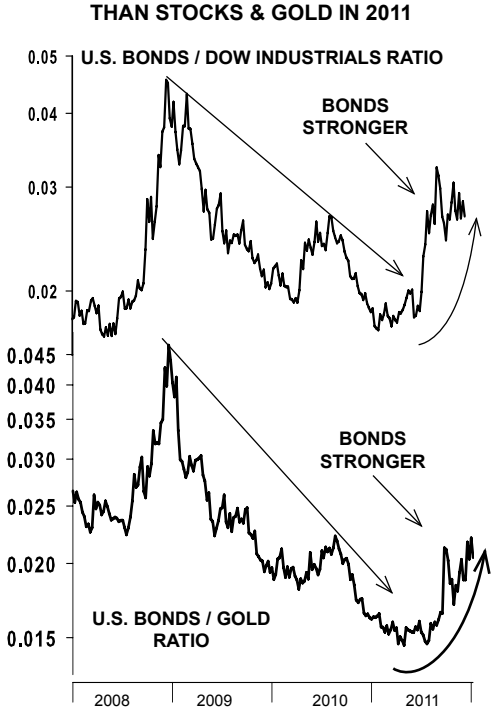


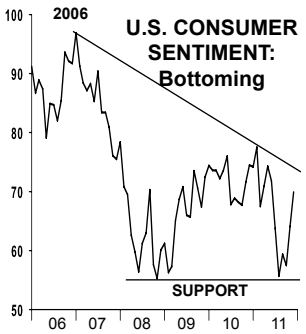
CHART 8



This in turn suggests the Eurozone will probably keep investors jittery as 2012 unfolds. In other words, the markets will likely remain volatile, and safe havens will stay in demand.

This is also being reinforced by the ratios, which show the strength in bonds compared to stocks and gold (see **Chart 8**). In both cases, the ratios are rising and bonds are stronger. So even though gold is the ultimate safe haven, bonds are the preferred haven for the time being.

CHART 9



WATCH THE ECONOMY

One word of caution is important at this point…

Remember, bonds do well when the economy is sluggish. But with the U.S. economy showing some signs of improvement, it may not be good for the bond market.

This could eventually result in rising interest rates (declining bond prices). And even though the Fed has often said they're going to keep rates near zero, the free market is telling us the opposite (see the Libor interest rate soaring, for example, on **Chart 6**).

At the same time, the 10 year yield appears to be bottoming, also indicating that rates are likely to rise in the weeks or months ahead (see **Chart 10A**).

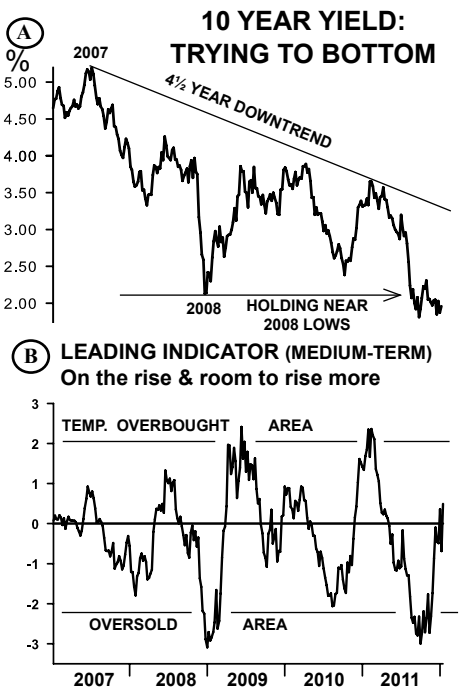
This would be normal following their steep decline, and it would then be important to see if the major trend stays up for bond prices. We suspect it will, at least in the first part of 2012.

2012: Another story

But we don't expect this year to be a huge gainer for bonds, like it was in 2011. If stocks keep rising, for instance, investors will switch from bonds to stocks. And the same is true of gold, which has strongly outperformed stocks and bonds over the past decade.

Currently, we recommend keeping your bonds but we're lowering our position to 20% (from 25%) to buy more stocks. On the one hand, U.S. bonds will likely stay strong as long as the Eurozone crisis continues. Plus, the fundamentals in the U.S. are negative and the current upbeat sentiment could turn on a dime.

CHART 10



Overall, the bull market in bonds is nearing maturity and a major trend change is a possibility in 2012. A downward correction would begin if the 30 year yield rises and stays above 3.10%. So if you haven't bought bonds, we wouldn't buy at this time. If you're holding bonds, stay in touch via our updates.

CURRENCIES

U.S. dollar: On the rise... for long?

The U.S. dollar was one of the world's top performing currencies in the second half of 2011. But it didn't start out that way.

The dollar declined rather sharply in early 2011, hitting bottom in late April. Then, as the crisis in the Eurozone intensified, the dollar became a safe haven and it's been on the rise ever since.

At year end, the dollar essentially ended up where it started, only gaining 1.35% in 2011 (see **Chart 11**).

But the dollar's current upmove will likely continue as we move into the new year. Why?

U.S. DOLLAR: Safe haven with bonds

Most important, uncertainty is still in the air. The markets are watching every move in the Eurozone. And since this saga is evolving, Europe will probably stay in the spotlight, like it's been doing over the past few months.

This uncertainty has been good for the U.S. dollar. With the euro falling to a 16 month low, all of the currencies have declined, whether it's been justified or not.

The fact is, the currency markets tend to move together and they're following the euro's lead. The Japanese yen and Chinese yuan have been two of the few exceptions.

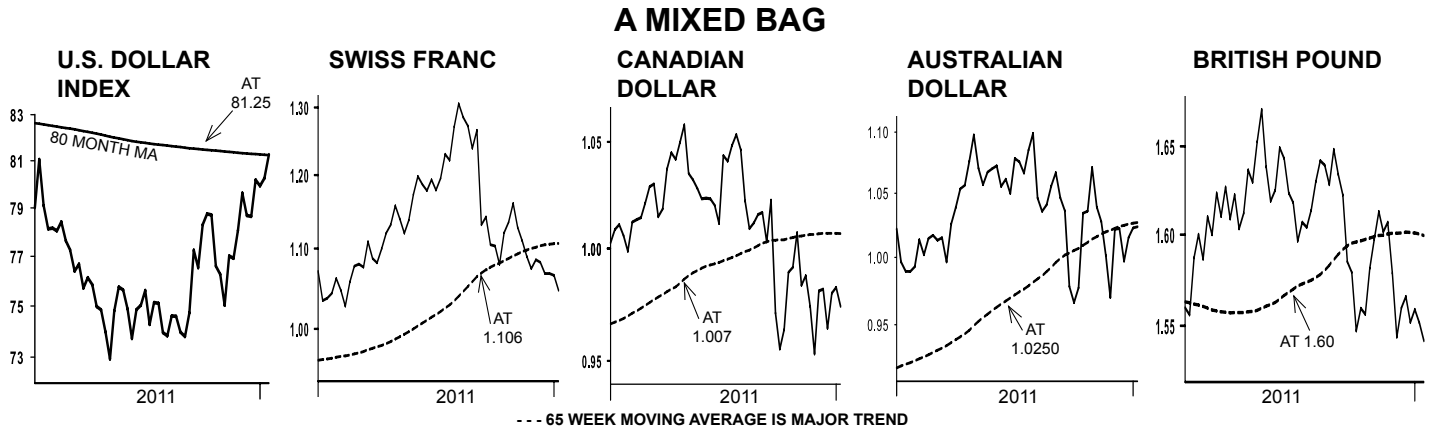
This makes the U.S. dollar even more attractive. With few options to pick from, investors have been flocking to U.S. dollars.

U.S. HAS PROBLEMS TOO

Even though the U.S. has very serious debt problems of its own, which are actually worse than most of the European countries, the overall crisis facing the Eurozone has been more immediate and problematic (see **Chart 12**).

In addition, the U.S. trade deficit is shrinking. That too bodes well for the dollar. **For now, investors**

CHART 11



want safety and the U.S. is safer and more stable than Europe. It's basically that simple.

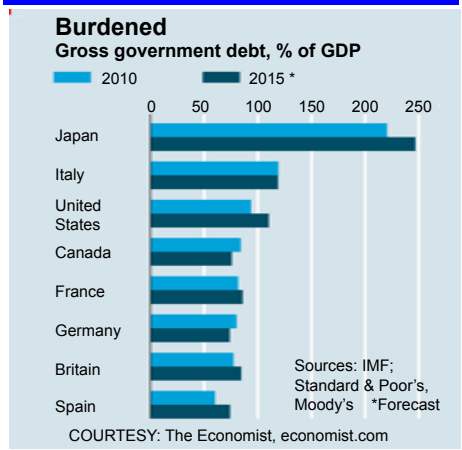
Also interesting, as our old dear friend Chris Weber recently pointed out, Republicans are not good for the U.S. dollar. We know you may find that unusual, but the record backs this up (see **Chart 13A**).

Here you'll see the U.S. dollar's big picture (against the Swiss franc) since 1972 when the U.S. went off the gold standard and the dollar began trading in the free market.

Note, the dollar's been in a steady 40 year fall since then. But within this long-term downtrend, there have been times when the dollar's been strong, like in the early 1980s and the second half of 1990s.

Interestingly, under Nixon, Ford, Reagan and the two Bushes, the dollar fell. But under Clinton, the U.S. dollar was higher when he left office than when he assumed the presidency.

CHART 12



Obama: Good for dollar?

Now with an election coming up this year, we'll see if this presidential coincidence repeats.

As you can see, the dollar's leading indicator is rising strongly from a major low area. This suggests the U.S. dollar is headed higher.

How much higher could the dollar go? Based on resistance levels and past performance, we can make some estimates…

For example, if the dollar continues up to its next strong resistance area, which is the downtrend since 2000, it could reach the 1.10 level versus the Swiss franc. (It's currently near .9500.) That would be similar to the dollar upmove in 1987-89.

If the dollar were to surge in a stronger rise, say all the way up to its 40 year downtrend, then it could go to as high as about the 1.35-1.50 level to the Swiss Franc.

WATCH THE TRENDS

Should that happen, it would obviously be very bad news for the Eurozone, and we can't rule this out.

Currently most of the AAA Eurozone members, including Germany, have been put on warning by the S&P credit agency. Fitch and Moody's are revising their outlooks too. This often happens prior to a downgrade.

A downgrade would almost surely put more downward pressure on the euro and the other currencies. But it would take a sustained rise above 1.10 for the dollar (against the Swiss franc) to signal that steep declines lie ahead.

CHART 13

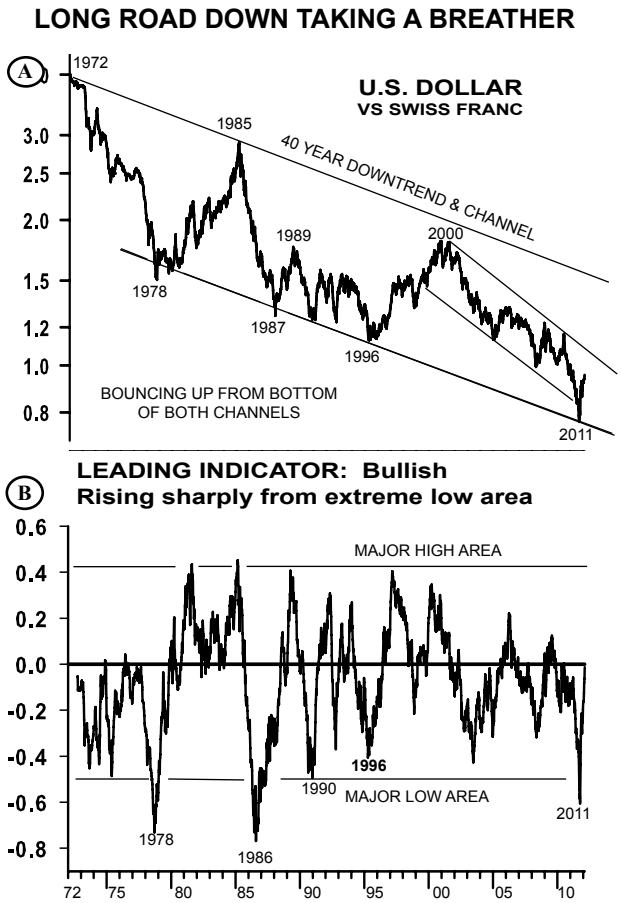
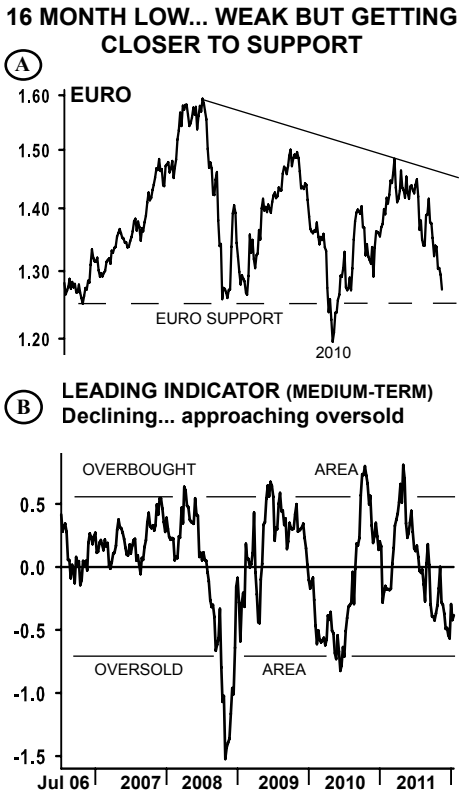


CHART 14



For now, the ECB is trying to save the day by flooding the banks with an unprecedented amount in loans. This could temporary help boost the euro but currently, it's poised to decline further (see **Chart 14**).

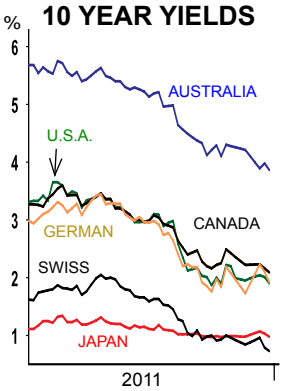
YEN: Rise about over?

Meanwhile, the Japanese yen is holding firm, also basking in its safe haven status. Despite heavy intervention by the Japanese to weaken the yen, it ended 2011 as the currency winner (see **Chart 15**).

What's surprising about this is that Japan has the largest debt by far, as a percentage of its GDP, compared to the other major countries. It also has super low interest rates and that's been the case for many years (see **Chart 16**).

CHART 15

CHART16



So the yen's strength probably won't hold up.

As you can see, the yen has formed a massive rising wedge, which is a bearish sign. If the yen breaks below 1.2750, it'll be a strong sign that it's leaving the safe haven club.

In that case, the U.S. dollar would essentially stand alone, which would increase demand, propelling it higher.

As we enter 2012, we continue to recommend keeping your cash in U.S. dollars, and not in any of the other currencies for now.

METALS, NATURAL RESOURCES & ENERGY

Gold's 11 year bull run... historical

By now you know that gold ended up in 2011 for the eleventh consecutive year, gaining 10%. An amazing feat, especially considering that in eight of these years gold has had double digit gains!

This impressive run, one of gold's longest bull markets in history, is causing some people to turn cautious.

Perhaps it's because the downward correction since September was the sharpest since 2008, erasing 19% of the rise. Or maybe it's because many people didn't invest in gold and they're feeling frustrated, or they invested later in the bull market and feel it's gone too far...

Whatever the reason, **staying focused on the bigger picture is your best bet**. At the moment, there are no important signs that the bull market is over. The gold decline from the $1900 peak in September to the late December low near $1540, while sharp, was minor compared to the strong 170% steady rise from November 2008 to the September 2011 peak.

This is the perspective to keep in mind during current weakness and **Chart 17** provides a good example. Note that both gold and silver are much higher than they were in 2008, unlike most other markets. This alone shows super strength.

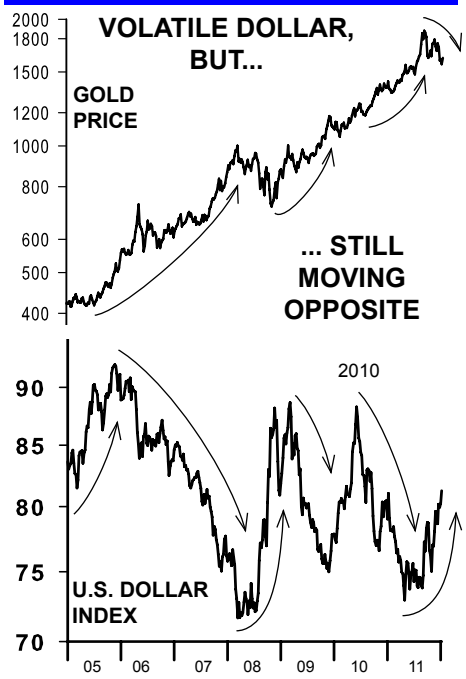
CHART 17

Yet silver didn't do well this year. It had a round trip, ending the year down 10%. But the bigger picture shows reality... Silver soared 380% from its 2008 low to the April 2011 high. Compare that explosive rise to the 44% decline since April.... Volatile, yes.... bearish, no.

GOLD: Still a safe haven

Another worry in recent months was that gold declined

CHART 18



like most commodities, while the U.S. dollar benefitted during the heat of the Eurozone crisis. The stronger dollar put pressure on all assets, including gold, but it's still to be seen for how long.

It's important to keep in mind that gold tends to flex its safe haven muscles during rises, and it generally doesn't during declines. We've been expecting a sharper D decline in gold. When it finally happened, it coincided with the euro collapse and the dollar's strength.

But as the new year begins, gold is again rising on safe haven pressures as geopolitical tensions intensify with Iran at the forefront. Gold is also getting a boost from better global economic news.

And so it goes. Gold moves opposite to the dollar, most of the time (see **Chart 18**).

Note that gold and the dollar moved together in 2005, which was at the start of a stronger bull market in gold. They then moved clearly in opposite directions for a few years in 2006-2007. This type of move was more common in the past.

But the dynamics changed in 2009. The dollar started moving erratically while gold rose steadily. They both still moved in opposite directions, but the dollar's moves were volatile. This could be indicating the start of unstable currency markets, while the ultimate currency, gold, remains solid.

Looking at gold in other currencies, you can see this clearly on **Chart 19**. Gold has been rising against all currencies during this post 2008 period. Plus, gold is much higher than its record highs of 2008 in all currencies.

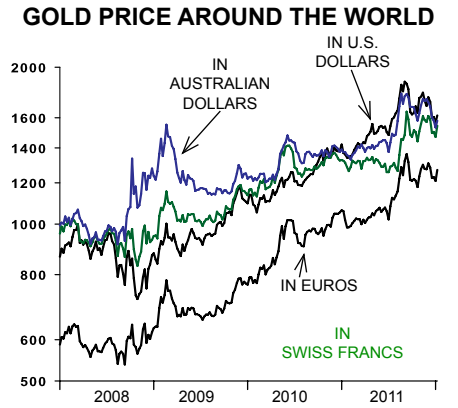
Keep in mind, gold and the dollar will move together at times, like in 2005 and part of 2010. So don't be surprised if something like this happens this year.

GOLD IS A MIRROR OF REALITY

Gold is a reflection of the monetary world today. It reflects reality and it's up for a reason. If you believe that 2012 will see an ongoing lack of confidence in the financial system, then you are bullish on gold. If you believe that monetary inflation will continue its uncharted path, then you are bullish on gold.

It's no wonder that **gold and silver investment demand remains strong**. January is already off to a strong start. For example, the U.S. Mint has sold 79,000 ozs of gold coins since the new year began. This already tops the total sales in December. And silver coins are just as impressive. Almost 4 million

CHART 19



ounces have been sold in January, which is more than the prior two months combined.

Investors are also still holding a large amount in ETFs, in spite of gold's over three month fall.

Central banks also continue to accumulate gold. China is the world's second biggest gold buyer and its imports from Hong Kong hit a record. Other countries continue buying on an ongoing basis too.

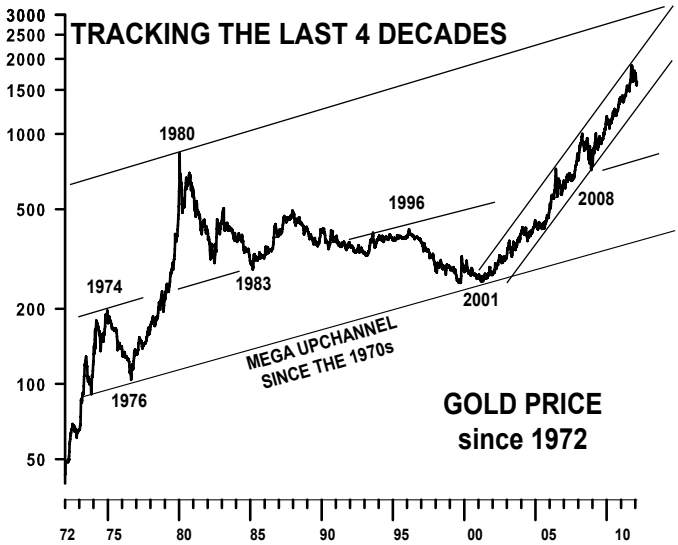
BIG PICTURE: How high?

Chart 20 shows the bullish big picture of gold since 1972. By adjusting the mega upchannel you can see that, however it's drawn, it's pointing to about $3000 as a possible ultimate target.

Note the mega upchannel, as well as the 2001 upchannel, both meet near that level. The mid-channel line is also interesting as it touches the 1974 and 1996 peaks, and it provided support at the 1983 and 2008 lows.

This mega trend is saying that as long as the 2001 uptrend stays intact, the major trend is up and $3000 is a realistic target.

CHART 20

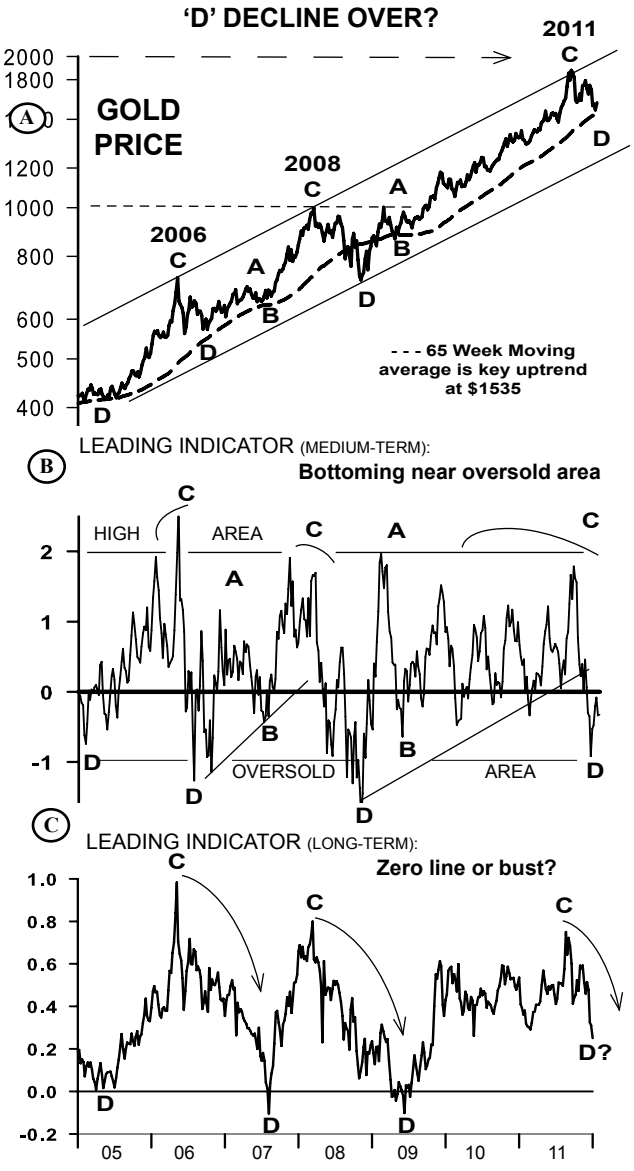


"D" DECLINE OVER?

Gold made an about face for the new year and the higher gold gets, the more it looks like the D decline reached its low on December 29th at $1540. This means gold's D decline lost 19%, which is within the average of prior D declines.

Most interesting is that gold fell to its key 65-week moving average and it held there (see **Chart 21A**). This is normally

CHART 21



what D declines do... fall to this major support and it's been the key uptrend for the bull market since 2001. The only time gold fell below this moving average was during the panic of 2008.

So far, this is very bullish action because the leading indicator (**B**) has also declined to an oversold area that coincides with previous D lows. If gold now stays above $1625, it'll reinforce that the lows are behind us.

But even if we see more weakness this month or next, don't be surprised or disappointed. See it as a good buying opportunity to continue accumulating.

Jeff Clark at Casey Research brought up another interesting pattern regarding the annual lows in gold since 2001. He shows that out of the 11 annual lows, seven occurred in January or February. This means that if we see more weakness, it'll likely be short lived because gold is also oversold.

Last year the low in gold was in January, just weeks before its 10 year anniversary. Will this year be similar as gold completes its 11 year bull market in February?

Looking at the long term indicator, **C**, you can see it's finally falling and it has more to go before reaching the zero line. A further decline would be normal comparing the current action to prior D declines.

In other words, if gold closes and stays below its 65-week moving average, currently at $1535, it will be rare for the bull market. We don't think this will happen but if it does, like in 2008, due to the uncertainty and volatility we've been seeing, take advantage and buy.

GOLD SHARES: Cheap

Gold shares were disappointing this past year. There are several reasons for this... Be it the weak stock market, falling commodities or the political risk for mining companies, gold shares clearly underperformed gold.

They began to separate from gold last April, when the stock market peaked. **Chart 22A** shows that the HUI index is still in a major uptrend, despite its 11.8% decline in 2011.

Gold shares, however, are now bombed out by several measures and they look poised to rise further.

One oversold indicator is our medium-term one on **Chart 22B**. It's now the most oversold since 2008 and it's bottoming, which is bullish.

Gold shares have actually been stronger than the stock market on a major trend basis since 2003. Note the ratio, **C**, has been rising since then, reaching a high last year, showing that gold shares have overall been better performers.

If the stock market bounce since the new year now continues, as well as the rising gold price, it'll give gold shares a double boost.

Gold shares have also been bottoming versus gold for several months now and they'll likely play catch up to bullion this year, like they did in 2009 following their extreme weakness. We recommend keeping your gold shares and buy new positions selectively (see page 12).

Many gold mines are loaded with cash and they're paying dividends, which is also bullish.

CHART 22

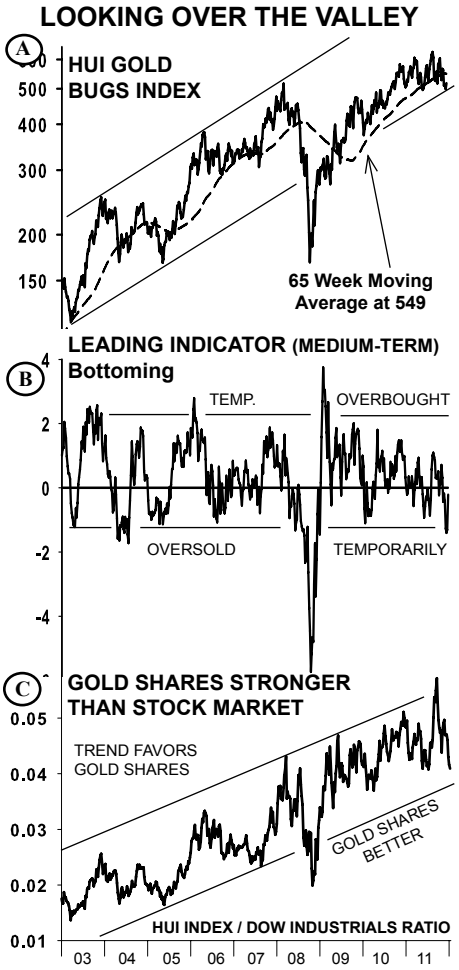
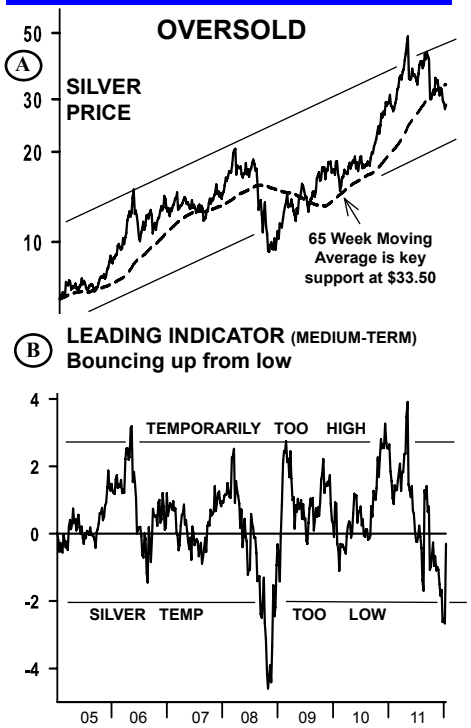


CHART 23



SILVER: On the bargain table

Silver has been vulnerable, along with commodities and the troubled global economy, but it's still a strong market overall.

Silver closed clearly below its $30 support and tested the $27 level. And it closed well below its 65-week moving average, as shown on **Chart 23A**.

Silver has dropped 44% since last April. But it's now clearly oversold, the most since 2008 and its leading indicator is on the rise. That's a bullish sign (see **Chart 23B**).

It's important to keep silver's fall in perspective and appreciate that it's in a good buying area. Silver shares were hit hard but they too are bombed out. We recommend buying now and on any weakness.

RESOURCE & ENERGY: Mixed

The commodity world in general was hit in 2011 as well. Worries about the global economy, the European debt crisis and a cooling Chinese economy all caused the first annual fall since 2008.

Plus, the collapse of MF Global also added stress to the commodity sector. **Chart 24** shows a sample of various commodities and you can see that less demand for materials increased downward pressure.

Using **copper** as the representative for the raw material world, note on **Chart 25** how it continues to move with the stock market, housing and the economy in general.

Copper's been holding up better than the S&P 500 as it has stayed near its 2007-08 high area. The stock market, and especially housing, remain clearly lower than their highs.

But most important, they're moving together. This is not surprising considering the world is closely linked, more than at any other time in history. And this togetherness will also likely make 2012 a volatile year.

This year, it'll continue being all about saving governments, compared to 2008 when the governments were saving the banks. This is yet another reason why you should keep your gold and silver positions.

Meanwhile, **crude oil** ended 2011 up about 9% and it remains strong. The bloodline of the world is rising on concern geopolitical tensions will escalate. Crude will remain strong above $94. If it closes above $103, it could rise to test the April highs.

Also keep an eye on **copper** as it's been trying to bottom since last October, and it's firm above $3.40. If it closes above $3.60, we'll likely see a strong stock market too, and a rise to the highs near $4.00 would be achievable. This would mean better global economic news as well.

CHART 25

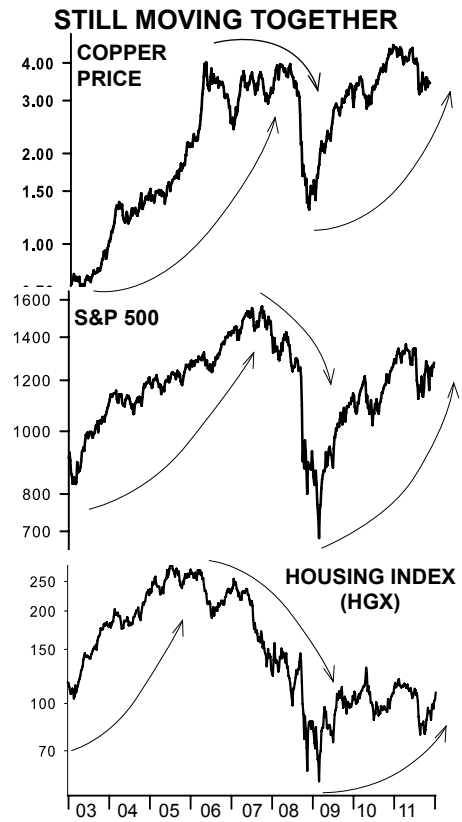
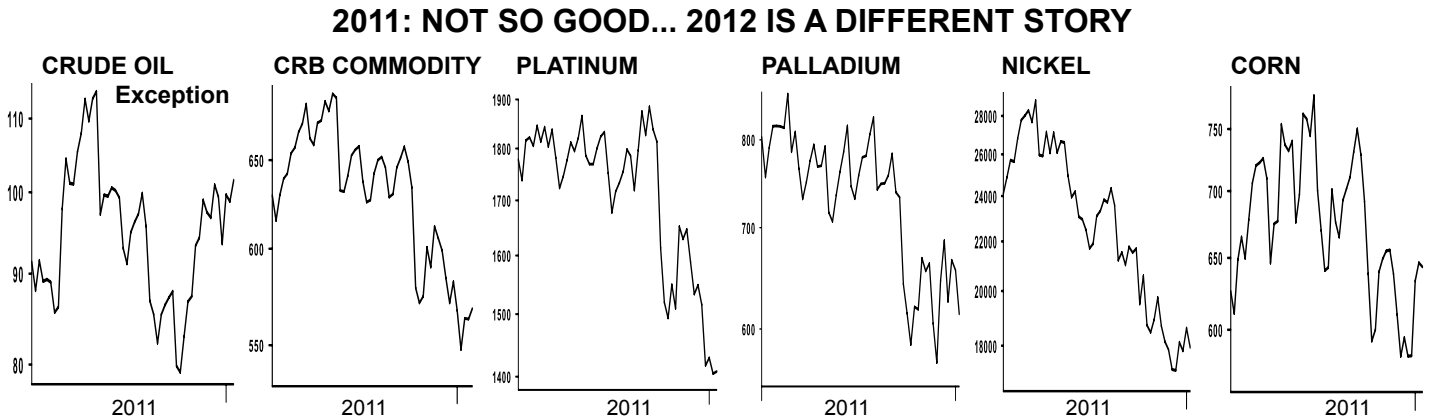
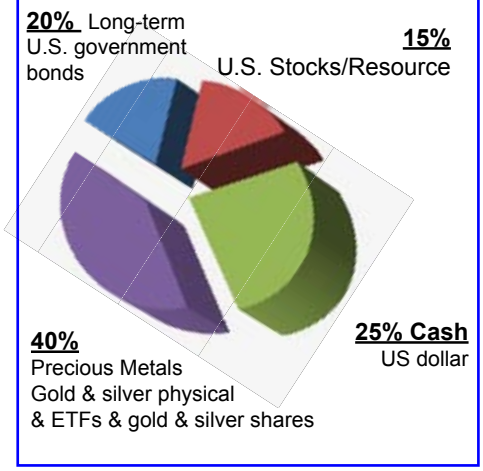


CHART 24



OVERALL PORTFOLIO RECOMMENDATION

The new year is getting off to a good start. Gold is rising and so are stocks, and we're going back into these markets with some new recommendations. U.S. bonds and the U.S. dollar are still safe havens. We're holding those positions but lowering our exposure some (see box at right). The year ahead is sure to be filled with new opportunities, challenges and changes, and we'll do our best to keep you abreast of these as they're happening. We look forward to working with you as this new year unfolds.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold ended 2011 up for the eleventh consecutive year, gaining 10%. This impressive run is one of gold's longest bull markets in history, and in eight of these years gold has had double digit gains! Now 2012 is off to a positive start, after gold fell further in December, along with silver, commodities, stocks and currencies during the heat of the Euro crisis. But this downward correction is likely over and a renewed rise is getting started. Silver had a round trip last year and it ended down, but it's at bargain levels within a strong background. We recommend buying and keeping gold and silver coins, bars and ETFs. CEF and GTU are also good.

Gold shares are looking over the valley after a rough year. They too are on sale and this is a good time to buy new positions and keep the ones you have. Within our recommended shares, buy new positions in New Gold and Royal Gold. We also like Randgold. Keep no more than a 40% position in the precious metals sector at this time, with more in gold and silver.

The resource sector is also looking better. Caterpillar has been leading the way and we recommend buying it, as you can see in our Stock Market recommendation.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The U.S. stock market is looking good. It's at an over five month high, our technical indicators are bullish and stocks are poised to rise further, perhaps up to their 2007 resistance levels. But nearly all of the global stock markets remain bearish and overall risk is still high. Plus, stocks could stall or weaken in the upcoming weeks. That's why we're recommending a small position at this time. This could change, but for now buy a 15% position in stronger stocks like Dow Diamonds (DIA), which tracks the Dow Industrials; it's been outperforming most other stocks or ETFs. We also advise buying Caterpillar (CAT) and SPDR Consumer Discretionary (XLY). The Dow Industrials will stay bullish above 11850.

CURRENCIES RECOMMENDATION

The U.S. dollar became a safe haven this year as the Eurozone crisis intensified. The U.S. dollar is very strong and this upmove will likely continue. The currencies are bearish and they're following the euro's lead, which hit a 16 month low. Continue to keep your cash in U.S. dollars and/or buy and hold UUP, since it moves with the U.S. dollar. We're lowering our position to 25% (from 35%) to buy stocks. Avoid all of the international currencies for the time being.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Randgold Res *	GOLD-Nasdaq	
New Gold	NGD-AMEX	TSX:NGD
iShares Comex Gold	IAU-NYSE	
Central Gold Trust	GTU-AMEX	
Central Fd of Can	CEF-AMEX	TSX:CEF-A
SPDR Gold Shares	GLD-NYSE	HKE:2840
Silver Wheaton	SLW-NYSE	TSX:SLW
Royal Gold	RGLD-Nasdaq	TSX:RGL, FSX:RG3
iShares Silver Trust	SLV-NYSE	

U.S. STOCKS

Dow Diamonds *	DIA-NYSE
SPDR Consumer Dis *	XLY-NYSE
Caterpillar *	CAT-NYSE

BONDS & CURRENCY ETFs & FUNDS

USD Bullish Index	UUP-NYSE
Barclays LT Treasury	TLO-NYSE

* New position

INTEREST RATE & BOND RECOMMENDATION

U.S. government bonds were the best investment in 2011, outperforming other assets. They were the world's safe haven and they still are. Bonds remain strong and bullish, but the upside is limited and the rise could end soon. Currently, we recommend keeping your long-term U.S. government bonds and TLO, but if you haven't bought bonds we wouldn't buy at this time. We're also lowering our position to 20% (from 25%) to buy more stocks. At least a downward correction in bond prices is overdue and if the 30 year yield rises and stays above 3.10%, the correction will likely be getting started.

Note:
The shares, funds and ETFs are listed in the box in order of strength per each section. Keep the ones you have on the list.

