THE
ADEN FORECAST
MONEY • METALS • MARKETS

JANUARY 2014 *our 33rd year*

WHAT'S AHEAD FOR 2014

Well, it's that time of the year.

The time when everyone comes out with their forecasts for 2014. And while it's best to go with what comes, we can make some assumptions based on the events of the past year, and what's currently happening.

ECONOMY: On the path

Even though the economy has been looking a lot better and consumers are more upbeat, the economy is not out of the woods yet. The disappointing jobs report on January 10 reinforced this, showing the weakest job's growth in years.

So it's still touch and go, and as long as it is, we can expect to see ongoing massive QE stimulus and money creation.

In fact, the moderate $10 billion monthly tapering of bond purchases may not last long if the jobs market continues to disappoint, since it was a centerpiece in the decision to taper.

We'll see how it goes. But since QE has been instrumental in driving stocks higher, we can assume it'll keep upward pressure on stocks in 2014 (see top of **Chart 1**).

That is, the super strong 2013 bull market rise will likely continue, with bumps along the way. The major trend is up, the developed world has had the strongest markets, and 2014 is poised to be another good year.

BETTER GLOBAL GROWTH

The world is now poised for its fastest growth since 2010 and that too will be good for stocks, along with low interest rates.

Assuming this momentum continues, then the emerging stock markets, which have been lagging, may start making up for lost time. As you can see at the top of **Chart 2**, Brazil and Russia appear to be bottoming.

Russia is particularly interesting. Its price/earnings ratio is only about 4% and other markets are also providing good values. That doesn't mean these markets are going to take off from here but they do have potential.

DOMINANT FACTORS

Meanwhile, QE, moderate tapering and the economy will continue to be dominant factors for the other markets too.

Going back to **Chart 1**, the currency markets, for example, could come under downward pressure as the U.S. dollar possibly heads higher. This is what our charts are indicating and it's something we're watching closely.

Ongoing low interest rates are a near certainty for 2014. This could finally boost the battered bond market, but here too, we'll see how it goes.

The same is true of the weakest markets last year, the metals sector.

So far, the metals are starting off 2014 on an up note. But since these markets disappointed throughout most of 2013, they have work to do to prove themselves if they're indeed headed higher.

Low interest rates will also be good for the economy. That in turn could put some upward pressure on the resource sector (see oil and copper on **Chart 2**).

TAKE A LOOK AT JAPAN

We all know that QE has been in the driver's seat all along. We also know it's very difficult for the Fed to just stop it.

Plus, deflationary pressures persist and this reassures that QE will be around for a long time. In case you have any doubts, look no further than Japan (see **Chart 3**).

Deflationary forces have weighed on Japan for 20 years.

After numerous programs, a massive QE type stimulus is now in force and "Abenomics" could still be increased even further.

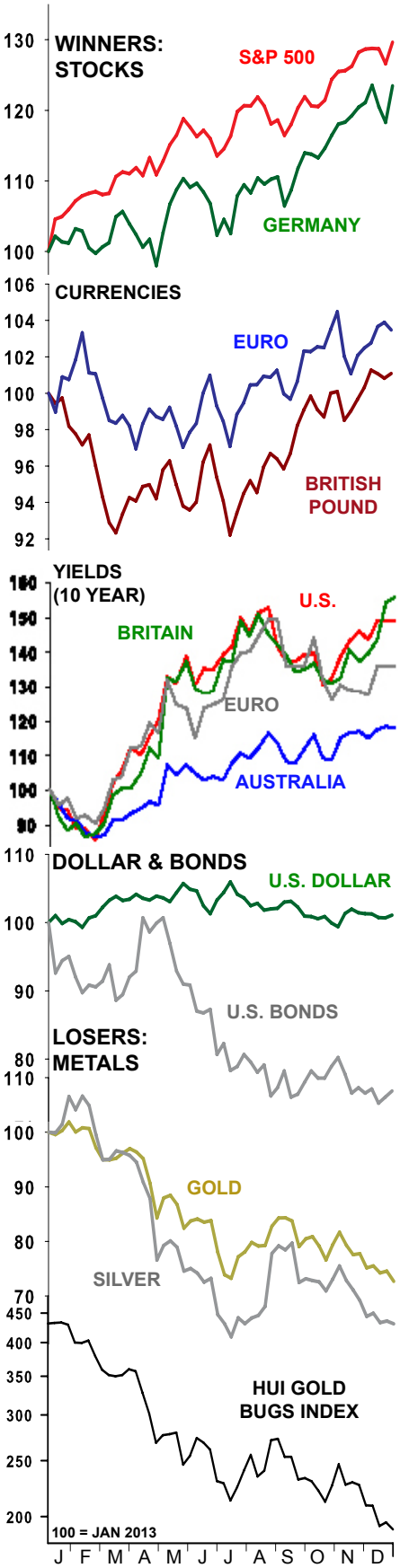
Sky's the limit and this has resulted in Japan's best stock rise since 1972, and a collapse in the Japanese yen.

With the U.S. following the same path, the end result could eventually be similar. It's unlikely to happen this year but Japan provides an interesting insight for what could lie ahead in the upcom-

INSIDE

CHART 1

BIRD'S EYE VIEW OF 2013



ing years.

In the meantime, it increasingly looks like 2014 will be similar to 2013 in many ways. Specifically, it's sure to be filled with challenges and opportunities.

FOLLOW THE TRENDS

This is one important reason why today's update is especially timely. It provides a good reminder to stay focused on the charts.

In other words, all of the reasons why something should, or should not happen are secondary. This is where the debates and arguments come in, and it's the main focus of the business news. So keep the fundamentals in perspective.

Remember, the charts will always tell the story. Then the reasons why will become obvious in time.

The stock market provides the latest example of this...

As you know, the stock market tends to look ahead. it will point the way for the economy several months ahead of time.

Last year when stocks started rising sharply, many investors were skeptical. The fundamentals were terrible, the country was in too much debt, the Fed was manipulating the bull market and so on. But here we are a year later and the economy has indeed improved.

And since the stock market remains very bullish, it's telling us (for whatever reason) that despite the ups and downs, the economy will likely continue to be fine this year. Sure, it may plug along, like it did in 2013 but a recession doesn't seem likely.

UNCHARTED TERRITORY

As we've pointed out many times, however, the world is in uncharted territory. This reinforces the need to be flexible, keep an open mind and be quick to change if market conditions warrant. As difficult as it may be, we have to do our best to leave our theories at the door and take whatever

CHART 3

THE 'ABE' EFFECT

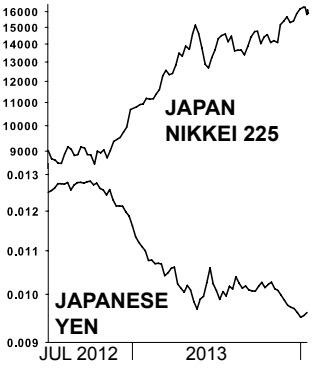
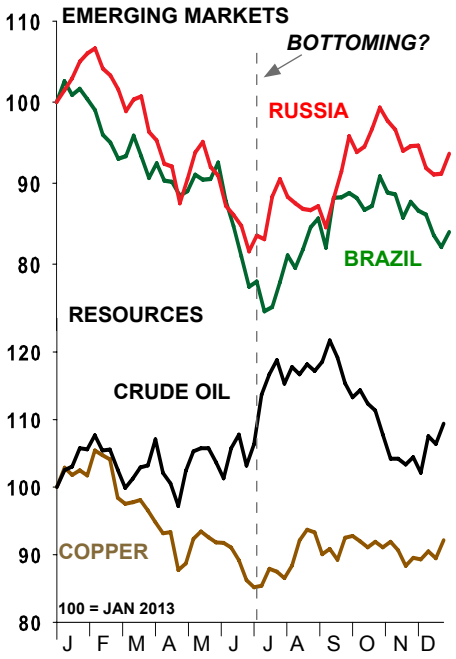


CHART 2

MORE VIEW OF 2013



comes, whether we like it or not.

That's why we feel it's important to diversify. Even though diversification kept a lid on our overall gains in 2013, a diversified portfolio will prove to be beneficial over the longer-term.

In these uncertain times, putting all your eggs in one basket is too risky, as we've noted before.

In hindsight, it would've worked out great last year when stocks were the shining stars. But in most cases, spreading your risk among different investment categories is far safer.

For now, the bottom line is to continue keeping the largest portion of your portfolio in stocks. They're still the top performers and until this changes, we'll keep this strategy. We also advise keeping a smaller position in metals and cash in the stronger currencies for the time being.

But again, should this change, we'll change too and this month's issue will review what we're watching and why.

U.S. & WORLD STOCK MARKETS

2013: One of best rises in almost 20 years

Like the energizer bunny, the stock market keeps on going, hitting more record highs.

A GREAT YEAR

It surged again in December topping off the year with a 32% average gain in one of its best upmoves in nearly 20 years.

Nevertheless, there are still a lot of naysayers out there. And the higher stocks go, the more vocal they become, warning about all of the dangers in the market.

But the facts are the opposite. The factors that drove stocks higher in 2013 are still intact and they're set to propel stocks higher this year as well.

In a nutshell, here are the top 10 most important reasons why…

REASONS WHY STOCKS WILL STAY BULLISH

1-QE continues and it's been the primary factor driving this bull market in stocks. There are no signs it's going to be ending any time soon.

2-In fact, the moderate tapering announced last month eliminated the uncertainty hanging over the market. And since the taper was a minor adjustment, it drove stocks to even higher levels.

3-Interest rates are going to stay low for a long time. The stock market loves low interest rates and this too will be a key factor in an ongoing stock market rise.

4-The technicals remain very bullish (see **Chart 4**). As the big picture of the Nasdaq shows, it's still trading within the lower side of its mega uptrending channel. Its next important resistance is near 5050, the 2000 record high, and its leading (long-term) indicator suggests it could overcome that level.

As you can see, it has room to rise further before it reaches the major high area. That is, stocks are not overbought and the green light is still flashing.

5-The stock market also triggered several Dow theory bull market signals again this month. This too confirms higher stocks ahead.

6-The global stock markets, which have been lagging behind the U.S. market, are starting to join the party. Germany hit a record high and many of the other markets are rising too (see **Chart 5**). It'll be another positive sign if they now all move up together.

7-Overall, the economy is picking up steam.

CHART 4

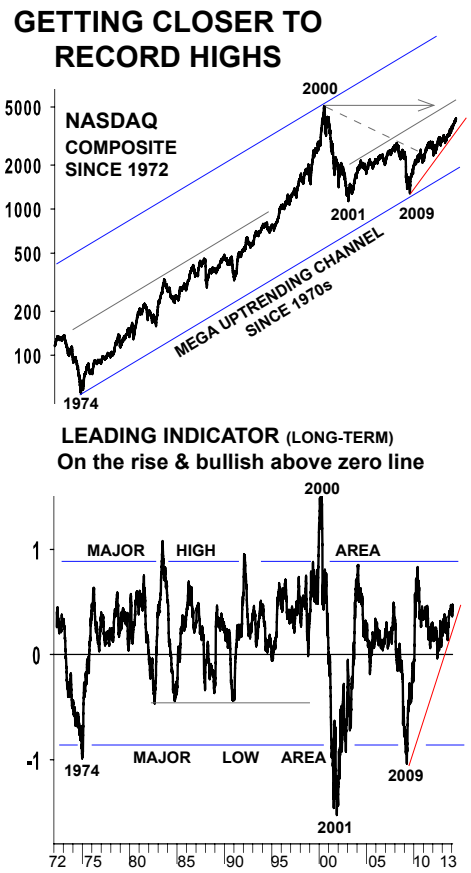
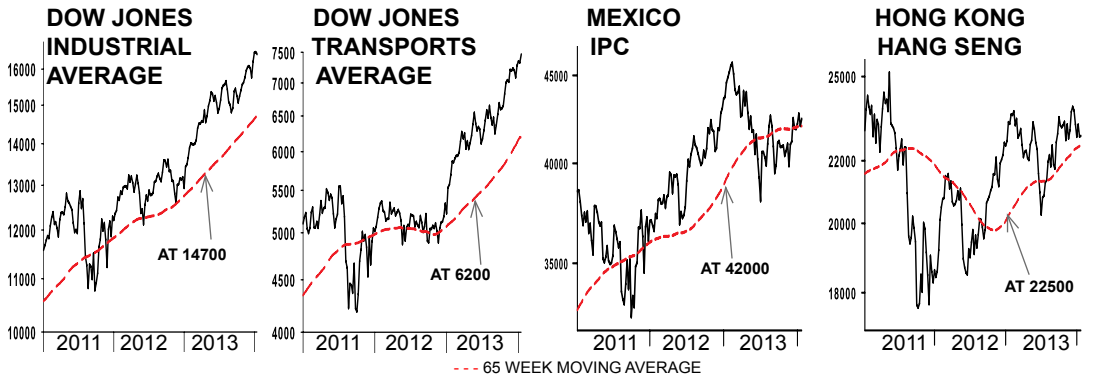


CHART 5



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That's been fueling consumer confidence and boosting stocks.

Yes, there have been disappointments, but if anything, that'll mean more QE. All things considered, the stock market is generally happy with the economy and that should continue to bode well for stocks.

8-Seasonally, this is a good time for stocks. November through April have historically been bullish months for stocks 80% of the time.

9-With few investments to pick from, and compared to most other markets, stocks remain a good value. Plus, they pay dividends. This alone is a real plus in this low interest rate environment.

10-That's why Main Street investors are moving into the stock market in a big way. As they do, they could push stock prices sharply higher, especially if speculation gains momentum, which is usually the way big bull markets eventually end.

CORRECTION UPCOMING?

But we're not there yet. For now, the market looks very good and it's poised to head higher this year.

CHART 6

However, following such a steep rise, a downward correction would be normal and taking a close up view, you'll see that it may be coming up (see **Chart 6**).

Note the leading indicator (short-term) for the S&P500 has been declining. If this continues, then stocks could stall or decline in the weeks ahead. If they do, we believe it'll be mild and even a 10% correction seems unlikely considering the strength in this market.

As we've often said, if this happens, then use weakness to buy new positions.

KEEP A LARGE POSITION

For now, we continue to recommend keeping a 50% position of your total portfolio in our recommended stocks listed on page 12. And depending on how things unfold, we may be increasing this percentage.

If you want to buy new positions, we'd buy IHI, QQQ, IWM, DIA, EWG and IYT, which are among the strongest.

Should circumstances change, we'll change too. So keep in touch with our weekly updates.

But currently, all systems are go and stocks look like they have the best potential in today's investment world.

Our GCRU editor, Omar Ayales, provides an historical take on the Fed and this bull market, which we thought you'd find interesting...

"Looking at the S&P500 since 2009 on **Chart 7**, you'll see when QE1, 2, Operation Twist, QE3 and QE4 were announced, implemented and eventually terminated or tapered.

QE1 began in December of 2008 and it fueled the start of what has been one of the best bull markets in stock market history, rising an impressive 135%.

When QE1 ended in 2010, the stock market fell about 16%.

Soon after, in November 2010, QE2 was implemented causing the stock market to surge approximately 20%. At the end of QE2, the market declined 18% in a matter of months.

Operation Twist evolved into the QE3 program. And the announcement of an opened ended QE4 during late 2012 pushed the stock market to record highs.

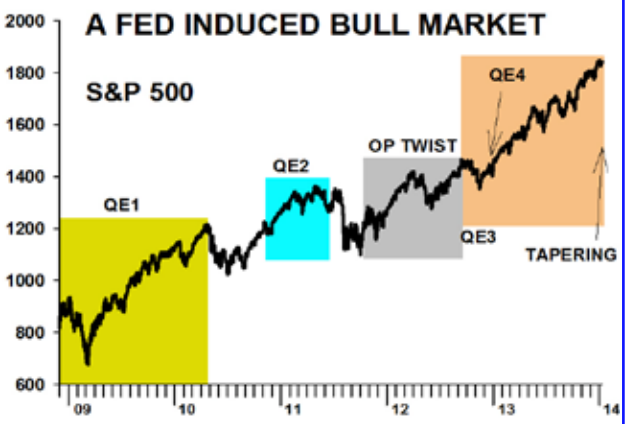
Where do we stand now? The Fed has learned its lesson. It will not "turn off the faucet" from one day to the next. Now, it's all about tapering.

Announcing a subtle and constant reduction in bond purchases until unemployment is well below 6.5%, with the conviction of increasing purchases if warranted, has so far kept things calm.

How will the markets react? It looks like the stock market will not react like it did when QE1 and QE2 ended, dropping double digits.

Moreover, optimism within the market is at a high, along with the perception of an improving economy and unemployment.

CHART 7



Regardless of the truth behind the statistics, perception has become reality and the probability of the stock market heading higher in the upcoming months is high.

However, we believe that within this great bull market, a downward correction is likely at some point, so it's good to maintain some caution".

U.S. INTEREST RATES AND BONDS

Rates have risen far enough

Interest rates moved higher this month and bond prices fell as volatility continued.

This has been ongoing over the past year, especially since May, resulting in the worst yearly loss for bonds in nearly 20 years. But could interest rates keep rising, sending bonds even lower?

CLEAR MESSAGE: Keep rates low

The short answer is yes. Despite the Fed's super low interest rate policy, longer term rates are generally doing their own thing and this has to be spooking some of the Fed's policy makers.

When the Fed decided to moderately taper its bond buying, they clearly reiterated that interest rates will stay low for a long time. They know how extremely important interest rates are.

In fact, they essentially spelled it out stating interest rates will remain low even after the unemployment rate declines below their target level. They also noted their ongoing concern about the lack of inflation.

CHART 8

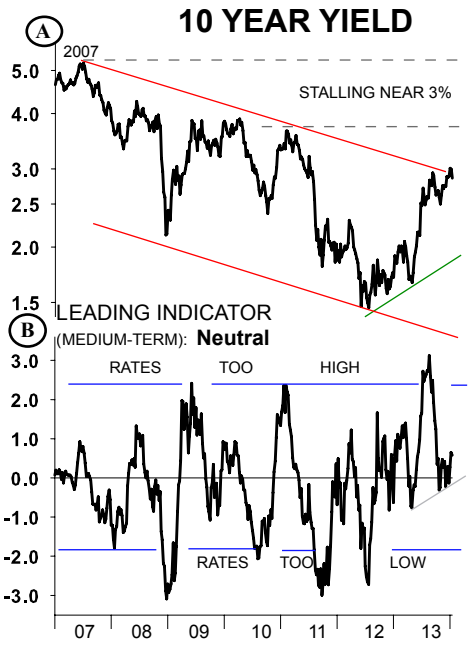


CHART 9

In other words, if inflation doesn't rise back up to 2%, the Fed will take action. That is, they'll be quick to stop tapering if need be.

DEFLATIONARY FORCES GROWING

And with deflationary forces picking up steam, we could see tapering move to the back burner rather soon.

In the past three months, for instance, producer prices have declined. And even though prices have been under downward pressure since the 2008 recession, deflation seems to be intensifying.

Unemployment is still a big concern and real incomes are declining. Plus, globalization is going strong and it's been a key deflationary influence, which has helped keep a lid on economic growth.

Nevertheless, the Fed felt the improving unemployment (to a five year low), and the housing recovery, were enough to warrant tapering. The interest rate market was also focusing on these economic signs as it moved higher.

YIELD RESISTING NEAR 2½ YEAR HIGH

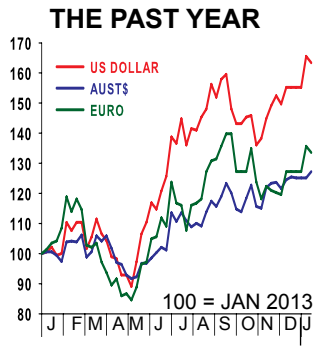
For now, everyone is watching the 3% level on the 10 year yield, which is a 2½ year high (see **Chart 8A**). This seems to be the line in the sand and, so far, the yield is stalling at 3%. This level also coincides with the downtrend since 2007, thereby providing strong resistance.

As you can see, the leading indicator is basically neutral. This means interest rates could go either way. So here's what we're watching...

The 10 year yield has essentially doubled since 2012. So if it continues to resist near 3%, as we suspect, that'll be good news for the Fed.

And since most other rates are tied to this yield, it'll keep mortgage rates and other interest rates at attractive levels, which would be good for the economy.

CHART 10



On the other hand, a sustained rise above 3% would signal a likely rise to near 4%. Above that level, it could keep rising to about 5%.

This may seem extreme, but it really isn't. At 5% the 10 year yield would be near its historical average.

In today's slow, deflationary environment, however, it would be a big deal. It could put a quick halt to the gains seen in the housing market and it could stop the recovery in its tracks.

It would also cast doubt on the Fed's commitment to super low rates and it would drive bond prices sharply lower (see **Chart 9**).

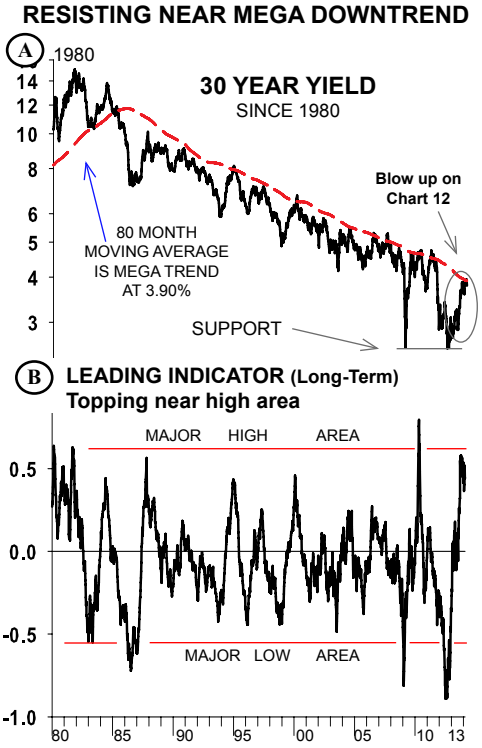
FED WILL DO WHAT'S NECESSARY

We know the new Fed head, Janet Yellen, totally agrees with Bernanke's policies and she's planning to follow in his footsteps.

So based on this, it's hard to

imagine Yellen sitting quietly if interest rates were to rise to dangerous levels. More likely, she'd do whatever is necessary to bring rates back down to levels more in synch with today's reality.

CHART 11



Low rates, however, haven't been appealing to international investors. Even though U.S. rates are higher than rates in most other countries, the big bond buyer has been the Fed (see **Chart 10**).

It currently owns about one third of all U.S. bonds, which is a massive number, strongly suggesting QE is going to be with us for a long time. The main reason being the Fed's going to have a hard time getting out of it because it's in so deep.

If that proves to be the case and we continue following the Japanese model, we can expect to see low interest rates for years to come.

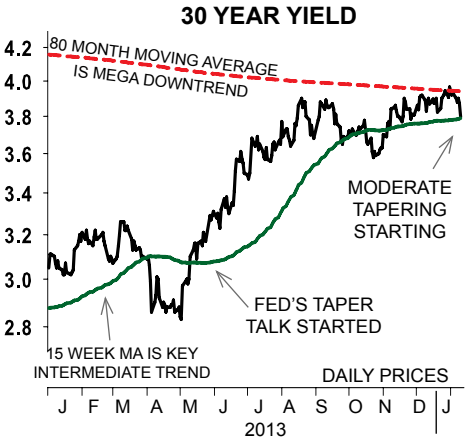
KEEP EYE ON 30 YEAR YIELD

For now, interest rates are at a crossroads. And aside from the 10 year yield, we also advise watching the 30 year yield (see **Chart 11**).

As you can see, the 30 year yield has been declining since the 1980s. During this time it's stayed below its mega moving average.

Currently, the leading indicator is at a major high area, signaling rates are unlikely to rise much further.

CHART 12



Taking a closer look on **Chart 12**, you'll clearly see the 30 year yield is again resisting at this mega downtrend. So watch 3.90%. As long as the 30 year yield stays below that level, it'll remain at historically low levels, which has been the case since 2008, meaning the economy will likely continue on the same path it's been on.

For now, we still recommend avoiding bonds. If you already have bonds, keep them but we'd sell on strength and stay on the sidelines. In these times of uncertainty, it's the best strategy to take.

CURRENCIES

U.S. dollar: Looking better

The U.S. dollar is turning over a new leaf for the new year.

It's being boosted by tapering, higher interest rates and better economic news. And so far, its renewed strength is on our watch list.

Looking at the U.S. dollar index, you'll see what we mean.

As you know, the dollar index has been moving in a wide sideways band since 2008 (see **Chart 14A**). Within that band, the index has been stalling since 2012-2013.

In the meantime, the leading indicator for the dollar (**B**) turned

CHART 13

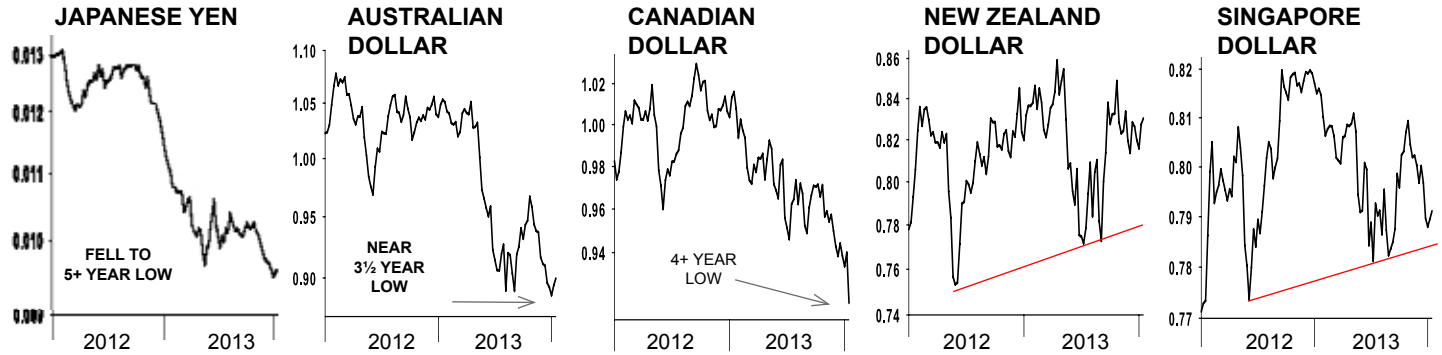
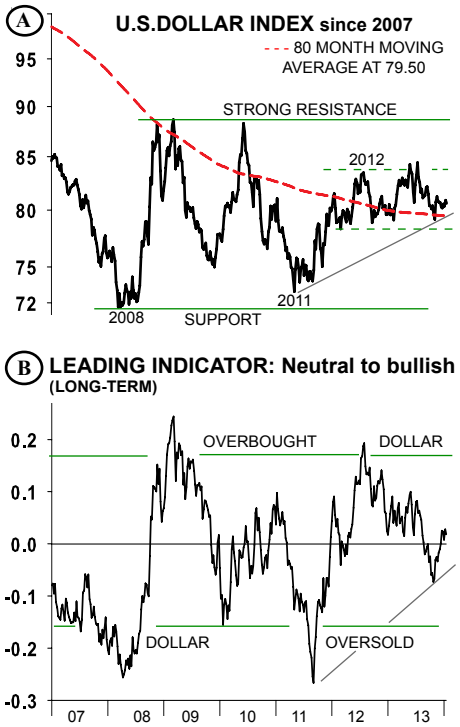


CHART 14

HOLDING AT MEGA TREND



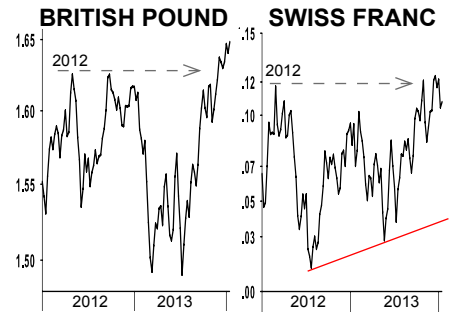
bearish in 2013 by declining below the zero line. But it's now done an about face and it's starting to rise. This tells us to be on the lookout because the dollar index could head higher.

That's being reinforced by the tapering news, which suggests the economy is showing enough promise, at a 4.1% annualized growth rate, to withstand QE easing.

And even though the amount of tapering is a drop in the bucket compared to the stimulus that remains in force, it doesn't matter. Here too, it's all about perception and it's putting upward pressure on the dollar.

CHART 16

LOOK GOOD



You can see this clearly taking a close up view of the dollar index (see **Chart 15A**).

Note the dollar index is perking up near the lower side of the two year sideways band. Plus, the short-term leading indicator is starting to move up and it has room to rise further before it's too high.

Again, this suggests the U.S. dollar is going to rise further. And if it does, we'll want to sell our currencies and move back into U.S. dollars. For now, this will be confirmed if the dollar index rises and stays above 81.70.

MANY WEAK CURRENCIES

Another negative for the currencies is that so many of them are on the decline (see **Chart 13**).

As we've often pointed out, the currencies generally move together, and the fact that most of these five currencies are bearish, or nearly bearish, does not bode well for the stronger currencies, like the Swiss franc, euro and British pound (see **Chart 16**).

Whether it's warranted or not, the strong currencies will eventually get pulled down with the rest of them.

We know that different countries have different fundamentals. And the fundamentals are good for the stronger currencies.

But often fundamentals don't matter and when the tide goes out it can take everything with it. This isn't the case yet, but the odds are stacking up.

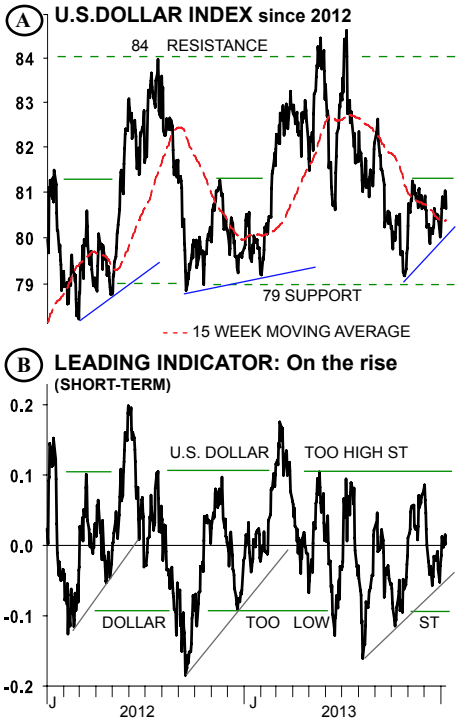
Look at the euro, for instance, which was a top performer in 2013 (see **Chart 17A**). It's now resisting near its downtrend and its leading indicator is turning down. This too is a warning. And while the euro remains strong above 1.3350, this may not be the case for long.

2014: Year of the U.S. dollar?

Many are saying that 2014 will be the year of the U.S. dollar and they may be right. That's what these early warning signs are beginning to show and we'll know very soon if

CHART 15

POISED TO RISE



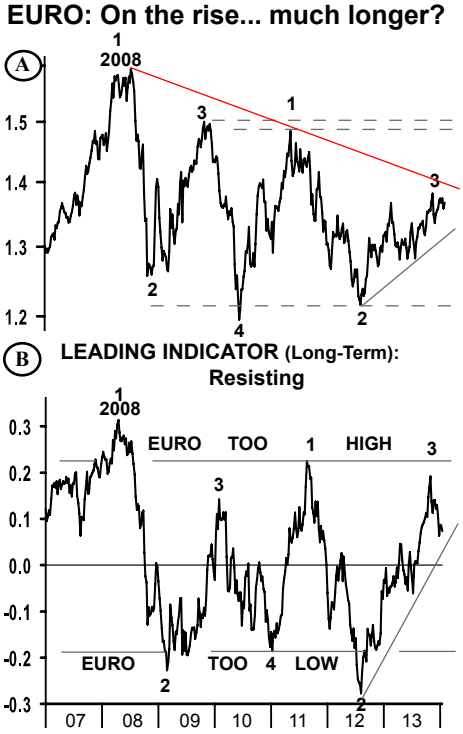
that ends up being the case.

Meanwhile, the Fed is currently monetizing about 70% of all U.S. debt. In other words, the Fed is buying U.S. bonds like mad.

In order to buy these bonds, the

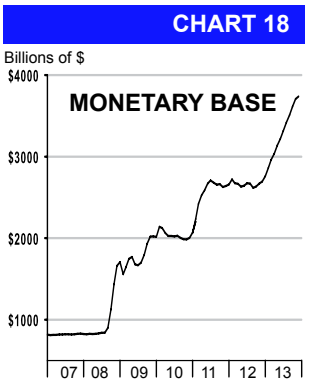
CHART 17

EURO: On the rise... much longer?



Fed creates money to pay for them and this is ballooning the monetary base, which is soaring (see **Chart 18**).

The bottom line is, there's no end in sight. Considering the Fed is printing $1 trillion per year and the taper is only going to be $10 billion a month, this basically guarantees the monetary base will continue to soar.



At some point, this is going to fuel a surging inflation. With deflationary forces currently overpowering, this could take time.

But sooner or later, it's going to happen and it'll drive the U.S. dollar sharply lower.

For now, however, the U.S. dollar index will remain firm above 79.50. But it's still okay to hold the euro and British pound, which reached an over two year high this month.

They'll continue to be firm by staying above 1.3550 and 1.62, respectively, but we wouldn't buy new positions for the time being.

Should this change, we'll alert you in our weekly updates.

METALS, NATURAL RESOURCES & ENERGY

Gold's first down year since 2000

It's official. Gold completed its first losing year since 2000.

Gold turned bearish last April when it fell clearly below its strong support at $1536. And even though we lowered our positions by selling half in February and April, it wasn't enough.

Gold still ended the year down over 28%.

Gold's bear market from 1980 to 2000 was long and drawn out. But on a yearly basis, 2013 was the second worst year, after 1981.

Considering that gold rose 660% during the 12 year bull market since 2000, however, a 28% decline wasn't that severe on a big picture basis. But for those who bought in recent years, it's been bad and there's no way around it.

December was an interesting month, though.

On December 19 gold closed at a three year low at $1193.60, and on New Year's eve gold tested its June intraday low near $1180, but it closed higher before ending the year.

This means gold may be bottoming, for at least an upcoming intermediate rise as we enter the new year.

Silver was also similar in December. It lost more than gold, down 37% on the year. But we also saw it reach a closing low on Dec 3, just above its June closing low. It also fell on New Year's eve to test its June intraday low.

It seems like someone doesn't want gold or silver to break below their June intraday lows at $1180 and $18.20, respectively ... at least for now.

These are the key downside support levels for 2014.

A bear market is still underway, and in spite of intermediate rises, we could see these levels violated before the bear draws to a close.

Recapping

On the downside, silver already tested its 2008 highs, and if gold follows, we could see the $1000 level tested (see **Chart 19**). Don't be surprised if this eventually happens.

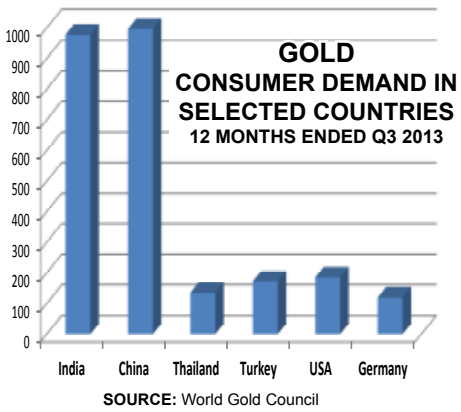
Platinum and palladium weren't as bad as gold and silver. Palladium ended the year up almost 2% while platinum was down 12.40%. The worst were gold shares; they lost an average of 48% in 2013.

The new year bounce up is best seen in palladium and platinum, and they may be leading the way for gold and silver in an intermediate rise.

THE "PUSH-PULL"

Many ask us if gold is a manipulated market. And our answer to this is... probably. Many markets are being manipulated, like

CHART 20



SOURCE: World Gold Council

the stock market, for example.

But that doesn't mean you can't invest in the market. You can.

Gold loves bad news, and we certainly got our fill of good signs in recent months. Better economic news and the Fed trimming its stimulus have been the main pressures on gold since September. In the end, investors dumped ETFs at the fastest pace since GLD was created in November 2004.

In fact, 2013 will probably go down in history as the "push pull" of paper gold versus physical gold, as gold continues to move from West to East.

STRONG DEMAND

Nevertheless, this didn't dampen the desire to own physical gold. Gold demand surged. The World Gold Council said demand for gold coins was up 63% during the first three quarters of 2013.

But the amount of gold available for delivery declined substantially in 2013. It left little gold available to satisfy demand from large investors wishing to take physical possession.

Over 50% of physical metals are consumed by China and India (see **Chart 20**). China produces more gold than any other country. And it looks like it almost doubled its gold buying last year compared to 2012.

According to Bloomberg, China is now set to become the third largest holder of gold. And it ended 2013 as the largest gold consumer in the world.

We could go on and on about China. But suffice it to say that China reported total overall trade for 2013 at over $4 trillion, and it could surpass the U.S. for the first time.

It purchased a record amount of iron ore, oil and coal last year, keeping its record as the world's largest buyer of raw materials, in spite of its slowing economic growth.

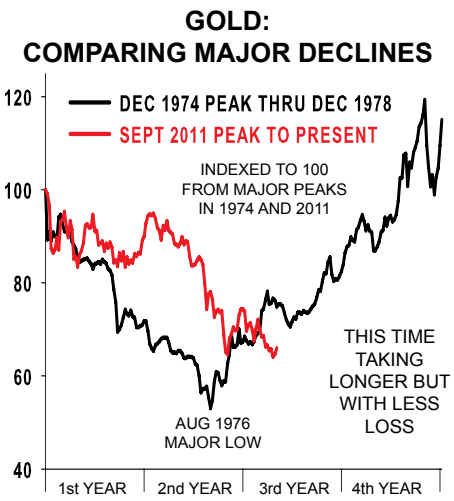
The bottom line is... we're seeing a pattern where physical demand out of Asia seems to pop up when prices fall.

BEAR MARKETS COMPARED

Gold has lost 37% since its September 2011 peak. Many compare this decline to the 50% decline in gold during the 1970s bull market from 1974-1976.

Chart 21 shows this comparison. Here you can see the current decline since 2011 has taken longer than it

CHART 21



did then, but the decline hasn't been as steep. If today's decline ends up the same, however, then we could see gold slip below $1000 before the bear is over.

THE BIG PICTURE: Bullish

Gold's big picture since 1968 on **Chart 22A** shows the two big bull markets within the mega upchannel. If you really want to compare the two bull markets, the 1970s vs the 2000s, most noteworthy is that the past decade has had more global market participation compared to the 1970s.

This makes a big difference. So you could say the latest bull market could, therefore, last much longer. That is, assuming the bull market similarities continue, the five year rise to 1974 could end up being like the 10 year rise up to 2011. The five year rise, for instance, gained 475% while the 10 year rise gained 660%.

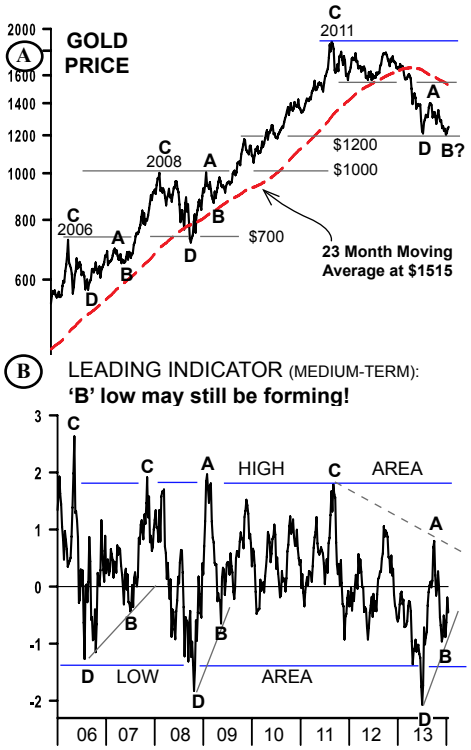
If gold were to fall 50% this time, it wouldn't be as bad as it was then, in proportion, but it would cause gold to test its red uptrend since 2001.

The leading indicator (**B**) is also impressive. It fell sharply to its 1982 lows, which is near an

CHART 22

CHART 23

INTERMEDIATE RISE UPCOMING?



extreme. It could stay there for a while but it's saying gold is getting closer to a major low.

Last month we showed you it could take another year before we see a bullish turn in gold. If gold rises now in an intermediate upmove, and then falls below its 2014 support, for example, it could take about a year to do this.

In other words, the $1500 to $1000 level is a likely range for gold this year. More would be bullish, and less would be a clear buy!

Once the current bear market is over, <u>we could see the best part of the major bull rise develop</u>, like it did in 1976-1980, when gold gained 750%. This is our big picture focus, again assuming the major bull market similarities continue.

INTERMEDIATE RISE IN GOLD FOR NOW

Getting back to today, interestingly, the fact that gold has held above its June low shows that it's still forming a B low. It sounds incredible after all we've seen, but it's still possible we'll see an upcoming C rise develop.

Note the leading indicator on **Chart 23B** shows that it's forming a B bottom at a higher level that the D low. This means as long as $1180 is not clearly broken, the gold decline from late August to December has indeed been a B decline.

Granted, the decline has been steeper than prior B declines, but at an almost 16% decline it's not that much more compared to the last B decline at -14% in 2009.

What to watch for:

$1180 is the key... This level must hold for an intermediate C rise to get started.

Once gold rises clearly above $1270, it could rise to the August high near $1420. This level could see some resistance and it's our target, but if surpassed, gold could then reach the $1500 - $1536 level.

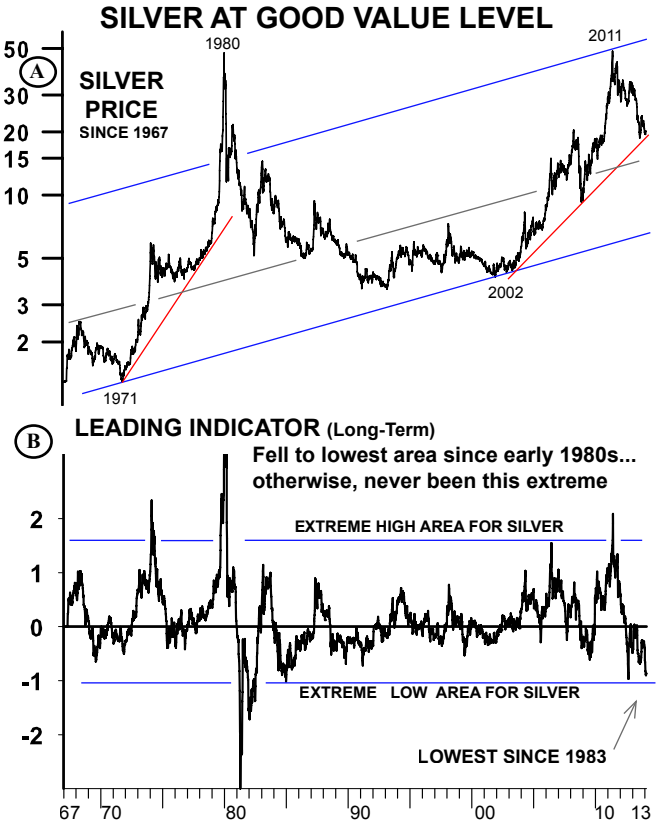
Keep in mind, gold is bearish below these levels. This type of rise would be a good solid intermediate rise but gold would simply be testing its old support.

C rises tend to be the best rise in a bull market when it reaches new highs. For now, we could see a decent rise but reaching new highs seems unlikely.

On the downside. If $1180 is broken, we would lower our metals allocation further. Then $1100 and finally $1000 would be possible targets before the bear market is over.

CHART 24

SILVER AT GOOD VALUE LEVEL



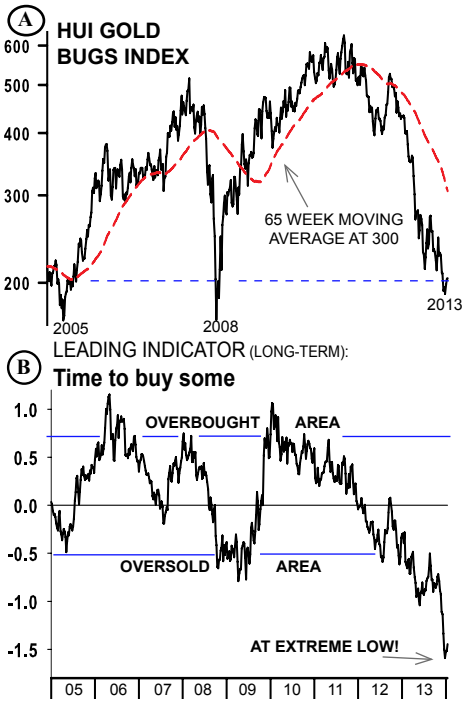
SILVER: Similar to gold

Silver's big picture on **Chart 24** is similar to gold's. It's in a mega rise, and silver has now declined to its 2002 uptrend. This red uptrend is the key low level for silver.

Considering that silver

CHART 25

COULDN'T GET MORE EXTREME



has been much weaker than gold over the last few years, we could possibly see this low hold, even if gold goes lower.

We'll see. For now the bear is in the driver's seat, even if silver jumps up to the $25 level. Plus, the indicator (**B**) is at a low area, but it's not at an extreme.

If silver fluctuates in-between $18.20 and $25 this year, it'll be fine in the big picture.

GOLD SHARES: Finally stabilizing at extreme

Gold shares are just starting to stabilize. The extreme situation took place in December. The leading indicator finally collapsed when HUI reached another low before Christmas (see **Chart 25B**).

This happened while the HUI index was flirting with its major 2005 and 2008 lows. This, together with gold shares also being bombed out versus the gold price means the lows are upon us (see **Chart 26**).

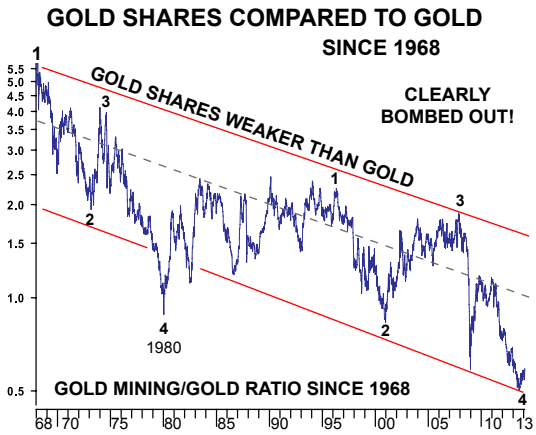
Note the ratio is now bottoming at the lower side of a 45 year down channel! Gold shares have fallen about 65% since the 2011 peak. This collapse has taken its toll on the industry and several gold mines are taking over the smaller ones.

The gloom couldn't get much thicker, and let's keep an eye on the HUI. Once it closes above 225, it could jump up to the 275-300 level. This would be a solid intermediate rise, but gold shares would still be in a bear market.

Many ask if the gold share collapse is leading gold down further. We don't believe gold shares are leading gold. They've simply fallen much more than gold and they're now much cheaper.

Gold shares are at a great value today.

CHART 26



Now is NOT the time to sell. Keep them, and buying a bit more is fine too.

RESOURCES: Down, but not out

Commodities in general have ended a bad year, but they're getting set to gain in 2014. And they have the potential to climb at a faster pace thereafter as the global economy strengthens.

The slowing economic signs out of China and speculation the Fed will curb U.S. monetary stimulus have kept a lid on copper and many commodities.

But optimism is growing and the world is looking better than it did a year ago, led by the developing world.

According to the China Investment Corp., the country's sovereign wealth fund favors European infrastructure and real estate for 2014.

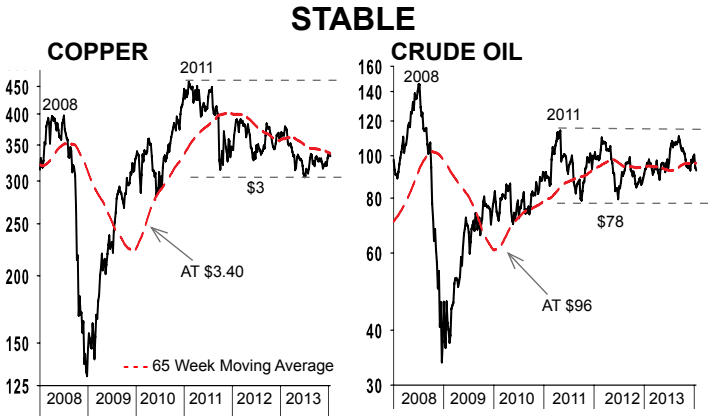
In fact, a global infrastructure upgrade in the coming years is on the agenda.

This means the resource sector could benefit with growing demand this year and beyond.

Crude oil fell to an eight month low this month on surging output and plenty of supply.

The U.S. is the world's biggest oil consuming country and it's also becoming oil independent. This should have a negative impact on the oil price going forward.

CHART 27



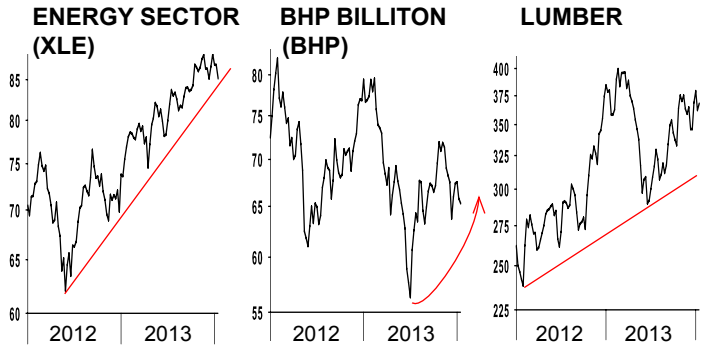
Note the sideways market oil has been in since reaching a high in 2011 near $114 (see **Chart 27**). As long as crude stays within the $114 and $78 range, this sideways band will continue.

If crude now stays below its 65 week moving average at $96, we could see oil approach the lower side of this sideways band at possibly the $85 to $80 level.

Copper will tell us when a better global economy is really getting underway. It's also been in a sideways band since reaching its 2011 high near $4.62.

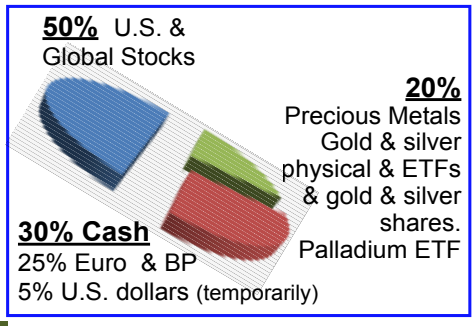
But copper has been weaker. It reached its low last June at $3 and it has been coming up modestly since then. If copper can stay above $3 and close clearly above its 65 week moving average at $3.40, we could see copper approach the top side of the band near the $4 level.

CHART 28



OVERALL PORTFOLIO RECOMMENDATION

In many ways, it looks like 2014 will be similar to 2013. Specifically, it's sure to be filled with challenges and opportunities as we travel through uncharted territory. This reinforces that we have to be flexible and diversified. For now, we're keeping the largest portion of our portfolio in stocks because they're the top performers. And we advise keeping a smaller position in metals and cash in the strongest currencies for the time being.



PRECIOUS METALS, ENERGY, RESOURCE

The new year is starting off on an up note for the metals sector. So far, gold and silver are holding above their June lows at $1180 and $18.20, which is a good sign. But if $1180 is broken, we'd lower our metals allocation. For now, however, gold is poised to rise further in an intermediate upmove, so keep your positions. Gold Shares are super cheap and it's okay to buy a bit more in NGD and SLW. Meanwhile, keep in touch with our weekly updates.

OUR OPEN POSITIONS

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Palladium	PALL	Jan-13	69.71	72.53	4.05	Hold
Central Gold Trust	GTU	May-09	36.53	43.40	18.81	Hold
NewGold	NGD	Apr-10	5.13	5.69	10.92	Buy/Hold
SPDR Gold Shares	GLD	Nov-04	44.38	119.65	169.60	Hold
iShares Gold Trust	IAU	May-05	4.17	12.03	188.56	Hold
Silver Wheaton	SLW	Sep-09	11.66	21.58	85.08	Buy/Hold
Gold (physical)		Oct-01	277.25	1238.30	346.64	Hold
Central Fd of Canada	CEF	Apr-04	6.39	13.64	113.46	Hold
iShares Silver Trust	SLV	May-06	14.50	19.41	33.86	Hold
Silver (physical)		Aug-03	4.93	20.13	308.40	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
iShares US Med Dv	IHI	Oct-13	86.70	96.39	11.18	Buy/Hold
Powershares Nasdaq	QQQ	Aug-12	66.86	88.34	32.13	Buy/Hold
iShares Russell 2000	IWM	Oct-13	107.68	116.18	7.89	Buy/Hold
Dow Diamonds *	DIA	Dec-13	164.47	164.57	0.06	Buy/Hold
MSCI Germany	EWG	Oct-13	28.31	31.70	11.97	Buy/Hold
iShares Transports	IYT	Oct-13	118.85	134.31	13.01	Buy/Hold
SPDR S&P Bank	KBE	Jul-13	30.30	33.54	10.69	Hold
iShares Glbl Telecm	IXP	Oct-13	65.97	67.79	2.76	Hold
Global 100	IOO	Oct-13	72.97	77.26	5.88	Hold
Mkt Vect Retail	RTH	Oct-13	56.05	59.83	6.74	Hold
DJ US Telecom	IYZ	Sep-12	25.22	29.55	17.17	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	94.80	24.47	Hold
Energy Select SPDR	XLE	Aug-12	72.37	86.04	18.89	Hold
Procter & Gamble	PG	Sep-12	68.10	80.79	18.63	Hold
Microsoft	MSFT	Feb-13	28.01	36.76	31.24	Hold
BHP Billiton	BHP	Aug-13	67.68	64.96	-4.02	Hold
Mkt Vect Vietnam	VNM	Feb-13	23.27	19.77	-15.04	Hold
US Global Inv Res	PSPFX	Sep-12	10.02	9.13	-8.88	Hold

CURRENCIES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
British Pound ETF	FXB	Sep-13	161.11	161.34	0.14	Buy/Hold
Euro ETF	FXE	Sep-13	134.82	134.45	-0.27	Buy/Hold

U.S. & GLOBAL STOCK MARKETS

The stock market keeps on going, hitting new record highs. It ended 2013 in one of its best upmoves in nearly 20 years. And the factors that drove stocks higher are still intact and set to propel stocks upward this year as well. We continue to advise buying and keeping a 50% position of your total porfolio in our recommended stocks, listed on the left. If you want to buy new positions, buy the strongest ones, which are IHI, QQQ, IWM, DIA, EWG and IYT.

CURRENCIES

The U.S. dollar turned over a new leaf for the new year. It could rise further and if it does, we'll want to sell our currencies and move back into U.S. dollars. This will be confirmed if the dollar index rises and stays above 81.70. For now, the euro and British pound remain strong and its's still okay to hold them, but don't buy new positions for the time being.

INTEREST RATES & BONDS

Interest rates moved higher this month and bond prices fell as volatility continued. The Fed is determined to keep rates low and if the 10 year yield stays below 3%, that'll be good news for the Fed and the economy. We continue to recommend avoiding bonds. If you have bonds, keep them but sell on strength and stay on the sidelines.

* New Position

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

Big Picture

From Uncle Jan 13, 2014 Dear Reader, Hello from your retired friend. I'm provoked into writing because of much questionable advice I read, for investors. Especially in the gold mkt, but the principle is the same in stocks/bonds. All advisors mean well & do their best, but the failure by most to truly understand the best tool (charts) is sad.

For example, Steven P @YahooFinance cited the "reasons" why gold rose in 2013 & the "reasons" why it fell. He showed a gold chart as evidence that gold was no longer responding to Fed & global money printing. I fear Mr P is not using charts correctly. A professional chartist doesn't care about "reasons" for rises/falls. I often play a game of hiding the name of stocks before analyzing the chart. Viz, when U know the chart is for an oil or bank stock, your bias kicks in, blocks your objectivity.

Charts reveal <u>everything</u>, if U listen. It's also a work in progress as U get better at chart reading every day. Never assume that the millions who "read" charts have equal (or even adequate) understanding. An old saying applies here: "If a donkey looks into a mirror, a donkey looks back."

But charts work best if U R objective. U've got to try not to CARE what the charts seems to tell U. U want chart honesty! When U **<u>own</u>** the stock behind a chart, U are subconsciously biased.

Yes, several banks & govts collude to cap the gold price. That's now a proven & admitted fact. They even excuse it by saying it's for your own good, to stablize mkts & restrict speculation. But their capping efforts were not enough to stop gold from rising for about a decade, 2002-2011. Charts ignored the banksters. Gold overrode & continued to correctly predict with deadly accuracy its true supply/ demand price. Charts gave us a valid top pattern (a descending triangle) which gradually forecast, as the pattern developed, a fall to 1200. I correctly sold some at the time, but not all as the *goldbug fever* prevented goldbugs (me included) from totally believing the charts. Most ignored the *trend change* while blaming govts for capping the price.

Yes, govts shorted gold (mostly via Hong Kong, out of sight, via lapdog banks). But govts couldn't stop the recent gold bull mkt & can't prevent charts from gradually revealing what is really moving the price & forecasting it, *<u>as patterns build</u>*, a bit like 3D printers, layer by layer!

Which reminds me, the best way to see those 3D layers build is to supplement daily charts with 360-minute charts, & 90 & 30 min. Even 10 minute when U are actually trading or trying to find the exact price for your order to buy/sell. For perspective U should always backstop with weekly charts. For long-term positions, use monthly charts.

I went thru this before in the 1970's. I called the 1980 top then & sold & urged my readers month after month after month to sell & go short. It's all there in print. I didn't have to be smart, only to believe the charts. I once said at a 1985 seminar that people who aren't really very smart make the best chartists; as they don't fight the chart; don't follow what bright brokers/analysts say. Blind faith pays off in religion & charting ☺.

Must mention the need of those who would-be better chartists to buy a book on it. I've recom for years: Technical Analysis of Stock Trends by Edwards&Magee (I knew Magee), avail via Amazon.com. Study the patterns endlessly. If U think U know all U need, there's no hope for U.

Some newsletter writers have never read Magee, don't think they need to, & I often find their chart based advice sloppy or wrong.

Chartists have little use for fundamentals & "facts" because guess what, most data comes from govts & corps, with axes to grind & facts to hide/distort. -- Yes, fiat money is evil, deeply so. And the debt mountain is historically high/dangerous. Yes, *real* inflation is 2-7 x higher than stated in most nations. And unemployment is 3x higher than govt says in the US & some other places. And the US$ should collapse next Thursday to reflect its trillion $ deficits. And those 'immoral' derivatives are time bombs under many banks, but we've waited 10 yrs for them to go off; instead they seem cemented over. In much of society, immorality has become the new normal. Including TV's live reality shows.

But there is *no sell-by date* on debt or jobs or flations. So let's forget the fact-fudgers. Instead of frustrating over those things, spend your time learning how to be a genuine chartist. They open a window for U to every mkt & reflect every human activity! Your own & your mate's moods can even be charted. For a benefit. ☺

By the way, deflation is currently overriding inflation. The hyper-inflation all of us in the hard-money camp have been expecting "next month" for the last 10 years may still come, but if U need to know WHEN, follow charts on interest rates & currencies. The answer will be there! If U are a gold bug, graduate to a gold-chart-bug. But first learn the language of charts. Become your own chart advisor. U don't know how much/little a chartist on TV really knows. Beware of youth. ☺

Where are mkts going now? Loosely, global stk mkts look firm for next few weeks. Then a strong correction. But in the fall, back up to where it began 2014 +/-. Chart patterns keep revolving, so watch for any change to that. –- Gold? Up for next 2-3 wks. Junior stks best. Bullion to 1260-1280. Unless rises over 1300-1320, the bottom could be retested. Louise Yamada agrees. The 2011 top still says 1120. Maybe 1000 eventually, maybe not this year. This can't be set in stone obviously, but let's keep an open mind & help plan when hurdles are jumped or fail. We vet the charts several times a day & look as if seen for the first time.

"Logically" (whatever that means), one should keep a moderate core gold position. But core aside, one should buy for rallies (signaled by chart patterns) & sell &/or sell-short (call it a 'hedge' if it makes U feel better) when gold hits chart resistance. •••• Will gold be a *flight to safety* from equities? Asks Bloomberg. Yes, but not nearly there yet!

And take profits when U can. Don't wait for champagne tomorrow, take beer today. They don't run the mkts for your sake; don't expect favors. A lot of smallish profits is safer than risking some large ones—if U wait. Of course U can use trailing stop orders but they only work once U have a decent profit to work with, as the stop is usually so low they cut gains badly.

Another tip: 2014 is starting badly for most commodities, from oil onward. So, consider a life preserver strategy: short gold, long palladium. Short oil, long copper. Short certain weak gold stks, long certain strong gold stks. Etc.

MISC: Monty Guild reports *US Basic Needs Index* is up since 2000 by 87%. Govt CPI index says it's only 39%. Much the same in many nations. Now we see why some govts have lost their credentials. •••• The IMF has asked Argentina for HONEST statistics re its economy. POW! Dare the IMF ask for the same from UK, US, China? ••••

Some doctors don't recom vitamin tablets because they weren't taught vit-therapy in med school. They don't know that they don't know. Also, subconsciously, docs resent the 'competition' of vit supplements. But they're right to condemn multi-vitamin tablets, which contain tiny bits of many vits, too few to be useful. •••• Banks need to do banking. Casinos need to do casinos. Not joined at the hip. •••• Ex pres.candidate Pat Buchanan says: *"The neo-cons are terrified of peace."* •••• IMO, we should not use microwave ovens at home, nor accept microwave-heated food in restaurants. •••• Oklahoma law passed, 37 to 9 an amendment to place the Ten Commandments on the front entrance to the state capitol. Good. Time to fight back. •••• Next week I vow to wag more, bark less. U too? This could catch on. Woof. ☺ ••••

God bless U and yours! --Uncle90.4