THE
ADEN FORECAST
MONEY • METALS • MARKETS

JANUARY 2015 *our 34rd year*

WHAT'S AHEAD FOR 2015

Happy New Year. As we embark on this new year, it's always good to see where we've been, where we are and what probably lies ahead. So let's get right to it…

BONDS WERE #1...

Taking a look at the market rundown for 2014, you can see which markets were the winners and which were the losers. You'll also see where they're likely headed (see **Chart 1**).

Without a doubt, the big winner was long-term U.S government bonds. They gained 46% for the year, including interest, as they became the world's favorite safe haven.

This came as a surprise to many investors. The general feeling was that bonds are boring, bonds are in a bubble and so on. But the bond market proved them wrong as it surged upward throughout the year.

...AND TO CONTINUE

We're glad we were early, recommending bonds in February. This ended up being our best recommendation in 2014 and this will likely continue in 2015.

In fact, as you'll see in this month's Interest Rates section, the bullish factors for bonds are far more powerful than they were last year.

Most important, with so many countries experiencing slow growth or recession, the Fed will want to tread easy. It won't be in a rush to raise interest rates. Plus, rising rates would make the U.S. dollar stronger and that's something the Fed doesn't want.

The bottom line is, interest rates will probably stay low for most of this year, especially because deflationary pressures are intensifying and inflation is so low. This will be very bullish for bond prices.

STOCKS WERE WINNERS TOO

The stock market was also a winner in 2014. But it was a selective market. Most of the global stock markets were generally lackluster. Other stocks, however, soared.

So stocks were mixed, but the major trends remain bullish. And despite recent volatility, it looks like the market will stay bullish as we move into 2015, especially if interest rates remain low.

Also interesting, since the stock market looks ahead and leads the economy by six to nine months, the market is signaling there's no recession in sight. On the contrary, the U.S. has entered a stronger growth phase and the economy is looking good. Job growth is the strongest in 15 years and unemployment is at a 6½ year low.

Still, the question remains…can the U.S. keep plugging along by itself while the rest of the world struggles? We'll soon find out and that's going to be one of the most important developments in this new year.

Either the U.S. will pull the laggards up, or the sluggish economies will drag the U.S. down. And if they do, it'll be a real challenge to boost the global economy since interest rates are near zero, so there's not much to work with. Either way, it'll have a big impact on many of the markets, so stay tuned.

U.S. DOLLAR SURPRISE

Another surprise was the super strength in the U.S. dollar in the second half of 2014. We didn't see that type of strength coming and neither did most other analysts.

But the dollar ended up becoming the world's favorite safe haven, along with U.S. bonds. In hindsight, we can see why. The U.S. is strong and the other countries aren't. It's basically that simple.

The strong U.S. dollar influenced many of the markets. And these essentially ended up being the losers for the year.

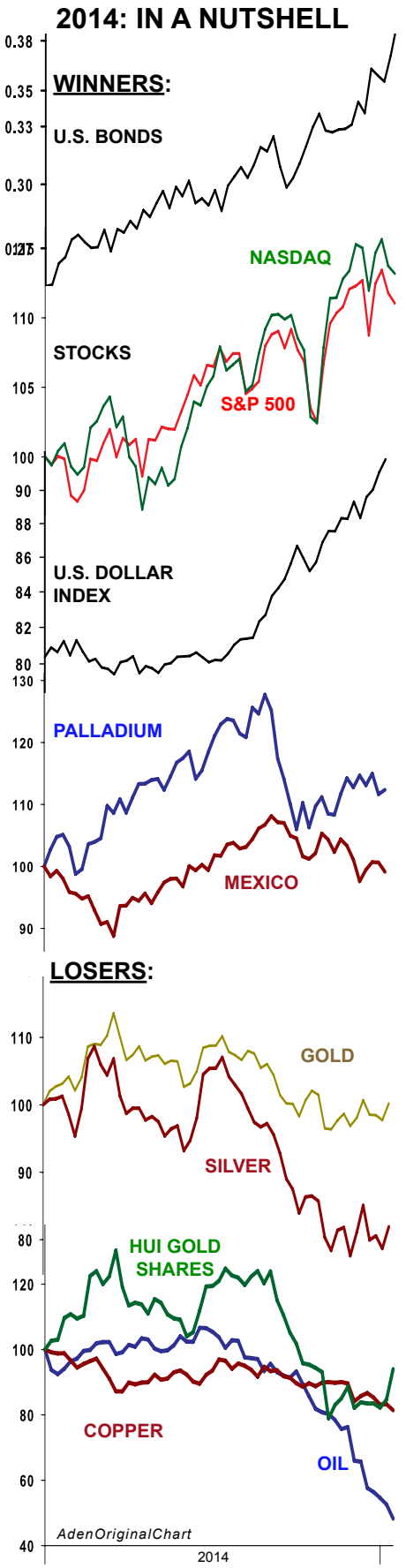
Will the U.S. dollar's strength continue in 2015? That's the big question. If the U.S. economy stays strong and the other countries remain weak, it probably will.

But the U.S. dollar has also risen so quickly, it's now due for at least a normal downward correction. The metals markets are reinforcing this because they appear to be bottoming.

But whether or not this ends up being a major change, or just a downward correction and rebound, is still to be seen and this is something we'll be watching closely as

INSIDE

CHART 1



2015 unfolds.

We wouldn't be surprised, however, if 2015 is finally the year that gold and the gold shares begin significant rises. If so, then the U.S. dollar will likely decline and the currencies will rise.

OIL DILEMMA

The oil price, however, is something else. The 57% plunge in the last seven months was far steeper than anyone would've imagined. It shocked oil producers, the banks who lent them money, oil suppliers, countries that depend on oil for their well being, and many more.

The low oil price, for instance, is increasing global deflationary pressures and it'll keep inflation low.

But will the oil price stay this low in the months ahead? That's another big question.

For now, there are not yet signs that oil is headed higher. So we'll have to wait and see. In the meantime, the low oil price is increasing worldwide risk. Here's what we mean…

WILD CARDS

As you know, we've often talked about the wild cards that can come flying at you from anywhere. These are the surprises that can abruptly spook the markets, regardless if everything else is fine.

As 2014 drew to a close, there were several potential wild cards lurking about. This just means we have to stay alert, flexible and open minded, and be prepared for whatever might come.

Using oil as the most obvious example, here's what's happening:

Russia is suffering its worst financial panic in nearly 20 years, in large part thanks to the low oil price. Its economy and currency are collapsing, and contagion is spreading to other emerging markets. The oil producing countries are being especially hard hit.

The fact that oil has dropped so far, so fast is a clear sign reinforcing that the world economy is not healthy. That is, demand for oil is down basically because of the weak global economy.

This scares investors, so they start selling stocks. They get nervous because the situation is uncertain. In fact, there are currently several similarities to the late 1990s and the 2007-08 financial crisis.

HISTORY TO REPEAT?

In the late 1990s, the U.S. economy was strong and unemployment was down. Everyone was going wild over tech stocks and the stock market was soaring. The rest of the world, however, was not booming. Emerging market currencies were tumbling and eventually this spread to the U.S. too. The tech bubble burst and a global recession followed.

The 2007-08 recession was the worst since the Great Depression and the world is still trying to recover from it. This recession was primarily triggered by subprime and other bad loans, which amounted to about $1 trillion.

But as Jim Rickards points out, the loans incurred over the past five years for drilling and infrastructure in the energy sector comes to about $5.4 trillion.

Even though some of these loans are already going sour, this doesn't mean we're headed for a 2007-08 repeat, or worse. But the potential is there and we have to be cautious.

MORE REPERCUSSIONS

Meanwhile, Putin is upset and desperate. He recently announced that the U.S. and NATO are Russia's biggest threats. And he would use nuclear weapons if Russia becomes a victim of aggression.

Harsh words but they emphasize how serious this situation is becoming. In other words, we could be in for a wild ride, but then we may not.

As you know, there's almost always something to worry about, so we'll see how this unfolds. But the super weak oil price comes with global repercussions and it's probably the most important market to follow as 2015 evolves.

So that's what we're watching as we embark on this new path. Yes, it could be challenging and risky, but we also see opportunities for profit ahead. We'll be ready for them and we'll do our best to point these out, as well as dangers as we go along.

U.S. & WORLD STOCK MARKETS

Off to a rocky start

The stock market is still bullish. But it's been off to a rocky start as the new year begins.

Actually it's been volatile since last month. After falling steeply in December, for instance, most of the stock indexes then moved up to hit new record highs around Christmas time.

The Dow Industrials broke above 18000 (see **Chart 2**). But then the markets declined again, moving up and down since then.

MAIN FACTORS

It's almost like the stock market doesn't know what to do.

On the one hand, it's loving all the good U.S. economic news, and it's thriving in this low interest rate environment. These have been the main factors driving stocks higher.

The end result, the S&P 500 gained 11% in 2014. And remember, that came on the heels of a 26% gain in 2013.

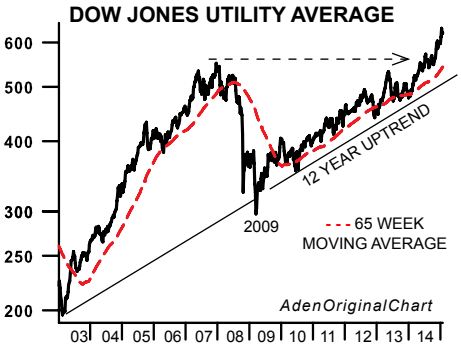
Plus, the stock market hasn't had a correction greater than 10% over the past three years. This hasn't happened in 130 years!

So the market is very strong, despite the volatility. And the Fed's actions have been super positive for stocks.

Janet Yellen is continuing on with the same game plan and like we've said before, don't fight the Fed. They're keeping interest rates low and we continue to believe that stocks are going to head higher as long as interest rates stay low.

CHART 3

RECORD HIGH!



THIRD PHASE?

In fact, our dear friend and market veteran, Richard Russell has an extremely bullish outlook.

He believes the current bull market is still in store for a great speculative third phase. These phases tend to be stronger than the first two phases combined.

He also notes that he has never seen a bull market that did not end with a speculative third phase (think tech stocks in the late 1990s). And he wouldn't be surprised to see the Dow reach 25000. So the message here is, look ahead. Things are going to get better.

WALL OF WORRY

On the other hand, as we've mentioned before, this bull market has been climbing a wall of worry and the wall is getting taller. In fact, as we enter this new year the action in the market has been making us uneasy.

The market is uncertain. It's jittery and it's looking toppy. This has resulted in the volatility we're seeing and it's basically in reaction to the news of the day.

When the oil price fell too far, for example, it hurt the energy stocks, which spilled over to the general stock market. The same was true when commodities tumbled.

Plus, the big drop in the Russian ruble, the decline in junk bonds, weakening emerging markets, the terror attacks in Paris, the strong U.S. dollar, earnings concerns, and a big flight to safe havens, like U.S. bonds, have all been reasons why stock investors have become more nervous about what happens next.

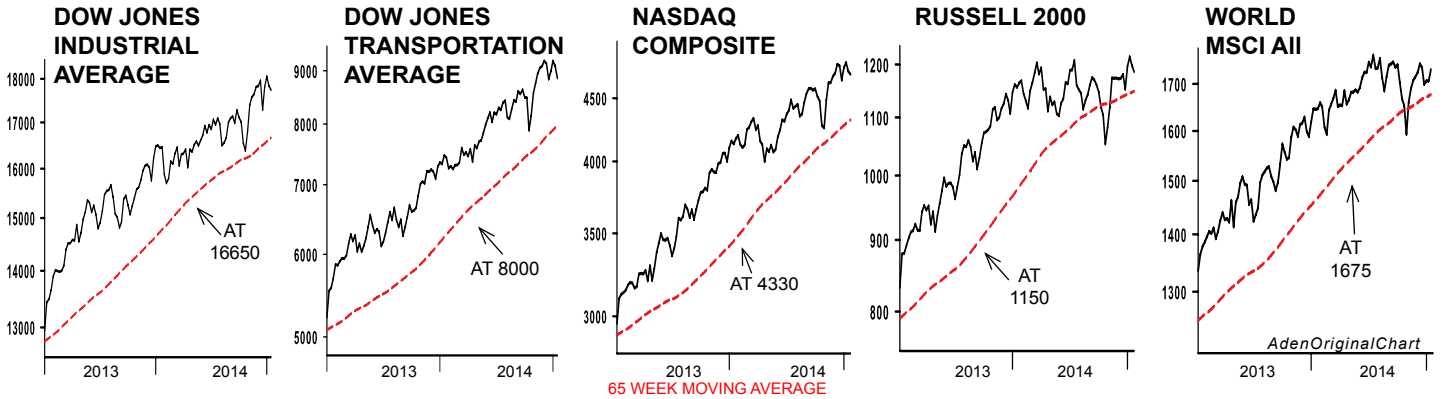
Suddenly, these negative factors are offsetting the positive facts. It's currently like a tug of war and it's still to be seen how it's all going to pan out.

BONDS COMPARED TO STOCKS

For now, U.S. government bonds clearly have the upper hand. They've

CHART 2

THE BULL RUN CONTINUES... A GOOD YEAR!



been much stronger than stocks. And that's also why the Dow Jones Utility Average has been so strong (see **Chart 3**).

Utilities tend to move with bonds. They have better yields. They're also the most attractive and tend to hold up best when the other indexes are showing vulnerability.

But don't count the others out yet…

Looking at **Chart 4**, you can see that stocks and the 30 year yield clearly move in opposite directions.

So with the yield currently approaching record lows, this is very bullish for stocks. But again, will this be enough to overpower the negative factors that're popping up?

Also, if stocks do decline further, will it be just another downward correction, like the many we've seen in recent years? Or could it be the start of a major bear market?

At this point, we don't know yet. But if we look at our technical indicators, there are no signs showing that this bull market is in trouble. And if it is, we've not seen any red flags yet.

TECHNICALS BULLISH

Chart 5A shows the S&P 500 going back to 2000. As you can see, it's been in a strong bull market rise since 2009 and, with one exception, it has stayed above its 65-week moving average throughout this up move.

The moving average for the S&P 500 is now at 1910. So in the event of further weakness, as long as the S&P 500 stays above that level, the bull market will remain intact, meaning stocks are headed higher.

The moving averages for the other stock indexes are listed on **Chart 2** and the same rule applies to them too.

Meanwhile, the leading indicator for the S&P 500 (**5B**) remains firmly bullish, reinforcing the major uptrend. So even if stocks weaken some in the weeks ahead, they'll be okay if these indicators stay solid.

FOREIGN MARKETS

As we've been saying for a while now, the international stock markets have been lagging.

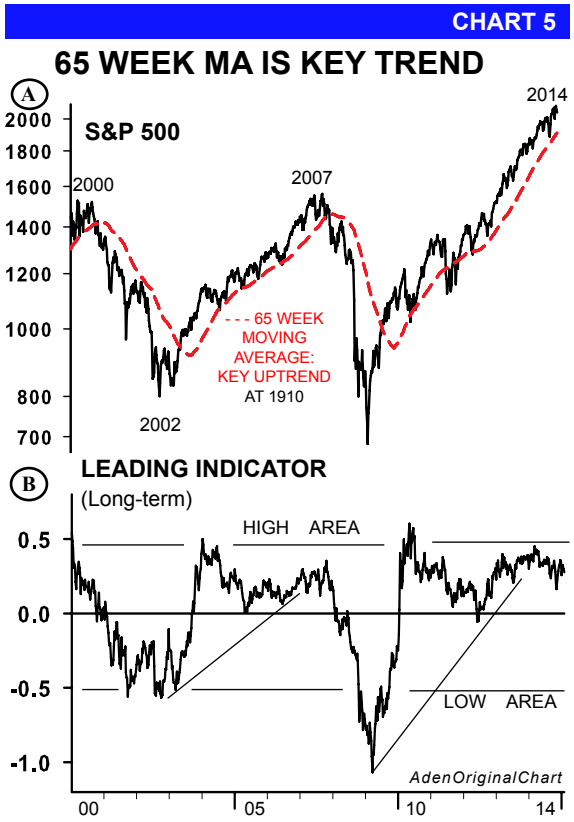
They're generally not doing as well as the U.S. market and that's why we're holding the majority of our recommended stocks in U.S. based markets.

For now, we advise keeping the stocks you have. Even though there are signs of caution, they're holding up fine for the most part. Several of our stocks recently hit new highs and even the weaker ones have been generally rebounding.

KEEP YOUR POSITIONS

At this point, we'd hold off on buying any more new positions, at least for the time being. Better to wait to see how the market unfolds and if it can hang tough.

The bull market says it will and we'll stay with it while the bull's in the driver's seat.



Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com
info@adenforecast.com

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The Aden Forecast
P.O. Box 790260
St. Louis, MO 63179-9927

1-305-395-6141
In Costa Rica:
Ph: 506-2271-2293
Fax: 506-2272-6261
from the U.S. dial 011 first, otherwise dial 00

U.S. INTEREST RATES AND BONDS

Bonds: The winners

The bond market is super strong. It's again hitting new bull market highs as it surges higher into the new year.

As you know, long-term U.S. government bonds were the big investment winners in 2014, gaining 46% (see **Chart 6**). And it looks like that's going to continue as 2015 evolves, very possibly throughout the year.

WHY BONDS SET TO RISE FURTHER

We know that may seem strange, especially considering the big rise bonds have already had, but it's really not. Here's why…

1. There's a huge demand for U.S. bonds from all over the world.

Even though U.S. interest rates are very low, U.S. bonds are still paying a higher interest rate than rates in most other countries. That makes them more attractive and the world's favorite safe haven. It's all relative.

2. The U.S. dollar is also super strong. That too enhances the appeal for U.S. government bonds, especially for foreign investors.

3. The same is true of the U.S. economy. It grew 5% in the third quarter, its biggest gain in a decade.

That's in sharp contrast to the sluggish growth or recessions in other countries. And again, this makes bonds very attractive.

CHART 7

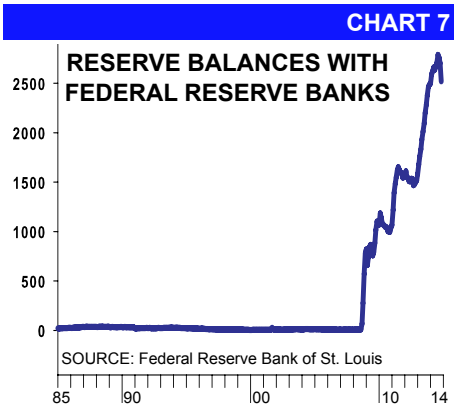
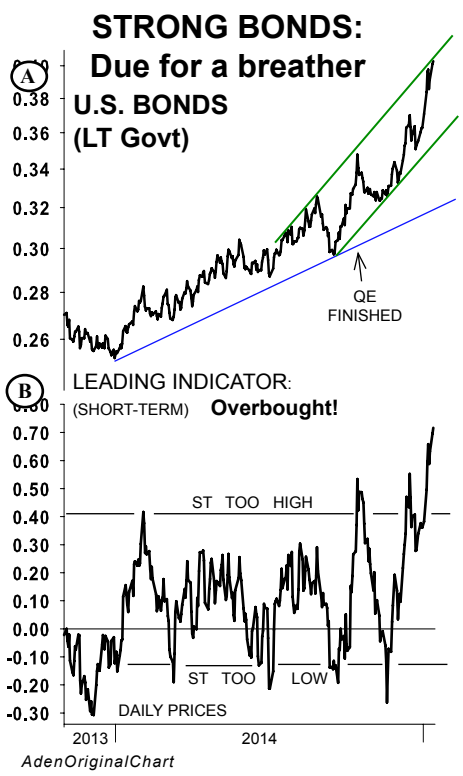


CHART 6



4. Deflation has the upper hand on the world stage and inflation is low. It's probably going to stay low for quite a while, considering the plunge in the oil price. This environment is also ideal for rising bond prices.

INTEREST RATES TO HEAD EVEN LOWER

5. Plus, U.S. interest rates will likely stay low throughout 2015.

With the rest of the world on thin ice, it would be too risky for the Fed to raise rates prematurely. This means bonds will probably keep rising for most of this year.

In addition, bank reserves remain high and the velocity of money is still low (see **Chart 7**).

That is, money isn't turning over and circulating like it should during healthy economic times. This tells us that not all is well, or in synch.

Interestingly, this is being reinforced by our déjà vu chart, which we've shown you several times. (see **Chart 8**).

Nevertheless, it's amazing and impressive to see how the current 30 year yield interest rate decline, which is in red, is following the same path as the interest rate declines in 2007-10 and 2011-13. (Please note that we've readjusted the current decline, which now begins in Jan 2014).

If this pattern continues, then this interest rate decline could indeed continue for another six months or so. As you can see, that would be pretty normal before it hits the lows, based on past performance.

Plus, U.S. government bonds are super safe. And if deflationary pressure persist as we suspect, there's a good chance the 30 year yield could decline lower than the previous bottoms. In other words, bond prices would rise a lot further.

DEFLATIONARY PRESSURES ARE THE HEAVY WEIGHT

If that happens it would be a huge deal… Looking at **Chart 9** you'll see what we mean…

This shows the big picture of the 30 year yield going back to 1930. Note that this long-term interest rate

CHART 8

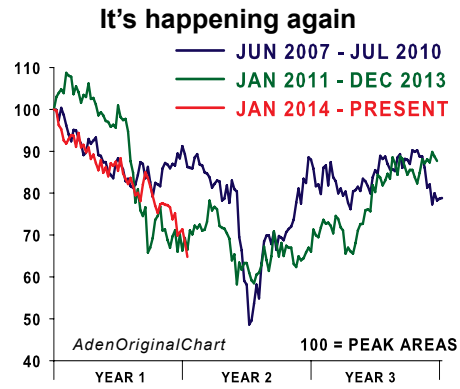
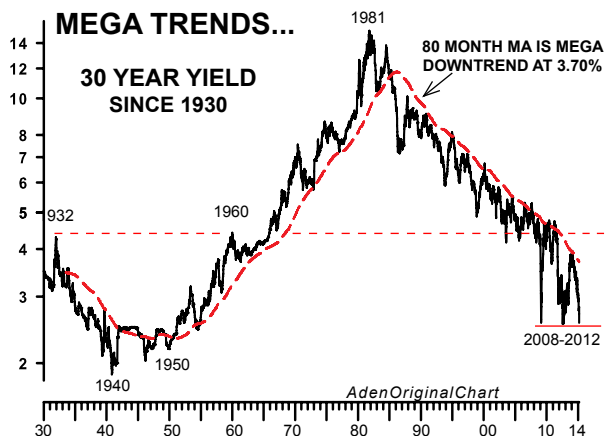


CHART 9



has been dropping since 1981.

Since then, it's gone from 15% to 2.45% The lows in 2008 and 2012 were at the 2.50% level, so this provides a strong support area.

But if this level is clearly broken, the 30 year yield will likely drop down to retest the lows of 1940 and 1950, near 2%. If so, that would amount to about a 23% gain from today's levels.

At this point, we don't know if that's going to happen, but we wouldn't be surprised if it does. Why?

Mainly because of the deflationary pressures. Also, our technical indicators are showing there's still some room on the downside for interest rates to fall further, both in the medium-term and the long-term, before they're oversold or too low (see the 10 year yield on **Chart 10** as an example).

WALL STREET NOT BULLISH ON BONDS

6. Wall Street forecasters are not bullish on bonds. But that's been the case throughout 2014 and they've been wrong.

Bond investors, however, are generally known to be more knowledgeable and sophisticated than most other investors.

That is, they're very sensitive to what's happening and they're telling us that, contrary to popular opinion, interest rates are not going higher any time soon, and bond prices will remain bullish. Bill Gross (the bond king) feels the same.

BOTTOM LINE: Keep your bonds

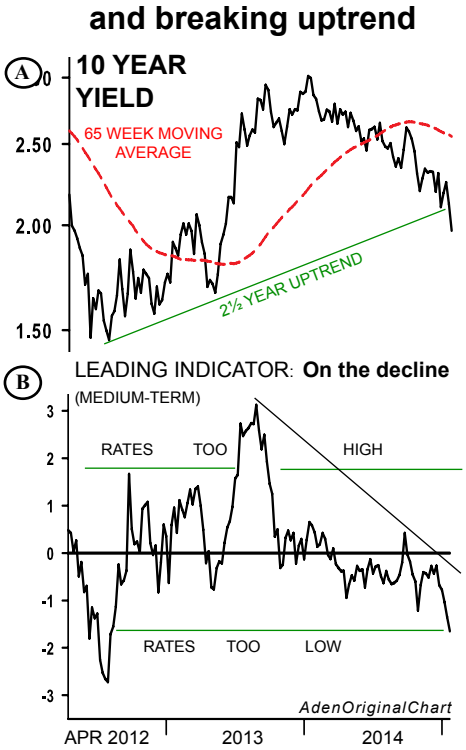
So the bottom line is … until we see otherwise, we're going to continue to buy and hold long-term U.S. government bonds. The major trend is solid and it remains up, telling us to stay with bonds.

This market is strong and bullish and government bonds continue to be the best overall investment in today's environment.

We also like the bond ETFs listed on page 12. The Ultra 20+ year Treasury (UBT) has consistently been the strongest and it's our favorite. So if you want to buy new positions, or add to the ones you have, we'd buy UBT. TLT, TLO and TLH are also looking good.

Even though these markets could decline a bit in the weeks ahead, stay with them. And if they do stall, that'll provide an even better buying opportunity. Either way though, buy some bonds if you haven't bought yet.

CHART 10



CURRENCIES

U.S. dollar: 9 year high

The U.S. dollar is literally soaring. It's reaching a nine year high and it's in a world of its own.

There's no question, the U.S. dollar is the strongest and best currency in the world today. It has no competition and it's easy to understand why…

U.S. SHINING STAR, FOR NOW

With the rest of the world undergoing slow growth or recession and batting deflationary pressures, the U.S. emerges as the shining star.

In comparison, the U.S. economy grew 4.6% and 5% during the past two quarters. The job market keeps improving and consumer sentiment is surging.

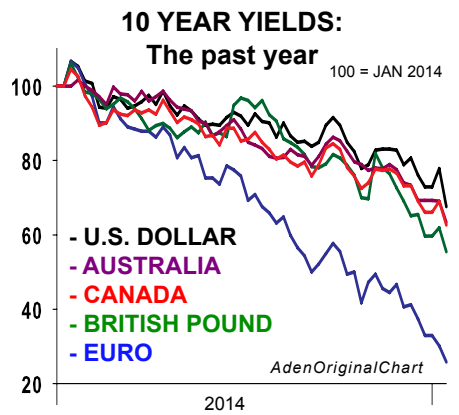
The doubting Thomases are having trouble accepting this ongoing improvement. But the rest of the world isn't.

They're impressed. They see what's happening and they're running to the U. S. dollar. That's why the dollar continues to be the world's other favorite safe haven.

IN THE LAND OF THE BLIND, THE ONE EYED MAN IS KING

In addition, the U.S. has high interest rates in its favor too. Yes, we know interest rates are pathetic and super low around the world, but here too the U.S. comes in at #1 (see **Chart 11**).

CHART 11

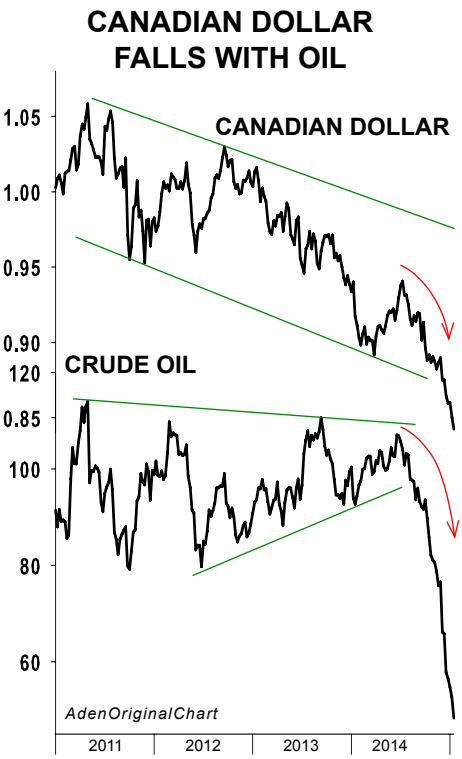


Currently, for example, the 10 year U.S. Treasury rate is near 1.80%. And even though that's low, it's a lot better than Germany's rate, which is 0.47%.

Along these lines, Switzerland has taken the most extreme action... They announced that their Swiss franc deposit rates will be negative. In other words, you pay them to keep your money in the bank.

This is being done to slow the flow of money pouring into Switzerland due to Russia's financial crisis. But regardless of the reason, it's a radical step and a sign of the deflationary times.

CHART 12



Germany is close behind. ECB president Draghi has been pushing for a massive stimulus to ward off deflation in the Eurozone, which also pushed the German 5 year yield below zero.

PETRO CURRENCIES ALSO FEELING THE HEAT

The same is true of the plunging oil price (see **Chart 12**). It's putting huge downward pressure on the currencies of the oil exporting countries.

This would include countries like Canada, Russia, Mexico, Brazil and Norway. And as long as the oil price stays low, these currencies will remain under downward pressure.

But many other factors also come into play. The bottom line, however, is that all of the currencies are weak because the U.S. dollar is so strong (see **Chart 13**). The Swiss franc is the only exception. It's soaring because of the Swiss decision to break the franc's peg to the euro.

Some currencies are weaker than others. But overall, if the dollar stays strong, the currencies will remain weak. It's really that simple.

That's why we continue to recommend keeping all of your cash in U.S. dollars. It's the best place to be for the time being, until we see a major change. But for now, there's no sign of this yet and here's what we're watching...

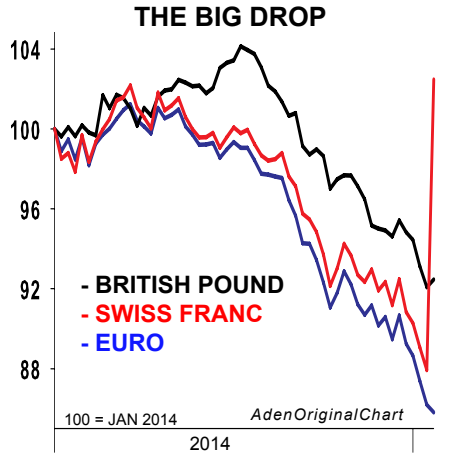
STRONG DOLLAR DUE FOR A REST

Looking at **Chart 15**, you can see the dollar's been super strong. But it got even stronger just before Christmas.

That's when it broke clearly above its 89 resistance level. This level coincided with the dollar's 2009-10 peaks and the fact the dollar broke clearly above this area reinforces just how strong it is.

It's like nothing can hold the dollar back and it's now rapidly closing in on its last target near the 92.50 level. If it rises and stays above that area, the dollar will likely head much higher. This would be similar to the too big dollar rises in the early

CHART 13



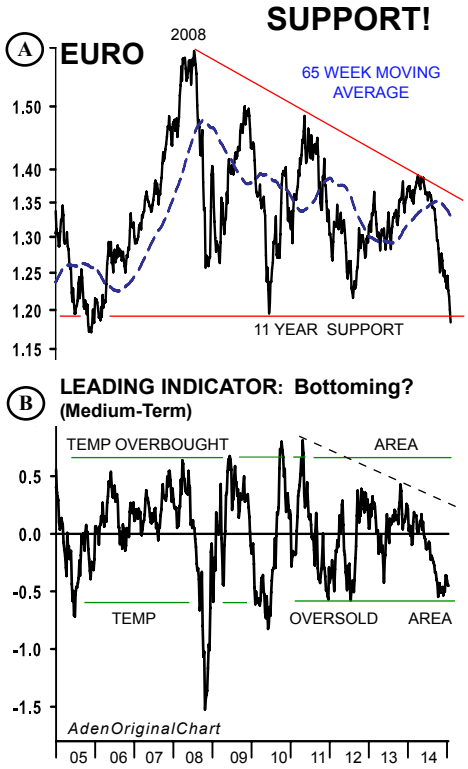
1980s and the late 1990s.

But like we've been saying for a while now, the U.S. dollar has risen too far, too fast and it's due for a normal downward correction before it rises much further.

The dollar is still overbought short-term. This means it's overdue for a breather. And once it takes a breather, that'll provide a chance to sell any of the other currencies you may still be holding at a better price.

We've been waiting for this op-

CHART 14



portunity, but so far the dollar hasn't taken a rest. It probably will in the weeks ahead and again, that'll provide a good opportunity to buy the U.S. dollar before it surges even higher, assuming it does.

So far, it looks like it will. But as you know in today's markets anything is possible.

That just means we have to go with the price action and primarily focus on that. As we've often noted, the price will tell the story and for now the story is that the dollar is king.

EURO FELL BELOW TARGET AREA

Taking a look at the euro, it too is telling us that the dollar will soon take a break (see **Chart 14A**).

Note the euro is weak and bearish. In this case it's because of very slow growth, rumblings out of Greece, Draghi's proposed stimulus package, and the Swiss decision to break its peg to the euro. The euro, however, has declined steeply and its leading indicator is now oversold.

This means the euro is bombed out below the 1.20 level and it's due for an upward rebound. And when it does rebound, it will coincide with the dollar's downward correction.

CHART 15

NO COUNTRY WANTS A STRONG CURRENCY

Interestingly and contrary to popular opinion, the Fed doesn't want a strong dollar. It would be relieved to see it come down some. Why?

The strong dollar is deflationary. It makes U.S. exports expensive and less desirable than the cheaper competition. This could hurt the economy, and the stronger the dollar gets, the bigger the risk.

That's another reason why we don't think the Fed will be quick to raise interest rates. If they did it would make the dollar even stronger and that's not what anyone wants right now, during these uncertain times.

METALS, NATURAL RESOURCES & ENERGY

Off to a good new year start

Gold started the new year on a happy note. It jumped up to a four month high and it's near a key moving average as some safe haven buying began.

This rise spilled over to silver and gold shares. And all three are looking better.

BEAR MARKET END?

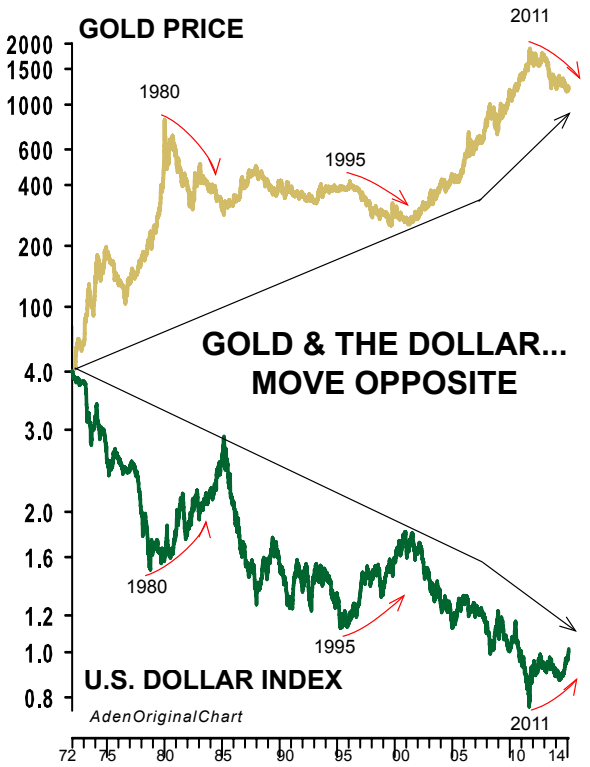
Gold ended 2014 essentially breakeven, being slightly down (1½%). It's been a choppy year for gold and a bad year for gold shares.

But it looks like the bear market may come to an end during this new year. In fact, it could happen at any time.

The seemingly never ending fall in the oil price, the plunging euro and petro currencies, and weaker stocks all pushed safe haven buying to bonds and gold as the new year got started.

It's interesting to see that the soaring U.S. dollar ceased to keep downward pressure on gold.

CHART 16



We already started seeing this last month. And essentially the strength in the dollar has not affected gold since November.

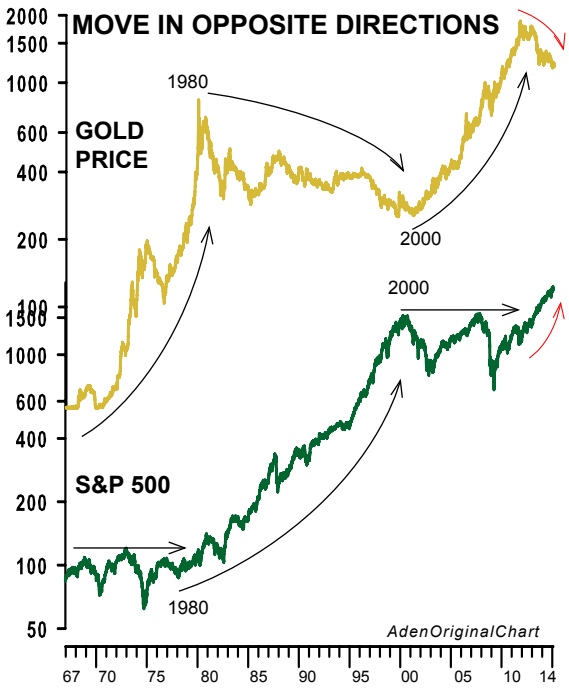
This alone shows that a subtle but positive change has started.

For now, on the downside, if gold continues to stay above its Nov 4 low at $1140, and especially above $1200, it'll continue to show impressive strength.

Gold was hit in 2014 by a better U.S. economy, anticipation of higher interest rates, low inflation and deflationary pulls.

But by year end, gold ended up well, aided by weaker economic news out of China, Japan and Europe. Plus, new worries about Greece also added support.

CHART 17



DEMAND IS SOLID

In the end, gold demand has been up, and it continues to grow.

Hedge funds became the most bullish on gold since August. India also imported 150 tonnes.

And while fears that Russia will sell their gold prevailed, the contrary happened. Russia bought more gold in November.

We've been seeing the physical demand for gold increase around the world as central banks add to their gold reserves, with China leading the way.

And, according to our dear friend Chuck Butler, the NY Fed had a huge drop in physical gold last month.... down by 42 tonnes, leaving the Fed with the lowest amount of physical gold since the turn of the century!

It seems the Fed is giving gold back to several European countries who had their gold stored there.

GLOBAL INFLATION?

It's certainly no secret that many central banks have been on an unprecedented stimulus program, like Japan. China is joining in too and Europe is on the brink of a stimulus.

This rekindles concerns that global inflation could rise, in spite of ongoing low inflation around the world. And this in turn is bullish for gold.

It's a matter of when, not if a bull market in gold develops going forward, and we're getting close.

Gold has been holding above the key number of $1200. And our same question remains, will gold have another leg down in a decline we call D, or not? We're watching this closely, but increasingly it looks like it won't.

We know all bear markets have an end, just like all bull markets do. The bear market in gold is over three years old, and considering the phases in gold and the timing, we could soon see gold complete a bottom.

GOLD AND DOLLAR

Chart 16 shows the big picture of gold and the U.S. dollar since 1972. This shows you that gold and the dollar clearly move in opposite directions. The mega gold trend is up and the mega dollar trend is down.

In the over 40 year trend, the dollar has had two intermediate rises that lasted about 5 years, in 1980 and 1995.

During this time gold also had its worst declines in the then 20 year old bear market.

We're in a similar situation today. Since 2011 we've had a declining gold price and a rebounding rise in the dollar, and both from record levels. If this timing pattern continues, we could see a clear turnaround within a year's time.

That is, more of the same could continue in the upcoming months, but at some point in the not too distant future, this relationship will swap places.

The way the world is today, anything can happen sooner, and we want to be prepared. This relationship also ties in with gold's major phases, which also point towards the last quarter for a change.

STOCKS & GOLD

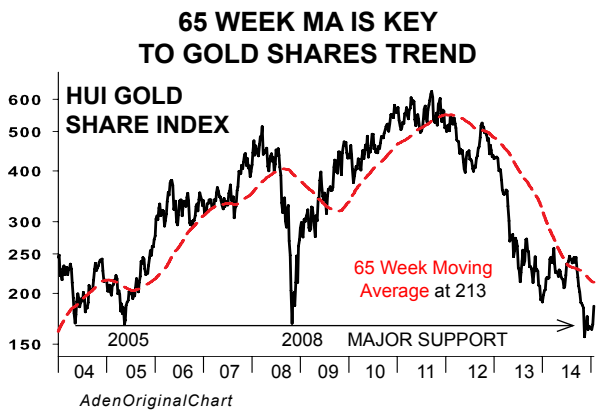
Gold and the stock market are also interesting.

The stock market really took off in a strong bull market in 2011 when gold peaked (see red arrows, on **Chart 17)**. This is when the S&P500 hit record highs.

This means interest rates are key in this scenario. Low interest rates have given a big boost to the stock market. And with rates staying low, the stock market has room to

CHART 18

CHART 19



rise further.

This tells us that the bull market in stocks will likely continue in the months ahead, while gold likely consolidates.

GOLD TIMING

The big question on all gold investors' minds is, are the lows in the bear market behind us? Also, was the November low at $1140 THE low?

Only time will tell, but the strong start this year gives us the feeling that the lows are in.

Gold, however, is not out of the woods just yet, and we need to stay cautious because we could still see another leg down in the bear market before it's over.

This is the immediate threat. The D decline has been underway since last March when gold reached a high near $1380 (see **Chart 18A**). When gold reached the $1140 lows last November, it began to slip below the base-building lows of 2013-14.

This added to the uncertainty that gold could slip down further to possibly the $1000 level before the bear market ends.

If gold's firmness since November continues, and gold rises and stays above $1263 (the 65 week moving average), it'll be turning bullish, reinforcing that a further decline is unlikely. Gold would then turn super bullish if it could manage to rise above $1300, its mega moving average.

Currently, the verdict is still out, and we need to see more development over the next few weeks and months.

Keep an eye on $1140 and $1263. These are the key areas this month.

GOLD SHARES

As you know, gold shares have been the weakest in the metals sector for the past couple of years. But they've also been extremely oversold and bombed out (see **Chart 19**).

As the new year began, however, the HUI gold share index has been rebounding.

It's now at a three month high and if it can rise and stay above 213, it'll be turning bullish and very strong.

OTHER METALS

So are gold shares leading the way for gold and silver? That could be, but **silver** is still lagging behind gold and the shares somewhat (see **Chart 20A**).

Since silver is also an industrial metal, it's being held back by the weak copper and oil prices, and it needs to prove itself.

Silver will be fine by staying above its November lows at $15. But it won't show real strength until it rises above its moving average at $19.25.

But with silver's leading indicator bottoming, it looks like the worst for silver is about over (see **Chart 20B**).

Palladium is holding firm (see **Chart 21**). But even though palladium is strong, you can see how much weaker it really is when we compare it to the strongest market, bonds (see **Chart 22**). That's why we still advise keeping a smaller portion of your total portfolio in gold, silver, palladium and RGLD.

There's no question, the metals sector is looking a lot better, but we recommend waiting to see if they can prove themselves before we add to our metals position.

Long-term investors, however, may want to go ahead and accumulate physical gold and silver at current levels.

OIL: Plunging

The market everyone is talking about is the oil price.

It's clearly an important market to be watching for a number of reasons that could affect all of us.

Oil has literally plunged 57% in the past seven months in its steepest decline since 2008 (see **Chart 23**). It's currently near a six year low and the speed at which oil has dropped has thrown many economies, businesses and markets for a loop.

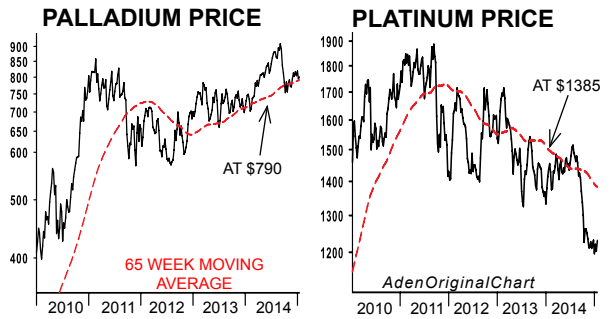
The oil price plunge is creating a wide range of global repercussions and, as we discussed on page 2, many of them are worrisome.

Nevertheless, OPEC is taking a tough stand. It has repeatedly said it's not going to reduce its production.

Even though this is fueling an oil

CHART 20

CHART 21



supply glut and keeping downward pressure on the oil price, OPEC is determined.

One important reason why is because OPEC is putting a big squeeze on U.S. oil producers, hopefully driving a lot of them out of business.

With the U.S. producing the most oil in over 30 years, OPEC is essentially fighting to hold onto its #1 position.

And if that means a weak oil price for the time being, then so be it. OPEC is basically looking out for itself, regardless of the consequences.

At oil's current price, none of the oil producing countries are making money. They're all hurting and that'll likely continue.

OPEC, for instance, expects this year's oil demand to be the lowest in 12 years. That's mainly because the global economy is so weak.

So China is stepping in and lending money to many of the countries that are hurting the most. This includes Russia, Venezuela and others.

Meanwhile, most people are happy about the low oil price, and there are indeed benefits.

Most obvious, gas is cheaper at the pump and this has helped boost consumer sentiment, which is good for the economy.

The bottom line is, the lower oil price will provide consumers with more money to spend on other things.

This in turn will improve economic growth, and it'll boost corporate profits, which will propel the stock market even higher.

OIL DROP INFLUENCE

Currently, the oil price collapse is influencing several markets. Commodities, for instance, have dropped to a 12 year low.

Again, that's great for consumers who will be paying less for food costs, but it's also keeping a strong lid on inflation.

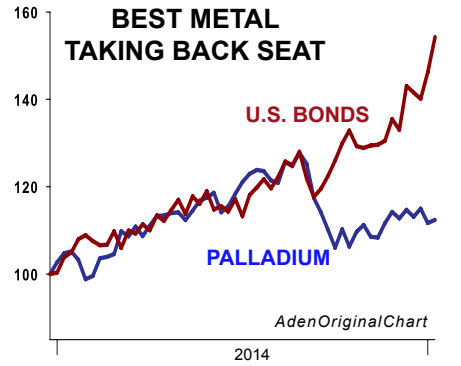
U.S. consumer prices, for instance, recently dropped the most in six years and this is adding to deflationary pressures.

It's the same story with copper and the base metals (see **Charts 23** and **24**). Their weakness is reflecting a slowing global economy and less demand for these products.

For now, it's important to keep an eye on oil and here's where the true test will come... at $40.

As you can see on the chart, $40

CHART 22



is a major support level and if oil holds above that level, it'll likely be looking to form a bottom.

On the other hand, if $40 is broken on the downside, it'll be extremely bearish for oil and it'll be extremely deflationary.

As we've often mentioned, all countries are fighting these deflationary pressures the best they can.

The reason why is because deflation will stagnate an economy. It can often bring it to a standstill as consumers wait for lower prices before buying certain items, knowing they'll be cheaper in the future. Most worrisome, deflations can often spiral into a depression.

That's why everyone wants some inflation. And the fact that gold and gold shares are showing some strength, despite the strong U.S. dollar and weak commodity prices, may be the first straw in the wind that things are going to work out okay. We'll soon find out as 2015 unfolds.

CHART 23

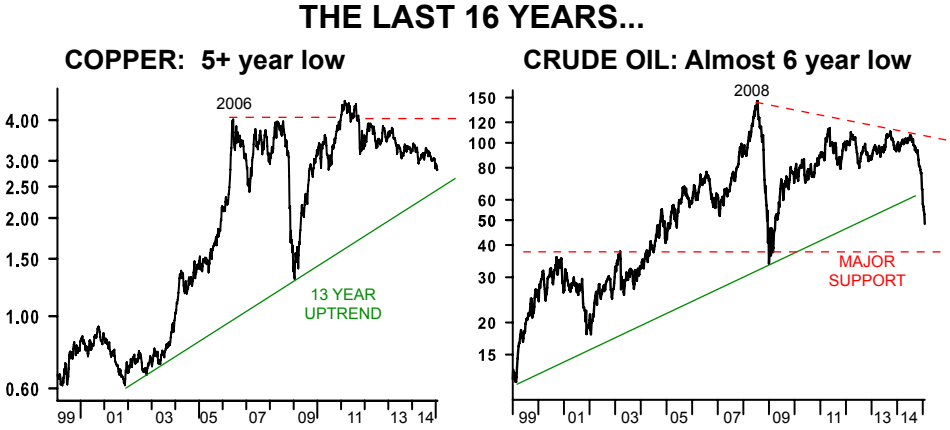
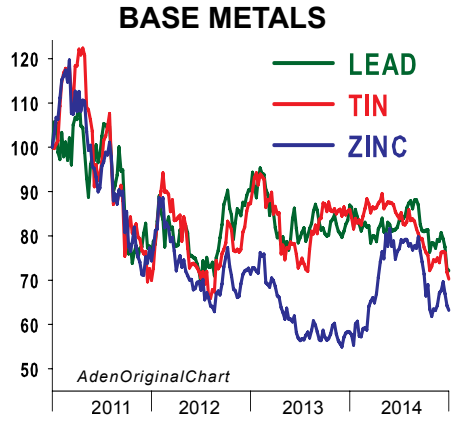


CHART 24



OVERALL PORTFOLIO RECOMMENDATION

The new year is starting off on busy note. Bonds, the U.S. dollar and gold are on the rise. Stocks are volatile and the Swiss franc has gone wild. Oil is plunging and deflationary forces are dominating. Together with what's happening on the world stage, it's going to be an interesting year, filled with challenges and opportunities. We'll be ready and Happy New Year.

PRECIOUS METALS, ENERGY, RESOURCE

Gold started the new year on a happy note. It jumped to a four month high and it's rapidly approaching its 65-week moving average. Silver and gold shares are looking better too. The strong start this year gives us the feeling that the lows are in, but we're not out of the woods yet and still need to stay cautious. Gold will show strength above $1200 and it'll turn bullish above $1263. Currently, we're holding our metals portion at 10%, but that may soon be changing. Long-term investors may want to accumulate physical gold and silver at current levels.

U.S. & GLOBAL STOCK MARKETS

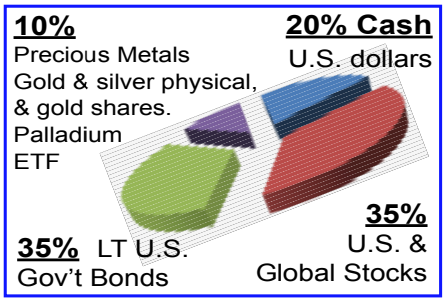
The stock market is still bullish. But it's been off to a rocky, volatile start as the new year gets underway. For now, keep a 35% position of your total portfolio in our recommended stocks. They're generally holding up fine but we may be selling some of the weaker ones on a rebound. For now, don't buy new positions.

CURRENCIES

The U.S. dollar remains super strong and it's the world's favorite safe haven currency. But it's overdue for a downward correction. The metals markets are reinforcing this because they appear to be bottoming. Nevertheless, with the exception of the Swiss franc, all of the currencies are weak. So continue to keep 20% of your portfolio in cash, in U.S. dollars, for the time being.

INTEREST RATES & BONDS

Bond prices are hitting new bull market highs as the new year begins. They were the big investment winners in 2014 and it looks like that's going to continue as this year evolves. We continue to recommend buying and holding 35% of your total portfolio in over 10 year U.S. government bonds. We also like the bond ETFs. For new positions buy UBT, which has been the strongest. TLT, TLO and TLH are also looking good.



OUR OPEN POSITIONS in order of strength per section

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Gold (physical)		Oct-01	277.25	1264.80	356.19	Hold
Royal Gold	RGLD	Mar-14	66.04	71.65	8.49	Hold
Silver (physical)		Aug-03	4.93	17.10	246.90	Hold
Palladium	PALL	Jan-13	69.71	74.37	6.68	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	113.11	30.46	Hold
Utilities Select	XLU	Apr-14	43.11	48.20	11.81	Hold
Nasdaq Biotech	IBB	Nov-14	296.31	307.54	3.79	Hold
Procter & Gamble	PG	Sep-12	68.10	89.86	31.95	Hold
S&P Glbl Tech	IXN	May-14	87.75	92.09	4.95	Hold
Nasdaq Powershares	QQQ	Jun-14	92.82	99.65	7.36	Hold
Dow Diamonds	DIA	Jun-14	169.08	173.06	2.35	Hold
iShares Transports	IYT	Oct-13	118.85	155.48	30.82	Hold
Microsoft	MSFT	Feb-13	28.01	45.48	62.37	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	102.49	34.57	Hold
iShares Hong Kong	EWH	Jul-14	21.65	21.20	-2.08	Hold
iShares Singapore	EWS	Jul-14	14.04	12.80	-8.83	Hold
DJ US Telecom	IYZ	Sep-12	25.22	28.77	14.08	Hold
Global 100	IOO	Oct-13	72.97	74.26	1.77	Hold
iShares Mexico	EWW	Jul-14	70.93	57.47	-18.98	Hold
iShares Canada	EWC	Jul-14	32.65	26.78	-17.98	Hold
Energy Select SPDR	XLE	Aug-12	72.37	72.86	0.68	Hold
BHP Billiton	BHP	Aug-13	67.68	44.75	-33.88	Hold

BONDS

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Ultra 20+ Treasury	UBT	Feb-14	58.00	92.12	58.83	Buy/Hold
20+ year Try Bond	TLT	Feb-14	107.78	134.91	25.17	Buy/Hold
SPDR L-T Treasury	TLO	May-14	66.40	77.71	17.03	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	140.90	12.07	Buy/Hold
Intermediate Muni	MUNI	Feb-14	52.69	54.46	3.36	Hold

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

