THE
ADEN FORECAST
MONEY • METALS • MARKETS

JANUARY 2016 *our 35th year*

HAPPY NEW VOLATILE YEAR

This is the time of year when everyone makes forecasts. It's also a time to look back and review what happened last year and see how to improve on it.

With the stock market plunging as the new year unfolds, everyone is even more curious and concerned...

WHAT'S GOING ON?

That's a great question, but it's a difficult one to answer. Why?... Because a lot is going on.

Our job is to try and make sense out of everything and it's been tough. That's not only personally, but for many others we've talked to in our business too.

But let's take first things first...

As we've mentioned many times before, the world has been in uncharted territory for several years now... This alone makes things more difficult because there's no basis for comparison.

MANY 'FIRST EVER' EVENTS

- For example, global debt has never been this big. It's currently 40% greater than it was in 2008 when the last crisis took place. And global default rates are higher than in 2008.
- Then there's interest rates... They've never been this low, going back to the beginning of recorded history 5000 years ago. And negative interest rates? It's been unheard of throughout history, until fairly recently.
- Plus, the central banks have basically taken over the free markets. This has made the markets and the economy abnormal, and it's become the primary focus for nearly everyone, especially in recent years.

Is Yellen going to raise interest rates again? Will they have to embark on QE4? What about Draghi?... You get the picture...

As our dear friend and market veteran Richard Russell said shortly before he passed away... "All of the old methods of analyzing markets have given way to deciphering what the Fed or ECB will do next."

- The world's dependence on China is another unprecedented twist.

The steep sell offs in the global stock markets last August and this month are two good examples of what we mean. The sharp drop in commodity prices has also primarily been due to China, and the second largest economy's weakening demand.

China is having problems, like the rest of the world. But at this point, we don't know if China is going to have a soft economic landing or a hard one. Either way, it's going to affect the world economy.

We mention these things to simply point out that these and many other factors have been unique and they're clearly affecting the investment markets.

2015- 'was a bummer year'

These are some of the main reasons why the markets have been so uncertain, skittish and volatile. Taking a look at **Chart 1**, which shows last year's action in the most important markets, you'll see what we mean...

Our good friend Chuck Butler summed it up best saying, "it's been a bummer of a year for investments."

As you can see, stocks were down, and so were bonds. The metals markets declined, along with the global stock markets and commodities.

In other words, **just about everything fell except for the U.S. dollar**. It basically went sideways and that alone made it the best "investment" in 2015.

This is the main reason why we continue to recommend keeping the biggest chunk of your total portfolio in cash, in U.S. dollars for the time being. This is basically a temporary situation, and it's your best bet until better opportunities come along.

Last year our strategy was to essentially diversify somewhat. We kept investments in bonds and stocks, but we sold our stocks last August. We held on to our small metals positions. Since we felt they were approaching super low levels, we didn't want to sell at the lows. The same was true of the currencies.

INSIDE

REFLECTIONS ON 2015

Many of you have written us very nice letters, telling us how much you appreciate our work. We are sincerely grateful and appreciate your comments, but we feel we could've done a better job in 2015.

It wasn't an easy year for investors. But by just putting stop losses on all of our recommendations, for example, we would've avoided riding some of these weak positions down that we're currently still holding. And now we really don't want to sell them because they're even closer to the lows.

As you'll see this month, a new gold C rise is getting started, which will provide a good boost for the metals related markets. This will, therefore, enable us to sell at a better price, if we want to as these markets rebound, or stay with them.

This isn't a good position to be in. But you never stop learning.

2016 STRATEGY

We plan to start by putting stop losses on all of our new recommended positions from now on, as well as on our bond and euro ETFs.

We'll also do our best to invest and stay with the major bull market uptrends, and to avoid bear market downtrends.

No matter how enticing a market might look, if it's bearish, we'll steer clear. Forget about buying into weakness until we have a solid confirmation that a bottom has formed. No more anticipating...

As we've seen over the past year, in this deflationary environment, bear markets can go far lower than you would've imagined. If you have any doubts, take a look at the oil price, copper, gold shares and the Dow Jones Transportations... So just following these two rules should greatly improve our investments for a better new year.

Okay, so how are things looking for this year?

2016 OUTLOOK

It looks like global growth will remain sluggish. And with the stock markets now bearish around the world, stocks are headed lower. We'll stay clear of the market until the bear market changes.

As you know, the stock market often leads the economy by about six to nine months and it's telling us a recession could evolve later on this year. So keep your bond positions, and buy more.

CHART 1

2015: NOT A GOOD YEAR

Janet Yellen, however, says the U.S. economy is performing well, and it has shown some positive signs.

But other signs have not been so good. George Soros is calling for a sequel to the 2008 crisis and this is not out of the question. That's especially true considering the emerging market debt situation, skyrocketing student loans and the disaster in the energy sector, thanks to the plunging oil price.

This too is pushing stocks down and it's putting pressure on the global economy. Copper is telling a similar story. It's always been a reliable economic barometer, and it's pointing down.

Meanwhile, the Baltic Dry Shipping Index has been hitting record lows. Railroad cargo in the U.S. is also way down. These are important signs that goods are not being shipped and trade is way down, which is yet another negative... but we'll see how this all unfolds.

BE PREPARED

We feel that if the economy slows down to dangerous levels, the Fed will probably step up to the plate again. And if they do, they'll have to stop raising interest rates and maybe launch QE4. If so, that'll likely boost the stock market again and we'll be ready to buy up some bargains.

It also looks like this could be the year that gold finally gets going on the upside and the U.S. dollar heads lower. Here too, we'll be on the alert for what could be some great opportunities in this bombed out sector.

And last but not least, we'll be keeping a close watch on the Eurozone... Refugee problems have been surfacing mainly in Germany. These acts of violence are putting a lot of pressure on Merkel and the bottom line is, will the better economic news be able to overpower the bad news based on the actions of some of the refugees?

We'll know soon enough. One thing is certain, it's going to be an interesting, volatile and profitable year, and we look forward to sharing it with you.

U.S. & WORLD STOCK MARKETS

The bear has roared

It's been one for the record books... This new year started off with one of the worst stock market drops ever.

Triggered by another steep drop in the Chinese stock market, stocks all over the world have been plunging (see **Charts 2 and 3**).

The old saying... When China sneezes, the rest of the world gets pneumonia... has been right on. But there's a lot more...

CHART 2

A PERFECT STORM

While the slowdown in the Chinese economy has been a big factor spooking the world's stock markets, so has the collapsing oil price. It's been fueling concerns that the global economic slowdown is getting worse.

The same is true of geopolitical tensions, which are brewing between Iran and Saudi Arabia, and in North Korea. Then there are the mixed economic signs and the rise in interest rates. These are adding pressure too.

The bottom line is, the stock market has clearly turned bearish. You'll remember that the stock market has been mixed for the past few months, but that's no longer the case.

The bear is firmly in the driver's seat and this means that stocks are going lower, probably a lot lower. This has also been confirmed by Dow Theory. JP Morgan Chase is now urging investors to sell on a bounce. Here are a few reasons why...

SERIOUS CONCERNS:

- Following the most volatile December since 2008, all of the stock indexes dropped below their 65-week averages (see **Chart 4**).

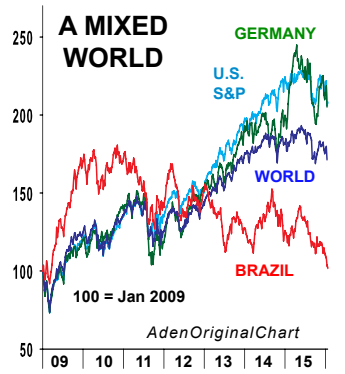
As we've often pointed out, this moving average has been very reliable in identifying the major stock market trends. And in all cases, the major trend is now down.

Even Nasdaq, which had held firm and was the last holdout, finally caved in and joined the bears too. So based on this alone, stocks are bearish across the board.

- As you know, the Dow Jones Transportations turned bearish last year and it has stayed bearish since then. It dropped nearly 18% in 2015 and it's been leading the way down all along. And it's still leading, recently hitting a new bear market low.

Most impressive, however, is the big picture of the Dow Transportations... It's telling a scary story. A look at **Chart 5B** will show you what we mean...

CHART 3



Transportations bearish & led the way

First, note that the leading indicator for the Transports has now turned clearly bearish. It's at a low since 2009 and well below the zero line. But it has room to fall further, signaling that the Dow Transportation Average is going to head lower.

In other words, this is a huge deal. It's telling us that a major trend reversal is currently in process, similar to the ones that happened in the late 1990s and in 2007 (see the price of the Dow Transportations above).

And in those previous cases, the Transports declined from near the top of the trading channel, down to near the bottom side, dropping 46% and 59%, respectively.

If this pattern repeats, and the leading indicator is telling us that it probably will, then the Transports could

CHART 4

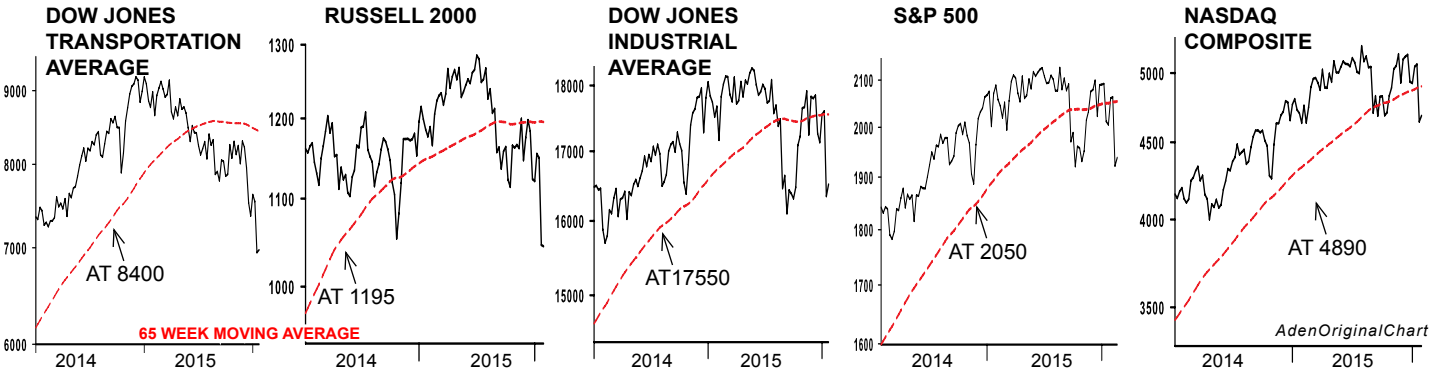


CHART 5

eventually fall to the 2007 peak area, or possibly down to near the 4000 level.

If so, that would be a 22% to 41% drop from current levels and it would indeed suggest that a 2008 repeat is in the making. That is, the bear could get really ugly.

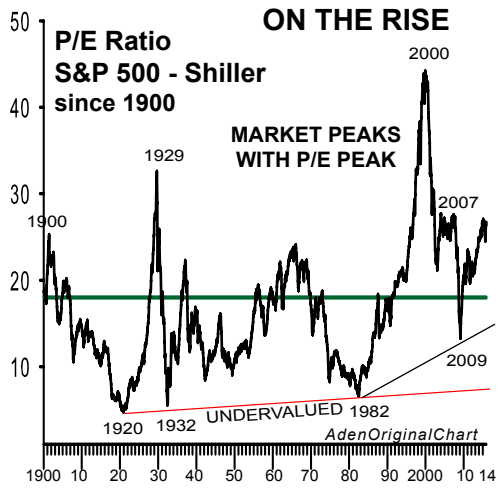
Plus, the Russell 2000 and the NYSE are currently signaling the same thing.

IT'S A GLOBAL BEAR MARKET

• All of the global stock markets are bearish too. The emerging stock markets are particularly weak, also leading the way down.

There are concerns that some of the emerging countries could default on their debt. And if they do, this alone could fuel steep worldwide stock market drops.

CHART 6



• The stock market is very overvalued (see **Chart 6**). In fact, since 1900 it has only been more expensive in 1929, 2000 and 2007. And again, these time periods all coincided with major tops in the stock market, preceding sharp drops in stock prices.

Interestingly, last year the stock market was propped up by a handful of stocks while the vast majority of stocks went down.

The big winners in 2015 were Netflix and Amazon (see **Chart 7**). These were part of the so called FANGS, also including Facebook and Google.

They were the stars but they're now super expensive. Facebook and Netflix, for example, have price/earnings (PE) ratios over 100 (around 17 would be an average PE). In Amazon's case, its PE ratio is simply out of sight, near 1000.

That's just crazy and it reminds us of how insanely high some stocks went just before the dot.com bubble burst in 2000. So yes, it seems like we're seeing a repeat performance.

• And finally, there's an old rule of thumb that says the first week of January sets the pace for the rest of the year. This "January effect" hasn't been foolproof but it's worked a good portion of the time.

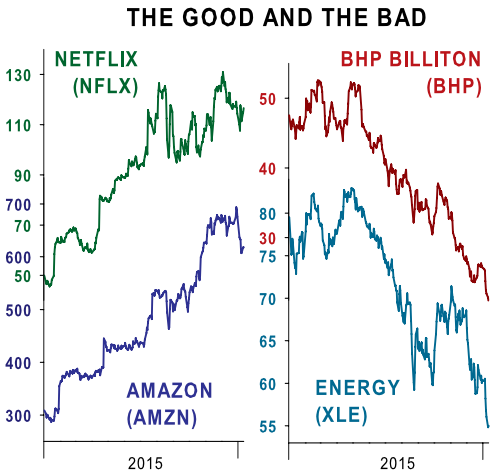
And since the first week of January was pretty much a disaster, that doesn't bode well for this year either.

IT STARTED LAST AUGUST

Standing back and looking at the overall landscape, this bear market got started in August when the world stock markets all dropped sharply, along with China.

The market then rebounded but it's now continuing on the downhill slide that began in August. The world stock markets are all moving together, which reinforces the bearish outlook, and it looks like all of the markets are going to fall much further.

CHART 7



Whether or not this coincides with a global recession remains to be seen, but there's a good chance it could.

And while it's still early our gut feel is that this bear market will at least coincide with a crisis, and probably some sort of financial crisis.

It just makes sense. Stocks don't drop like this for no reason. Remember, they look ahead and they lead. And whatever lies ahead, they don't like what they see.

So... stay on the sidelines. This is a high risk bear market and until that changes, it's important to stay out of it.

U.S. INTEREST RATES AND BONDS

Short rates turning up

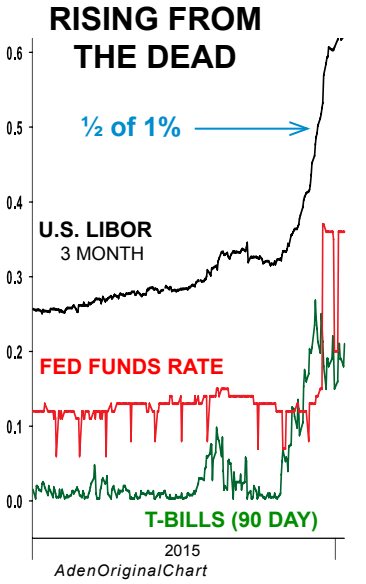
It didn't really come as a surprise. Even though many experts thought the Fed wouldn't go through with it, they did.

FIRST RATE HIKE

The Fed raised interest rates for the first time in nearly a decade, and said they'll raise them four more times this year.... but we'll see how it works out.

So far, the economy's been chugging since the Fed hiked rates in mid-December. Manufacturing's been contracting and it's at its lowest level since 2009. Combined with China's woes, this helped fuel the steep drop in the stock market, and higher interest rates will only make matters worse.

CHART 8



As we mentioned last month, an interest rate hike was not warranted. With the economy still vulnerable, inflation low, commodities plunging and deflationary forces intensifying, it didn't make sense.

Nevertheless, we have to deal with reality.

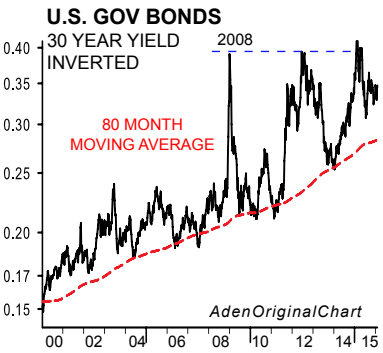
SHORT RATES: Rising from zero

Looking at **Chart 8**, for example, you'll see the interest rate rise looks pretty steep. And it was considering it come from near 0%.

But still, note the Fed funds and T-Bill interest rates are still well below ½ of 1%. In other words, interest rates are still very low.

CHART 10

BONDS: Is rise limited?



In fact, interest rates have been so low, for so long, and near zero for the past seven years, it's hard to digest what a truly big deal this interest rate hike has been.

But consider this... according to Benjamin Butler, about one-third of the people working on trading desks have never experienced a single interest rate hike in their entire careers! That's pretty amazing and it helps put this interest rate rise into perspective.

LONG RATES: Sideways

In the meantime, long-term interest rates have been declining. But **Chart 9** shows an interesting correlation... Here you'll see the last two big declines in the 30 year yield, starting in 2007 and in 2011, along with the current decline that started in 2014.

Note that in all three cases the declines have been similar. And if these consistencies continue, then long-term interest rates will eventually rise, if only gradually, along with short-term interest rates.

This would mean lower bond prices, which is one reason why we recommended lightening up on your bond positions last month.

CHART 9

30 YEAR YIELD: Is three a charm?

SAFE HAVEN

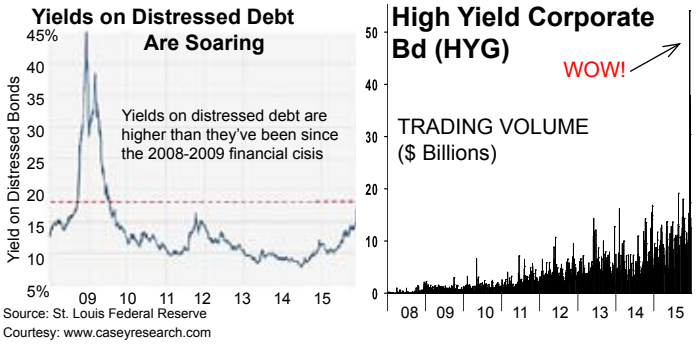
But for now, we're still keeping 20% of the total portfolio in long-term U.S. government bonds.

Why are we doing this if we think bond prices are going to decline? Mainly because bonds are still looking good and they're a safe haven (see **Chart 10**). As long as that's the case, we'll hold on to our remaining bonds. It's also okay to buy new bond positions.

But maintain caution and sell if bonds confirm a major downturn. We'll keep you posted.

CHART 11

JUNK BONDS IN TROUBLE



Source: St. Louis Federal Reserve
Courtesy: www.caseyresearch.com

Meanwhile, keep in mind that bonds tend to do their best during times of economic weakness or recession. That's when they produce their greatest gains.

And even though the economy is not in a recession, there are signs the economy could move into a recession as this new year unfolds.

JUNK BOND WOES

It's still too soon to tell, but one very worrisome sign is the action in the junk bond market. Carl Icahn calls it a keg of dynamite that sooner or later will blow up, and it could spread across the financial system...

Basically, companies that are not in good financial condition borrow money in the junk bond market. This makes them more sensitive to what's happening in the economy. In recent months, problems have been perking up in the junk bond arena, but this month they came to a head...

Bond defaults hit their highest level since 2009. Three large junk bond funds closed their doors. As investors charged for the exits, two of the funds blocked withdrawals. One of these marked the largest mutual fund failure since 2008.

As a result, the yields on distressed bonds surged to an unbelievable high of 18% (see **Chart 11**). Again, that was the highest rate since the 2008 financial crisis.

The bottom line is that turmoil in the junk bond world often precedes turmoil in the stock market, which we're now seeing, and in the economy.

CHART 12

If that proves to be the case this time around, then long-term interest rates could stay at lower levels as safe haven demand increases (see **Chart 12**).

Time will tell how this pans out but that's basically why we're keeping a foot in the bond door.

THIRD DEBT BOMB UNFOLDING?

Yet another reason is the current situation with emerging market debt. As *The Economist* points out, following the bursting of the U.S.'s housing bubble and the Euro crisis, the third installment in the chronicles of debt is now unfolding.

This time the setting is emerging markets but the full agony of the slowdown still lies ahead. The bust will hit growth hard, weakening the world economy even as the Fed raises interest rates.

In fact, rising rates will increase the pressure on these markets. This in turn will also make U.S. government bonds more attractive.

SHORT VS LONG RATES: Narrowing the gap

So in the end, we could see short-term interest rates rise while the 30 year yield holds steady, thereby closing the gap between the two. As you can see on **Chart 13**, that's always happened in the past and eventually the two rates come together.

But since the past few years have been so abnormal, there's no guaranty things are going to play out in the same way.

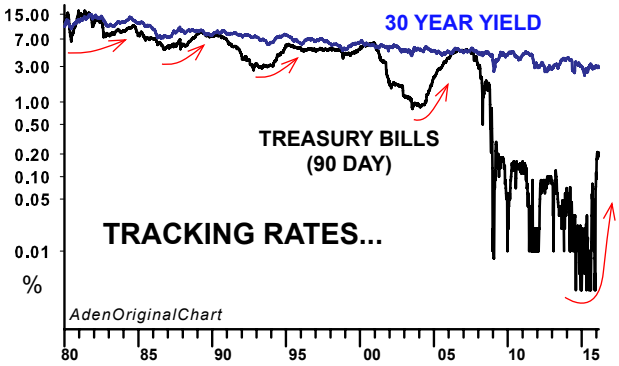
We are literally in uncharted waters, so anything is possible.

Reinforcing this view, Janet Yellen and Ben Bernanke both said that negative interest rates couldn't be ruled out if economic conditions were to deteriorate.

For those of you not familiar with this, we don't blame you because it's unreal. When this happens, which is very rare worldwide, you have to pay the bank for keeping your money, rather than the bank paying you interest on your deposit.

So stay tuned. 2016 is going to be filled with surprises and opportunities. And we're pretty sure that many of those will evolve around the interest rate picture.

CHART 13



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CURRENCIES

Strong U.S. dollar up against a ceiling

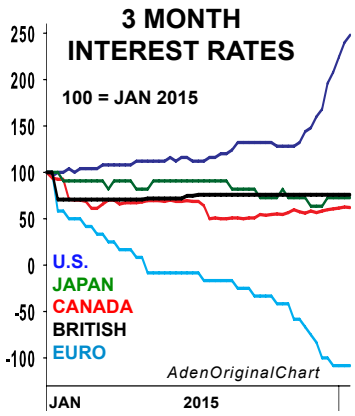
There's not a lot new in the currency arena.

U.S. DOLLAR: Firm

The U.S. dollar held steady this month. It rose when interest rate moved up and it also benefitted as a safe haven when global tensions intensified.

But it still looks like it's forming a top (see **Chart 14**, left). It's been stalling for about one year now.

CHART 15



There's no question the U.S. dollar is still the king. That's why we continue to recommend keeping a large cash position at this time, primarily in U.S. dollars.

We know that may not sound like the most thrilling "investment" in the world. But with few markets looking good, there's not many options to choose from.

This happens from time to time and when it does, cash is indeed your best investment. It's safe and secure, and it'll keep you out of harm's way while we wait for other good investment opportunities.

YEN: Turning up

Interestingly, the Japanese yen has also become a safe haven winner. Many investors have been moving into the yen and it's now turned bullish by rising above its 65-week moving average.

This also happened a few years ago, you may remember. It didn't make sense then and it still doesn't. Why?

Japan's fundamentals are weak and its economy is on shaky ground. It simply doesn't have the characteristics of a safe haven. But if the markets say it is, then it is and we aren't going to argue. In fact, it could be leading the way for the other currencies.

Meanwhile, the Chinese decided to unhook their peg to the U.S. dollar. Instead, they're letting the yuan track the currencies of its trading partners.

That is, they're letting the yuan decline. With troubles at home, this gives China a trade advantage as they essentially join the currency wars (see chart below).

EURO BASING

As for the other currencies, the euro still appears to be basing and forming a bottom, and we advise keeping it. It's poised to rise further, and it'll turn bullish once it rises and stays above 1.13.

The British pound has been on the decline and the Canadian dollar has been a big loser, mostly because of the collapsing oil price.

As you know, we recommended keeping some of your cash in the euro, British pound and Canadian dollar last year. Our U.S. dollar position is now much larger, but these currencies haven't done well, especially the Canadian dollar.

Our strategy at the time was to keep a portion of our recommended cash in a few of the currencies. That way, when the U.S. dollar turned down, these currencies would rise. It was a way of partially hedging, but it didn't work out.

CHART 16

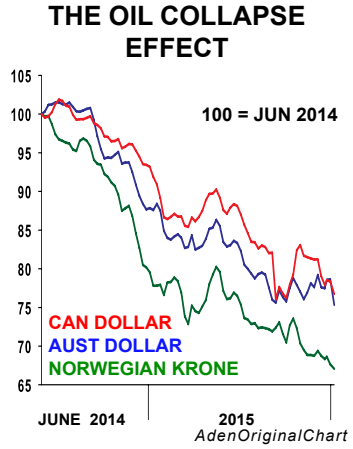
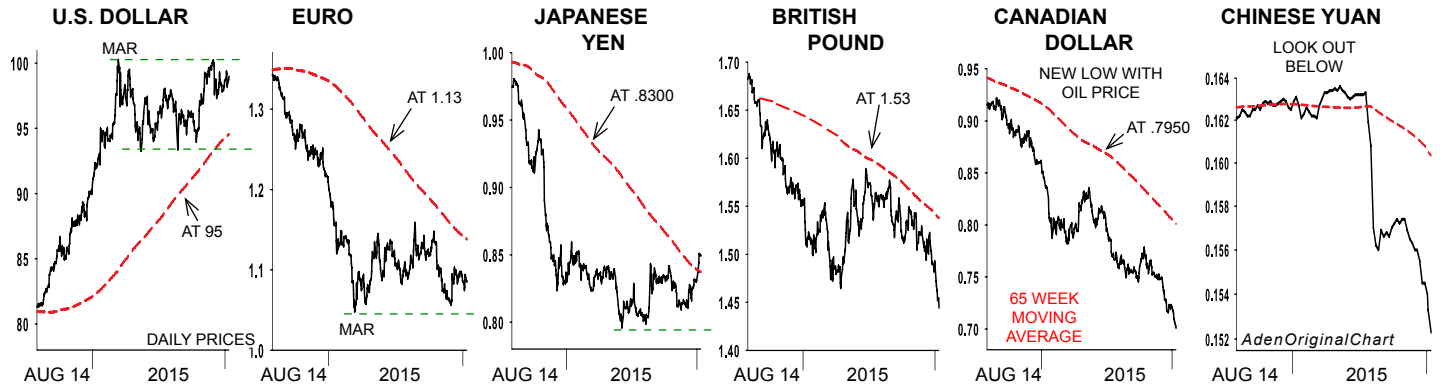


CHART 14



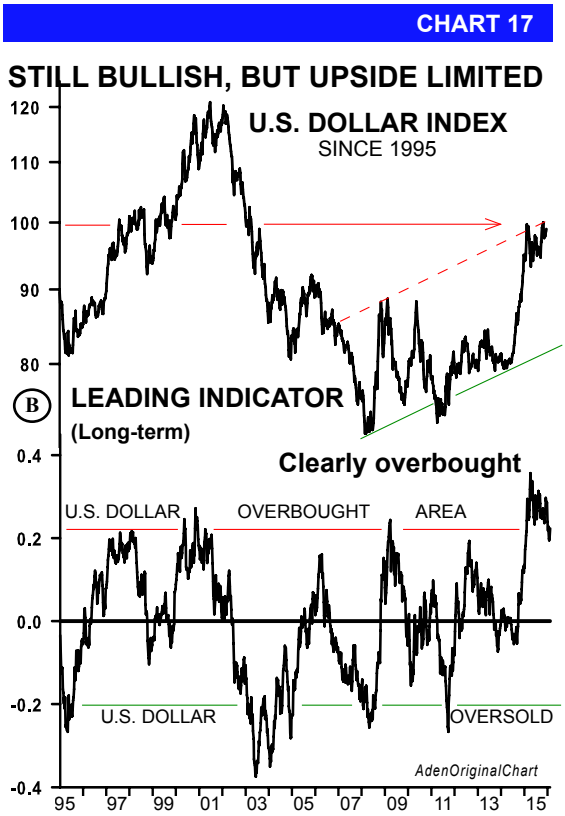
SO WHAT TO DO NOW?

For now, we recommend selling the small positions you have in the British pound and the Canadian dollar. Even though these currencies may be near their lows, we feel it's better to stand aside for the New Year. The risk is high.

Even though no one really wants a strong dollar, it has remained firm and higher interest rates could keep it firm, regardless of the consequences (see **Chart 15**).

As we've often mentioned, the strong dollar is keeping downward pressure on the U.S. economy, inflation, earnings, exports, commodity prices, emerging market debt and it's fueling deflation.

This in turn is killing some of the oil, commodity and emerging countries (see **Chart 16** as an example).



Currently, we're watching the U.S. dollar index closely. It's stalling at the top of its trading range and its leading indicator is doing the same in the U.S. dollar overbought area (see **Chart 17**).

Once it declines and stays below 93, it'll signal that it's indeed headed lower. At that point, the currencies will head higher.

So again, a major reversal is likely coming up but it could take longer than most people think.

Why? Because in this era of competitive currency devaluations, the U.S. dollar continues to be the shining star.

So keep your large U.S. dollar position. It's currently our best option. We'll also keep the euro.

METALS, NATURAL RESOURCES & ENERGY

New Year brings safe haven buying

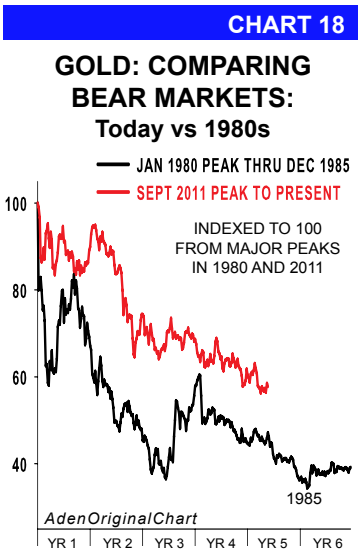
Gold got a bang with the new year. After closing at a new bear market low in December, and closing the year on a down note for the third consecutive year, gold became the safe haven darling for the first time in a long time.

In part it was due to the stock market plunge, but equally it got a boost from the Iran and Saudi Arabia standoff, as well as the tensions in North Korea. That is, it was geopolitical tensions and fear of uncertainty that got gold going.

Gold has risen $34 in the first trading days of the year, and it's been plenty to end the two month decline, we call a B decline. After declining 11.6% since October, a C rise is now starting.

Gold shares are following gold. And as you'll see, gold shares are looking very good... in fact, the best they've looked all year.

Silver and the other precious metals have been slower to follow. They're feeling the heat of the falling energy and resource sectors as they stay depressed with the slowing global economy, led by China. Crude is falling below its 2008 lows, dipping below $30 to a 12 year low. Copper isn't much better.



2016 is going to be interesting

It's now a good time to sit back and reflect on what's been happening...

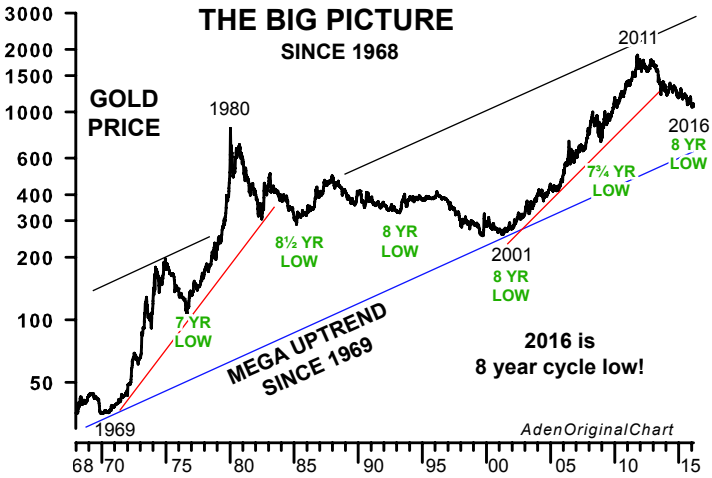
We all know things are not right. We know it hasn't been okay since the 2008 financial crisis. And for all the effort by the central banks to get over the hump, it helped fuel an asset price bubble in the stock market. And if the Fed's liquidity is not coming back, we could see a worsening bear market decline in the stock market.

This in turn would continue to fuel safe haven buying in gold. We know gold's day will come. And we know that day has yet to arrive, which is why we lowered our metals position during this bear market.

And while we'll keep a defensive position until the bear market is over, we don't think you'll have to look much past 2016.

It was interesting to see we got a taste of gold fever this month. Gold is the ultimate safe haven investment, and

CHART 19



it's the ultimate currency of last resort. And while this was just a taste, you can see how it will react in the future when times get tougher.

Meanwhile, the firm U.S. dollar this past year has helped keep a lid on gold. The Fed was mainly responsible for this with its pledge to raise interest rates.

But with the dollar index now resisting below its March highs, while the yen and euro are poised to rise further, we could see the recent bounce up in gold rise much further.

And it'll be very interesting to see if this rise ends up helping to turn the current bear market around. **We believe this new year will prove to be a pivotal year for gold.**

2016: Eight year cycle low year

The bear market started in September 2011. But most revealing is that 2016 is also the eighth year since gold last had a major low. **Chart 19** shows that gold has had a consistent low area every eight years on average. It started in 1976, and that was actually a seven year low, and it's been recurring ever since then.

This means we could see a major low develop this year, which would become the low for the current bear market. It also suggests this current rise may not turn the bear market around, but it will tell us a lot about the overall strength, or lack of it, in the gold price.

Granted, we thought if the cycle was shorter than normal, we could've seen the cyclical low occur in 2015. **The low last December near $1050 could've been the low for this bear market.** And if it was, it means the cyclical low this time took seven years (like in 1976).

And this could very well be the case. But the verdict is still out, and we should be mentally prepared to possibly see one more low in gold this year. If we do, it'll most likely be during the next D decline.

A Closer Look at the Bear Market

While gold's bear market started in September 2011, it didn't have a down year until 2013 (see **Chart 20**). And down it was. It was the first and worst year for gold, losing 28.8% after having had 12 consecutive up years from 2001 through 2012.

Gold, thereafter, was down in 2014 and 2015, but in both years the losses were moderate. In 2014 gold gave up a mere 3.35% and in 2015 it gave up 10.6%. And all the while it was forming a clear downchannel.

On a year by year basis, the declines of the last two years haven't been so bad, but the bear market as a whole is down 44.85% from the peak in 2011 to the low in December 2015.

That is, this loss followed a major bull market gain of 661% from 2001 to 2011 (see **Chart 19**). This actually wasn't so bad considering the plunge in many commodities.

MEGA UPTREND STILL UNDERWAY

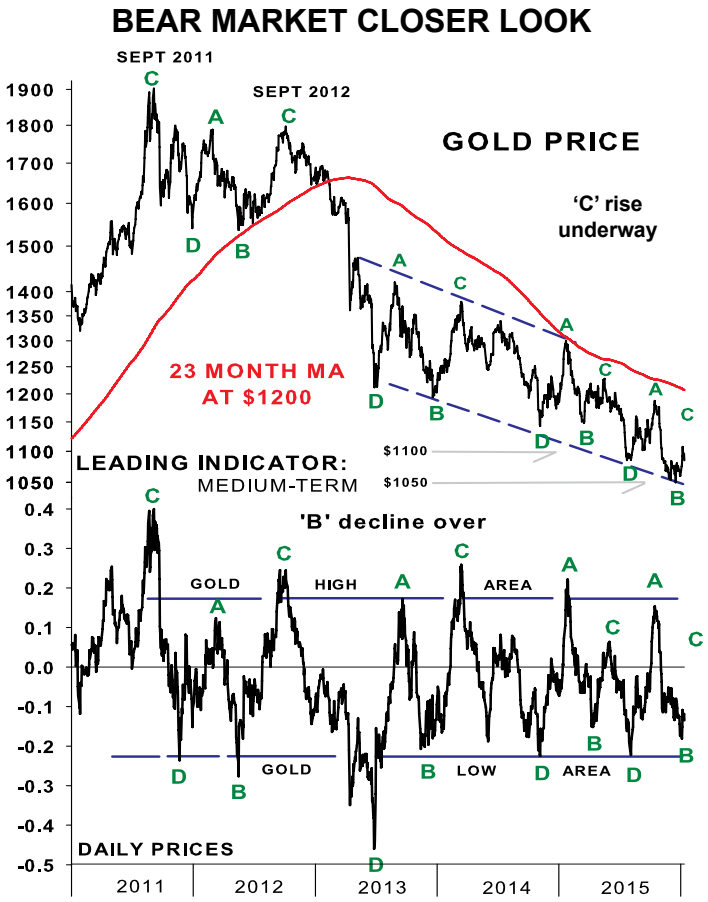
Here you can also see that in spite of the two bear markets in 1980-2001 and 2011 to the present, the mega uptrend since 1969 is still underway. That is, the mega trend is up, while the major trend is down. And this will continue until proved otherwise.

The deflationary forces have been keeping strong pressure on commodities. And this year is sure to be similar especially considering the renewed wave of deflationary pressures present with the new year.

But the new year also came with safe haven buying for gold. The world is teetering on a crisis, and we believe gold's role in a crisis will grow. We'll likely see more safe haven buying as the year develops.

Meanwhile, a rise we call 'C' has started with the

CHART 20



new year (see **Chart 20**). The 'B' decline from October to December was a normal B decline, which was a good sign.

But you'll remember a year ago, gold started on a positive note, but as the year turned out, that was the best rise for 2015. The fact that last year's C rise was then a weak rise, and the D decline fell to a new bear market low were both reconfirming a strong bear market.

This is why today's 'C' rise is important to see how it performs. Gold's C rise is firm by staying above $1060. Once gold can rise and stay above $1110, it'll likely jump up to the previous 'A' peak and 23 month moving average near the $1187-$1200 level.

If gold can rise and stay above the 'A' peak, it'll be a first strong sign because it'll be the first time gold surpasses a prior peak. **This would break the negative back of the bear market**.

And if this is all we get, it would be a decent rise within a bear market that shows promise. If gold surpasses the 23 month moving average and stays there, a new bull market would be beginning!

If we had to guess, we think this 'C' rise will show promise but it won't turn the bear market around. The upcoming D decline thereafter would then be key. If gold stays at or above the December lows during weakness, it'll be a strong building block in the turnaround.

Keep an eye on $1200 and $1050. A breakout of this band will tell us a lot about the big picture for 2016.

GOLD SHARES: Truly in the pits

Most alarming in the bear market was the collapse in the mining shares last year (see **Chart 22**). As if the fall from the 2011 peak wasn't bad enough, the HUI index fell 37% in 2015.

Gold shares began last year licking their wounds following a bad fall. They stabilized for most of the first half of the year, until they dropped again. Last Summer's fall was the straw that broke the camel's back. It added insult to injury because the HUI index fell clearly below the 2004 lows.

That fall coincided with many mining companies halting their dividend payments. Yet, as you can see on **Chart 23**, this action has coincided with lows in gold shares in the past, see red arrows.

This also coincided with an interesting pattern that's been forming in recent months... Gold shares stabilized in August and they've been holding above these lows since then (see **Chart 21**). It almost looks like a hand is holding them up. Plus, junior shares have been outperforming senior shares since then (see **Chart 24**).

This is saying risk is improving for gold shares. It's also saying to keep an eye on the 65 week moving average.

You can see how well this moving average has worked with the HUI index. Ever since gold shares turned bearish in 2011, it's stayed below this average. **Chart 21** shows a close up view, and it's showing that once HUI closes back above this average, now at 150, the major gold share trend will turn up.

Meanwhile, gold shares are bombed out versus all major asset classes. And interestingly, gold shares have been bottoming and trending up versus the stock market, the bond market and gold. Gold shares are giving us compelling reasons why the lows are likely near.

CHART 21

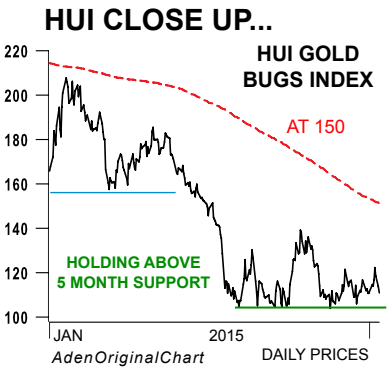


CHART 22

CHART 23

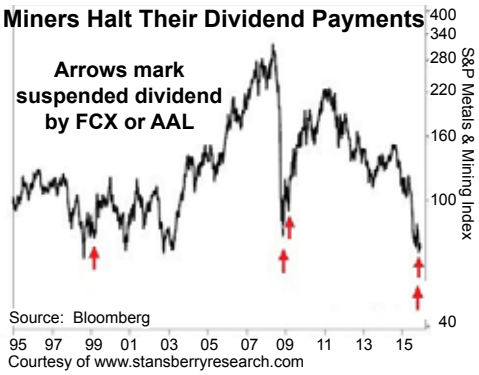


CHART 24

SILVER: Dragging yet holding

Silver has been dragging near the $14 level this year. It's trying to follow gold up but the deflationary drag is keeping a grip on silver.

Silver is holding up well under the circumstances. **Chart 25** shows silver's steps, which will help guide us along. First note how silver has stayed clearly below its 65 week moving average during the bear market decline. This means silver's major trend will remain down until it closes back above this moving average,

CHART 25

at $15.70.

But if the December lows hold at $13.70, it'll be the first start to stability. Then $15.40 will be the next hurdle to overcome, which was the previous platform.

Overall, it looks like gold, silver and their shares are getting closer to the lows and the downside is limited. We know it's been a long time and this decline is now lasting its full bear market cycle. So this is why we're keeping our lower position in gold, silver and some of their shares. But we don't recommend adding new ones just yet.

We've recommended a lower position for almost three years now, and we'll keep this position through the bottoming process.

We won't put trailing stops on these, but any new positions we add going forward will clearly have the stops identified. RGLD has been our worst and gold itself has been our best. But RGLD recently announced a quarterly dividend paid this January which is good.

CHART 26

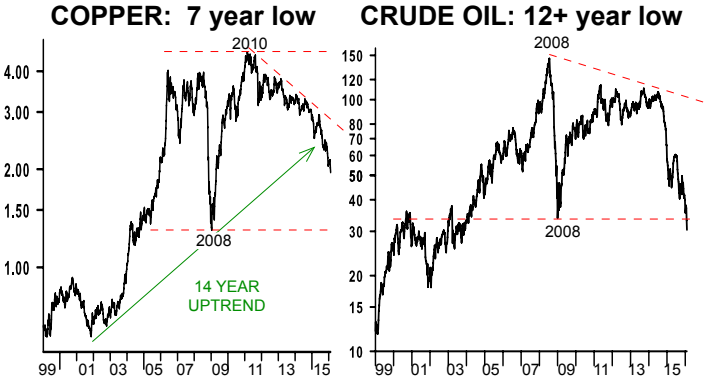
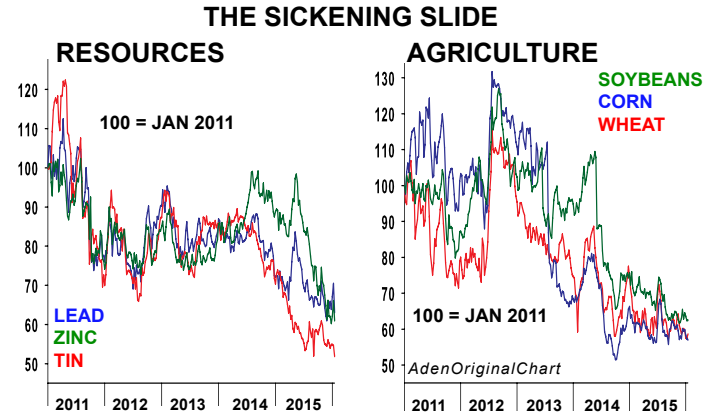


CHART 27



Resources, Energy and Agriculture: Can it get any worse?

Crude oil overtook the Fed's dominance over the markets. Crude slipped below $30, reaching a 12 year low as oil extends a head spinning 70% drop since June 2014. This has caused havoc in the markets, and it also reflects the deflationary drag and oversupply.

Copper has plunged like oil, and most of the resource and commodities fell further with the new year (see **Charts 26** and **27**).

This is saying Doctor Deflation is clearly in the driver's seat for 2016.

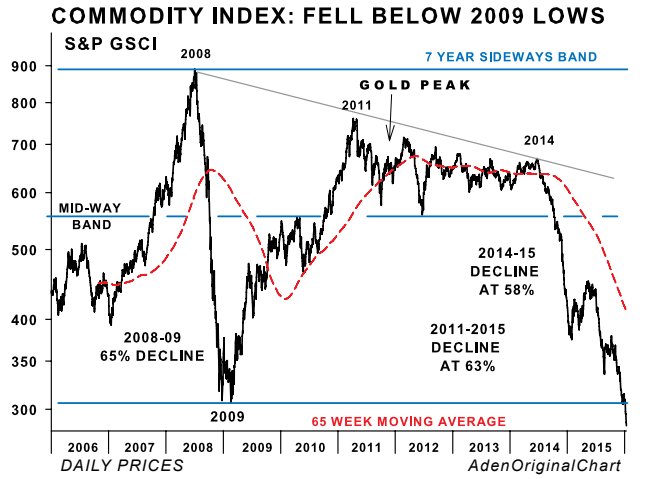
Latin American is most affected by the commodity slump. The emerging countries and commodity based countries will remain at slow to no growth. The World Bank cut global growth below 3%, mainly due to this deteriorating picture in emerging markets for a fifth straight year of global growth below 3%.

Then there's the energy companies and countries. Most oil producing countries are losing money with oil below $50. Plus, energy companies are set for the first earnings decline in 48 years. This sector will depress U.S. fourth-quarter earnings and subdue growth for the entire market, making 2015 the weakest year for earnings since 2008, according to Goldman Sachs.

Oil is collapsing while gold is rising. This has caused gold to reach 33 barrels of oil per ounce of gold. This is over the top high compared to the normal ratio below 20.

And most impressive to see is the general commodity index on **Chart 28**. With this commodity index falling below its 2009 low, it clearly shows the fall in this bear market compared to 2008.

CHART 28



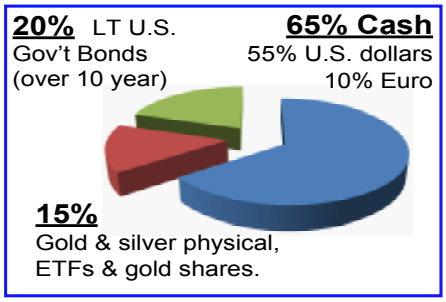
The 2008 decline was fast and harsh, losing 65% in about a year's time. This time the full decline since 2011 has lost almost the same at 63%. But even more impressive was the fall of the last 1 ½ years. Since June 2014, commodities have dropped 58%, which was almost all of the bear market losses.

Does this mean the worst is at hand right now? It could be, but the trend isn't over until it's over, and we'll watch from the sidelines for the time being.

OVERALL PORTFOLIO RECOMMENDATION

INTEREST RATES & BONDS

The Fed raised interest rates in December for the first time in nine years. Since then, with China and the global economy taking a turn down, recession and deflationary pressures pushed up safe haven buying in the bond market. The bond market is still in a bull market, and we recommend keeping your 20% position in U.S. Gov't bonds or the ETFs in the box. If you want to buy more bonds, go ahead. We'll keep our bonds as long as the major long-term interest rate trend stays down. Long rates may not move similar to short rates, and there's room for variances as the wide spread narrows. See our new trailing stops for the bond ETFs, and sell on a close below them.



PRECIOUS METALS, ENERGY, RESOURCE

Gold ended the year down for the third year in a row. The decline since mid-October,we call 'B', ended in mid-December at a new bear market low. The new year started with a bang as gold jumped up on safe haven buying. An intermediate rise we call a 'C' rise is now underway. 2016 looks like it will be a pivotal year for gold, and we could very well see a bottom form during this now eight year cyclical low year. Gold shares are compelling and while it's been a bad year, gold shares have been basing since August and there's several reasons why the downside is limited. Silver is holding near the lows. We recommend keeping your lower 15% position in gold, silver and their shares, but don't buy new positions just yet.

Crude oil collapsed to a 12 year low, and so did many commodities as the global deflationary pressures grow. The resource and energy sector could pause from the rout, but a lot of damage has been done and we'll watch from the sidelines.

U.S. & GLOBAL STOCK MARKETS

The new year started off with one of the worst stock market drops ever. The market has clearly turned bearish, across the board. This means stocks are going lower, probably a lot lower. That'll continue as long as the stock indexes stay below their 65 week moving averages listed on Chart 4. Currently, this is a high risk bear market and until that changes, it's important to stay on the sidelines.

CURRENCIES

The U.S. dollar remained firm and it ended 2015 as the best asset class. Cash is still king and the king is still the U.S. dollar. With many currencies collapsing and the yuan devaluing, the dollar is the stable currency. Along with the yen, they've been the safe haven currencies since the new year began. We'd like to start the new year with a clean slate by selling the British pound and the Canadian dollar. These currencies may be near their lows, but the risk is high and we feel best to stand aside. It's a small position and by selling it'll raise our U.S. dollar position to 55%, up from 45%. We'll keep a 10% position in the euro.

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

OUR OPEN POSITIONS in order of strength per section

BOND ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM	TRAILING STOP
Ultra 20+ Treasury	UBT	Feb-14	58.00	77.72	34.00	Buy/Hold	73.00
20+ year Try Bond	TLT	Feb-14	107.78	123.82	14.88	Buy/Hold	120.00
10-20 Treasury Bond	TLH	Feb-14	125.73	136.79	8.80	Buy/Hold	133.00

CURRENCY ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM	TRAILING STOP
Euro ETF	FXE	May-15	110.15	106.31	-3.49	Hold	103.00

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	1073.60	287.23	Hold
Silver (physical)		Aug-03	4.93	13.75	178.86	Hold
Gold Shares SPDR	GLD	Jan-15	125.23	103.02	-17.74	Hold
Central Fund of Canada	CEF	Jan-15	13.36	10.13	-24.18	Hold
iShares Silver Trust	SLV	Jan-15	17.61	13.19	-25.10	Hold
Gold Miners ETF	GDX	Jan-15	21.74	13.13	-39.60	Hold
Silver Wheaton	SLW	Jan-15	23.05	11.09	-51.89	Hold
Royal Gold	RGLD	Mar-14	66.04	29.20	-55.78	Hold

