THE
ADEN FORECAST
MONEY • METALS • MARKETS

FEBRUARY, 2009

in our 28th year!

UNPRECEDENTED ACTION UNPRECEDENTED TIMES

History in the making. There's no other way to describe it, and on so many fronts. The Obama presidency, the financial crisis, the action in the markets, what it all means and where it's all going.

So much to cover and most interesting, how it all ties together, so let's get started…

OBAMA OPTIMISM

As we've mentioned for the past couple of months, the Obama presidency was coinciding with extremely oversold levels in most of the markets. Increasingly, this doesn't seem to be a coincidence and that view was further reinforced on Inauguration Day.

As the entire world watched, Obama was sworn in as president in front of the biggest Inauguration Day crowd, ever. The emotion, excitement and hope was overwhelming, not only for the millions in attendance, but for the millions watching at home and abroad.

The international press enthusiastically heralded a new era, looking forward to unity and better relations. The historical aspect that anyone can work hard and become president in the land of opportunity only enhanced international opinion, reemphasizing what the world loves about the U.S.

The fact that slaves built the White House, Obama's father couldn't enter many restaurants, and slaves were freed less than 150 years ago is all pretty amazing, and this significance was not lost in the rest of the world. It provided a breath of fresh air in a world that's been pretty gloomy lately.

The reaction was similar in the U.S. Obama currently has an 80% approval rating and the majority of people are feeling more optimistic than they have in a long time. They're looking forward to better times ahead but they're not expecting miracles. They like Obama's openness and his way of taking action, but they also know the reality of the situation and they're willing to give him time.

POLITICS, GOVERNMENT & THE MARKETS

Now we know that some of you don't like political talk in a market newsletter and we certainly don't mean to offend, but this point is so important it cannot be ignored. These are the facts and as we've often discussed, despite the worsening economy, sentiment is half the battle.

If people are feeling better and more optimistic about the future because they like what's happening, then it's going to affect the markets and the economy. It's that simple.

So for now, sentiment is beginning to change, both domestically and internationally and this alone is a huge deal. It's a bright spot on the horizon and if this positive sentiment stays in force, and especially if it intensifies, it will affect all of us, and we best be prepared.

STIMULUS PACKAGE & MORE

For starters, Obama is going full speed ahead with a massive, very expensive stimulus package. He's going even further than the Bush team went. Basically, he's spending on everything from health care, infrastructure, foreclosure avoidance, energy, back to work programs, education, assistance for the unemployed and poor, providing tax breaks and so on.

Obama has assembled a good economic team, which includes former Fed chief Paul Volcker. Like the former Bush officials in charge, they're determined to do whatever it takes to turn the economy around and get it moving again.

If that means trillions of dollars, expanding government control over banking, work programs, ethics rules, buying toxic bank assets, printing ever larger amounts of money, buying government bonds… you name it and they're going to do it. And it's not just the U.S., the world is taking the necessary steps to keep their economies going.

'DO WHATEVER IT TAKES'

As to the nuts and bolts of taking these actions, they're planning to spend this unprecedented amount of money, knowing that U.S. debt and future liabilities, like Social Security and Medicare, are

INSIDE

already the equivalent of nearly half a million dollars for every U.S. household, which will obviously go much higher before this massive financial crisis is over.

But Bernanke, Volcker and the team recognize that they have little choice. The option of doing nothing is unthinkable to them due to the repercussions they've already seen, like massive layoffs, record numbers of unemployed and soaring foreclosures, knowing it would only get much worse. So they'll do what they have to, whatever the costs, in order to boost the economy.

The ultimate cost will be rampant inflation further down the road, looking over this recession valley. It'll also mean rising interest rates, collapsing bond prices, a soaring gold price and rising commodity prices.

But the near-term concerns are so urgent and immediate, that's where their focus is. The aftermath will come later and the big question is, will they succeed or not?

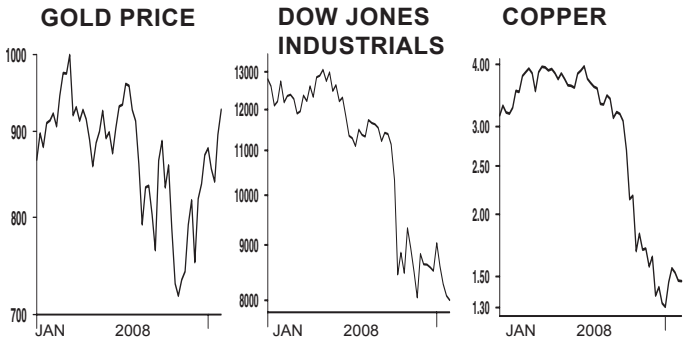
FIRST EARLY BRIGHT SIGNS

As you know, we've been seeing some early first signs that are starting to answer this question. And while it's still premature, these signs are suggesting that the outcome for the economy will eventually be positive.

If this proves to be the case, then the Fed and Obama will have saved the day and as the economy slowly comes back, optimism will grow stronger, which in turn will boost confidence and the economy even more, and it'll all begin to feed on itself.

This month there were more signs, indicating this is the way it'll likely play out. But again, we need to see more.

CHART 1



The action in gold was important and since it tends to be a good, reliable leader, we're now watching all of the markets more closely, and we urge you to do the same.

GOLD LEADING...

Gold rose strongly, hitting a six month high (see **Chart 1**). In its role as a leader, gold is telling us that the new team will succeed in turning this recession around, and inflation will eventually follow, which will push gold's bull market to much higher levels this year and looking out to the years ahead.

Stocks and bonds are starting to signal the same thing, and so is the U.S. dollar. As you can see, the stock market has been bottoming for several months. And since the market is also extremely oversold, it's likely already discounted the bad news like rising unemployment, a worsening economy and so on. Remember, the stock market will start up months before the economy and it looks like this could happen sooner rather than later.

Copper is the barometer for the global economy since it's used in so many sectors, and it's looking better too. If it begins to head higher, it'll also be a strong sign that better times are coming.

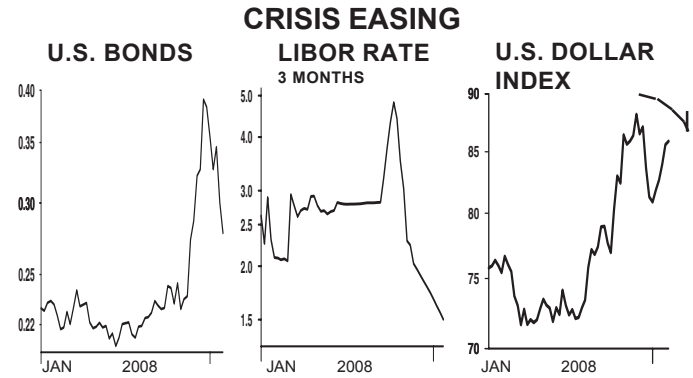
The same is true of oil because it'll signal that demand is picking up following the first two year decline in 25 years due to the recession, which has put a big damper on consumer spending.

...CRISIS EASING

The action in interest rates has been very important as well. Bond prices, for instance, are down as the panic into quality and safety has eased (see **Chart 2**).

This is being reinforced by the Libor interest rate, which has dropped steadily since last October. This tells us that banks are lending again and the credit crisis is beginning to normalize, which will be a key factor in jump starting the economy.

CHART 2



The U.S. dollar was also a safe haven during the crisis and it too is topping in an overbought area. In other words, the dollar's temporary strength appears to be over and that's more good news as far as the crisis is concerned.

So stay tuned and please read on for more specifics…

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U.S. & WORLD STOCK MARKETS

Bottoming

It may not be obvious yet, but the stock market is looking better. It continues to show steady improvement and assuming this keeps up, and we believe that it will, then stocks could start moving up at any time.

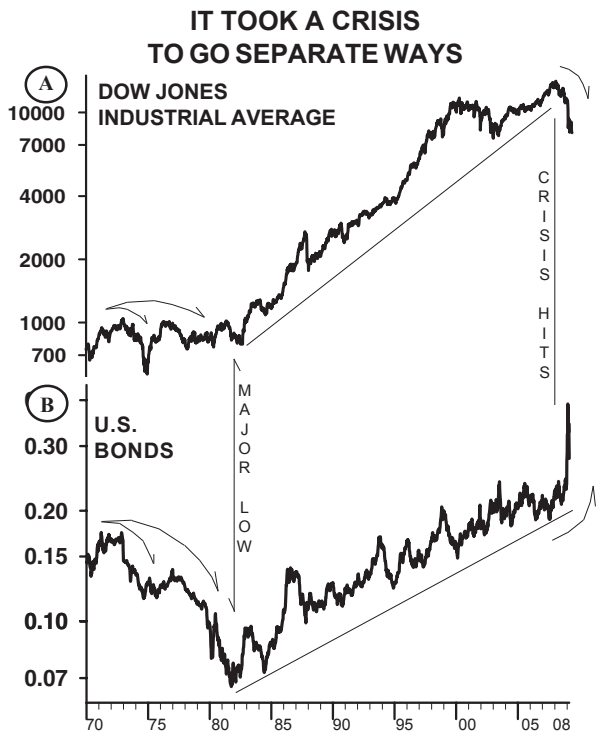
GLOOM IS THICK

We know that this outlook totally contradicts the latest GDP numbers, showing that the economy shrank at its fastest pace in almost 27 years in the fourth quarter. With consumers and businesses cutting back on spending and jobs, the economy is sinking deeper into recession and it's not a pretty picture.

Payments for the unemployed recently hit record highs and home sales dropped to new lows. The holidays didn't bring out the shoppers either as retail sales fell much more than expected. That's not surprising considering that the number of companies laying off thousands of workers continues to grow almost daily.

So it's no wonder that consumer spending is experiencing its worst plunge in the postwar era and companies' earnings are disappointing. The bottom line is that companies are not doing well because consumers are hurting.

CHART 3



STOCKS LOOK AHEAD

All of this bad news leads many to believe that stocks are headed much lower. But the simple fact that stocks have not plunged in the face of this worsening news is a very positive sign. It reinforces that the market has discounted the recession and it's looking ahead.

The stock market is building a base and it seems to be anticipating the success of Obama's stimulus plan. We'll see what happens, but unless the market caves in from here, that's what it's telling us.

SENTIMENT IS IMPORTANT

Now whether you agree with all of this spending or not, knowing that it didn't work under Bush, it's the same old strategy, it'll increase the debt to unthinkable levels and it'll eventually result in inflation, so far the market seems to like what it sees.

As we previously mentioned, sentiment is half the battle, and if Wall Street and Main Street feel that the stimulus package is going to help the economy, then stocks will rise before the economy does. That's what we think is happening now.

Despite the high price that's going to be paid, depending on how you look at it, there wasn't much choice considering that the U.S. and, therefore, most of the world were literally

CHART 4

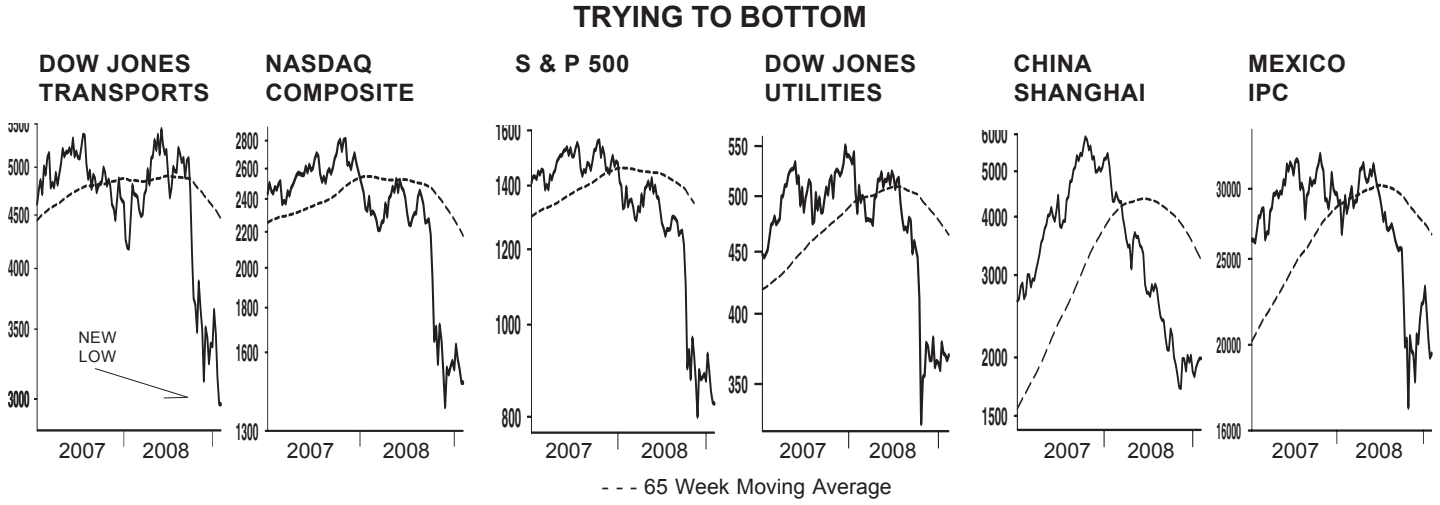
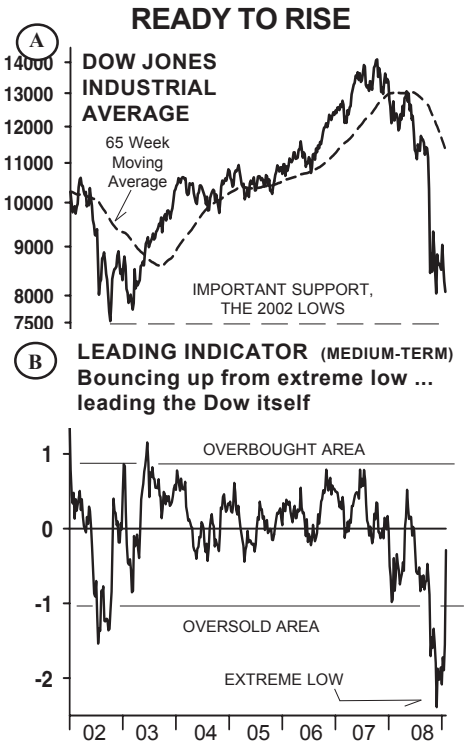


CHART 5



on the verge of an economic collapse a few months ago.

SAFETY RULES DURING CRISIS

This is clearly illustrated on **Chart 3**, which shows stocks and bonds going back to 1970. Note that these two massive markets have generally moved together over the years. But in 2008 they broke apart.

This was the free markets talking and it showed that investors were panicked and scared. Bonds soared in an unprecedented move and stocks plunged as nervous investors stampeded to the safety of bonds.

That's all investors cared about because the situation had turned so grave and uncertain. November was the key intensity month, but that now appears to be changing.

As you can see on **Chart 4**, the stock indices have been bottoming for several months and they're holding above their November lows. They appear to be bottoming and our leading indicators are reinforcing this.

The exception has been the Dow Jones Transportations as it broke down to a new low. This is actually very interesting and here's why…

DOW THEORY LOOKING GOOD

As our dear friend and market veteran, Richard Russell, pointed out in mid-January, based on Dow Theory, the best outcome would be for either the Dow Industrials or the Transports to violate their November lows, while the other index refuses to confirm. And so far, that's exactly what happened.

The Transports broke down, below its November low on January 20. The Dow Industrials did not.

The Dow is currently about 500 points above its November low, which was at 7553, and the longer it stays above this level, the better the odds are that it will not confirm and this downside non-confirmation will remain in force.

For now, if both the Industrials and the Transports can better their January 6 peaks, it would be a primary bull market signal. As Richard says, it would also be, "one of the most dramatic bullish reversals that I have ever seen. In the 50 years that I've been writing, I can't remember a more important challenge for the market than what lies ahead."

So watch those January peaks closely, which are 9015 for the Dow Industrials and 3717 for the Dow Transportations. Most interesting, our leading indicators are signaling that these January highs will likely be surpassed.

BOTTOMING AT EXTREME OVERSOLD AREAS

Using the Dow Industrials as an example, you can see that its leading indicator is rising from an extreme low (see **Chart 5**). This means that the Dow Industrials will soon follow.

If it does, the other stock indices will too. And considering that the S&P500 is currently at its cheapest valuation in 18 years, this would not be unusual.

Of course it would also be good for the global stock markets. They tend to move together along with the U.S. as they too generally remain extremely oversold (see the World index on **Chart 6**).

As we mentioned last month, some of the stronger international markets like Mexico or Brazil will probably lead the way, so we're watching all of the global stock markets closely as well.

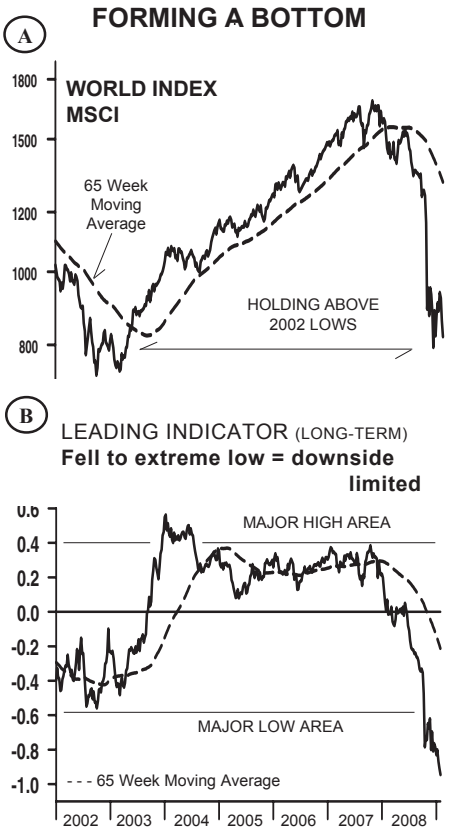
The next step is for the Dow Industrials to rise and stay above 8550 as it would be a good sign that it's likely on its way up. On the other hand, if the Dow were to break down below 7550, it would be a very negative sign, but at this point we don't think that's going to happen.

KEEP YOUR POSITIONS

Currently, we recommend holding the stocks you have. Don't sell because a rebound rise seems far more likely than a sell off and it'll then be important to see how far it goes. But we're keeping an open mind and we'll know more as this ongoing drama unfolds.

If you want to buy new positions, we'd go with DIA, which is the ETF for the Dow Industrials. As the Dow rebounds, so will DIA and it looks like it'll head higher as the year evolves.

CHART 6



U.S. INTEREST RATES AND BONDS

Rates: Bouncing up from the dead

Bond prices have soared in recent months. The main reasons why were panic and safety.

ANOTHER BUBBLE...

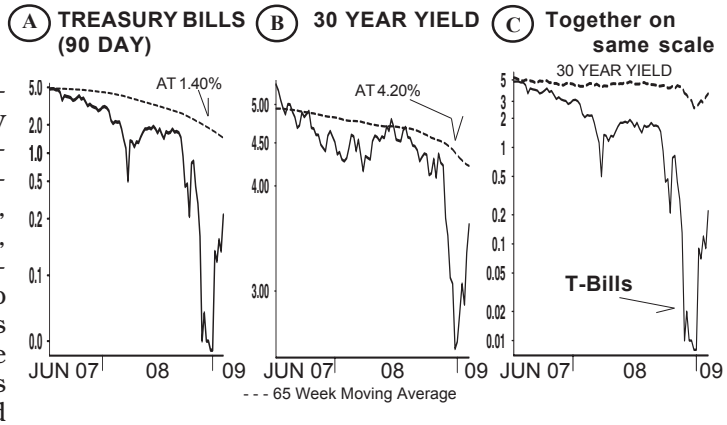
As the credit crisis worsened last Fall, the economy and banking system were literally on the brink. Most investments were dropping, including real estate, stocks, metals and commodities. With everything so uncertain, it seemed as though there was nowhere to hide. So investors stormed into bonds and short-term Treasury bills and notes.

Backed by the full faith and credit of the United States, these instruments are considered the safest, or so the general thinking goes. It didn't matter that T-Bills and some of the other short-term bills were paying a zero percent return. Investors just wanted safety, and that applies to both foreign and domestic investors.

Some are calling this the latest new bubble. In other words, Treasuries replaced the commodities bubble and the real estate bubble before that. The big difference, however, is that this bubble is showing signs of deflating, which means it's not going to last nearly as long as the previous bubbles did. How do we know?

CHART 7

RISING FROM THE DEAD



...but not for long

As we showed you on **Chart 2**, the Libor 3 month interest rate has dropped from 3.85% to 1.10% since mid-October. This is very important because Libor is the international interest rate banks use to lend money to each other. It also sets the standard for other interest rates, and the fact that it's declined so much in such a short time tells us that money is flowing, banks are lending, the risk of default is easing and things are getting back to normal. The Ted spread is signaling the same thing.

This is the exact opposite of what happened last Fall when the Libor interest rate and the Ted spread spiked up, and it's good news for the economy because credit is the fuel that makes the engine run. So if the credit crisis is ending, investors will regain confidence and as they do, they won't feel the dire need for safety, or at least to a lesser extent.

They'll also want a higher rate of return, and that's what we're starting to see now. Rates on both short-term T-Bills and the long-term 30 year yield moved higher this month as the crisis eased (see **Charts 7A** and **B**). This too will continue as confidence returns and investors will then start taking on some risk, seeking out better returns than those Treasuries are providing. When they do, bond prices could fall steeply as money increasingly moves out of safe haven bonds and into other investments.

SUBTLE SIGNS OF CALM

So far, this shift looks like it's already starting and, along with the renewed rise in gold, these are some of the most positive early signs we're seeing that the economy will eventu-

CHART 8

U.S. BONDS SINCE 1950

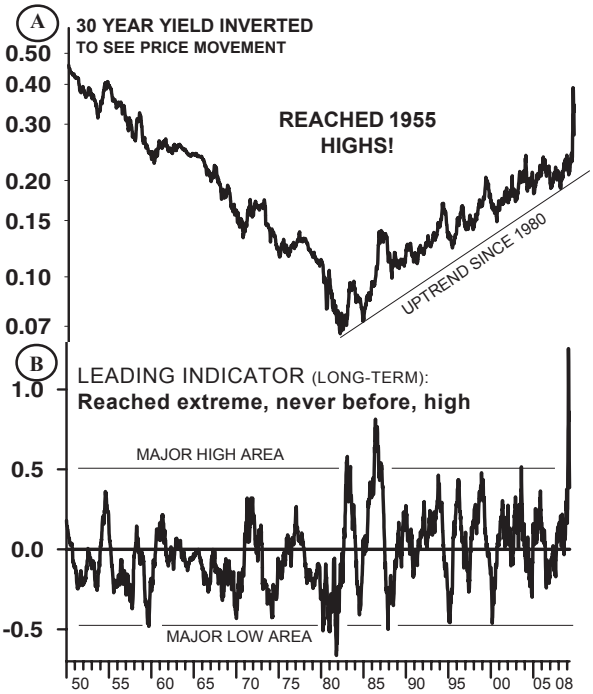
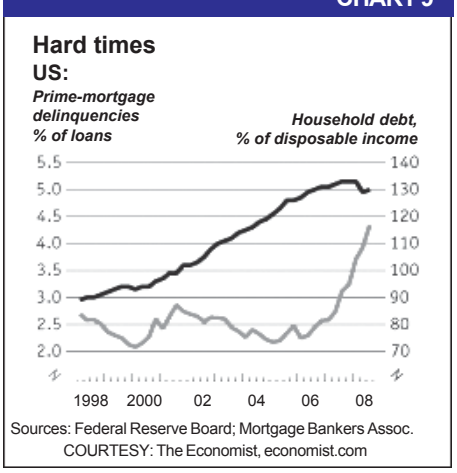


CHART 9



ally pull through this recession and gradually improve.

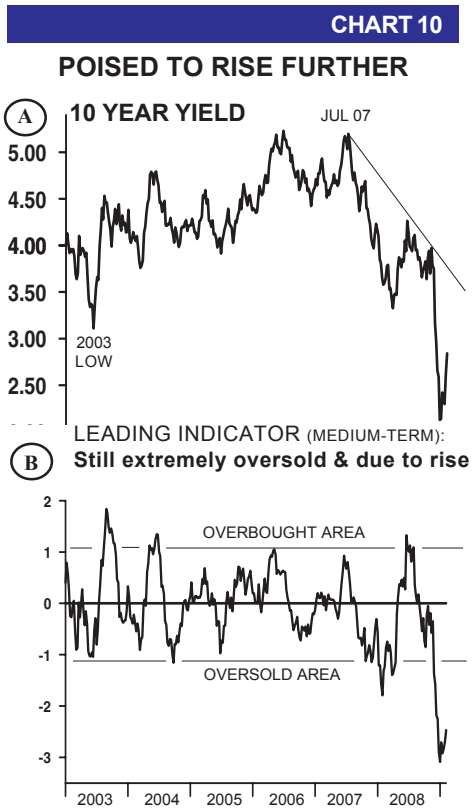
The difference between T-Bills and the 30 year yield is reinforcing this too (see **Chart 7C**). As you can see, T-Bills dropped to such extremely low levels that the gap between these two rates widened sharply. This normally happens during recessions, but this time it was way more extreme.

Currently, T-Bills are rising and the gap is beginning to narrow, which is usually the case near the end of recessions. So again, we're seeing another subtle sign that the worst of this crisis is likely near an end.

Once this becomes more obvious, which could take many more months, inflation will start picking up again, probably near year end. That will not be good for bond prices and it could very likely be the final pin that bursts the bond bubble wide open.

And considering how extremely overbought the bond market is, this scenario is not at all far fetched (see **Chart 8**, which shows the bond price and its leading indicator going back to 1950). Looking at this chart, it clearly shows that bond prices have never even been close to these extreme high levels.

We all know that what goes up must come down. But normally when any market gets this far out of whack, a steep decline will usually follow. So here too... more straws in the wind that the bull market in bonds is probably over. And since bonds do well during recessionary times, this also suggests that the recession may not last too much longer.



SEEMS STRANGE

How can this be when the news keeps getting worse? It's true that layoffs and unemployment have become a major problem. The same is true of foreclosures and delinquencies, which keep hitting records as the biggest credit bubble in history deflates (see **Chart 9**). And it doesn't help matters that trillions of dollars have been wiped out due to real estate and stock drops, upsetting pension and retirement plans, savings and so on. Nearly everyone has been affected in one way or another.

But like the stock market and gold, the bond market and interest rates are leaders too. They'll show subtle signs of change, like we're now seeing, before it's in the news or obvious in the economy.

For now, the 10 year yield is poised to rise further (see **Chart 10**). It's extremely oversold and as it rises bond prices will decline. So it's in synch with the rest of the interest rate world.

TAKE ADVANTAGE OF LOW RATES

Since mortgage rates are linked to the 10 year yield and they're now below 5% for the first time in history, this is likely an excellent time to refinance your mortgage if you've been thinking about it because you'll probably not see rates this low for many years to come. That alone could save you a lot of money.

If you're currently holding bonds, keep them for the time being, unless or until the major trend changes. That would happen if the 10 and 30 year yields rise and stay above 3.60% and 4.20%, respectively. To profit as bonds decline, we continue to recommend buying the Proshares TR (TBT) fund.

CURRENCIES

U.S. Dollar: In a topping process

The U.S. dollar has been moving up and down, depending on the news of the day. But it's still topping and it looks like it'll soon begin a renewed decline.

Like stocks, bonds and gold, the dollar is beginning to reinforce what we're seeing in these other markets. The U.S. dollar, however, is not traditionally a consistent leader, but it'll eventually get into step, at least that's what our indicators are showing.

BAD IS GOOD FOR THE DOLLAR

Nevertheless, and contrary to normal fundamentals, whenever the news is bad lately, the dollar usually rises. That's because investors get nervous and they again want a safe haven, which is what the dollar became during the worst of the crisis.

This was the main reason why the dollar surged in the Fall of 2008 and that sentiment still exists, but not as strongly as in the Fall (see **Chart 11A**).

That's also why there's recently

been a disconnect between the U.S. dollar and gold, which is something many have been commenting about, but that's not so unusual. Even though gold and the dollar generally move in opposite directions, that doesn't mean it's always the case on a day to day, or even week to week basis.

Recently, for instance, gold has been rising and so has the U.S. dollar. If anything, this shows that gold's very strong, also fulfilling its role as a safe haven.

Eventually, however, one or the other will dominate and our guess is that gold's strength will overpower the U.S. dollar, especially considering that the dollar's very negative fundamentals are only getting worse.

...AND GOOD IS BAD FOR THE DOLLAR

The Fed, for example, kept U.S. interest rates near zero and said they'll likely stay at these levels for quite a while. Considering that U.S. rates are now the lowest in the Western world, this alone is going to hurt the dollar, especially once the first signs become obvious that the economy and/or the credit crisis is starting to get better.

Plus, it's important to recognize that over the next six months, the U.S. will have to sell a record amount of Treasuries to finance a budget deficit that will be more than $1 trillion due to the record spending to save the economy. That too will put downward pressure on bonds and the U.S. dollar.

This of course just reemphasizes how negative the dollar's fundamentals are. The U.S. is mired in debts that are growing larger. It's mortgaging its future and combined with massive money creation, it'll cheapen the dollar, driving it much lower. The dollar's technical indicators are reinforcing this as well.

As you can see on **Chart 11B**, for example, the dollar's leading indicator is at a high level that has always preceded dollar declines. This tells us that the dollar will soon follow.

For now, the most important number we're watching is 82.00 on the U.S. dollar index. Once the dollar declines and stays below this level, which is the mega moving average, it'll reconfirm that the mega trend is down and the dollar's headed much lower. That in turn would be a good economic sign, indicating that the dollar's safe haven appeal has dried up, which in turn would mean that investors are feeling more secure.

As the dollar weakens, the currencies will move higher. That's why we continue to recommend holding the currencies.

CURRENCIES: Bottoming

With the exception of the British pound, which we do not recommend, the currencies have essentially been backing and filling as they continue forming a bottom (see **Chart 12**).

The euro is typical of what's generally happening in the world of currencies. It's holding at an uptrend that's been in force since 2002 and the leading indicator is

CHART 11

U.S. DOLLAR: Upside limited

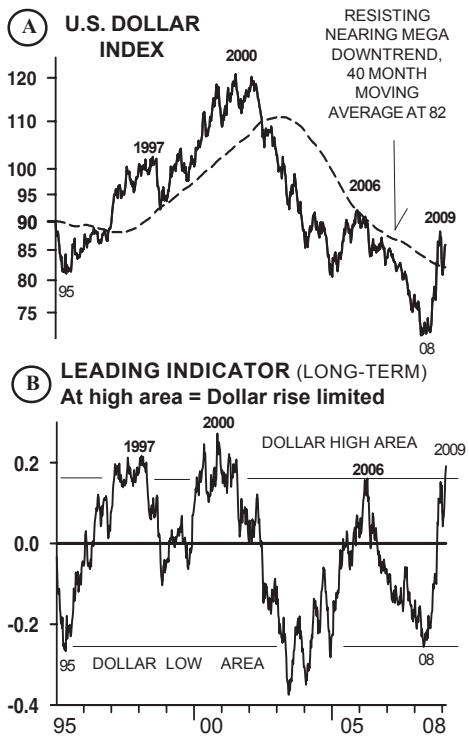


CHART 12

THE POUND STANDS ALONE IN WEAKNESS

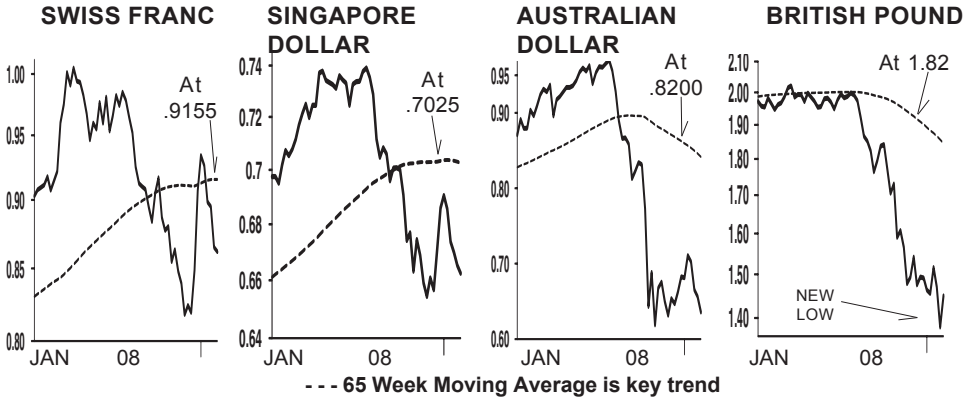
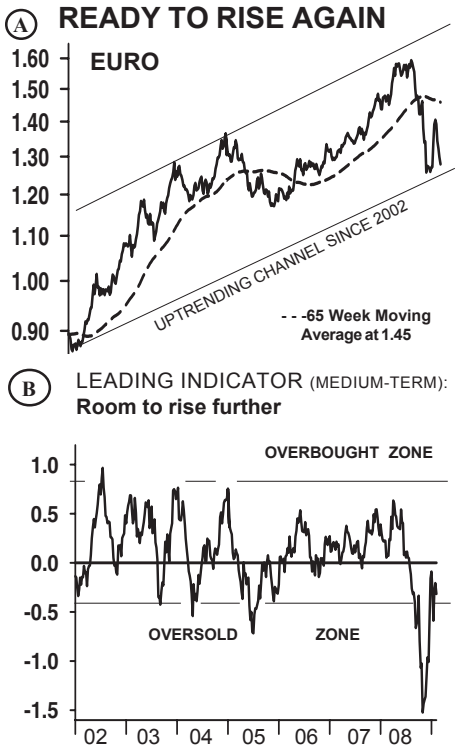


CHART 13

BOTTOMING AND READY TO RISE AGAIN



rising (see **Chart 13**). So it's just a matter of time until the euro follows and also begins rising from its still oversold levels.

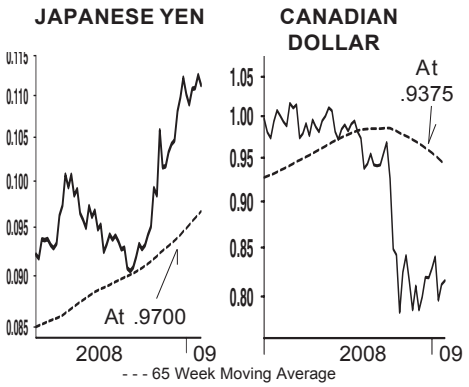
The carry trade has affected several of the currencies and this is clearly illustrated on **Chart 14**. The yen indirectly benefited as a safe haven currency during the crisis as investors dumped what were considered high risk trades.

Since the Canadian dollar was considered high risk, it was hurt by this risk factor. The same was true of the Australian dollar.

But now that risk is becoming less important, the high and low risk currencies will likely change places. In other words, the yen will probably follow the U.S. dollar down, while the Canadian and Aussie dollars move higher. Rising metals, commodities and/or oil prices would also provide a nice boost for these "commodity currencies."

The point is, with the exception of the U.S. dollar and Japanese yen, all of the currencies are oversold and they're poised to rise. So again, keep the currencies you have but don't buy new positions in the dollar and yen, or the others yet.

CHART 14

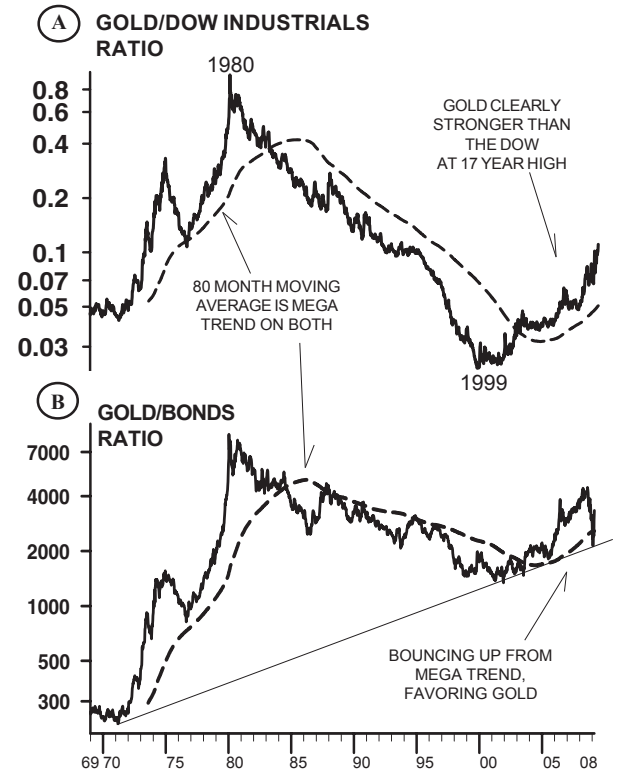


METALS, NATURAL RESOURCES & ENERGY

Gold is leading the way up

Gold is in a class of its own. It ended 2008 with a gain and it continued to rise to a six month high this new year, in spite of the rising U.S. dollar. Gold is a barometer for the world's financial stability, while the dollar and yen have been rising as a safe haven during the financial crisis of the last six months.

CHART 16

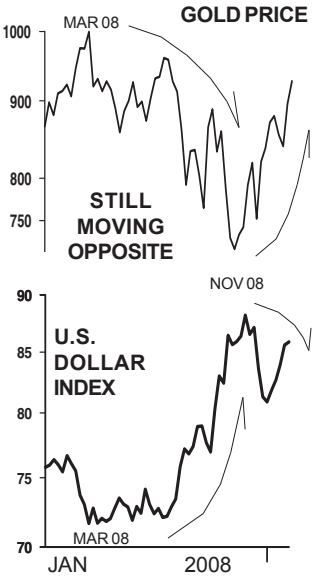


GOLD HAS MANY HATS

Cash is king in the current cash strapped environment, and gold is the ultimate cash vehicle. With gold rising while the dollar rises, it's become a solid alternative to holding cash and it's showing the growing mistrust in the dollar.

Gold is a store of value... real value, and that's what investors feel safe holding. With the economy contracting at the fastest pace in 27 years and the most in 4Q since 1982, uncertainty will continue which is keeping gold strong.

CHART 15



Gold and the dollar will not continue to rise together for an extended period of time. Considering the pros and cons of each one, we have little doubt which one will eventually overpower the other. Gold senses inflation downstream and it remains in a bull market, whereas the dollar experienced a crisis aberration rise within a mega decline (see **Chart 15**).

Gold is a leader. It led the bull market in commodities in 2001 and it also led the global stock market rise. Gold also leads the economy and because it leads we are dedicating the next few pages to gold and its future outlook.

GOLD IS STRONGER THAN STOCKS & BONDS

It's always important to see which markets are strongest before investing. **Chart 16A** shows that gold is clearly stronger than stocks and it's

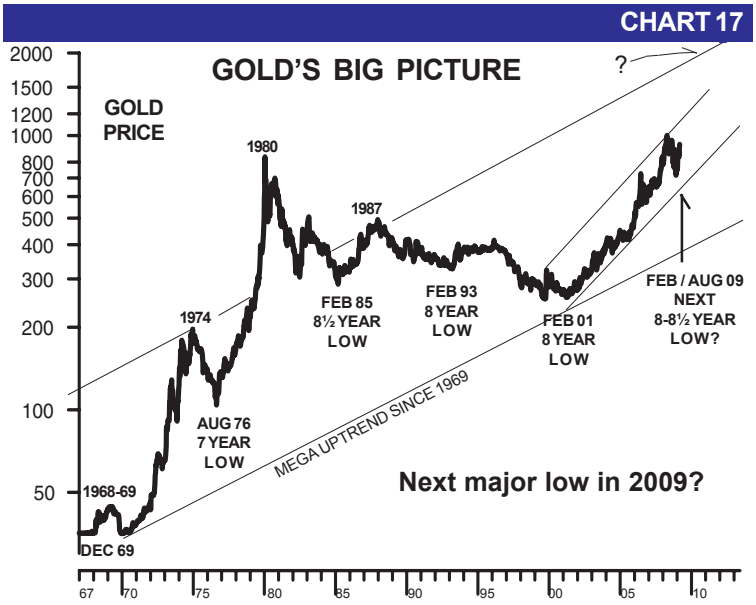
still stronger than bonds on a mega trend basis. In fact, the Dow Jones Industrials is down 80% compared to gold since 1999. Or looking at the flip side shown on this chart, gold has gained 400% more than the Dow since 1999. The ratio reached a 17 year high this month and the mega trend clearly favors gold over stocks.

Last month we showed you that gold's strength versus bonds was turning marginal. The super bond rise in recent months caused the ratio (B) to seriously test the mega trend. But this month bonds declined while gold rose, thereby clearly giving this ratio a bounce up from a critical juncture. This means the mega trend still favors gold over bonds. This also suggests that bond prices will continue to decline and inflation will eventually take over, once the crisis is over and interest rates start a major rise. We're not there yet but this ratio is saying that it will come… stay with your gold.

GOLD:
An eight year phenomenon

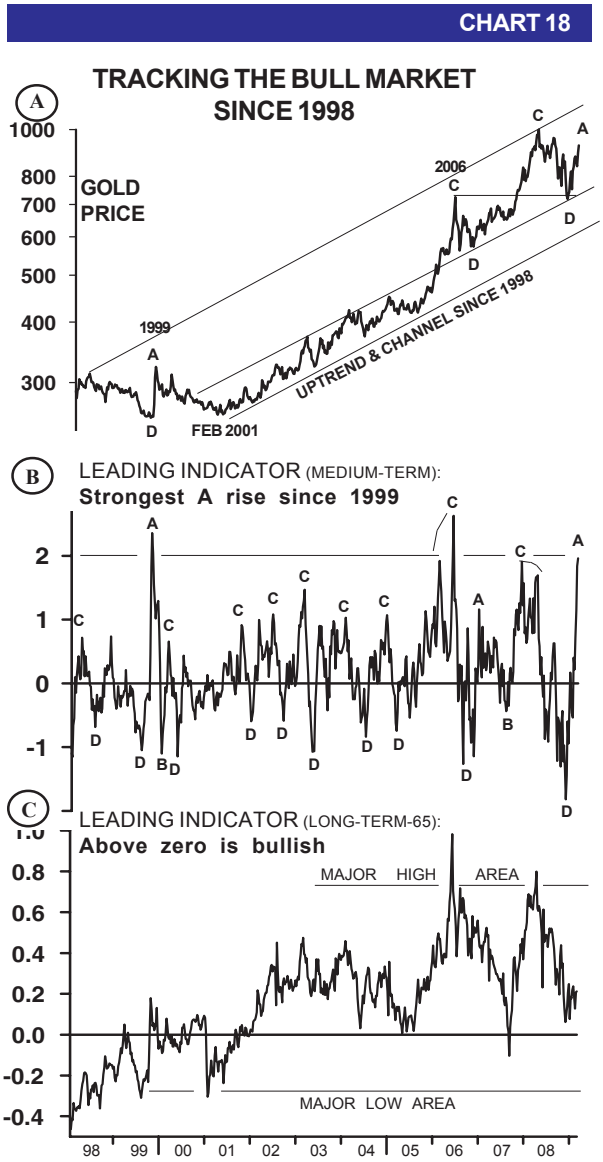
Further backing this up is gold's ongoing bull market, which turns eight years old this month. The eight year mark has been a consistent low time for gold going back to the late 1960s when gold began trading in the free market.

Chart 17 shows this best. Note the pattern. It has repeated four times since 1969 and the fifth one is possibly happening now. Important lows vary from 7 years to 8 ½ years following the previous low, with the average being eight years. This recurring pattern tells us that the low could've been last November's low, three months shy of eight years, or it could still be upcoming. The long side would be a low this Summer.



The point is that gold's near or at an important low time. This means we want to buy more gold during weakness this year because gold is set to reach a record high, and the $2000 level would eventually be a likely target, near the top of the mega upchannel, see **Chart 17**.

In other words, if the eight year low pattern repeats, the now almost one year decline is coming to an end. Whether it was last November's low or a low upcoming this year, the gold price is getting closer to the start of a great bull market rise. We should, therefore, have all of our positions completely bought well before year end.



CLOSER LOOK AT 8 YEAR RISE

A closer look at the full eight year bull market since February 2001 shows some interesting observations as well (see **Chart 18A**). The gold price is plotted on a semi-log scale, which shows true percentage growth. And as you can see, the rise is in a perfect upchannel. Gold showed super strength in 2005 when it moved to the top side of the channel where it has stayed since then. In fact, within this top side, the mid-line has proved to be a good support during gold's steepest D declines.

This alone is saying that gold has solid underlying strength and as long as it stays above the November low (D) at $705, gold will remain strong within the eight year rise. Gold's strength in January was impressive because it rose more than normal for an A rise.

Our older subscribers know our A to D intermediate moves

in the gold price. The C rises are the strongest rise in a bull market when gold reaches a new high. The last C rise occurred in March, 2008 when a record high was reached. Gold then declined in a long D decline until reaching its low last November.

An A rise has been underway ever since and its strength has been solid, reinforcing the bull market. Note on **Chart 18B**, the only other time an A rise has been this strong was in 1999. Gold normally rises moderately during A rises, so if the current rise continues up to a record high gold would be incredibly strong. For now, this A rise will remain underway by staying above $887.

But the current A rise has met its time and price goals, which means it could end at any time. The upcoming B decline should be mild, and for the bull market to stay strong gold should hold well above $705 during weakness because B lows are normally higher than the previous D low.

The overall bull market will stay on track as long as the leading (long-term) indicator stays above the zero line (C). This is yet another measure of the bull market.

The stronger part of the bull market since 2005 can be seen close up on **Chart 19**. Here you can see the importance of the November low because gold held near the 2006 C peak when it formed the D low. This showed strength and we could possibly see gold approach $1200 later this year during the next C rise (see **Chart 19**). The upcoming B decline will be the time to buy new positions.

One last interesting comment about gold is when it broke below its 65 week moving average during the heat of the crisis last Fall. This was a first since 2001, but gold quickly recovered and rose back above it once again (see **Chart 19**). This is not only bullish but it also shows gold's resilience.

China is now one of the world's major gold producers and it's been telling its people to buy and hold gold. This is to be admired and it's yet another source of great demand.

CHART 19

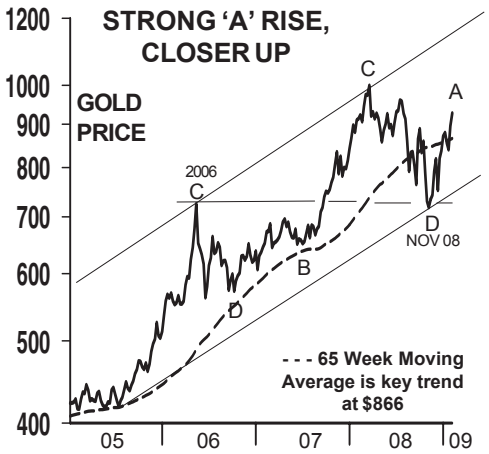
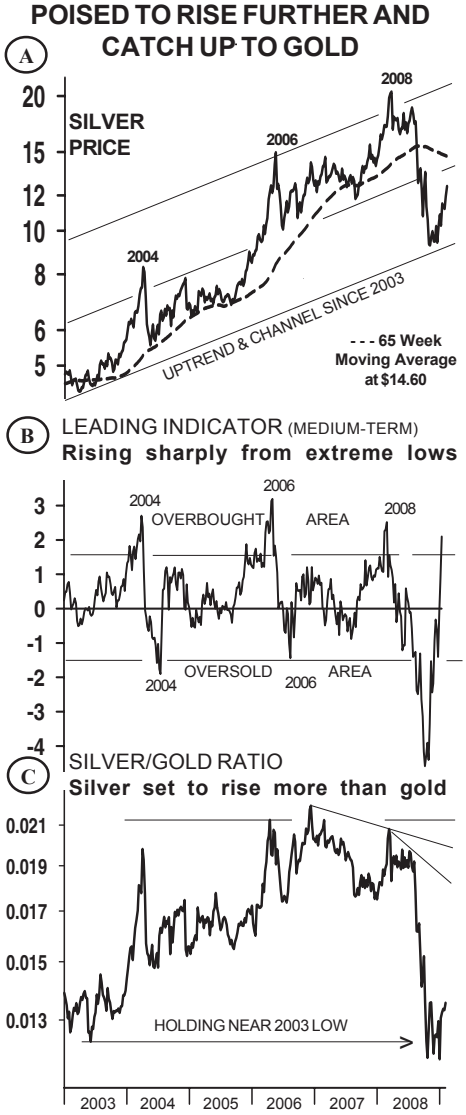


CHART 20



SILVER: Following gold

Silver is following gold in a rebound rise and it's poised to outperform gold. **Chart 20** shows our favorite silver chart because it clearly shows when silver is poised to rise. Note that silver (A) is rising from the bottom of its channel support while its leading indicator (B) is shooting up from extreme lows. This means that silver could at least test its 65-week moving average at $14.60, and possibly rise even further.

Silver is bombed out versus gold (C). The ratio fell sharply when silver fell more than gold, but it's been bottoming for a few months now. The ratio is now poised to rise and silver will then likely rise more than gold. Keep your silver and gold positions.

Platinum is moving similarly to silver and it too is poised to rise to possibly $1500. It's firm above $900.

CHART 21

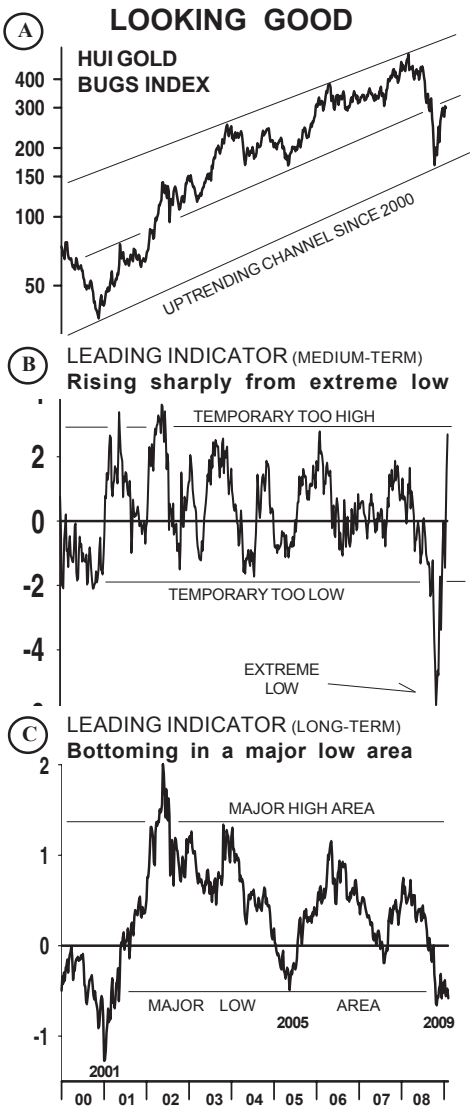
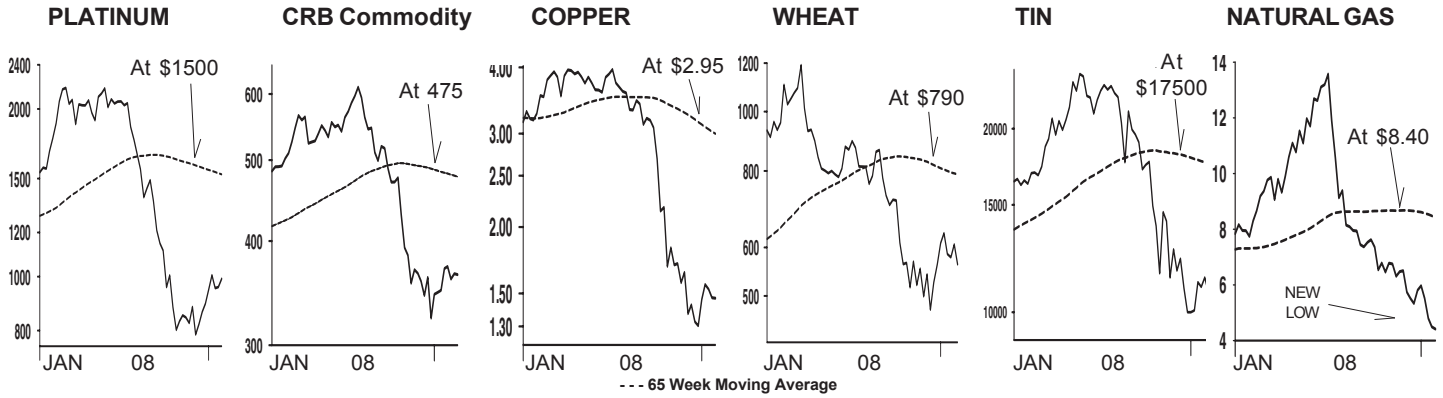


CHART 22

TRYING TO BOTTOM



GOLD SHARES: Trying to rise with gold

Gold shares are rising with gold but their rise has been muffled by the weak stock market. Nonetheless, **Charts 21A** and **B** show that gold shares are in a rebound rise and they have room to move higher. More impressive is the long-term indicator (C). It's the most oversold it's been since 2005. In fact, this is only the third time since 2001 that gold shares have been at such a major low area. This means that gold shares are in a good buying area and they may be saying that the stock market will also give them a boost up. Likewise for silver shares.

ENERGY & RESOURCES: Bottoming

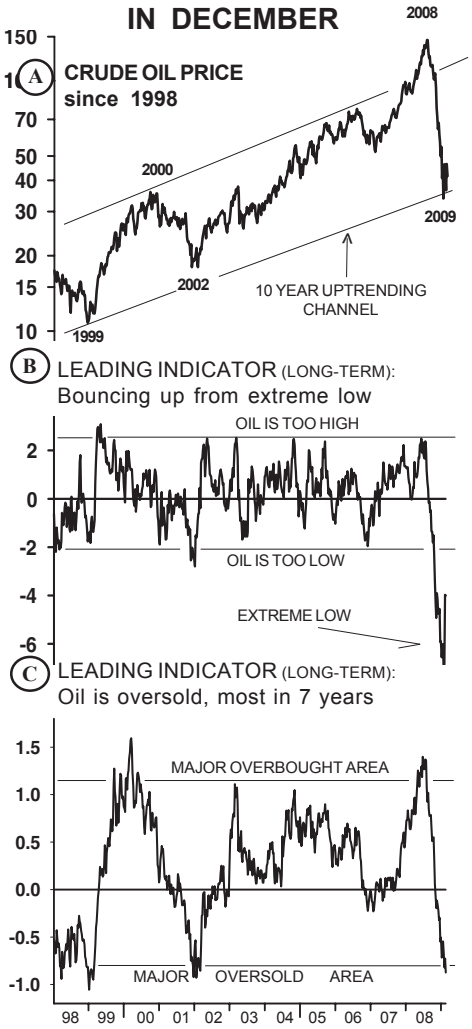
The slumping global economy is eroding consumer spending, which is causing job losses and lower demand for cars and just about everything. This is keeping the commodities down. Plus, the strong dollar is also weighing on the commodities. In fact, with the commodities, especially copper, being sensitive to world economic growth, any good news will be seen early in this sector (see **Chart 22**).

So far, the commodities are stabilizing near the lows, which suggests that we may be seeing the worst now. It's premature to say this but as long as the lows hold, the worst may be at hand. Natural gas is the only one to have reached a new low.

The International Energy Agency says oil demand is poised for its first two year decline since 1983. But oil continues to sit above its $34 low hit in December. Oil needs deeper supply cuts to offset slow demand but the oil producers are hurting. Some countries are fine with costs as low as $24 to break even, but countries like Iran and Iraq need $90 to $94 to break even and they're hurting. Russia is also feeling the pain. The ruble slumped to its weakest level in 11 years as investors believe Russia may be forced to give up its currency defense after draining reserves.

CHART 23

LIKELY HIT BOTTOM IN DECEMBER



The list goes on but the commodities are bottoming and they may be looking toward better times. Assuming the U.S. government stimulus plan kicks in building roads, bridges and other infrastructure, combined with China's ongoing growth, in spite of the slowing economy, we will see the commodities move up in a sustained rise.

In fact, today's low prices and low interest rates make it attractive to build or start projects. Keep an eye on copper as a close above $1.55 means it could jump up to the $2.95 level (see **Chart 22**). With copper and the other commodities oversold, this kind of a bounce is likely.

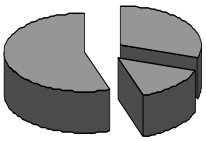
Chart 23 shows a good example of what we mean. Crude oil has fallen 77% since last July but it was only last month when it finally became oversold. It was one of the last commodities to become oversold.

Oil is now basing at a 10 year upchannel (A) while its medium-term indicator (B) is bouncing up from an extreme low. Plus, the long-term indicator (C) is now the most oversold in seven years. This all tells us that the downside was limited for oil, and the December low was most likely the low.

But the oil price will remain vulnerable until it rises and stays above $48. A renewed rise would then be underway and the energy shares will move higher, along with oil.

OVERALL PORTFOLIO RECOMMENDATION

There's no question, the economic news has been bad. But we're also seeing some early signs that the outcome for the economy will eventually be positive. Gold, for instance, is rising and bond prices are declining. Most of the other markets continue bottoming at extremely oversold levels, indicating that the downside is limited and they're poised to head higher. We recommend keeping the investment positions you currently have. It's still premature to buy new positions, but that'll likely change soon. Our goal is to use bargain time periods this year to buy new positions.



30% Metals
20% Gold & silver physical & ETFs, & gold shares
10% Gold only

15% Energy, resource & other stocks

55% Cash: 35% in US dollar T-Bills; 20% in euro, Swiss Franc, Singapore and Australian dollars, or currency funds

STOCK MARKET RECOMMENDATION

The stock market continues to show steady improvement. It's been bottoming for several months at an extremely oversold level and it could start moving up at any time. Keep the stocks you have and do not sell. And keep an eye on the following levels: if the Dow can rise and stay above 8550, it'll be a good sign; above 9015 would be very positive that it's headed much higher. But if it declines below 7550 it would be very negative for stocks and the economy. It's still premature to buy new positions but it's okay to buy a small position in the Dow's ETF (DIA) as it will move up along with the Dow.

PRECIOUS METALS AND THEIR SHARES RECOMMENDATION

The gold price continued to rise in January, reaching a six month high. It's leading the others in a rise and silver is following. Gold's rise from November to the present has been a better than normal rise we call 'A', and while gold is strong, don't be disappointed if it softens for a while, while the other commodities rise. Gold and silver shares are set to rise further and we recommend keeping your positions.

Considering that gold is at or near an eight year cyclical low time at a time when a B decline could occur at any time, we think it's best to wait a few months before buying new positions.

INTEREST RATE & BOND RECOMMENDATION

Bond prices are declining from a historically high overbought level and they're showing signs that the bond bubble is deflating. Bonds are now poised to fall further as interest rates rise, which suggests that the recession may be near an end. Keep bonds if you have them. They'll be okay as long as the economy remains weak. But if the 10 or 30 year yields rise and stay above 3.60% and 4.20%, respectively, then sell them. To profit as bonds decline, buy a small position in the Proshares Tr (TBT) fund.

CURRENCIES RECOMMENDATION

The U.S. dollar is fundamentally very negative. The dollar is still topping and it'll likely soon begin a renewed decline. For now, watch 82.00 on the U.S. dollar index. Once the dollar declines and stays below this level, it'll confirm that it's headed much lower. For now, keep your 35% position in U.S. dollars, but that'll probably not be the case for long. The currencies are bottoming and as the dollar weakens, they will head higher. So continue to hold our recommended currencies and we may be buying new positions soon.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Eldorado Gold	EGO-AMEX
Agnico Eagle	AEM-NYSE
SPDR Gold Trust	**GLD-NYSE**
iShares Comex Gold	**IAU-AMEX**
Mkt Vectors ETF	GDX-AMEX
Central Fd of Can	CEF-AMEX
iShares Silver Trust	**SLV-AMEX**
GoldCorp	GG-NYSE

RESOURCE, ENERGY & OTHER SHARES

Proshares Tr	TBT-NYSEArca
BHP Billiton	BHP-NYSE
Apache Corp	APA-NYSE
Transocean	RIG-NYSE
Rio Tinto	RTP-NYSE
Suncor Energy	SU-NYSE
Dow Diamonds	DIA-NYSEArca
DB Commodity Ind	DBC-AMEX

CURRENCY ETFs & FUNDS

Swiss Franc Tr	FXF-NYSE
Merk HD Cur Inv	MERKX-NSDQ
Euro Currency Tr	FXE-NYSE
Australian Dl Tr	FXA-NYSE
Franklin Temp Hard	ICPHX-NSDQ

Note:
All of the shares, funds and ETFs are listed in order of strength per section.
The gold and silver ETFs are listed above in bold.

