THE
ADEN FORECAST
MONEY • METALS • MARKETS

FEBRUARY, 2010 *in our 29th year*

CORRECTIONS: THE ORDER OF THE DAY

As the new year gets underway, one dominant factor is jumping out and becoming more obvious by the day. Corrections! That is, nearly every market we follow is correcting downward and they're all starting to tell us something important.

Gold, the other metals, stocks, commodities and the currencies… they've all begun the new year on the decline. So what are these markets saying?

A BREATHER DECLINE... OR MORE?

That's the million dollar question and at this point, it's still too soon to tell. But as you know, the markets lead and they're all singing the same song. For now, we're not yet sure how it's going to end, but it's becoming more apparent that one of two options will likely be the outcome…

The first outcome is the better case scenario, signaling that the are normal downward corrections following the steep rises in the markets in 2009. These rises coincided with the global economic recovery and, once the corrections are over, the markets will continue on their upward paths, along with the economy. In other words, the markets are taking a breather for the time being.

The second outcome is less favorable and more of a worst case scenario. In this case, the markets may be embarking on declines that will eventually turn bearish and they'll, therefore, fall much further. This would obviously coincide with a worsening economy, perhaps a double dip recession and possibly, as some say, a full blown depression.

There is evidence to support both scenarios and that's what's making this transition period so difficult. It's also the reason why there are so many conflicting opinions out there, which makes it even more confusing.

THE GOOD SIDE

On the bright side, the U.S. economy is improving. In fact, it grew at a 5.7% annual rate in the fourth quarter, chalking up gains for the second consecutive quarter, and showing the best quarterly growth in six years. The index of leading economic indicators has also surged for nine months in a row, reinforcing that momentum in the economy is picking up steam.

In addition, consumer confidence rose this month to its highest level in 16 months, home prices moved up too and so did building permits. Industrial production also improved, unemployment declined and we've been seeing many other economic recovery signs over the past few months. Most notably, the stock market surged 70% since March, 2009 and it's known to be one of the best leading economic indicators around.

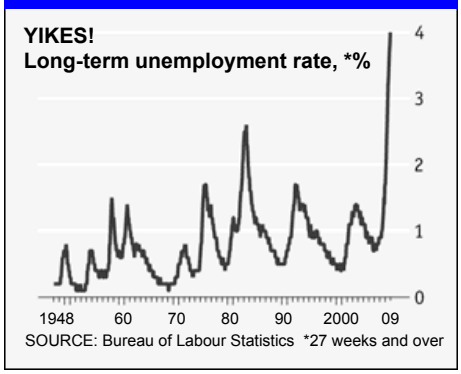
Okay, we know that there are many who say, so what? The economic recovery is fake, it's based on excessive government spending and stimulus, and if that hadn't happened the economy would have collapsed. The government has simply created another bubble as it piles on the debt and this recovery is not sustainable. Plus, unemployment is sky high and there's no way the economy can recover with so many people out of work.

And they're right on many of these points, but that doesn't mean the economy hasn't been recovering, it has. Sure, this may not be an ideal, role model recovery, but it's still a recovery, at least so far. Nevertheless, these same arguments bring us to our second, worst case outcome.

THE UGLY SIDE

As everyone knows, unemployment is the biggest problem. If

CHART 1



COURTESY: The Economist

INSIDE

people aren't working, they can't pay their mortgage payments and they certainly don't have money to spend on consumer goods. This fact alone will keep the housing sector in the dumps, along with consumer spending, which are two key areas that need to improve to keep the economy on track.

Officially, unemployment is around 10%, but in reality it's about 20% taking into account the unemployed whose benefits have run out and/or those who have stopped looking for work. This is unprecedented since World War II (see **Chart 1**).

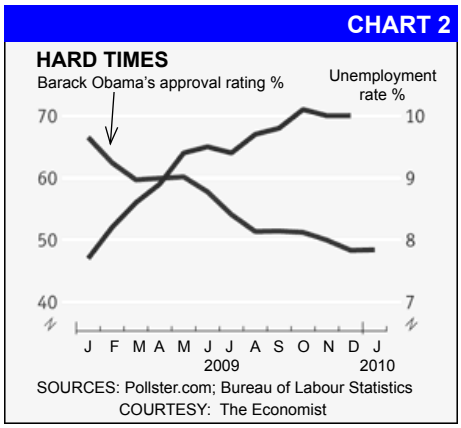
As a result, poverty is increasing. The Brookings Institution states that 30% of the U.S. is either already in poverty or headed in that direction. And at around 40 million people, those living on food stamps is also at a record.

Not only is this a very sad situation, but it's affecting, and it will continue to affect the economy in a negative way. There's no way around it, a jobless recovery is not a healthy recovery.

Let's take housing as one example. Existing home sales plunged nearly 17% in December once the government tax credit wore-off. New home sales had their worst year on record and foreclosure notices were up 21% last year compared to 2008. This isn't surprising considering the unemployment picture and that 25% of all homes are now worth less than the mortgages that are on those homes. It's also not a surprise that under these circumstances, retail sales were down in December as well.

UNEMPLOYMENT LAGS

As we've previously discussed, during any recession, unemployment is always the last to improve. That's because businesses have to feel more confident about the economy before they begin hiring. Confidence in the world economy is growing, but it's still going to take more time before this filters down.



Following the recession of 2001, for instance, it took almost four years for unemployment to get back to its previous peak. And during the past eight recessions employment fell between 8 to 30 months before it hit bottom and jobs slowly started coming back. This time around employment has already been declining for 24 months. So using these parameters, job losses may be nearing a bottom, especially considering that Obama's approval rating is moving opposite to the unemployment rate and it's become his top priority (see **Chart 2**).

This is putting even more pressure on the Administration to "do something." And since this was the worst recession since the Great Depression, it could take even longer. We'll soon see how this all unfolds, and if the first or second option is the one that prevails, or maybe it'll be something else.

Either way, the markets will tell the story, like they always do. And that's what we're watching closely.

So far, the markets are saying, stay with your positions. The major trends are the most important and they remain up for the precious metals markets, the world stock markets and the international currency markets. And despite the U.S. dollar's recent rise, the dollar's major trend is still down. As long as that's the case, our investments are fine, these are just normal downward corrections and the global economic recovery will continue.

STAY ALERT, BE CAUTIOUS

But we also have to stay alert and open. If we start seeing changes in these major trends, we'll have to change our strategy and lighten up on our positions. This would suggest that the second, worst case option is unfolding, which could mean a continuation of last year's recession, a double dip recession and/or a general worsening of the overall picture.

In that case, there's little question that the Fed would have to kick up its reflation efforts by creating and spending even more money than it already has. This would eventually lead to soaring inflation, which would eventually boost our current holdings.

At this point, the big unknown is, will this happen sooner or later. Again, the markets will tell us and we'll be watching them closely. In fact, this month we'll tell you exactly what to be watching in each market section and we'll of course be keeping you posted in our weekly updates. So stay tuned.

A Personal Note

Dear subscribers,

Thank you so much for all of your letters during these difficult times. Your support, kindness, prayers, loving concern and personal stories are sincerely appreciated.

Mary Anne's daughter, Dina, is now out of intensive care and she is off life support. What was originally pneumonia evolved into a series of complications and while she's better, her situation remains delicate. She's still in the hospital and just beginning to recover.

Thanks again and warmest regards to you all,
Mary Anne and Pam

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U.S. & WORLD STOCK MARKETS
Declining in a bull market

Stocks were looking good last month. In fact, they've been doing very well for almost a year now with the S&P500 rising 70%, but then they got hammered.

The downward corrections we've been anticipating came hard and fast, with one down day after another, quickly wiping out the January gains. So where do the markets currently stand?

MAJOR TREND IS UP

Despite what the bears say, the major trends remain up for the U.S. and global stock markets. So far, even though the declines have been steep, they are still downward corrections within the major uptrends that started in March, 2009 (see **Chart 3**).

As you can see, the various stock indices have now dipped below their 15 week averages, which simply means that the strong 2009 rises are settling down. In other words, the markets are down but they're not out, as the major trends are still up.

A series of factors triggered the declines… concern over earnings and fear that China will slow its economic growth, which in turn would slow the global economy since China has been the engine pulling the world out of recession. Then there were some weak U.S. economic signs, primarily in the jobs sector, which didn't help. And neither did Greece's debt problems, or the concern that the global stimulus measures may be curtailed. Essentially, it was one thing after another as the decline gained momentum.

INDUSTRIALS: The picture

With that in mind, we're going to step back and focus on the Dow Jones Industrials this month and see what it's telling us…

Looking first at **Chart 4**, you'll see the Dow Industrials going back to 1980. This is the big picture, which is the most important, showing that the Dow remains in a long-term uptrend that goes back to the early 1980s. For the past 10 years, however, the Dow has been trading in a sideways band. But as long as this major trend stays up, there's a good chance the Dow could still rise up to near its 2007 peak at around 14000, which would be very bullish.

CHART 4

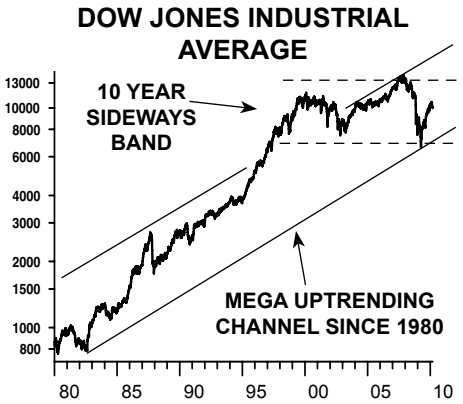
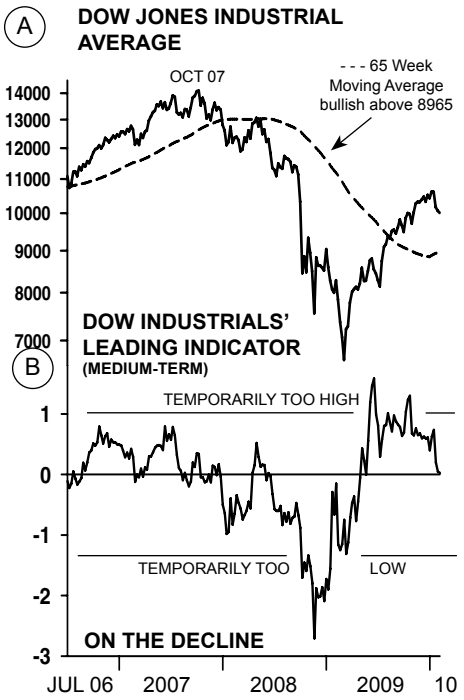


CHART 5



And if it can rise above that level, it would be extremely strong.

On the other hand, if the Dow were to break down below its 2009 low at around 6500, it would be extremely bearish. This would signal that the entire rise since the early 1980s is correcting, which could take the Dow down to levels you probably wouldn't even want to think about, but the technical rule

CHART 3

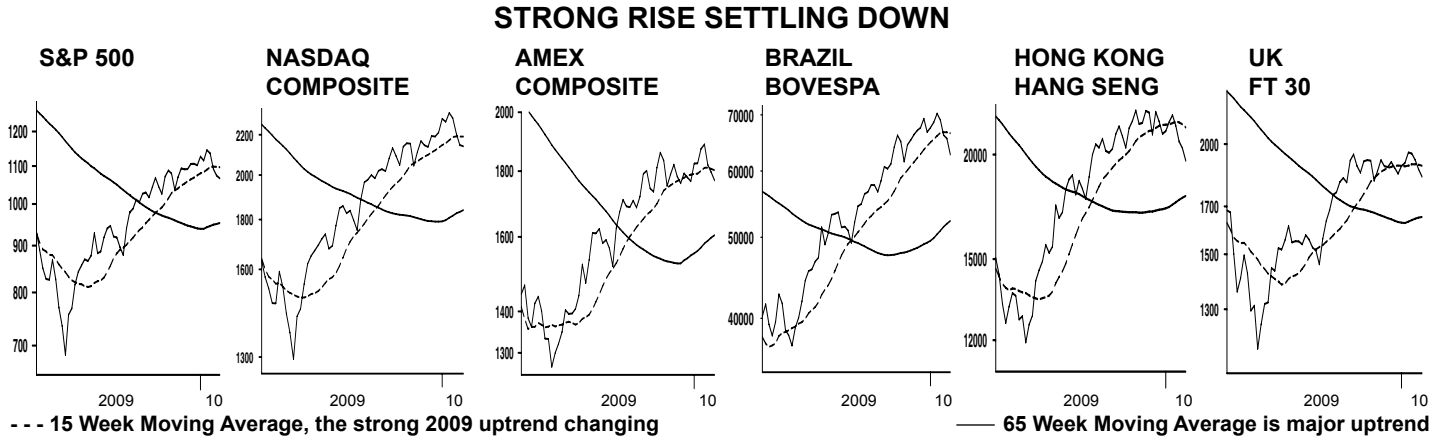
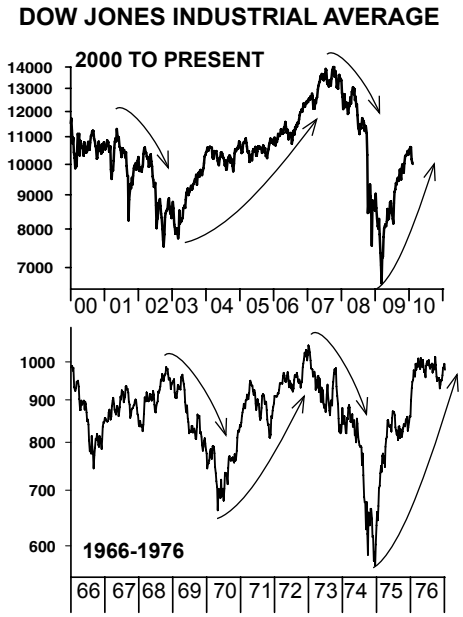


CHART 6



of thumb would be about half way down from the previous rise, which was from 1982 to 2007.

KEEP AN EYE ON...

If we next take a closer look at the Dow since mid-2006, you can see that if this worst case scenario were to happen, we would be completely out of stocks way before then (see **Chart 5A**). The major trend identifier is at 8965 and if the Dow were to decline and stay below that level, we'd recommend selling. For the other stock indices their major trend levels are at 952 for the S&P500, 1840 for the Nasdaq and 3460 on the Dow Transportations. So you'll definitely want to keep an eye on those numbers this month.

As our reliable leading indicator shows, this level could be tested (see **Chart 5B**). That is, this indicator is not yet temporarily too low, signaling the market could fall further. But as long as the Dow holds above the major trend levels, it'll be okay and ultimately headed higher.

As we've shown you in the past, the market action since 2000 has been very similar to the action between 1966-76 (see **Chart 6**). Back then, following the steep bear market in 1974, the stock market rose, it then corrected prior to surging to its old highs in 1976. If this pattern continues to repeat, we could see stocks surge following the current downward correction, like they did then.

BEAR TO TAKE OVER?

Many believe that the rise since March is a bull market within a larger bear market that started around 2000 with the bursting of the tech bubble. And that could be. If it is, these rebound bull markets have tended to last about 17 months on average. If that proves to be the case this time, then this bull market is clearly in its second half and it could end this Summer. And that's something else to be aware of.

Another situation that bothers the stock experts is that valuations are not cheap (see **Chart 7**). Going back to 1900, you'll note that based on the price/earnings ratio, stock values are historically at an in-between stage. They're not way overpriced, like in 1929 and 2000, but they're also not cheap, like in 1982. This leads many to believe that stock prices need to fall further, but essentially, they could go either way. We'll see what happens. But much will depend on the economy, and whether it continues to recover or not.

CHART 7

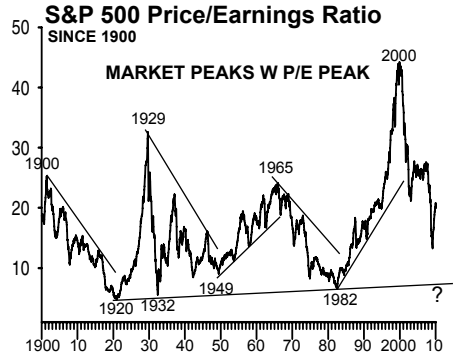
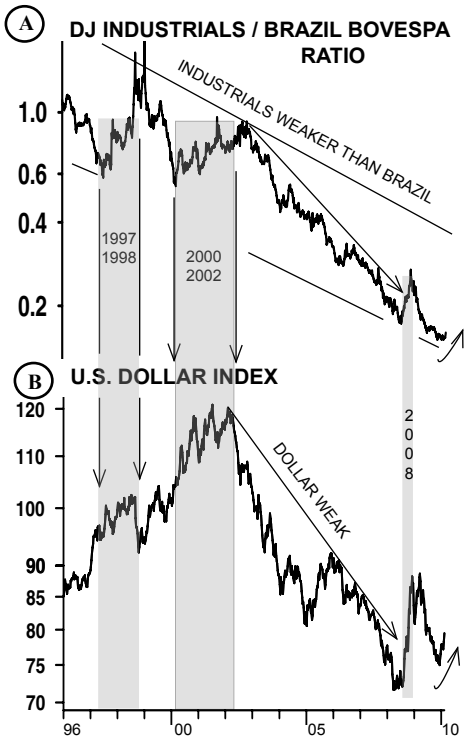


CHART 8



EMERGING MARKETS: Strongest

Meanwhile, the emerging countries are booming along. China's 2009 growth was almost 9%, for instance, while India grew nearly 8% for the year. This continues to be reflected in the emerging global stock market action. Last year, the 19 best performing markets were emerging markets, all gaining more than 50%. And it was the same story at the beginning of this new year.

As you'd expect, this is attracting attention and investors shifted $65 billion into these markets last year, with good reason.

Overall, the economies are stronger in the emerging countries and they have higher potential for further growth. They're also in better financial shape. And even though the MSCI world stock index has risen more than 70% since last March, its price/earnings ratio is still only 14 based on this year's prospective earnings.

For now, however, these markets are correcting too and they could decline further, especially if the U.S. dollar continues to strengthen (see **Chart 8A**). Using Brazil as the example, note that the Dow Industrials has been weaker than Brazil since the late 1990s. The exceptions were when the U.S. dollar rose, like in 1997-98, 2000-02 and 2008 (see shading). During those times, the Dow was stronger than Brazil and that could happen again in the weeks ahead.

Nevertheless, we advise staying with your stock positions because the major trends remain up. But don't buy new positions yet.

U.S. INTEREST RATES AND BONDS

Long rates near key mega level

Before covering interest rates, we have to discuss what's happening with debt in the U.S. Why? Because they go hand in hand and the situation has grown increasingly serious over the past year.

OVERPOWERING DEBT...

We all hear the debt is soaring, along with massive deficits. After a while, we become numb to the numbers because they are so huge. But to give you an idea of what we mean, consider the following...

Just two years ago, the federal deficit was only 1.2% of GDP. In 2008 it was 3.2%. But after all the spending due to the financial crisis, it has soared to 11% of GDP (see **Chart 9**, which goes back to 1930). As best we can figure, this level has only been reached twice in U.S. history and that was during the Civil War and World War I.

Okay, but what if this situation slowly normalizes like it did in those previous cases? That may be the case, but the situation this time around is different. It's not being caused by war but by social factors...

...GROWS TO THE SKY

Aside from the national debt now at over $12 trillion, the unfunded future liabilities are estimated at over $100 trillion. As one writer put it, "these are on autopilot, fueled by the ever rising costs to sustain Medicare, Medicaid and Social Security, the nation's three most expensive entitlement programs."

As we've discussed in the past, the bulging baby boom population is aging, which means these built in costs are going to soar even more. That's the current reality. It's also one of the main reasons why many experts feel that the worst case scenario we explained on pages 1 and 2 is inevitable, especially considering that this is the largest debt bubble in history.

But like we said upfront, the economy is improving. Despite these fundamental problems, many key factors are looking good. Manufacturing, for instance, is the strongest since 2004. Housing is now fairly priced and retail sales have been rising (see **Chart 10**). Producer prices are on the rise too and that would not be the case if recession or deflation were lurking on the horizon.

If this continues, a growing economy will help the fundamental debt problems but the real question is, by how much? For the answer, we'll simply have to wait and see.

Meanwhile, the other big question is, who's going to keep lending all the money that the U.S. needs? So far, it's essentially been foreign investors but there are many signs that investors are losing their appetite for U.S. government debt. Last year, foreigners only brought about 33% of U.S. Treasuries.

CHART 10

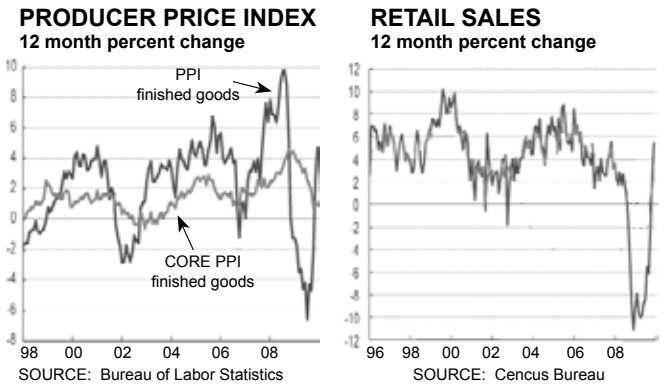
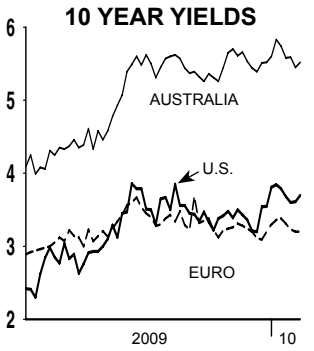


CHART 11



LONG RATES RISING

That's one reason why the 30 year yield, which is a free market rate, has risen 2% over the past year. Very clearly, investors are demanding a higher interest rate to keep investing in long-term U.S. government bonds. Since other countries like Australia are paying a much higher interest rate, it makes U.S. debt far less attractive (see **Chart 11**).

China, for example, has huge reserves of $2.3 trillion and 70% of that is in U.S. securities. In other words, about half of the deficit is owed to China and it's no secret that China is now diversifying.

China knows they have too much U.S. debt so they're buying gold, other resources and they're investing in dozens of other countries, as well as in the U.S. This is actually happening all over the world.

CHART 9

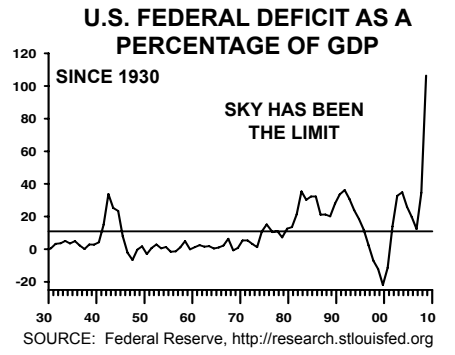


CHART 12

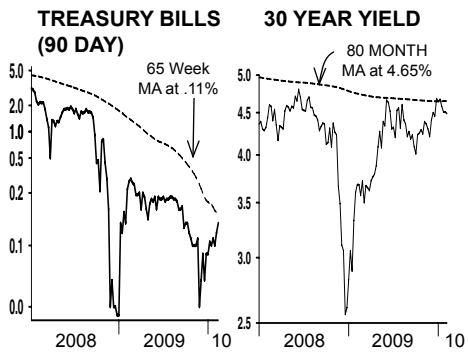
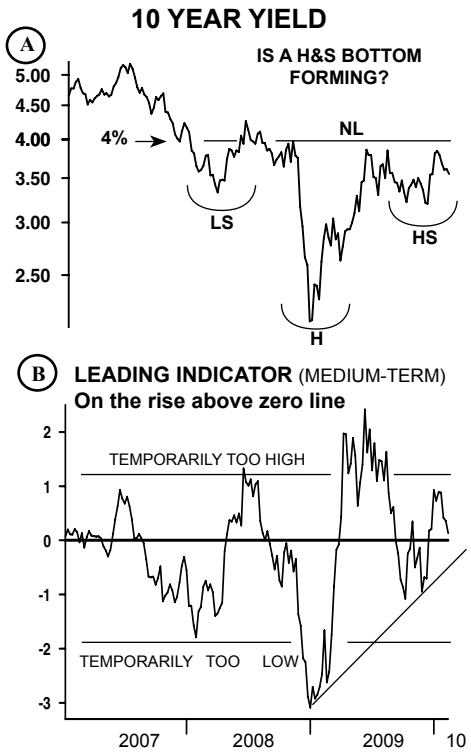


CHART 13



Even Pimco, the world's largest bond dealer, announced they were going to avoid U.S. bonds this year and diversify into foreign bonds.

Again, this is not surprising considering the U.S.'s fundamental problems and the fact that last year bonds experienced their worst performance in 30 years.

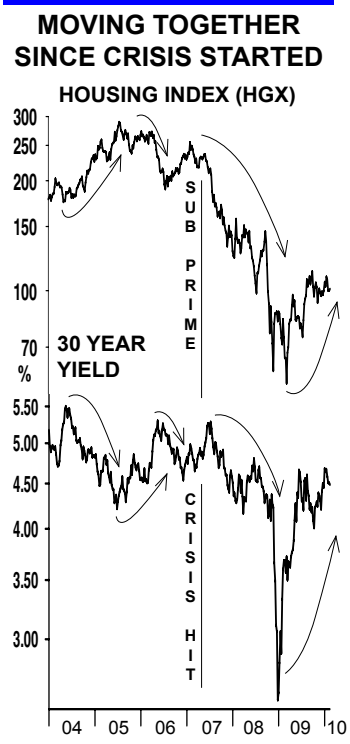
VULNERABLE BONDS

Bond investors aren't stupid. They see what's going on and they're moving toward the exits. They know that Bernanke's new four year term will result in more money creation and zero interest rates, which will eventually result in big inflation. Whether we see a double dip recession before or not isn't really so important.

The fact is that the Fed's policies are super inflationary and sooner or later this will become obvious. This is a long-term process, but it will happen.

How will we know when it's happening? As we've often discussed, the 4.65% level on the 30 year yield will be our guide (see **Chart 12**). This 80 month average is super long-term and it identifies the mega trend. If the bond yield rises and stays above that level, it will mark the final confirmation that big inflation is coming, the decline in rates that began in the early 1980s is over and interest rates are going much higher for years to come.

CHART 14



This will be reinforced if the 10 year yield also rises and stays above its neckline (NL) resistance at 4% (see **Chart 13A**).

RATES ARE KEY

Interestingly, the housing index and the 30 year yield have been moving closely together ever since the financial crisis hit (see **Chart 14**). If rates move sharply higher, we're not sure this relationship will continue. It may for a while, but not if a mega trend change happens and rates start moving up sharply in the years ahead...

These are indeed interesting times and the story is still unfolding. One thing, however, is certain... if the mega trend turns up, bond prices will fall steeply and we'd recommend selling any government bonds you're now holding. At that point, we'd also short bonds or buy a fund that rises as interest rates move higher.

For now, sit tight and continue to watch these very important levels for signs as to what lies ahead.

CURRENCIES

U.S. dollar: Rising in a rebound

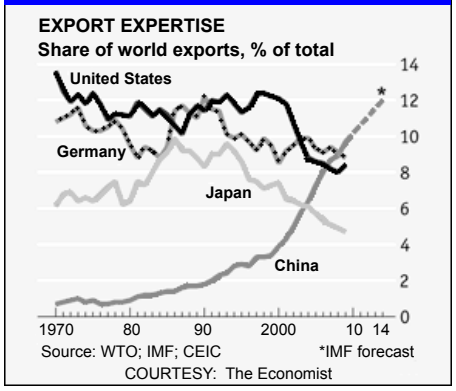
The U.S. dollar moved higher this month and, the main reason why was risk aversion. We've seen this happen before, most recently during the financial crisis of 2008...

U.S. DOLLAR: Safe haven

When investors grow concerned about the global economy, they avoid risk and turn to U.S. dollars as a safe haven, and that's what's been happening. Why?

One of the main reasons was China (see **Chart 15**). As we pre-

CHART 15



viously mentioned, China's been the growth engine for the world economy. Its demand for commodities and other natural resources helped propel many markets higher and this created a general feel-good attitude about the future.

So when China recently announced measures to tighten things up a bit, it made investors nervous. This decreased the demand for riskier assets like stocks and currencies. The commodity currencies like the Australian dollar were

the most affected because they're closely linked to China.

Risk aversion drove these markets lower as the currencies were sold off and it drove the dollar higher. We know it doesn't make sense, but with all of its debt and deficits, the U.S. is still considered a safe haven. That's the way the markets see it and we have to go with this reality... When push comes to shove, investors still want U.S. dollars (see **Chart 16A**).

U.S. DOLLAR MEGA TREND DOWN

As you know, the U.S. dollar has been falling for nearly 40 years, but that doesn't mean it's been a non-stop drop. Like any market, there are times when the dollar rises, like we saw in the late 1990s, and again in 2005 and 2008.

Since 2000, however, these upward rebounds in the dollar haven't amounted to much. The dollar was unable to break above the mega trend average, now at 84, and that'll probably be the case this time too. If so, the dollar's major trend will remain down and bearish. And since the dollar's leading indicator is not yet at a major low, this also reinforces the dollar's negative

CHART 17

DOLLAR & INTEREST RATE SPREAD

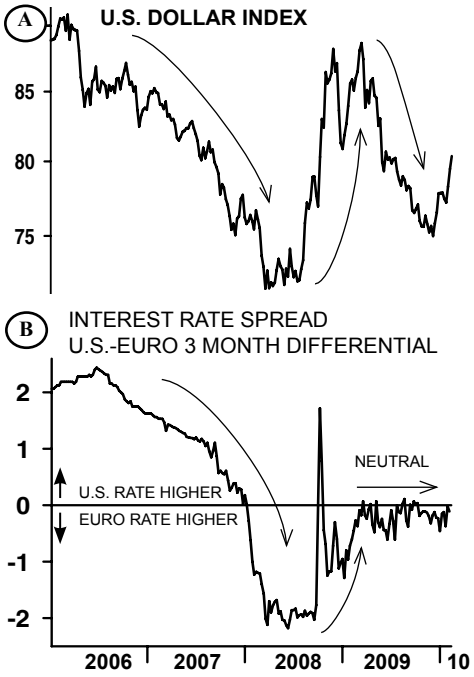
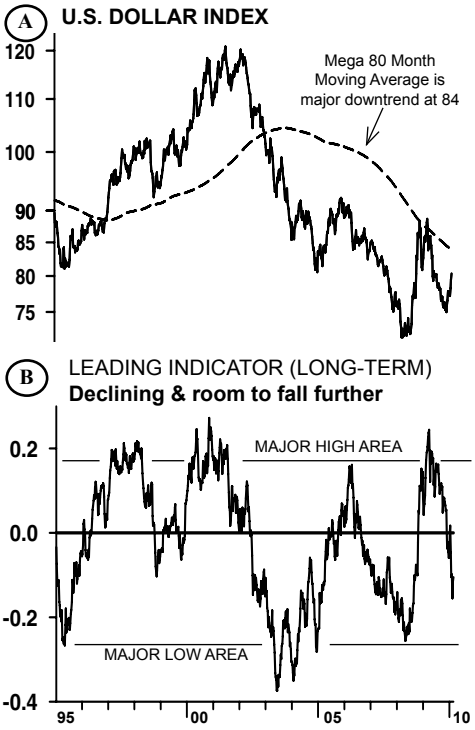


CHART 16

DOLLAR: Bear market bounce



fundamentals and tells us that the dollar will likely resume its downward path once the current rebound rise is over.

RATES ARE KEY

One factor that would push the dollar up is a change in the Fed's policy, especially in regard to interest rates. Higher U.S. interest rates compared to the euro rate, for example, has tended to coincide with a stronger dollar (see **Chart 17**). When the difference between these two interest rates was declining, the dollar has weakened.

Over the past year, the differential has been neutral, slightly favoring the euro, and the dollar has declined. But the Fed recently stated yet again that they would keep interest rates "exceptionally low" for an extended period. That in turn is going to keep downward pressure on the dollar, despite its recent bear market rebound.

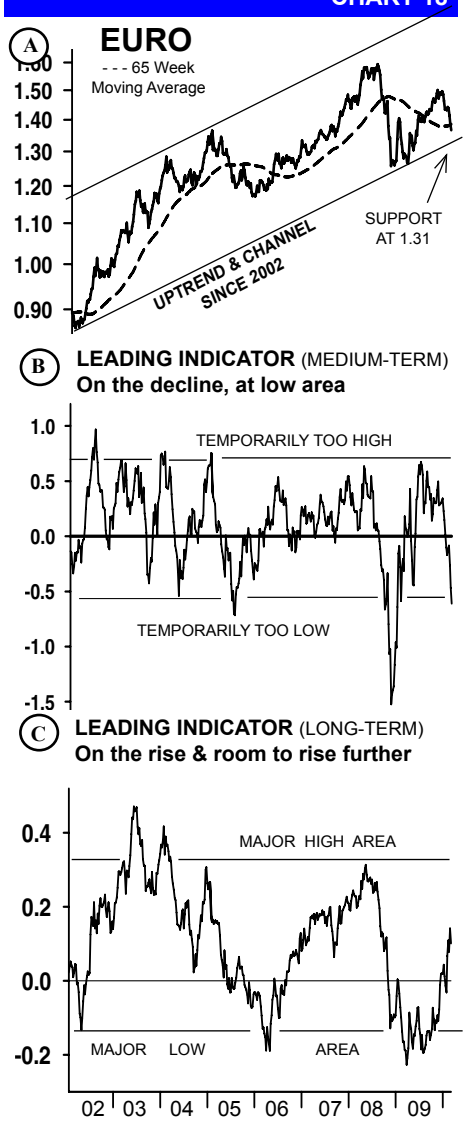
Plus, it doesn't help that various countries are becoming even more outspoken than they were before about putting an end to the U.S. dollar's global dominance. Most recently, French President Sarkozy has been complaining the loudest. He says the dollar's weakness is unacceptable. The world monetary system must become multi-monetary, he says, and a dollar based system doesn't make sense any more.

EURO HIT HARD

Meanwhile, the euro has been having its own problems. Even though Greece only makes up 2% of the European Union, its financial problems have weighed heavily on the euro, with Spain and Portugal following (see **Chart 18A**). Some sluggish economic signs also added to the downward pressure.

Note that the euro recently slipped below its moving average at 1.386. If it holds above or near

CHART 18



it, the major trend will remain up and bullish, signaling the euro is headed higher once this downward correction is over. If the euro falls further from here, then its next important support would be at the uptrend since 2002, currently at 1.31.

We don't expect the euro will decline to that level. The main reason why is because the euro's (medium-term) leading indicator is now at a temporarily too low area, which means that this downward correction is nearing an end. At the same time, the long-term indicator has room to rise further before it reaches the major high area (see **Charts 18B** & **C**). This also signals that the euro is going higher following its current breather.

So like we've been saying, keep the currencies you have because the major trends are up, but don't buy new positions yet. We'll take advantage of weakness to buy new positions in the near future.

METALS, NATURAL RESOURCES & ENERGY

Gold's bull market turns 9 years old

Gold, silver and the metals group are coming down from their January highs, on the eve of gold's nine year bull market run. Considering the gold price has had nine consistent yearly gains, and it's still above $1000 is a feat in itself. Gold's bull market is solid, a new phase has begun and it's currently declining in a sharp, yet normal downward correction.

Corrections tend to cause fear. And considering the volatility we've seen in recent years, the fear level rises fast. The word bubble is the buzz word, and it's understandable since we've had so many over the last decade. The tech bubble was followed by the housing bubble, the credit bubble, and the debt bubble that continues to grow.

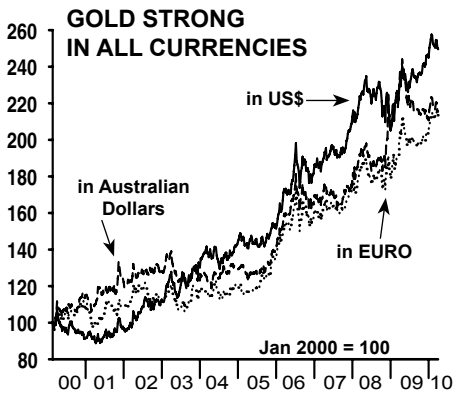
The debt bubble is an ongoing reality; it's international in scope and it's the biggest ever. This is hanging over our heads and over the markets, and it isn't going away, it's just getting bigger.

GOLD RISES WITH UNCERTAINTY

Debt monsters of the past have tended to end in deflationary depressions, but it's important to understand that gold can rise in this kind of environment. Remember, gold rises during economic uncertainty. In the early 1930s, for example, during the Great Depression, President Roosevelt raised the price of gold almost 70% from $20.65 to $35 an ounce in a struggle to bring back inflation.

Gold is money. It's the currency of last resort when monetary times are difficult. So when gold rises in all currencies, as it's been doing for several years, you know the rise is enduring and superior (see **Chart 19**). So even though gold has no yield or earnings to measure like the other markets do, it has true value.

CHART 19



The central banks are flooding the markets with their own currencies, and competitive devaluations will continue to grow. Many countries depend on exports for economic survival. This means the best price in the current deflationary environment wins, which is what a cheaper currency does.

This situation originally started with globalization and it's bullish for gold. The U.S. is still in a delicate situation. It needs a weaker dollar to compete and stimulus measures must continue, which are both ultimately bullish for gold.

This is one important reason why we do not think gold or commodities are in a bubble. We believe they are rising within a mega trend that could last several more years, perhaps a decade.

Some say that China is in a bubble and if they are, the demand for commodities will fall. China may be overheated but we don't think it's in a bubble. Their growth, even if it's only a part of what they claim, is solid.

DEMAND IS GOOD

Commodities are in demand and this continues growing with each passing month. China is the engine for demand. It's the biggest consumer of many raw materials, like aluminum, copper and iron ore. In fact, just last month the number of iron ore and coal ships hired to carry cargo to China jumped 38%.

Rio Tinto, the second largest resource company in the world, forecasts that China's consumption will be more than double by 2020. That's only 10 years away.

China and other countries are also buying gold. It currently only makes up about 2% of the reserves in emerging markets. With the average being 10%, there is interest and a need to continue adding gold to their reserves.

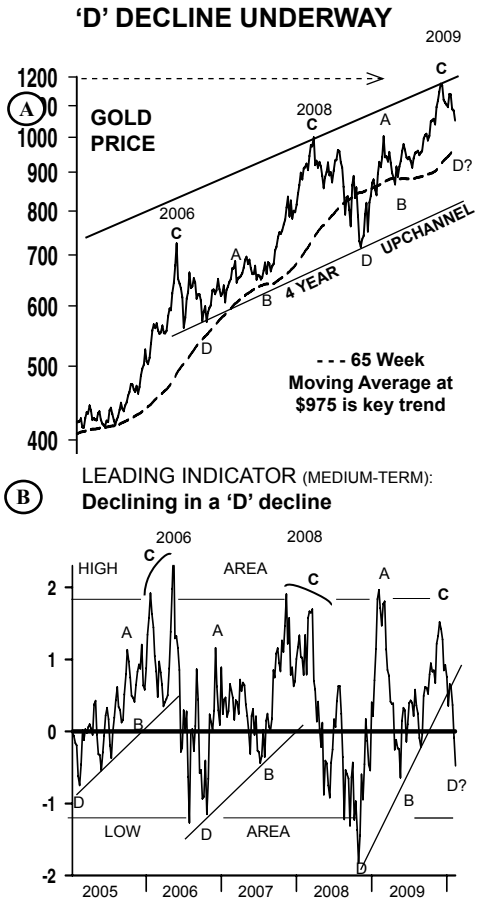
Aside from central banks, last month we mentioned that mutual funds are adding gold to their portfolios as well. This month, the second biggest U.S. public pension, the California State Teachers retirement system, is considering investments in commodities in order to boost returns and provide a hedge against inflation.

Yes, gold is slowly making its way into mainstream investing, in large part thanks to the Exchange Traded Funds, ETFs. They have made it easy to invest in gold and commodities.

GOLD AND INTEREST RATES: A correlation

Low interest rates are good for gold because it takes away the advantage of holding currencies. Since gold does not pay interest, so the theory goes, the competition is removed. Negative interest rates, as we now have, are even more bullish for gold.

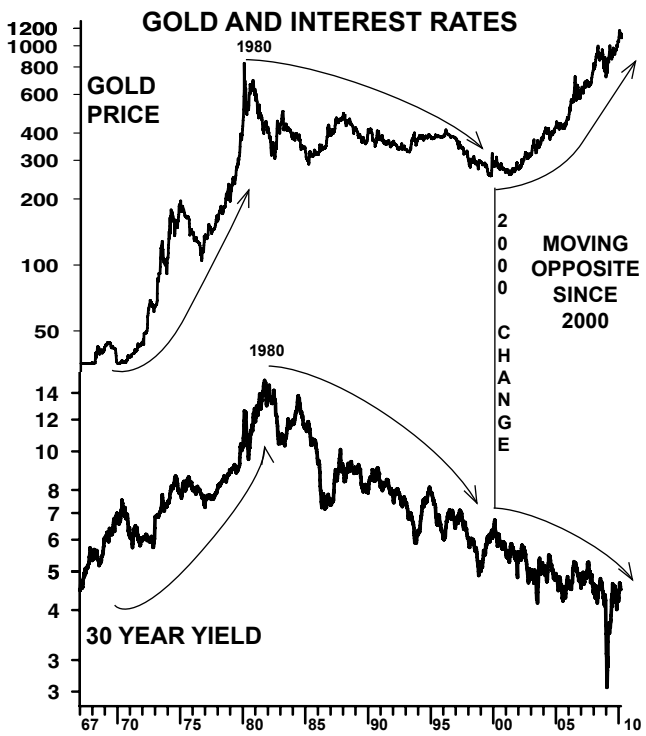
CHART 21



But that wasn't always the case. **Chart 20** shows you the gold price with the 30 year yield since 1967. Here you can see that gold and interest rates used to clearly move together during the 30+ years leading up to 2000. In the 1970s, gold and interest rates rose together while the dollar fell. Then from 1980-2000 they both fell together.

This all changed in 2000 when they started moving in opposite directions, and it continues to be the case today. The start of the new century coincided with a change in market relationships. It's now to be seen if this correlation will revert back. When interest rates rise with gold, it's indirectly saying that higher interest rates are not enough to stabilize or strengthen the dollar. This could happen again going forward.

CHART 20



For now, since rates are historically low around the world, and global liquidity continues to flow, this easy environment is positive for real estate and construction, and therefore it's good for commodities. But once rates begin to rise, it'll have an impact on the currencies, gold, as well as the stock market.

We're watching this closely because we are getting closer to the moment of truth. Currently, rising rates would be bad for gold and other assets, while good for the dollar... but for how long is the question.

Debt and how it's handled will be the driving force in the markets looking out to the years ahead. And interest on the debt, compounded, will be the biggest problem.

This is why there are so many doubts that the economic recovery will be sustained. The commodities, metals and energy fell sharply in recent weeks on concern that rising job losses in the U.S., and mounting debt in Europe, will slow economic growth and, therefore, curb demand.

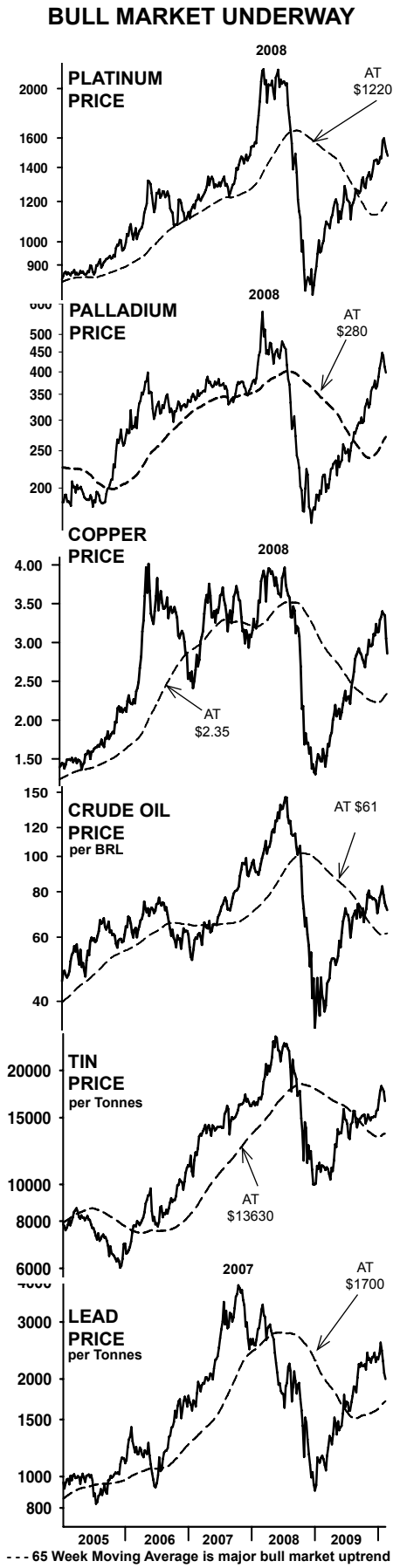
BAD NEWS COINCIDES WITH DECLINING MARKET

Interestingly, this type of news becomes more common when the markets are due for a downward correction anyway. The great rises in the metals and crude were overextended and they've been poised for a downward correction.

With copper being the global economic barometer, the fact that it fell sharply, closing below its 15-week moving average for the first time since the rise began a year ago, provided a good example of bad news hitting an overextended market. A bull market decline is now underway.

Gold is a good example too. Its seven month rise that peaked in November, we call the C rise, was a bullish one that had reached maturity. By gaining 40% and meeting

CHART 22



our original target level, we knew the bulk of the rise was over. By falling below $1090 several weeks ago, it confirmed that the C rise was indeed over. No second peak this time around, which is fine in the scope of the big picture.

GOLD: "D" decline underway

A D decline is now underway. These declines tend to be the sharpest intermediate declines in a bull market, and so far this one is following the pattern. **Chart 21** shows that gold's leading indicator (B) declined clearly below its uptrend and it could now fall to the low area while the gold price itself stays under downward pressure.

The $1000 level is a key support area, which is near the prior C peak in 2008. The 65-week moving average, now at $975 is rising and it's set to reach the $1000 level in a few months, which will further reinforce the support at $1000. For now, $975 to $1000 is the strong support level for gold.

Interestingly, gold at $975 would be a 20% decline from the November $1218 peak. The worst D decline so far in the current bull market was in 2008 during the meltdown. Gold fell almost 30% from March to November. This was an extreme case in an extreme situation. A decline to the $950 level would be similar to the 2006 D decline, which was the second worst decline since 2001.

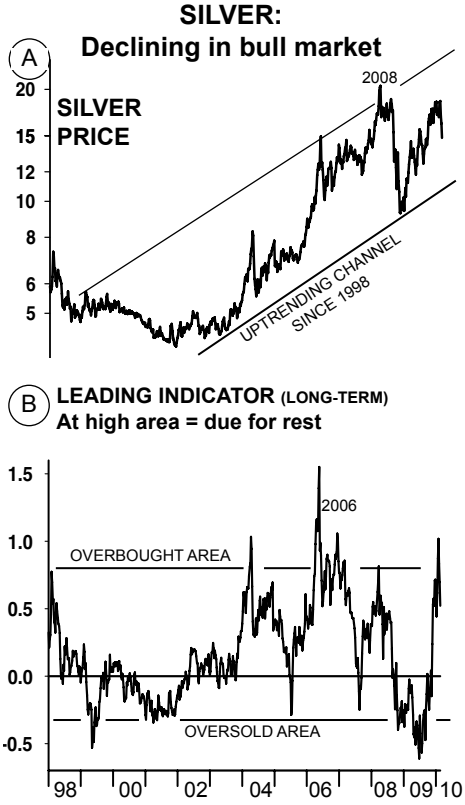
In other words, the extent of the decline is about half over. As for timing… since 2004, the D declines have been lasting twice as long compared to the first years of the bull. This means we could see the decline end any time from here on out, if it's on the shorter end, but more likely it could last until April.

Pressure is likely to stay on gold and the metals for the time being, which means it's time to take advantage of weakness by adding or buying new positions over the coming months. Gold will remain under downward pressure by staying below $1110.

SILVER, PLATINUM, PALLADIUM & GOLD SHARES: Pressure is on

The gold price was the only precious metal to reach a new record

CHART 23



high over the last three months. Silver, gold shares and palladium approached their 2008 highs during their impressive upmoves of the past year (in much better rises than

CHART 24

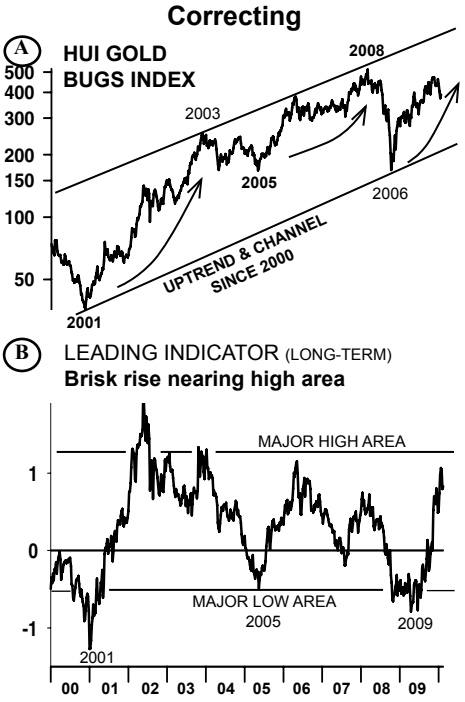
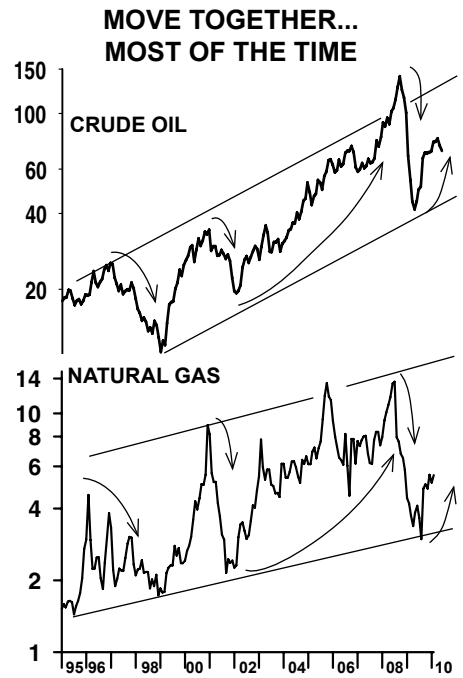


CHART 25



gold's), yet they failed to surpass it (see **Charts 22**, **23A** and **24A**).

This tells us that these markets are moving more in tandem with the resource sector (see the rundown on **Chart 22**). The resource-raw materials area suffered during the global slowdown. But their brisk rise of the past year reflected the growth in the emerging markets. China and India's demand remain strong, which will continue to bode well for this sector.

Platinum has been rising sharply. The booming car sales in China have pushed along this rise as it's used for catalytic converters. The new ETFs in both platinum and palladium have increased sales as well.

It's still to be seen if we'll end up having a U,V or W type global recovery, but the resource sector will certainly give us a clue. The "clue" now is that it's likely to be a U because this sector is taking a decent rest following its strong 2009 performance. If the world economy slows, so will demand for commodities.

Looking at the indicators for a clue, **silver** is likely to remain under pressure with gold. **Chart 23B** shows that silver is overbought, the most since 2006. This means further weakness is likely and it's vulnerable by staying below $17. Keep an eye on $14.40 as silver's major trend is up above this level.

Gold shares are different. While the HUI's leading indicator is near a major high area, it still has room to rise further, which means we could see gold shares stabilize (see **Chart 24B**). Watch 356 as gold shares are stabilizing above this level. It will be vulnerable, however, below 430.

The 65-week moving average is most important for the metals and shares. **Chart 22** shows you the key average for the various metals and oil. As long as they stay above these levels during further weakness, the major trends will remain up. This would mean two things... that the major rise will continue in the years ahead, and use this weakness to your advantage by buying over the next several months.

ENERGY: Oil is king

Crude oil's future looks bright (or should we say bad for us consumers). It is the main source of energy in the world, and while alternative sources will grow over time, there is nothing to replace oil looking out to the years ahead. Oil is the bloodline of the world.

Using oil and natural gas as an example, you can see on **Chart 25** that they both tend to move together on a major trend basis. But natural gas has not been as strong as oil over the last few years. Natural gas may eventually catch up, but for now other energy sources have taken a back seat and they're underperforming crude.

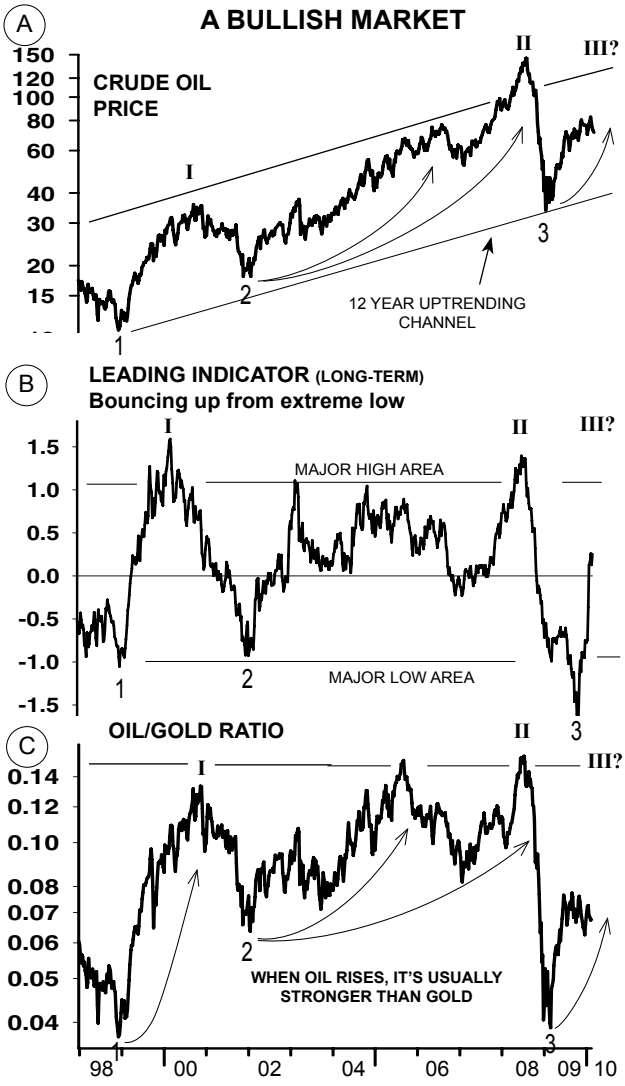
Chart 26 shows a closer look at oil. Note that it's been rising from a major low area for the third time since 1999 (see 3 on **Charts 26A** & **B**). This tells us that the upside is open and oil has plenty of room to rise further before it reaches the high area that normally coincides with peaks in the oil price.

Oil is also still low compared to gold. Note that the ratio (C) remains in a low area, but it's on the rise suggesting that oil will likely continue to outperform gold as it has for a year now.

For now, oil is softening with the resource sector and it could stay under pressure a while longer. Watch $76 as crude is vulnerable below this level. But if it stays above $69, it will be stable and firm. The major trend will remain up even if oil declines to $61.

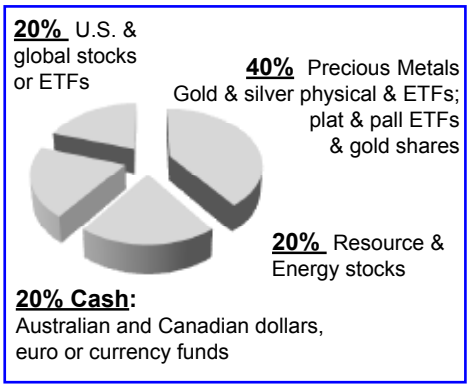
The energy and resource shares have given up about 10%-20% from the highs. We recommend keeping the shares listed on page 12. Most are now oversold, but don't buy new positions just yet.

CHART 26



OVERALL PORTFOLIO RECOMMENDATION

Just as the new year started off with a bang, in January the markets, that is U.S. and global stocks, metals, commodities and currencies, began correcting downward following their stellar rise in 2009. The markets were overextended and the corrections so far are healthy ones within solid bull markets. It's now to be seen how steep these corrections end up. Our open positions are mostly near oversold levels. We recommend keeping them, and using weakness to buy new positions or add to the current ones, but not just yet. Keep an eye on our weekly updates, as we'll guide you along.



STOCK MARKET RECOMMENDATION

The U.S. and global stock markets are finally declining in a normal downward correction. Most of the markets have been overbought and this decline is so far taking away the excess. The market is poised to decline further, but as long as the major trend is up, we will stay invested. If you took some profits as we suggested last month when the Industrials closed below 10200, then stay out. Otherwise, keep your positions unless the Dow Jones Industrials closes and stays below 8965. Do not buy new positions yet. Let's watch the market first.

PRECIOUS METALS, ENERGY, RESOURCE & THEIR SHARES RECOMMENDATION

The metals and resources came down this month from their January highs in a normal downward correction following their great rises. Gold's seven month long C rise is clearly over and a D decline is underway. This weakness could last a few more months, but even if gold declines to the $975 level, the major trend will remain up.

It's important to focus on the big picture during corrections. The major trends are solidly up and we will stay invested for as long as they last. The whole sector has great potential to rise to much higher levels in the coming years. Keep your positions (shown on the right) but let's wait a while longer before buying new positions. We'll take advantage of this period of weakness to buy new positions.

INTEREST RATE & BOND RECOMMENDATION

Interest rates remain near a critical juncture. The important numbers to watch this month are 4.65% on the 30 year yield and 4% on the 10 year. If the yields rise and stay above these levels, especially if the 30 year yield rises above 4.75%, it will signal a mega trend change, indicating interest rates will eventually go much higher for years to come, while bond prices plunge. If the yields stay below these levels, we'll likely continue to see more of the same. For now, sit tight and don't trade one way or the other. If you're currently holding bonds, keep them for the time being.

CURRENCIES RECOMMENDATION

The U.S. dollar moved higher this month, regaining its role as a safe haven. This drove the currencies down as risk aversion returned to the markets. But the dollar's fundamentals continue to worsen and its major and mega trends remain down by staying below 84 (on the U.S. dollar index). This means the dollar will likely resume its downward path once the current rebound rise is over. The euro was hit hardest due to the financial problems in Greece. The major trends are up for the major currencies but they're all experiencing downward corrections. The commodity currencies held up the best. Once these corrections are over, all indications point to ongoing currency rises. So keep the currencies you have, but don't buy new positions yet.

Note: All of the shares, funds and ETFs are listed in order of strength in each section. Buy new positions in the strongest ones. The gold and silver ETFs are listed in bold.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Silver Wheaton	SLW-NYSE
Eldorado Gold	EGO-AMEX
iShares Silver Trust	**SLV-AMEX**
SPDR Gold Shares	**GLD-NYSE**
iShares Comex Gold	**IAU-AMEX**
Physical Platinum	**PPLT-NYSEArca**
Physical Palladium	**PALL-NYSEArca**
Central Gold Trust	GTU-NYSE
Iamgold	IAG-NYSE
Central Fd of Can	CEF-AMEX
Mkt Vectors ETF	GDX-AMEX

RESOURCE & ENERGY SHARES

BHP Billiton	BHP-NYSE
iShares Tr Glbl En	IXC-NYSEArca
Diamond Offshore	DO-NYSE
RioTinto	RTP-NYSE
Arcelor Mittal New	MT-NYSE
Peabody Energy	BTU-NYSE
Suncor Energy	SU-NYSE
Freeport McMoran	FCX-NYSE
US Steel	X-NYSE

U.S. & GLOBAL STOCKS

SPDR Consumer Dis	XLY-NYSEArca
Prshrs Dynamic Soft	PSJ-NYSEArca
iShares S&P Tech	IGM-NYSEArca
Nasdaq ETF	QQQQ-Nasdaq
Dow Diamonds	DIA-NYSEArca
iShares S&P Glbl Tech	IXN-NYSEArca
Templeton Emg Mkts	EMF-NYSE
iShares Mexico	EWW-NYSEArca
iShares Malaysia	EWM-NYSEArca
iShares BRIC	BKF-NYSEArca

CURRENCY ETFs & FUNDS

Australian Dl Tr	FXA-NYSE
Canadian DL Tr	FXC-NYSE
Franklin Temp Hard	ICPHX-NSDQ
Merk HD Cur Inv	MERKX-NSDQ
Euro Currency Tr	FXE-NYSE

