THE
ADEN FORECAST
MONEY • METALS • MARKETS

FEBRUARY 2011 *our 30th year*

BUBBLING MARKETS...

The markets have been exciting this month. Stocks, the metals and interest rates all moved up and the implications could be far reaching.

We are living in fascinating times. As this new year unfolds, dramatic changes are taking place and the effects of this will also likely be widespread. We'll be covering many of these points in this month's issue, but first let's review the big story…

EGYPT... JOY & UNCERTAINTY

Currently, all eyes are on Egypt. As you know, tensions had been building for days and a big change has now taken place. Despite the joy in the streets, some people are still nervous because so many unanswered questions abound…

Will this process truly result in a peaceful democratic transition, or an Iranian type change? Could Egypt's example ignite similar protests throughout vast portions of the Middle East? What happens now that Mubarak is gone?

INSIDE

As usual, opinions are all over the place but no one really knows what's going to happen, which is exactly what makes the situation uncertain.

STARTED IN TUNISIA

What we do know is that the area is a tinderbox. It all started in Tunisia, a small North African country that generally goes unnoticed. The high price of food triggered riots, which then became political, resulting in the overthrow of their leader.

This in turn inspired the Egyptians and they followed suit, but there's much more…

In recent months, unrest or disturbances have been breaking out in many other Middle Eastern and African countries, like Yemen, Jordan, Syria, Algeria, Sudan, Oman, Morocco, Mauritius, Madagascar and Mozambique.

HIGH FOOD PRICES: Trigger

In nearly all of these cases, soaring high record food prices fueled the uprisings (see **Chart 1**). This is essentially what happened in 2008 when food riots erupted in about 30 countries due to surging prices, and it's happening again, creating political instability.

The U.N. has been warning about this for months and so have other experts. As Marc Faber points out, "We have money printing around the world, and particularly in the U.S., that has led to very high food and energy prices and inflation. In low income countries, energy and food account for a much larger portion of personal disposable income than in the U.S."

The facts indeed back this up. In India, for example, food costs take up about half of a person's budget expenses. In China, it's about 35% and the story is similar in other emerging countries.

The common definition of inflation is rising prices. These countries are, therefore, feeling the heat of inflation first before it becomes more apparent in the rest of the world, and you can understand why.

The price of corn alone has soared about 95% since June. In fact, nearly all of the food commodity prices are soaring. This puts pressure on people all over the world because it reduces their purchasing power. The next thing you know, they're blaming the government and in most cases it's a government they've been unhappy with anyway.

That's basically how a situation snowballs and there's no telling what the final outcome will be while it's happening.

UNEMPLOYMENT & POVERTY

In Egypt's case, unemployment is massive and nearly half of the people are living in poverty. The trigger was pulled and the protests began. But the protests were strongly energized and became far more widespread following the

interview by the young Google executive, who had recently been released from prison.

Describing his ordeal, he became the hero of the revolution. The people were demanding immediate change and everyone joined in…young and old, workers, professionals, housewives and so on.

This broad population range leads many to believe that there's no cause for concern. Egypt is different, they say, and after all, the protests were against a totalitarian regime that's been in force for 30 years.

And while this is true, there's also concern about who will fill the void once the regime changes. For now, it's the military, but the Muslim Brotherhood is the main opposition group and their statements have ranged from the creation of a Muslim state to political openness and neutrality.

Time will tell but the doors are open and it'll be extremely interesting to see who fills the void, what happens throughout the area and of course how the markets react to all of this.

UNKNOWNS BECOME KNOWN

What we find so fascinating is that this rapid turn of events is also coinciding with many other important factors, which we've often discussed.

In just last month's issue, for instance, we mentioned that it'll be interesting to see how all of the crosscurrents that are currently taking place work out in 2011. And this month a lot of the unknowns started to became more evident.

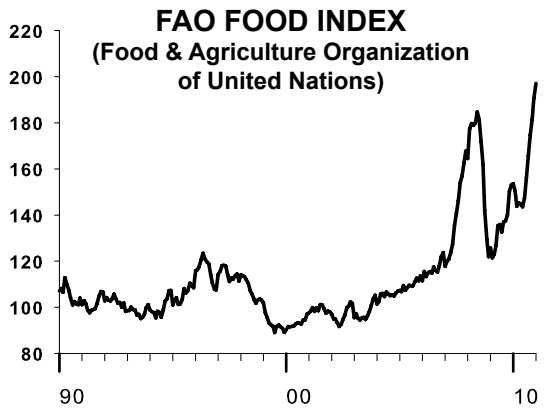
That's much faster than we expected but again, we'll have to see how events unfold and, most important, what the markets are telling us. Like always, they'll be our guide and when the markets don't make perfect sense, remember that they look ahead, and all of the reasons why will become obvious in time.

QE2 BOOST

For now, we know that the Fed is still stimulating the economy via QE2 and this alone is creating tons of new money, which is inflationary. That's why commodities are hitting record highs.

Despite what Bernanke says, inflation pressures are building worldwide and as you'll see in this month's issue, interest rates are already reacting and confirming this.

CHART 1



Money creation is the direct cause of inflation and we're now seeing it first hand, along with the political repercussions. All of this simply amplifies uncertainty in the world, which is a huge factor in moving the markets.

GOLD & UNCERTAINTY

Gold and the other metals, for example, have suddenly turned up. As you know, gold is the best hedge against uncertainty.

Does this mean that gold's intermediate decline we call D is over? We don't know yet. We need to see more but if it is, it'll mean that the gold market has become incredibly powerful and there's no turning back.

That'll be especially true if events in the Middle East intensify because it'll give gold yet another huge reason to move higher because it's also the global safe haven.

These factors and many more will keep downward pressure on the U.S. dollar. It's been struggling and it looks like this is going to continue.

But in times of global uncertainty, the dollar is often viewed as a safe haven too. Meanwhile, the dollar's bearish fundamentals and uncertainty seem to be in a tug-of-war and it's hard to say what might happen in the near-term.

Over the long-term, however, there's little doubt that the dollar is going to fall much further and we'll review many of the reasons why in this month's Currency section.

As for the stock market, it's enjoying the sea of newly created liquidity. That's been the driving force sending the market so much higher.

For now... so far, so good. The stock market is not focusing on events in the Middle East. It's looking ahead and it likes what it sees. This obviously won't last forever but it's doing very well for the time being.

For more on all of these crosscurrents and how they're affecting the markets, read on…

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U.S. & WORLD STOCK MARKETS

U.S. market stronger than emerging markets

The stock market just keeps on rising. Fueled by a stronger economy, more positive sentiment, and lots of money and liquidity, it's doing great.

The U.S. stock market is hitting new bull market 2½ year highs. It's outperforming many of the emerging markets, which were previously stronger. But that's not the case for now.

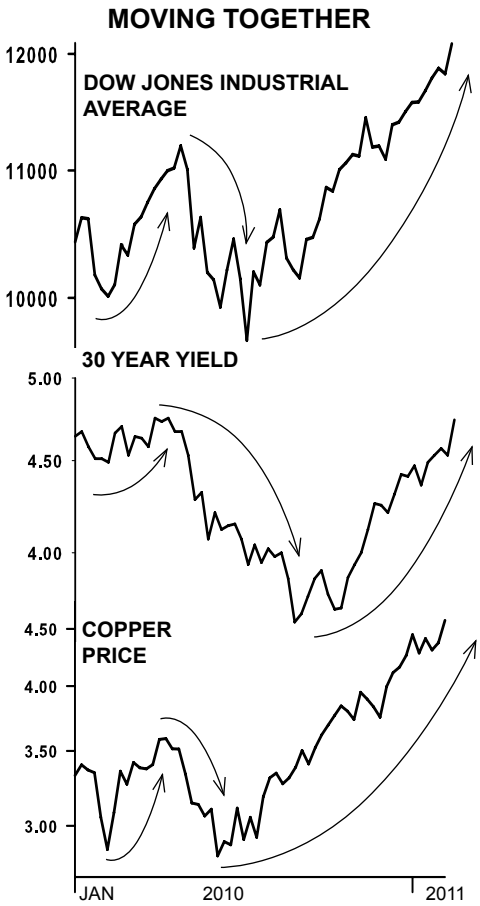
EMERGING MARKETS: Taking back seat

The U.S. stock market is surging and by outperforming, it's starting to attract more attention (see **Chart 2**). This month, the Dow Industrials broke above the 12000 mark, which was a big deal. Plus, the emerging markets are having troubles.

Unfortunately, investor sentiment tends to put all of the emerging markets into one category which is unfair. Nevertheless, that's the reality. So the unrest in Egypt, for instance, not only sent the Egyptian stock market sharply lower, but other emerging markets were pulled down too.

As we just pointed out, rising food prices are hurting many of the emerging countries. Their stock markets are, therefore, reacting accordingly and so far many of these markets have been sputtering as the year unfolds (see Brazil and China as examples).

CHART 3



That's because inflation pressures are going to result in higher interest rates to cool things down. And no matter what country you're talking about, rising rates are not good for stocks, which is currently making these markets less attractive.

U.S. & EUROPE: Some of best

In comparison, the U.S. and Europe are looking pretty good. In both cases, their economies are growing, inflation is still low and growth prospects are bright.

In the U.S., for example, the index of leading economic indicators surged this month, signaling the economy will continue to do well in the months ahead. Confidence is rising, consumer spending is up and unemployment is coming down.

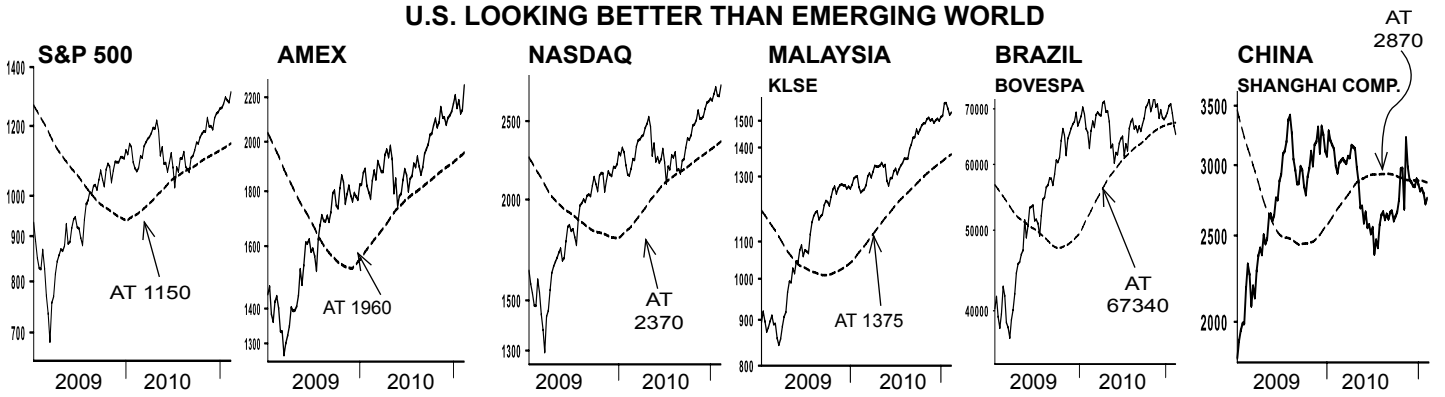
The general feeling is that the worst is over and better times are coming, which is all good for the stock market.

This sentiment is similar in Europe. Plus, with the Middle East and other emerging markets generally more uncertain at the moment, it simply makes the developed world a more attractive option.

CHINA: Raising rates

Let's take China as an example. Even though their economy has been super strong for decades, rising interest rates are keeping a lid on their stock market. Eventually,

CHART 2



this will happen in the U.S. too but this could take some time.

U.S. interest rates (long-term) are now starting to rise in an important way, despite the Fed's ongoing low interest rate policy. But so far, it's still early and the stock market doesn't care.

In fact, stocks and interest rates have been moving together, as you can see on **Chart 3**. Since the second half of 2010, stocks have risen, along with rising rates. That's probably because rates have been rising from historically low levels. In other words, they're still very low, despite the rise so far. The key question is, at what point will rising interest rates halt the stock market's rise?

At this point, we don't know but it's now more important to keep an eye on this and be quick to act because rising rates could stop the stock market in its tracks.

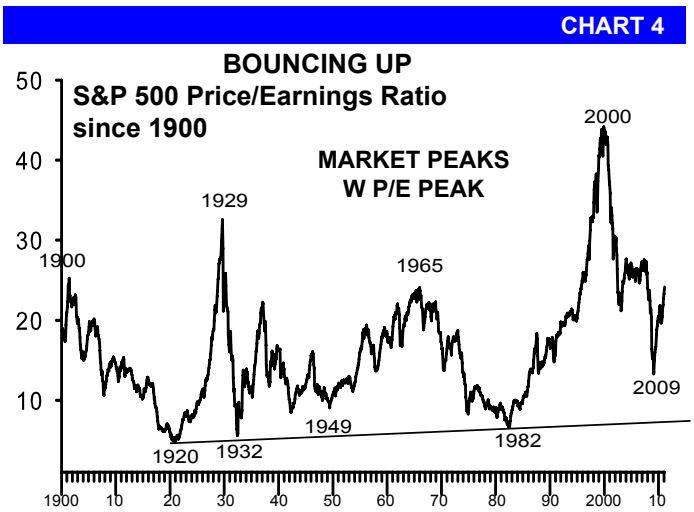
Meanwhile, copper is also surging. It's an economic barometer and as long as that's the case, it'll be a strong sign that the global economy is doing well, which in turn is a real positive for the stock market.

STOCKS NOT NECESSARILY EXPENSIVE

Naysayers are quick to point out that the U.S. stock market is expensive and should, therefore, be avoided. But this is simply not true.

Looking at the price/earnings ratio going back to 1900, you can see that stocks are fairly priced (see **Chart 4**). The trend is currently up, it has been since 2009 and it has a long way to go if and/or when the market were to again reach the bubble levels, like in 1929 or 2000.

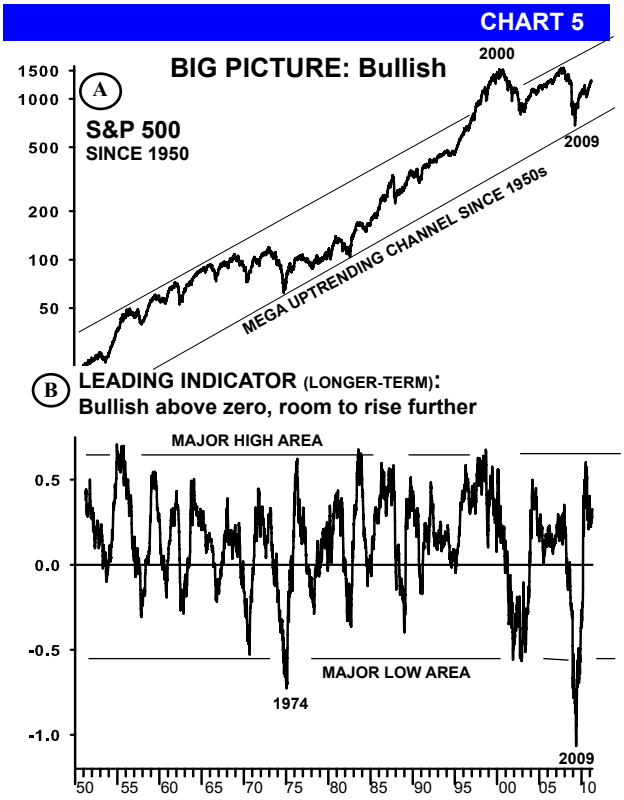
Whatever happens, this too will provide a signal that the stock market is reaching a top and it's time to sell. That's because important peaks in the stock market coincide with peaks in the price/earnings ratio, and for now that's not the case.



Reinforcing this, investor demand is at a new bull market high. At the same time, selling pressure is at an over five year low. This too indicates that stocks are headed higher.

BIG PIC: Most impressive

Many of our older subscribers will remember one of our most interesting leading indicators for the stock market (see **Chart 5**).



Back in 2009, this indicator was the most oversold than at any time since 1950. This alone was a strong sign that the S&P 500 was at a major bombed out low. And once the indicator started moving up, it told us that a major low was in the making and stocks were going to rise.

This enabled us to start getting into the market fairly early in 2009 and we've built up some good profits since then. But you'll also remember, those were scary times…

The world was on the verge of a financial collapse. There was talk of a deflation or depression, and there were no signs that things were going to get better except for the Fed's stimulus.

So naturally we were hesitant, but this indicator was right on. It told the story and it's still telling it.

It remains bullish. Yes, it's near the major high area, which tends to coincide with stock market highs, but it's not extremely high. It is above the zero line and it has room to rise further, which says stocks could still head higher in the months ahead.

COULD TEST OLD HIGHS

As we're said many times before, there's a good chance the S&P 500 could reach its 2000 high levels, along with the Dow Industrials, which would be near 14000. So even though stocks could soon take a breather following their strong rise, keep the stocks you're currently holding for now (BRIC, however, is a sell).

For new buyers, or those who want to add to their positions, buy the strongest stocks. These are the ones we like best, which are listed at the top of our U.S. and Global Stocks list on page 12.

The main thing is, stay with this bull market for as long as it lasts. We don't yet know when it'll end, but it's going strong and we recommend you go with it.

U.S. INTEREST RATES AND BONDS

Yields at 10 month high... mega trend changing

Interest rates are on the rise. The 30 year yield hit a 10 month high this month and if it now stays near current levels, a new mega uptrend will be getting started.

That would be a huge deal. Why? There's a number of reasons why and here's a quick review…

BOND MARKET: Biggest market

First, the bond market is a massive free market. **It can't be controlled by the Fed or anyone else.** So when the Fed says they're going to keep interest rates down, they're talking about short-term interest rates like T-Bills, not long-term rates (see **Chart 6**).

When long–term interest rates go up, bond prices fall and it's been a long time since interest rates have risen sharply. Since the early 1980s, interest rates have been declining. The mega trend has been down.

These mega trends last for decades and if it now stays up, then interest rates are going to go much higher in the years ahead. What could drive rates up for such a long time?

Inflation, the declining U.S. dollar, loss of international confidence in the dollar and bonds, the Fed's reckless monetary policies, lack of demand and so on… and currently, all of these factors are coming into play.

FED & GOVT RECORD SPENDING

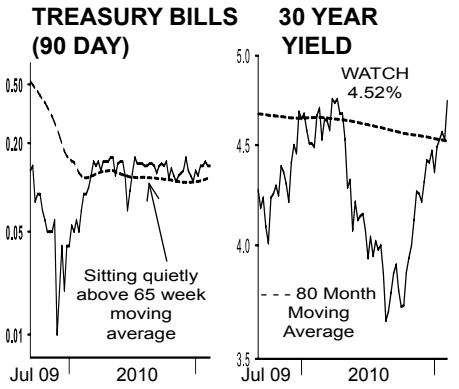
Aside from some other points discussed in this month's Metals section, let's look at the cause, which is most important, and that's the Fed and U.S. government spending.

As you know, the Fed has been stimulating the economy using QE1 and 2 for the past couple of years and it's working. The economy is looking a lot better and it's picking up steam, but that's not the point.

The point is, the amount of money involved to boost the economy will be over $2 trillion when QE2 is over in June. As we explained last month, this is resulting in the largest spending spree, debts and money creation ever, which is extremely inflationary.

CHART 6

TURNING AROUND

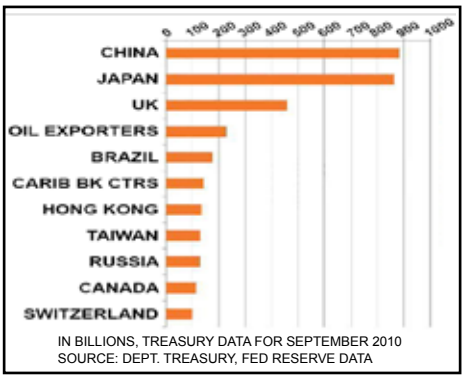


Again, this is actually the direct cause of inflation (rising prices) and it's now becoming more obvious. Considering all the money that's been created worldwide, inflation is going to get a lot worse. That's why bonds are falling and interest rates are rising because the bond market detests inflation. Meanwhile, Bernanke does not want to become a scape goat. He claims the debt is much larger than the stimulus. But friction is brewing as his closest financial advisor resigned after five years at the Fed and he was the only governor to question the record monetary expansion…

The U.S. finances its debts by selling bonds and foreigners have been the main bond buyers (see **Chart 7**). As you can see, China and Japan have been the biggest U.S. debt financiers, but here's the real shocker…

CHART 7

HOLDERS OF U.S. DEBT



The Fed just passed them up and it's now the biggest buyer of U.S. debt (bonds). In other words, the Fed creates money out of thin air and it's buying bonds with that money. It is monetizing the debt by doing this, but at a record rate. There are not enough lenders, so **the Fed has become the lender of last resort.**

This is about as fiscally unhealthy as could be. It's no wonder the rest of the world is getting nervous and taking matters into their own hands.

What's happening is something you normally see in war torn or underdeveloped countries, not in the country that's in charge of the world's reserve currency. That's why the dollar's going to keep falling and interest rates will rise. They have to in order to attract demand for bond buyers.

The dilemma, however, is that as interest rates rise, the debt becomes larger. As it currently stands, the U.S. can't pay the interest on its debt and it's borrowing to do so.

It doesn't make us happy to report this, but that's the situation. It's happened before in many other countries and the end is almost always a hopeless one unless you're aware and take the right measures.

Okay, but what if spending is cut? Everyone agrees this needs to be done but as our dear friend Richard Russell points out, defense, entitlements and interest on the debt, which is the fastest growing expense, already take up 80% of the entire budget.

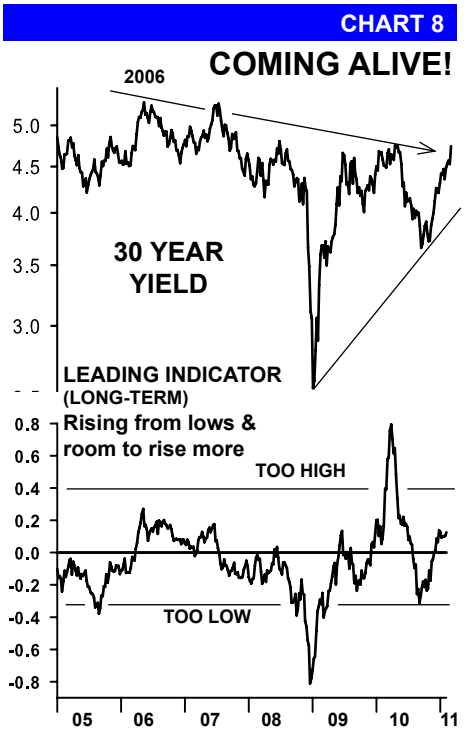
So there's only 20% left to cut to lower the deficits. That's not much

and it's the main reason why S&P, Moody's and the Fitch ratings agencies have been warning that they may have to lower the U.S.'s AAA rating.

The bottom line... Aside from a weaker dollar and higher interest rates, inflation is poised to intensify, and gold's going much higher in the years ahead. All factors considered, it's going to be a time of big changes. But again, if you're prepared it'll also be a time of great opportunity.

MEGA TREND IS CHANGING

If the 30 year yield, for instance, stays above 4.52%, it'll signal that bond prices are going to fall much lower and interest rates are headed way higher. There are ways to take advantage of these trends and we'll recommend more opportunities as things evolve.



Long-term bond holders, for instance, should sell their bonds. That goes for muni bonds too and our indicators are reinforcing this.

Aside from the mega trend charge, which could still be a fake out like in early 2010, we'll want to see first if this one is for real. But as **Chart 8** shows, it likely is.

Note that the leading long-term indicator has risen above the zero line into bullish territory. This means interest rates are headed higher this year and while they could pause or decline some before they move higher, this confirms the mega trend change.

If you're holding our small recommended interest rate related investments, keep them. So far, they've been disappointing, but that may not be the case for long.

CURRENCIES

U.S. dollar: Under pressure... yet stable

The U.S. dollar is again on the decline, and this is one important reason why global concern is growing and central banks are taking action.

DOLLAR RESERVE STATUS UNDER FIRE

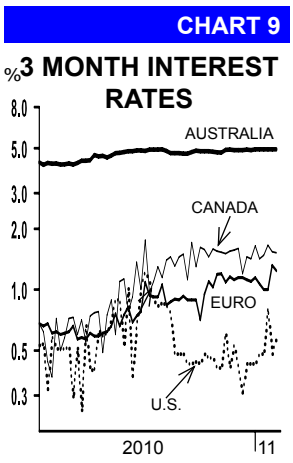
In a nutshell, this increasingly appears to be the real deal... the beginning of a currency crisis that could shake the very foundation of the U.S. dollar as the world's reserve currency. This is something that has been discussed and speculated on for quite a while.

Still, most observers thought it would happen gradually, over a period of time. But in recent years, calls to end the dollar reserve system have grown stronger.

Over the past year or so, countries like Russia, China, France and others, as well as the IMF, have suggested, or said outright, that the current dollar based system has failed to function, it's outdated, it can't sustain the global economic changes and a basket of currencies would be better.

Most recently, during his trip to Washington, China's President referred to the U.S. dollar as a product of the past and he's been taking steps for the yuan to become a global currency. Many believe China wants it to replace the U.S. dollar as the world's leading currency, and China has been buying more gold for its reserves.

Russia is doing the same. A few weeks ago, a top official of Russia's central bank announced plans to start buying 100 metric tons of gold every year for their reserves. This coincides with previous statements made by Russia's President that the current system isn't working and he'd like the rubble to become a global reserve currency. Like China, Russia is also making trade deals with other countries, using their own currency, thereby sidestepping the U.S. dollar.



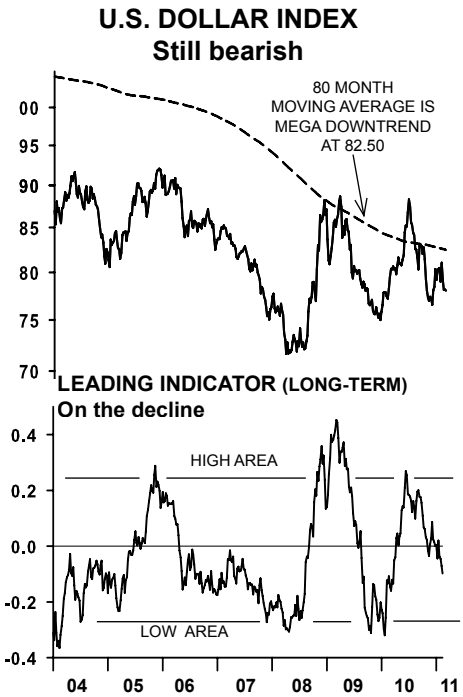
Other countries have joined in... many of the Asian nations, Brazil, former Soviet countries, Middle Eastern nations and a host of others. Okay, so what does this mean?

WORLD WORRIED

Very simply, they're worried about the level of U.S. debt, the Fed's inflationary monetary policies and, therefore, the dollar's credibility.

After all, the U.S.

CHART 10



dollar has been dropping since 1971 when it went off the gold standard. Over the past 10 years it has lost 20% of its purchasing power (see **Chart 10**).

China is obviously concerned because it has so many dollars. They've asked for reassurances, they've criticized QE2 and what it will mean for other countries, and they're looking at other options.

The writing is on the wall. The U.S. is backed into a corner... It can't default. But it can pay its debts with dollars that are worth less, thereby making the debt more manageable. There are few other options. Other countries know this, which is why they're speaking out.

This obviously won't happen overnight, but this trend is gaining momentum and it's something important to be aware of. For now though, the dollar could have a rebound rise in the weeks ahead. The dollar is still viewed by many as a safe haven because after all, it's still the reserve currency.

But if the dollar does rally, it'll likely be temporary. The dollar's leading indicator is turning bearish, signaling that the dollar will likely resume its long-term decline and rising inflation will likely be an important reason why.

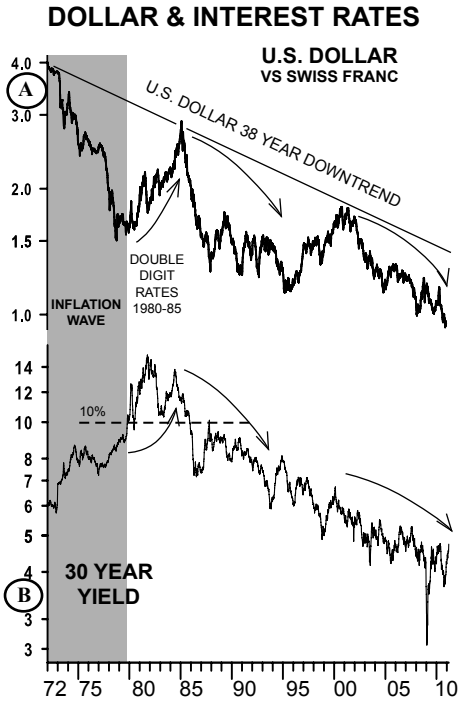
But won't rising interest rates boost the dollar, making it more attractive? Yes and no. Normally it would, but interest rates are starting to rise worldwide, so rising rates won't make the dollar so special (see **Chart 9**).

Plus, upcoming inflation could throw a real wrench into the works (see **Chart 11**). Here you'll see the U.S. dollar and the 30 year yield going back to 1972. Usually, they move together. That is, rising interest rates generally boost the dollar and declining rates don't.

One of the few important exceptions was in the 1970's when big inflation was unfolding (see shading). Note that rising interest rates did not stop the dollar from plunging. In fact, it wasn't until the yield soared above 10% (see horizontal line) that it halted the dollar's decline in 1980-85.

This could happen again. Since

CHART 11



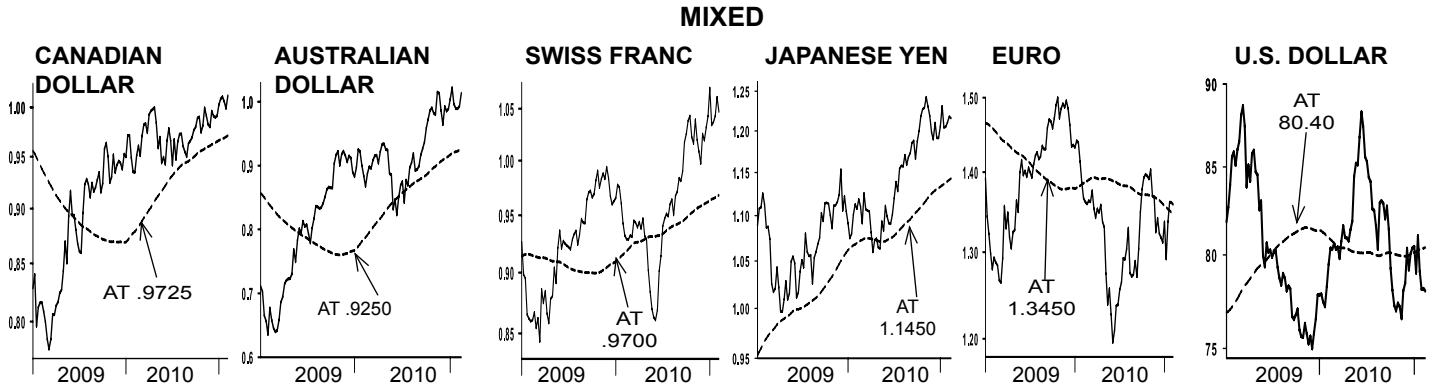
rates are moving up from historical lows, they could rise for years before they have a positive impact on the dollar, depending on how fast inflation surges, which is still to be seen. So if you have dollars in your savings, pension funds and so on, maintain caution.

COMMODITY CURRENCIES: Good

The currency markets have been volatile. Some are obviously doing better than others but even the stronger ones have been somewhat sluggish (see **Chart 12**).

The Canadian dollar has been the best currency, boosted by the

CHART 12



rising oil price and tensions in the Middle East. But the Australian dollar has been impressive too.

Despite the damage due to massive floods and a cyclone stronger than Katrina, the Aussie held its ground. An improving global economy, China's growth and higher commodity prices were the main reasons why.

The euro has also been impressive. Debt fears moved to the background as confidence grew that the situation will be resolved. This followed successful bond auctions by Spain, Italy and Portugal, as well as very positive statements by Germany and France. Both presidents said they'll do whatever it takes to save the euro.

Plus, China and Japan are providing financial backing, and the economy is strong. In Germany, growth surged at the fastest rate in two decades.

Nevertheless, we're staying put for the time being. We're only holding a small position in the Canadian dollar until we see more solid moves one way or the other. If you have other currencies, it's okay but we wouldn't buy new positions just yet.

METALS, NATURAL RESOURCES & ENERGY

Commodities at record highs

The commodity market is bubbling! Be it copper, cotton, cattle, corn, sugar, energy, resources... most tangibles are at record highs or new highs. This is why the CRB index also recently hit a record high (see **Chart 13**). Growing global demand has been the main driving force. Other factors like natural disruptions, political scares and reduced supply have added additional boosts along the way.

SIMILAR YET DIFFERENT

Gold and silver tend to move in the same general wave as the rest of the commodity world but the reasons why are different in many ways.

Gold, for example, bounced up in February, after declining 7.25% in January, on safe haven buying, strong demand, political uncertainty, lingering debt concerns in Europe, high U.S. unemployment, growing inflation in the emerging countries and just general uncertainty all around.

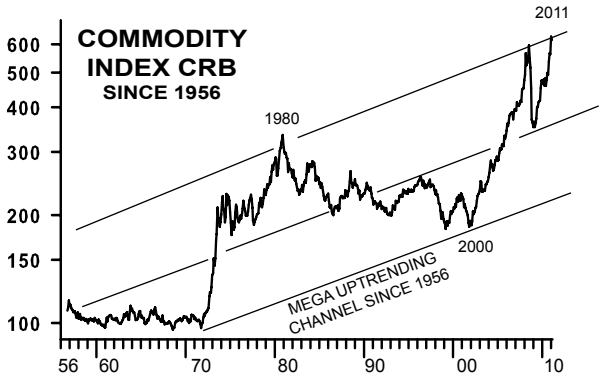
On the other hand, the resource and energy sectors rise when global economic growth looks positive. Better signs coming out of the U.S., for instance, and China and Japan helping the EU ease its debt crisis were also positive factors. In other words, good news is good for this sector because it implies more demand for these products, while bad news is generally good for gold.

To take it a step further... silver benefits from both sectors. When they both rise together, like they did in recent weeks, silver shoots up, well outperforming both. **Chart 14** (right) shows that silver is back above $30.

All commodities have a common thread... they rise with inflation and in times of crisis, like we have today. This is a vicious cycle because the higher the commodity prices go, the more unrest we will see. Hunger and minimum shelter cause revolutions and Egypt is the latest example of this.

CHART 13

RECORD HIGHS!



ROBUST DEMAND FOR GOLD

Gold sees this clearly, which is why many countries are buying gold. They know it's the ultimate currency and gold is again taking its place in the global monetary system, as it has for thousands of years.

The actions of the world's central banks tell the story. At the very least, this is going to keep upward pressure on gold in the years ahead. This alone is one the strongest fundamentals we know of reinforcing gold's mega bull market, which has already been in force for

CHART 14

MODERATE CORRECTIONS... SO FAR

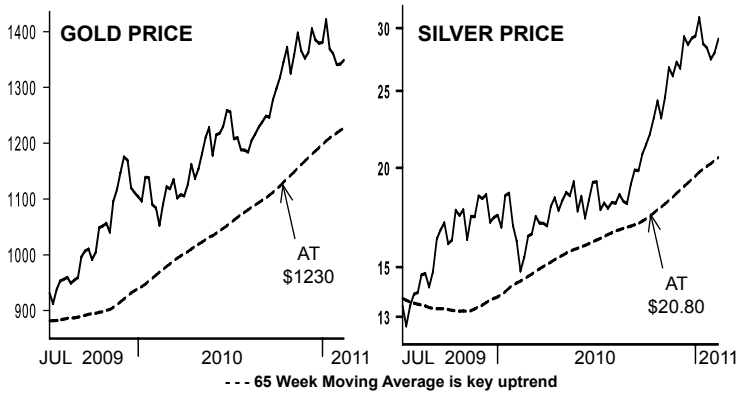
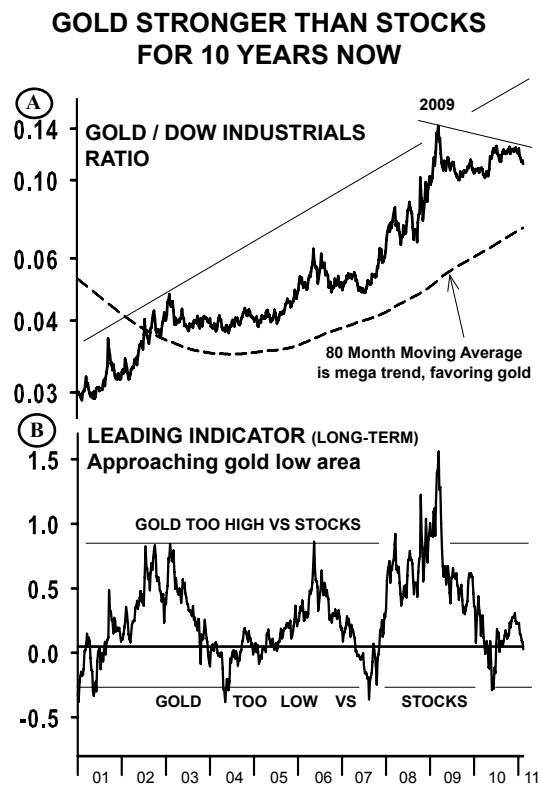


CHART 15



10 years. But there's more…

This month we took a hard look at the world's gold reserves and here's what we found… The average gold reserves for all countries are just below 12%. For the largest gold holders (the U.S. Germany, Italy and France) this percentage ranges from 67% to 75%.

In comparison, the countries with the largest ambitions for change, Russia and China, currently have only 7.2% and a very low 1.8%, respectively, of their total reserves in gold.

We also know that China has the largest cash reserves in the world. So it only makes sense that China is going to use a lot of this cash, which is mainly in U.S. dollars, to buy more gold.

A GLOBAL WORLD BUYING GOLD...

Also important, a massive number of private investors are also buying gold. As we've discussed for years, following the fall of the Soviet Union and globalization, emerging countries began to take off. Three billion people began participating in the global economy who weren't involved before, either due to poverty or communism. As standards of living improved, this emerging group has become a giant force in the global economy and many of these people are buying gold.

That's certainly been the case in China and Asia, where gold demand by private investors has been soaring. In fact, many suppliers simply can't keep up with the demand.

China's first gold ETF was launched last month and it has already achieved its target. Traders are saying that China's gold sales have jumped 30%-50% just since Christmas, while bar hoarding was up 125% in East Asia.

In India, gold is a long standing tradition. It's the ultimate gift for weddings and other special days, and it's a safe way of storing and/or displaying wealth.

Last year, India's gold imports were probably the highest in its history, when gold bar purchases jumped to a record. There are no signs that this trend is going to slow down, not in India or in the other emerging countries.

This too is a super strong fundamental for gold's long-term mega trend, signaling much higher prices in the years to come.

...UNLIKE THE 1970s

Keep in mind, in the 1970s when gold soared by 24 times, from $35 to $850, it involved a period of huge inflation and a big drop in the U.S. dollar. But at that time, only investors from Europe, North America and the Middle East were primarily involved.

This time around, gold has so far only risen five times, from $255 to $1422. But now, hundreds of millions of investors from emerging countries will be involved. Remember, half of the world's population lives in China and India alone.

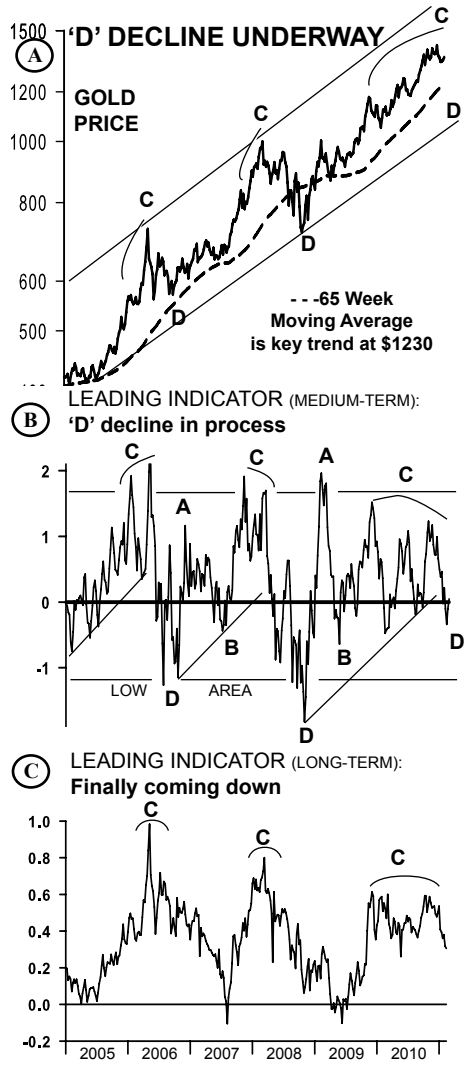
Plus, we believe big inflation is coming, thanks to an unprecedented amount of money creation. If an ongoing U.S. dollar decline and a currency crisis is also involved, as seems to be the case, there's no telling how high the gold price could eventually rise. It's actually hard to determine.

If gold, for instance, only repeats the gains it made in the 1970s, it would rise to about $6,000. But this time, the situation is far more serious and global, so it somewhat boggles the mind.

The point is, don't let downward corrections scare you or shake you out of the market. **Stay with the mega trend for as long as it lasts.** If we see an important change, we'll tell you and take action. We're open, but we'd be very surprised if that happens.

More recently, another impressive demand potential surfaced when the IMF told countries to buy gold to help offset global debt. The IMF's concern

CHART 16



is that the currencies of the world are losing their purchasing power. This was reinforced again this week when the Director urged countries to strengthen the global monetary system to correct flaws that could pave the way for the next crisis. The train seems to be going full throttle.

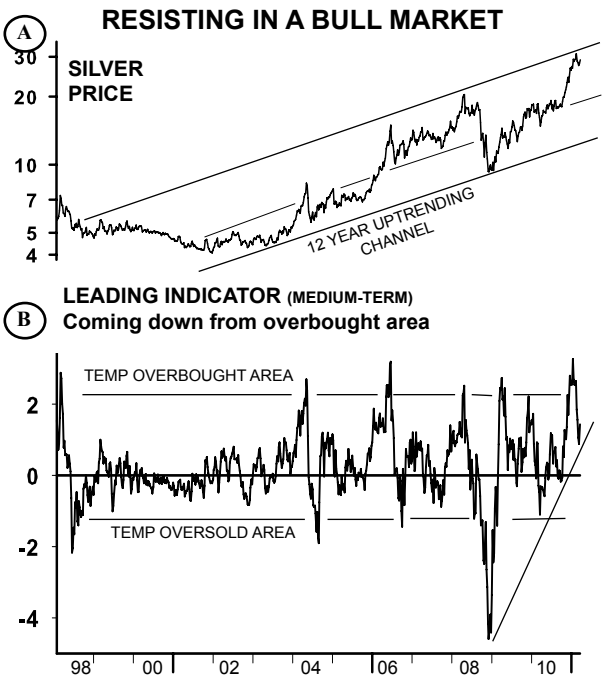
STRONG BULL... MILD CORRECTION

It's no wonder then that the gold price has stayed clearly above $1300 and why gold's D decline has been moderate, so far. Perhaps we won't see a full D decline develop this time around and if that ends up being the case, then the second phase of the bull market will truly be flexing its muscles.

Gold's bull market turns 10 years old this month. It bottomed in February 2001 at $255 and reached a closing record high on January 3, 2011 at $1422.40... up 458% in 10 years. Silver is even more impressive.... It went from $4.10 in 2001 to $31.12 last month, a 659% gain.

Gold began its second phase of the bull market in September 2009 when it reached a clear record high. It's been underway for almost 1½ years, and it still has much further to go.

CHART 17



Incredibly after 10 years, gold and silver are still not mainstream... far from it. Institutional ownership is also very low. In 1980 it was 3%, today it's 0.60%, which shows how under owned it still is in this global market. It's actually fascinating how much this bull market has gone unnoticed. Mania here we come!

We all know that gold has outperformed stocks steadily over the last 10 years. **Chart 15** shows gold's strength over stocks since 2001. This trend will continue as long as the ratio stays above its 80 month moving average, the mega trend. Interestingly, its leading indicator shows that the recent strength in the Dow compared to gold's downtime has caused the indicator to decline to near the low area for gold. This is saying we may be only months away from a strong gold rise compared to stocks!

Meanwhile, let's keep an eye on gold's downward correction that started with the new year.

GOLD TIMING: How far down?

Gold is declining in a correction we call "D" that started in January. While it has bounced up in recent weeks and it looks good, the decline is technically not over yet. So far, gold has given up 7.25% since its peak. The closing low so far was $1319.80 (basis April). If this level holds this month and gold closes and stays above $1370, then the decline would be over. In this case the gold market would be super hot.

Chart 16 shows that gold still has room to decline further but it would still be in a strong bull market. The two leading indicators, (B&C), have room to decline further before they are oversold. **Keep in mind, it wouldn't be abnormal to see more weakness at this time.**

If gold closes and stays below the January low at $1319.80, we could see the $1280 and possibly the $1230 level tested, the 65-week moving average. If this happens, buy with both hands! In a worst yet unlikely case, we could see the July lows tested near $1158.

Watch $1370 and $1319.80 this month, as a break either way will determine the next direction.

SILVER: What a metal!

Silver jumped back up to the high areas, where it is today. Silver is stronger than gold and if the commodity sector continues to move together in the years ahead, silver will be poised to continue outperforming gold.

Silver's production is simply not enough to meet demand. And with demand rising, it only adds up to higher prices. Meanwhile, downward pressure still exits, in spite of

CHART 18

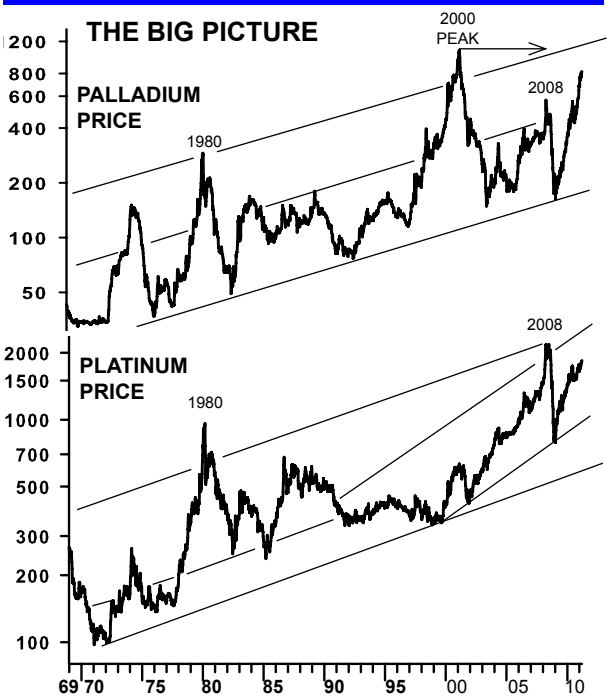


CHART 19

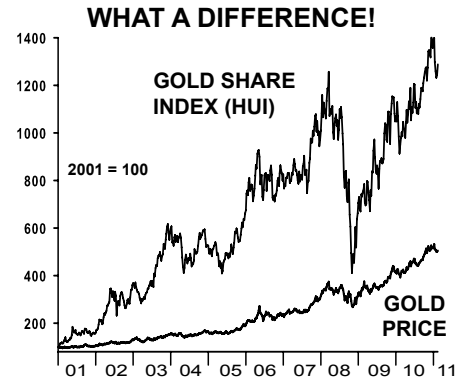
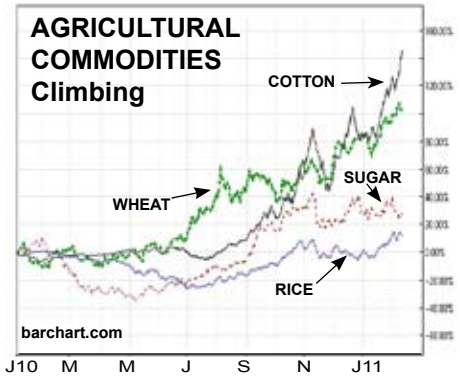


CHART 20



the recent run-up. In other words, don't be disappointed to see more down time upcoming. Instead, see it as an opportunity to buy.

Chart 17 shows the silver price since 1998. You can see the clear upchannel silver has formed. It's currently resisting near the topside, while the indicator is coming down from the highs. This is saying, don't be surprised to see more weakness before the major uptrend resumes.

If silver now stays below the $31.12 high and closes back below $28.20, we could see $25 tested. In a worst yet unlikely decline, the major support is at $20.80. Keep in mind, if gold and copper decline together, then silver will be more volatile and it could decline more. Be aware that volatility is normal for silver.

Buy gradually over this month and next to take advantage of any weakness.

Platinum, and especially **palladium** have been in great rises. Both metals are benefitting from the growing and huge car market in China, which surged 40% in 2010. Palladium is used for pollution control devices and catalytic converters in vehicles. This is in huge demand and it'll surely keep the prices up.

Chart 18 shows both metals since the 1960s. Platinum moves closer to the gold price, while palladium is different as it surged with the tech boom. But when all of the precious metals rise together, you know the bull markets are powerful.

GOLD & SILVER SHARES

Gold shares have been stronger than gold since 2001, as you can see on **Chart 19**. This makes sense because a rising gold price creates direct extra profits for the gold mine since the costs stay the same. Today gold and mining stocks are only 1% of all global assets compared to 26% in 1981, and 20% in 1932. This clearly illustrates there's still plenty of room for growth.

Current weakness is providing a good time to buy more shares. Keep an eye on 213 and 197 on the XAU index. Whichever way it breaks will determine the next direction.

ENERGY RESOURCE & FOOD: Bubbling

World food prices are at records. Copper and several base metals are at or near record highs. Energy is near records. Brent crude oil hit $100 in London, while many energy shares jumped up. That is, food and shelter are getting expensive around the world for the first noticeable time since 2008 (see **Charts 20**, **21** & **22**).

Commodity prices are currently experiencing their fifth monthly gain, the longest since then. Farmers and miners are struggling to keep prices contained, but global expectations for economic growth is growing. Plus, disruptions in Australia affecting coal, zinc, cotton and oil products due to floods and storms, and other ongoing dynamics, in addition to the monetary problems makes it all a complex situation indeed.

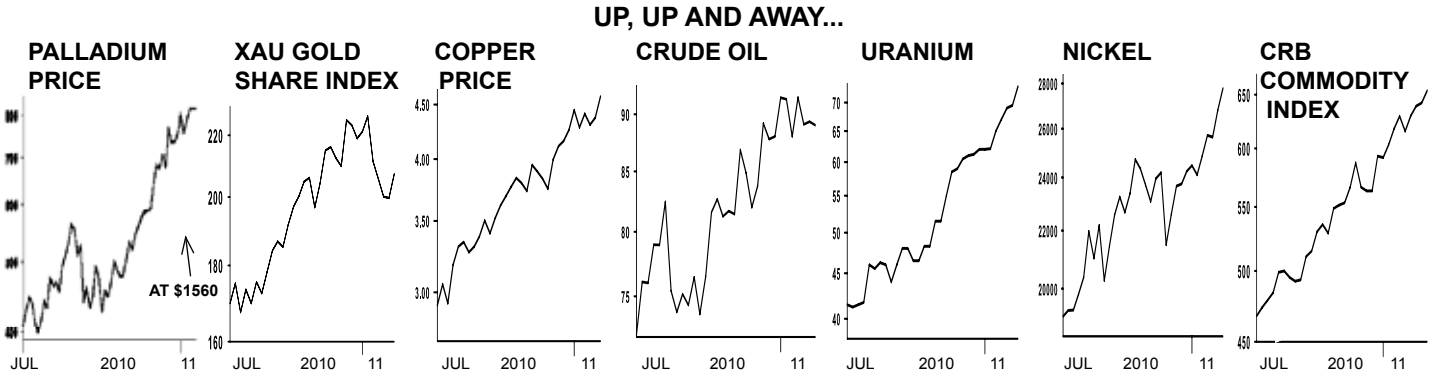
CHART 21

The U.S., for example, is seeing smaller crops in corn and rice, while rising demand is depleting global inventories as the prices surge.

Meanwhile, watch copper as it's a global gauge for the world economy. **Chart 21** shows its powerful move to record highs. It still has room to rise before reaching the top of a 15 year channel, and it's very strong above $4.20. The major uptrend is at $3.50, and if it tests this rising trend, it would still be in a solid bull market.

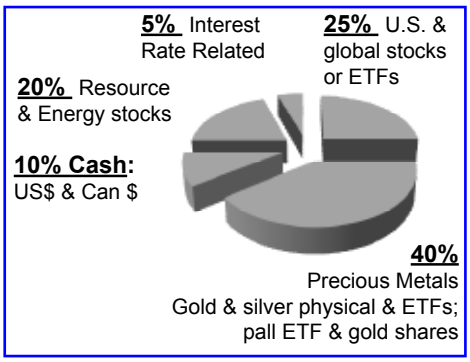
Of our resource & energy shares, most reached new highs this month. The strongest have been DIG, CAT, SU, BHP, RIO and IXC. Caterpillar has been gaining full benefit from the resource sector, and many are calling it the other gauge for the world economy.

CHART 22



OVERALL PORTFOLIO RECOMMENDATION

The markets have been exciting this month. Stocks, the precious metals and their shares, as well as interest rates all moved higher. Dramatic changes are taking place in different areas at the same time and the effects could be far reaching. We're already seeing it in many of the markets and it looks like there's more to come. This is presenting us with some upcoming good opportunities, so stay in touch. For now, we're holding on to most of our current recommended positions. For new buyers, go with the strongest stocks, listed at the top for each sector on the right.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

The commodity market is hot. Be it copper, resource, energy or food and agriculture, record highs are commonplace. The CRB index jumped to a record high as global demand drives commodities higher. Of our resource and energy positions, many reached new highs this month. They are strong and keep your positions. New positions should be focused on the top six on the right.

Gold, silver and their shares received an indirect boost from their strength but a downward correction is still underway. The decline has been mild and the 10 year old bull market in gold is better than ever. Don't be surprised or disappointed to see more weakness this month or next. Use weakness to buy the strongest ones. Keep your positions and buy new positions gradually this month and next.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The U.S. stock market is on a roll. It keeps hitting new bull market 2½ year highs. It's outperforming many of the emerging stock markets and it still has room to rise further. Stay with this bull market for as long as it lasts and keep the stocks your're currently holding. For new buyers or those who want to add to their positions, buy Nasdaq (QQQQ) and Dow Diamonds (DIA), which track these stock indices. Sell iShares BRIC (BKF) as it's underperforming.

CURRENCIES RECOMMENDATION

The U.S. dollar remains bearish. But it's been holding steady near its recent lows and it could have a rebound rise in the weeks ahead before it resumes its long-term decline. Meanwhile, the currency markets have been volatile near their highs. The Canadian dollar has been the best, so keep your small position, along with the U.S. dollar, until we see more solid action one way or the other. It's still okay to hold other currencies if you have them, but don't buy new positions for now.

INTEREST RATE & BOND RECOMMENDATION

Interest rates are on the rise. The 30 year yield hit a 10 month high and if it now stays above 4.52%, a new mega uptrend will be getting started. If so, then interest rates are headed much higher in the years ahead. It'll also mean that bond prices are going far lower. First, let's see if this mega trend change stays intact because if it does, long-term bond holders should sell their bonds. We'll also then recommend more ways to take advantage of this mega change. If you're currently holding the interest rate related investments, keep them but don't buy new positions for now.

Note: All of the shares, funds and ETFs are listed on the right in order of strength in each section. Keep the ones you have on the list. Buy new positions in the strongest ones listed at the top of each section.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Physical Palladium	PALL-NYSEArca
Stillwater Mining	SWC-Nasdaq
iShares Silver Trust	SLV-AMEX
New Gold	NGD-AMEX
Central Fd of Can	CEF-AMEX
Silver Wheaton	SLW-NYSE
Central Gold Trust	GTU-NYSE
SPDR Gold Shares	GLD-NYSE
iShares Comex Gold	IAU-AMEX

RESOURCE & ENERGY SHARES

Ultra Oil & Gas	DIG-AMEX
Caterpillar Inc.	CAT-NYSE
Suncor Energy	SU-NYSE
BHP Billiton	BHP-NYSE
RioTinto	RIO-NYSE
iShares Tr Glbl En	IXC-NYSEArca
Peabody Energy	BTU-NYSE
Apache	APA-NYSE
Freeport McMoran	FCX-NYSE
US Steel	X-NYSE
US Oil Fund	USO-Nasdaq

U.S. & GLOBAL STOCKS

Nasdaq ETF	QQQQ-Nasdaq
Dow Diamonds	DIA-NYSEArca
PowerShrs Finan	PFI-NYSEArca
iShares S&P Glbl Tech	IXN-NYSEArca
Prshrs Dynamic Soft	PSJ-NYSEArca
SPDR Consumer Dis	XLY-NYSEArca
iShares S&P Tech	IGM-NYSEArca
Japan Small Cap	JOF-NYSE
PowerShrs Leisure	PEJ-NYSEArca
iShares Malaysia	EWM-NYSEArca
iShares Mexico	EWW-NYSEArca
SPDR S&P Bio	XBI-NYSEArca
Templeton Emg Mkts	EMF-NYSE

CURRENCY ETFs & FUNDS

Canadian DL Tr	FXC-NYSE

INTEREST RATES

Profunds Rising Rates	RRPIX-NYSE
Proshrs Ultra Short20+	TBT-NYSEArca

Big Picture

By Uncle Harry Schultz Feb 11, 2011 Dear Reader, Back in the days long before email was invented, friend Ron Paul, then a fellow newsletter writer, communicated by fax—which was more advanced than the teletype we previously used. Ron & I argued by fax about the real cause of inflation. Ironically, it's still not universally resolved. Bernanke doesn't claim his chopper money causes it—but he hopes it does. But Ron & I have moved on from those days. Ron is now the *world's favorite politician*— regardless of party or nation, as a man of principles, from which he doesn't waver (often being the only man in Congress to vote against many bills he finds unconstitutional or otherwise nauseous, eg Patriot Act). A man of standards. ~Including the golden one.

In a great interview last week with the *DailyBell,* Ron said the US Constitution is a wonderful document, which Congress **ignores** decade after decade. He correctly listed specifically what Congress should do to get the US back on the Constitutional track. My reaction: The political bottom line is: now we know precisely what steps should be taken, but it will absolutely not be done. I sent that to my ex editorial aide, Gordon Frisch. He replied: *"Thanks for sending. Those in power with vested interests in maintaining the status quo have the votes & the power."* So, nothing will change. Adjust your life accordingly.

And then, there is the OTHER Ron. Ron Reagan. On the 100th anniversary of his birth, a wonderful RR Tribute celebration took place in the RR library, last wk, widely televised, with the able Jim Baker as keynote speaker. As with Ron Paul, Ron Reagan was admired by political foes along with a majority of supporters. Including me. It instantly took me back to the day when Ron R. sent me a large jar of his famous jelly beans (to show solidarity) by special diplomatic courier to London (who refused to open the parcel for customs). The 2 Rons were/are men of principle & standards, which the world is largely devoid of today. I'll discuss what can bring them back in a later *BigPicture*. Historic hints: a man on a white horse &/or devastating economic turmoil. --- PS: In *FT* 2/9 I see it's proposed to add RR's head to the famous leaders sculpture at Mt Rushmore. Good idea. Would serve as permanent *in-your-face* reminder of RR famous quote: *"The govt is the problem, not the solution."*

•••• Here's a view on the US economy that is beautifully put, & totally valid. "The US economy is about to grow explosively, OR whatever" By Charles Hugh Smith (oftwominds.com) 2/7/11. According to some analysts, the "recovering" US economy is poised to enter a phase of explosive growth. Other analysts see evidence of a bogus recovery (ie, all Fed stimulus & no organic growth is teetering on the edge of implosion from a number of causes: high inflation, declining home values, high oil prices, etc. My view? ***Whatever***. The real economy is ***so detached*** from the one presented by official data & the stock market that "growth", explosive or modest, is a matter of *managed perception*, not reality. As for the implosion, Central State intervention & massive spending/credit creation has already limited it to a decline heavily smoothed by extended unemployment, food stamps, zero interest rates, Fed Reserve purchases of Treasuries & mortgage instruments, & massive Fed spending on everything from fighter jets to Medicare. The relentlessly managed perception is that the "spot of bother" circa 2008-09 is history, & the situation has been restored to normalcy, ie, a rising stock market, super-low interest rates & unlimited Central State borrowing. Put very simply: the US economy is now totally **dependent** on unlimited expansion of debt & credit creation by the Central State & its proxies. **Withdraw** those, & the gap between the managed-perception economy (the propaganda facade) & the real economy vanishes: reality trumps perception."

U probably didn't see this grand Bloomberg article by Ohsumi: "JP Morgan boss Jamie Dimon got a humiliating public slap down from the French president after JD whined that bankers were bashed unfairly for the Great Recession. Nicolas Sarkozy told the Manhattan moneyman that bankers made moves that *"defied common sense"* & harmed millions of people around the world. *"Don't be accusatory of us,"* Sarkozy snapped at Dimon at the World Economic Forum in Davos, Switzerland. *"The world has paid with tens of millions of unemployed, who were in no way to blame & who paid for everything."*

Dimon drew the ire of the French president - & some other participants at Davos - by calling the persistent criticism of bankers "unproductive & unfair." "Not all banks are the same," said JD, who also put in a pitch for more flexible banking regulations than Sarkozy & other world leaders have demanded. Sarkozy told Dimon the world was *"stupefied"* when Lehman Brothers collapsed in 2008 *"like a house of cards." "We saw that for the last 10 years, major institutions in which we thought we could trust had done things which had nothing to do with simple common sense,"* the Frenchman said. *"That's what happened."* Sarkozy also took direct aim at the bloated bonuses many bankers got despite the damage they did. *"When things don't work, U can never find anyone responsible,"* Sarkozy said. *"Those who got bumper bonuses for 7 years should have made losses in 2008 when things collapsed."*
(csiermaszko@nydailynews)

A study by the American Institute for Economic Research, which has tracked consumer prices from 1990 to 2010, shows the overall loss in consumer **purchasing power** is 30%. Resulting from drop in US$ & inflation.

•••• I agree with friend of 50yrs Richard Russell who says: "The bond crowd isn't stupid. Are they moving out of treasuries because of rising rates or because of the fading dollar? Remember, Treasuries are denominated in dollars. Take your choice. Maybe it's both reasons. {it

is} Note Barclay's 20+ year Treasury bond fund chart. It's bearish!" RR surprised readers by advocating buying stocks, not only gold. Says: "I think they're buying the Dow stks as a safe haven against the fading dollar. Safe haven or not, my PTI & the Lowry's statistics say the buyers are right, but maybe for the wrong reasons." I came to the same conclusion a few wks ago & began buying a variety of commodity related stocks (mostly Canadian & European to avoid the US$), eg, Potash (POT-T), steel, food chain, dairy, chemicals, German electric (with 7% div), Euro comod etf, rare earths (eg Rare Element Res.), sugar (Rogers Sugar), Fertilizer (eg Syngenta, Swiss), coal (Western Coal, Cda). This is, of course, in addition to main positions in gold, gold & silver shares, & palladium (my pet).

My old friend Monty Guild, fund mgr, agrees with the above strategy. His latest report says: "In this environment, why would one want to own stocks? Answer: In periods of currency destruction, necessity commodities & income-producing real estate & stocks in companies that can grow, all increase in value--because those with capital don't want to sit on cash in their home currency which is losing buying power. Shares in a company with real assets, denominated in a declining currency (eg US$), will rise (relatively in any case) as the currency loses its value." Dear reader, the same thing happened in Weimar Germany when biz men put their Reichmarks into the stk mkt rather than see them depreciate by the hour. The same depreciation is happening today, but slower. So far. It's also happened in Argentina, Brazil & dozens of other nations.

Off the cuff What comes next? In deficit nations, protectionism (not good), a rollback of globalization (hurrah!) & a steady rise in nationalism (ugh). Indebted countries will go for 50yr, 100yr or perpetual bonds—ie, govt never has to pay them off, just pay the interest. If they can. UK already has them. US next. •••• Friend Richard Maybury *(Early Warning Report;* fax 1-602 943-2363) is good on the long views. Says a new mini-boom is about to start, will last 3 to 12months, after which prices will head skyward & mobs will riot over food & gas prices. Calls this the eye of a hurricane. Shares my view on stks. *"Newly created $'s (QE) will continue going into stocks & comods & the economy will look rosy."* He thinks US govt getting desperate, may back $ with gold (to prevent $ value disappearing) & only $5,000 an oz would work. Sees Pakistan as No.1 worry, due to its 70-90 nukes & nation on edge of civil war--my think-tank agrees.

Big news but little press coverage: A year ago it was shocking to see the US Fed buying its own bonds, for lack of enough foreign buyers. But now the Fed is the main buyer & the US stock pile of their own bonds is greater than China! This shows a distaste for US$'s & concern for the end of the AAA rating of US paper. •••• Lack of faith in the US & EU recovery is shown by employers hiring mostly temporary staff, sez Manpower..

Speaking of temporary solutions, one of my favourite columnists, Wolfgang Munchau says (*FT* 2/7/11) Europe is planning to solve the wrong crisis. Harmonizing pension age & cross border labour mobility is "daft." But that's what they're talking in Brussels. To get serious they should start with a comprehensive Euro wide recapitalization & shrinking of bank sector. {some might prefer drowning it}. Then restructure sovereign debt. New bank stress tests are needed but the last ones were a sham & they will again *"try to hide the truth."* Why? *"1. National regulators focus on their own banks. 2. It would be very costly; govts would need to commit actual money to nationalise or recapitalise their banks. They fear genuine stress tests, conducted from London by the Euro Banking Authority."* WM says Angela Merkel is pushing for German hegemony as her price for an increase in the lending ceiling of the EFSF (support fund). Says *"Ms Merkel's mechanism won't solve the crisis, instead avoids the solutions."* IMO, Angela will have to give in at some point & boost the EFSF & permit a Euro bond. If not, Europe will sink into a new & painful crisis. Politics gets in the way, as usual. They say "All politics is local." That implies more of the same stalling in EU. ••• Meantime, says *FT* columnist Philip Stephens (2/11/11) a *"2-speed Europe is still possible. The calm of the moment shouldn't be mistaken for resolution. Greece & Ireland could yet sink under accumulated debt. Portugal may need a bail-out. Public declarations that sovereign defaults can't happen conceal private doubts about debt traps."*

My informal think-tank lives on, despite HSL closure. •••• *Growing-Up* Dept: *CNBC* actually discussed (2/7/11) *"Retiring **outside** the USA is no longer a foreign concept."* (ie, not unthinkable now). I was very early with that suggestion 45 yrs ago (& ongoing)••• Egypt & Mubarak are a perfect example of how power corrupts. It's a drug. Politicians get hooked on it & the people suffer, which is why office term limits are essential. And why they won't happen. They won't let U have them. ••• I agree with Glenn Beck: the Muslim Brotherhood can't & shouldn't be trusted. ••• U saw Mubarak **severe** the internet & Mob phone access. Wake up! Any govt can do it. They do in China & did in Iran. And they (any they) will, if they feel their control is at risk. •••• The hieroglyphics are on the wall. They portend more transparency in the world (not all for the good), as Wikileaks & insolvent banks & the Egyptian riots scared the pants off poli's & others everywhere. Think this thru. More nextime. •••• The ***race to debase*** (currencies) is on. •••• Tell your Goldless friends that gold rose 30% in 2010. Ask them if **their** investments did as well. Tell them gold has risen for 10 straight years—without yet entering a speculative phase, as measured by volume. ••••

I leave U with this sneaky question: What comes after trillions?

Fond farewell from your Uncle Harry D (for Diversify) Schultz @ 87.5 & counting. ☺