THE
ADEN FORECAST
MONEY • METALS • MARKETS

FEBRUARY 2015 *our 34th year*

UNPRECEDENTED TIMES

This new year is bringing in lots of surprises. It's literally been one thing after another and investors aren't sure what to make of it.

The end result has been high volatility in nearly all of the markets as they react to events.

Between global tensions, financial news, central bank actions, good economic signs, deflation and all the rest, it can get confusing. We feel it and it's reflected in the e-mails we receive from you, which contain lots of questions, comments and concerns.

So this month we'll answer your most frequently asked questions and discuss what's on your mind…

Q. What's the story with zero interest rates and what does it mean?

A. This is a huge deal. Here's why… During these deflationary times, growth is slow and inflation is declining. So low interest rates have been a tool for many countries to help boost their economies.

Low rates have also been used to keep their currencies weak because in this era of currency wars, no country wants a strong currency and low interest rates make a currency less desirable.

The problem is, things are going overboard. Currently, for instance, interest rates are below 0% in Japan, Germany, Switzerland, France, Belgium, Austria and Denmark (see **Chart 1**, right).

That's right. In these countries interest rates are negative, meaning depositors have to pay the bank to keep their money. Switzerland is the most extreme. Their negative interest rate is .75%, but for some people it's worth it for a safe Swiss bank account.

Now here's the shocker… This is totally unprecedented in world history. In fact, reviewing the book, *A History of Interest Rates,* there has never been a time when interest rates were below zero in the major countries (see **Chart 2,** which starts in the 13th century).

With the brief exception of Swiss interest rates in the 1970s, we're talking about 800 years! Through the Dark Ages, the Renaissance, the Industrial Revolution, the Great Depression, great wars and much more, the world has never seen a situation like the current one.

We are literally in uncharted waters and aside from the obvious, which we've often discussed, the eventual outcome, repercussions and effects are totally unknown because this has never happened before.

Does this mean the end of the fiat money system? Another depression? A credit collapse? A 2008 type shock? A gradual return to normal? For now, we just don't know yet.

Q. Bonds are overbought. How does that tie in with your view that deflation will keep bonds rising this year?

A. Deflationary pressures are intensifying in a dramatic way with each passing month. Japan is locked in deflation and Europe is struggling. Russia is in dire straits, China is slowing, and even the U.S., which has been the best economic performer, is witnessing slower growth and the lowest inflation in six years.

This is not going to change from one day to the next, despite the efforts of the world's central banks, and it'll continue to be a very positive environment for rising bond prices (see **Chart 1**). This will also keep downward pressure on oil, copper and commodities in general.

Q. The real pullback in bonds never seems to appear. How long before we can safely buy more?

A. The bond market has been so strong, it just kept going. But a downward correction is now underway. This will provide a good opportunity to buy new bonds or bond ETFs if you haven't bought yet, or if you want to add to your bond positions.

Q. Couldn't one of the "wild cards" you've previously mentioned turn the markets upside down?

A. Yes, just this year we're already seeing many wild cards. The renewed fighting in Ukraine, growing tensions between Putin and

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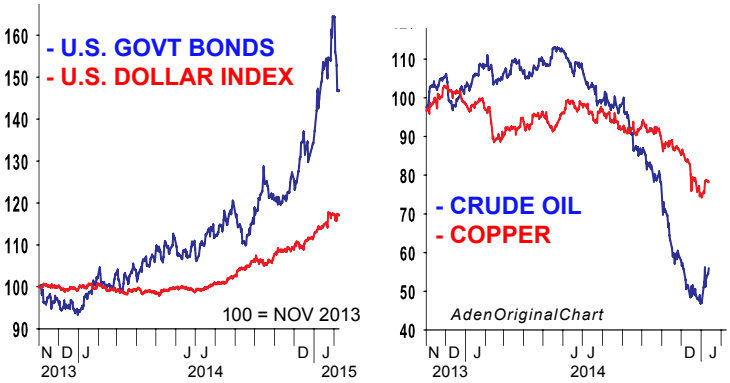
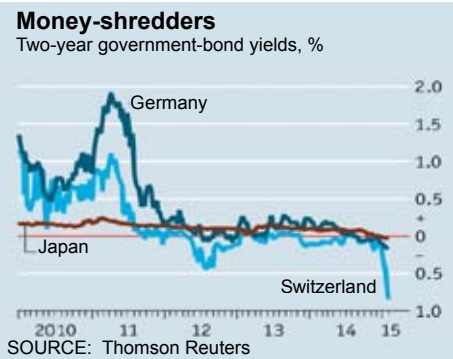
the West, and increasing violence from ISIS is turning up the heat in the volatile Middle East.

In addition, the Charlie Hebdo murders in Paris are fueling anti-Muslim feelings in Europe. Boko Haram is wreaking havoc in West Africa. And that's not even mentioning the financial surprises that have fueled lots of market volatility, like the moves out of Switzerland and the ECB, which rocked the currency markets.

CHART 1

DEFLATIONARY PRESSURES PERSIST FOR 2015





SOURCE: Thomson Reuters
COURTESY: The Economist

Q. I am a new subscriber. For new positions, should we start by buying all of the recommended stocks at once, spread it out over a few months, or a mix of all sectors for diversity?

A. To begin, it would be best to buy the top ranked stocks in each recommended sector, which are the strongest and are listed at the top of each section on page 12. This way you'll be diversified. Then as the markets correct, you'd ideally buy more of the general stock recommendations.

Q. The stock market indexes are close to the supports you set. If they drop below those levels, are we supposed to sell?

A. Not necessarily. Many times supports may be broken, which could indicate weakness, but it wouldn't trigger a sell signal. You'll always know when it's time to sell. We'll either say so in our monthly issue or Weekly Updates, or send you a Special Alert.

Q. I still have a large position in gold and gold shares at higher prices. What are your thoughts on when these markets will recover?

A. It currently looks like these markets are bottoming. And it looks like 2015 will be the year when the metals embark on a renewed rise. Keep the positions you have. Eventually those higher prices will likely be revisited.

Q. I have trouble understanding some of your indicators. Please explain.

A. We try to explain what the indicators mean as we go along. But if we haven't been specific enough, here's a nutshell recap…

The moving averages generally identify the major trends. If a price is above the average, the major trend is up. Below the moving average, the trend is down.

The leading indicators are our favorites. They usually lead the price action. For example, if a leading indicator is at a historically high or overbought area, it means the upside is limited in that particular market, so you wouldn't want to buy it.

But if the leading indicator is at a low or oversold area, that market is near a bottom and it's headed higher, and you'd want to buy. If an indicator is rising and it has room to rise further before it's too high, then so does the market. The opposite applies on the downside.

We use leading indicators to help us identify medium-term and long-term moves. That is, rises or declines that will usually last months or years. And while these indicators aren't foolproof, they've been fine turned and consistently reliable over the years and we have a lot of faith in them.

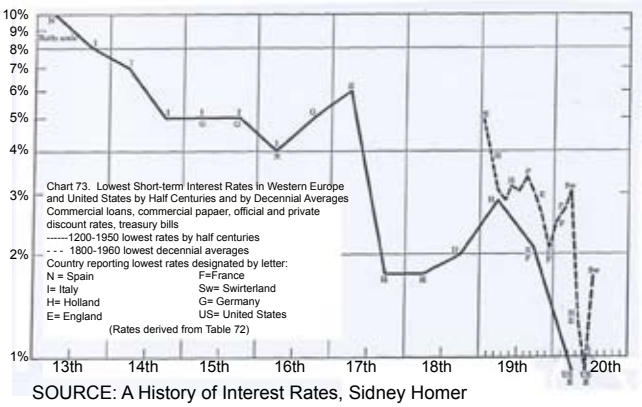
Also, most of our price charts are plotted on a semi-log scale. This means you can see the percentage gains, and one market can be easily compared to another. (For instance, the distance from 2 to 4 is the same as the distance from 3 to 6. Both represent 100% moves.) Unlike a regular chart, once a trend is broken on a semi-log chart, it tells us the market gains are diminishing and a change is occurring.

For more details regarding our indicators, please see our website.

To sum up, there are currently many events unfolding that could shake the markets, depending on what happens. This means we have to maintain caution, but also know that this will present us with opportunities. So again, we'll be ready and keep you posted on how these will affect the markets in what is proving to be a very interesting year.

CHART 2

HISTORY OF INTEREST RATES SINCE 13TH CENTURY



SOURCE: A History of Interest Rates, Sidney Homer

U.S. & WORLD STOCK MARKETS

Volatile swings

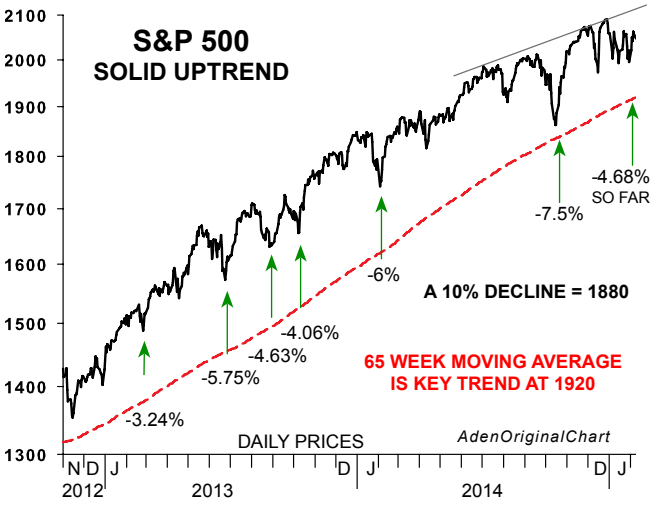
The stock market is walking on the wild side. It's been swinging up and down in its most volatile action since 2012.

That's primarily been in reaction to the good and bad news that's been emerging. When the news is good, stocks rise, and when it isn't, they decline.

The end result is a choppy 2015, so far. Stocks were down 5% in January. But they've rebounded in February, regaining most of January's downmove.

CHART 4

WILL WE GET A 10% CORRECTION?



FEELING THE OIL PINCH

The plunging oil price was an important factor, driving stocks lower. That was mainly because falling oil, and energy and resource stocks increased concern about deflation.

Sketchy earnings and the strong U.S. dollar also added downward pressure, along with some disappointing economic signs, including slower U.S. growth in the fourth quarter. The aftermath of the Greek elections was also a concern, along with weaker global growth.

On the bright side, however, the Fed basically said they're not in a hurry to raise interest rates and the stock market liked that. The oil price rebounded and stocks liked that too.

It was the same story with good U.S. economic news. Consumer confidence, for instance, hit the highest level in nearly eight years and consumer spending gained the most in nine years.

MARKET STILL BULLISH

So despite all these mixed signs, the bottom line is that the stock market stayed bullish (see **Chart 3**). All of the stock indexes remain above their moving averages, signaling stocks are headed higher.

As you can see on **Chart 4**, the S&P500 has been in a solid, steady uptrend, moving ever higher. This has been going on since 2009.

During rises like these, it's normal for any market to take a pause and experience a downward correction before it rises further. But the stock market has been so strong, it hasn't even had a 10% correction over the past three years.

And as we mentioned last month, this hasn't happened in 130 years, so we're seeing several firsts in centuries.

Note, for example, that the corrections since late 2012 have been between 3.24% and 7.5% (see green arrows). The current correction has so far declined 4.68%, which is about average compared to the previous declines.

WILL WE SEE A 10% DECLINE?

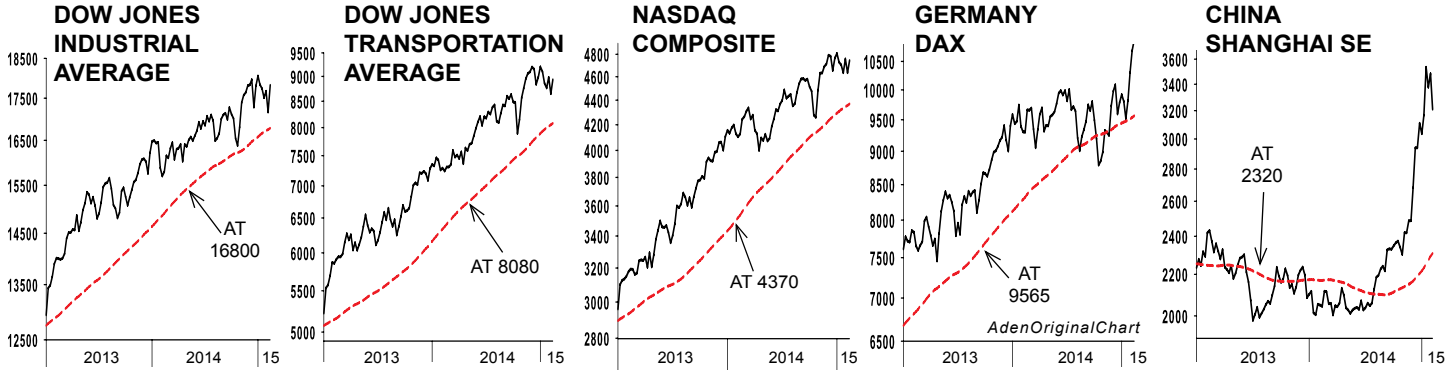
Many are still waiting for the long anticipated 10% downward correction. Is it going to happen? It's a possibility.

The market is looking toppy and it appears to be losing some of its upward momentum. This suggests the stock market could decline further in a steeper downward correction.

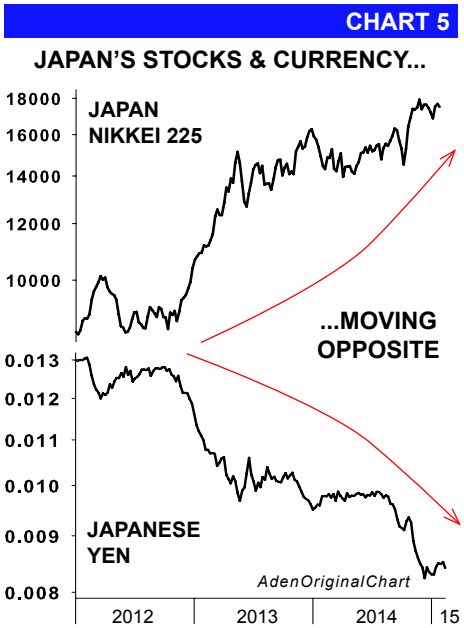
If it does end up correcting by

CHART 3

STRONG, SOLID BULL MARKET



BULLISH ABOVE 65 WEEK MOVING AVERAGE



10%, then the S&P500 could slip down to 1880 before this correction ends. For the Dow Industrials, a 10% correction could take it down to about 16250.

BULL IN DRIVER'S SEAT

But we'd be surprised if this happens. When all is said and done, two important reasons why are generally good U.S. economic signs and low interest rates.

These have been the primary factors driving stocks higher all along and, despite a few signs of economic weakness, these key factors remain intact. As long as they do, they'll keep driving stocks higher, but there's more…

Keep in mind, there are not many options to invest in. Considering the current deflationary environment, U.S. stocks are very attractive.

That's especially true with the world flooded in money, thanks to all the quantitative easing (QE) programs. And the U.S. market is loving Europe's latest QE economic stimulus program because more money's coming.

STOCK DIVIDENDS GOOD

Even though U.S. government bonds have been the world's favorite safe haven, that could eventually change.

Stocks are now paying a greater dividend yield than bonds. This alone is very bullish for stocks and it strongly suggests that stocks will continue to do well this year. They're simply more attractive than most other investments.

Another positive is that Main Street investors keep jumping into the market. Following the sharp 2008 stock market drop, average investors generally avoided the stock market. But seeing it rise year after year has changed their minds.

This is a force to be reckoned with. And if they keep buying, this too could drive the stock market much higher, fueling a huge speculative third phase of the bull market.

WORLD MARKETS: Look better

Another bullish development is that many of the international stock markets are looking much better than they did before (see Germany and China on **Chart 3** as an example).

This is good news because in a healthy bull market most of the world's stock markets will rise together.

In Europe's case, we know the new QE program is adding fuel to the stock markets, just like the Fed's QE drove the U.S. stock market higher.

But the German economy is growing at the fastest rate in four years and business confidence is also on the rise, so that helps too.

Looking at Japan, we can clearly see what likely lies in store for Europe (see **Chart 5**). Following massive stimulation programs, the Japanese yen fell out of bed and the Japanese stock market surged.

STAY INVESTED

So overall, things are looking up. That's why we continue to recommend keeping the stocks you have. If the stock indexes hit new highs, they'll be super bullsh.

If you want to buy new stock positions or add to the ones you have, then buy the strongest stocks, which are IHI, IBB, DIA and QQQ.

Most important, despite the ups and downs, stay with this bull market for as long as it keeps going.

U.S. INTEREST RATES AND BONDS

U.S. Bonds: Another good year

It's really fascinating…

Even though many people think interest rates are boring, they're actually the most interesting market in the world today. Interest rates and bonds are most revealing and here's why…

BONDS REMAIN #1

U.S. government bonds are not typically a popular investment, but they've been going full steam ahead. That is, they're keeping their #1 position as the best investment winner, which they attained last year (see **Chart 6A**).

We know it seems surreal but bond prices are surging and they're likely headed even higher this year.

In other words, despite super low interest rates and the fact they just had their biggest one month decline in over three years, interest rates are poised to fall further (see **Chart 7**. Remember, bond prices are the flip side of interest rates. They move in opposite directions.)

We also know that many of you are wondering, how can that be? After all, interest rates are now at lows not seen since the early 1950s.

Think about it…

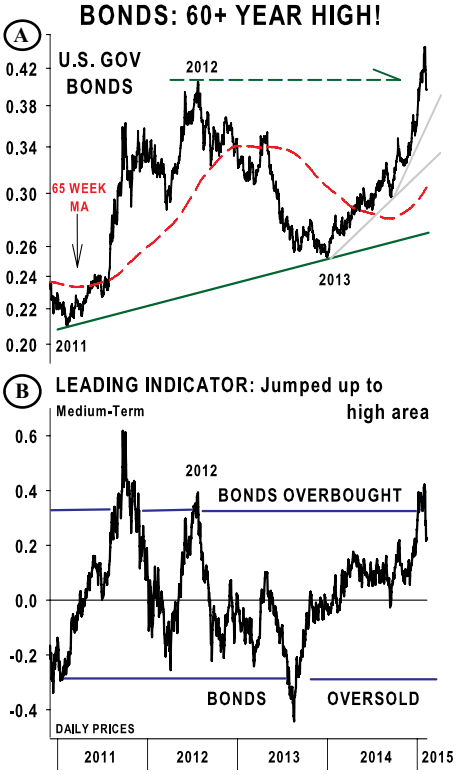
RATES TELLING UNIQUE STORY

That's when we were kids. World War II was over and all the returning soldiers were marrying, starting families and buying their first home. During that post war era, interest rates were around 2%. (They dipped below 2% during World War II). But they haven't been this low since then.

This alone tells us we're in a very unique situation. **It's simply not normal and it's something you don't see often.**

In the meantime, and historical abnormalities aside, interest rates are calling the shots. They're telling us they're headed lower, that U.S. government bonds will continue to be a profitable investment and we'd be foolish not to go with it.

CHART 6



U.S. GOVT BONDS: World's favorite

First, it's important to keep in mind that U.S. government bonds are currently the world's favorite safe haven. There's a huge demand for bonds.

And at the first signs of financial uncertainty, or if there's something wrong in the world, the flood into U.S. bonds has become even more extreme.

Deflationary signs, low inflation and slow global growth only add to bond's appeal. But there's another element that's even more important. It's been the main driver for higher bond prices since last year…

At 1.99%, the U.S. 10 year yield is the most attractive interest rate in the developed world. This would have been a joke not too long ago, but that's not the case anymore (see **Chart 8**, as an example).

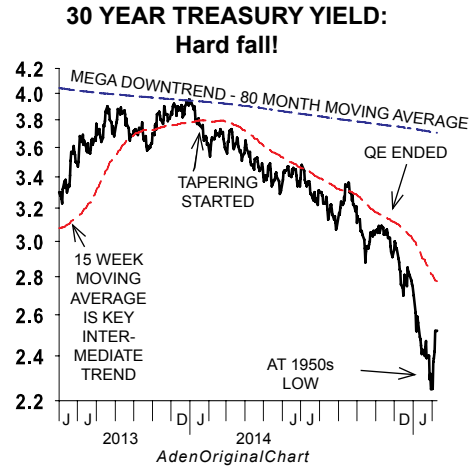
This shows why U.S. interest rates are still so attractive, even though they've already declined a lot… at least they're above 1½% and higher than interest rates in other countries. And this alone has been pushing U.S. bond prices higher and higher.

In fact, bonds have been much stronger than stocks and this will likely continue in the months ahead.

Looking at the ratio, which compares bonds to stocks, you can see it's been on the rise (see **Chart 9A**). This illustrates that the percentage gains have been greater in bonds than in stocks.

Plus, the ratio's leading indicator has not yet

CHART 7

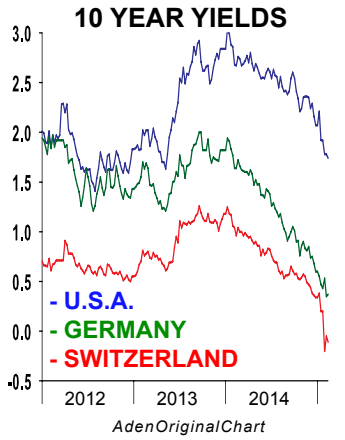


reached the "bonds too high" area (see **Chart 9B**). This too reinforces that bonds will remain stronger than stocks for the time being.

Meanwhile, most advisors and investors aren't excited about bonds, despite their impressive gains. They're still looking for interest rates to rise, not decline. And as you can see, the Commitment of Traders remains low (see **Chart 10**).

This is basically a bond sentiment index and it's still near the lows, signaling bond prices have plenty of room to rise further.

CHART 8



The point is, as bonds become more popular, sentiment will rise. And when it reaches the high area, bond prices will be near the end of their rise. That's certainly not the case yet, so the upside is still wide open.

30 YEAR YIELD TARGET 2%?

As we mentioned last month, if the

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CHART 9

BONDS BETTER THAN STOCKS
More Fear than Greed

2.50% level on the 30 year yield is clearly broken, which it was, then the yield will likely drop to near 2%.

For now, however, the bond market is overbought (see **Chart 6B**). This means it's risen too far, too fast and a normal downward correction is currently underway.

For now, we could see the 10 year yield bounce up to the 2.10% area, but it would still be in a downtrend. The same goes for the 30 year yield if it rises to near 2.75%. But if they stay below these levels, it would mean there are more lows to come.

KEEP YOUR BOND POSITION

Either way, we continue to recommend keeping long-term U.S. government bonds. They're still the best investment in today's environment and with deflationary pressures intensifying, we don't see this changing any time soon.

CHART 10

10 YEAR US TREASURIES VS COMMITMENT OF TRADERS

We also like the bond ETFs on page 12. UBT is still our favorite and it's the best for buying new positions and/or adding to the ones you have, ideally during this downward correction. TLT, TLO and TLH are also good to buy.

> "A national debt, if it is not excessive, will be to us a national blessing".
> Alexander Hamilton

CURRENCIES
History in the making

The U.S. dollar just keeps going, reaching a 10 year high. It's clearly the king of cash and it's also the world's favorite safe haven.

Like U.S. government bonds, the U.S. dollar is enticing for many of the same reasons…

DOLLAR: Safe haven currency

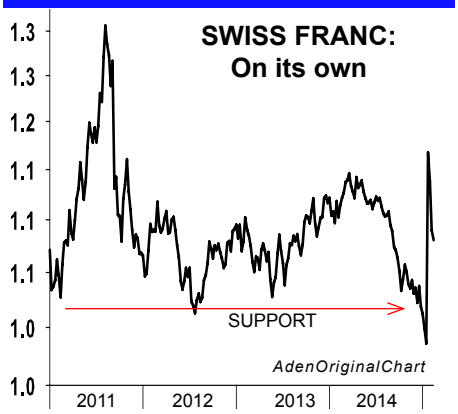
The U.S. economy is holding up a lot better than most of the other global economies. And like we mentioned before, U.S. interest rates are higher and more attractive than rates in other countries.

So consider this for a moment… if you're a citizen in Europe or Asia, and your home currency is falling and interest rates at your local bank are negative, what would you do?

Of course you'd want to switch some of your money into the strong U.S. dollar and collect more than 1½% in interest. And that's basically what's pushing the dollar up.

Even though the Fed is suggesting they'll be patient and they're not in a hurry to raise U.S. interest rates, it doesn't matter. **U.S. rates are good enough where they are and they're a lot better than the competition.**

CHART 11



It's almost like no matter what happens, the dollar can do no wrong. That's been highlighted considering some of the wild action in the currency world this month…

THE SWISS FRANC STORY

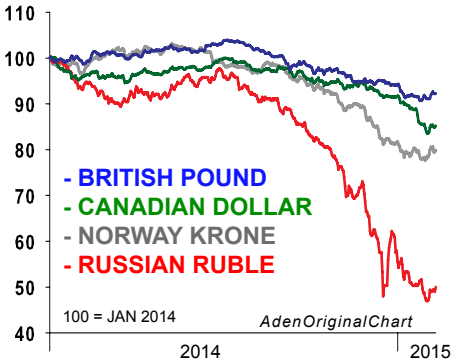
For starters, the Swiss National Bank shocked the markets by breaking the Swiss franc's peg to the euro. Since the Swiss central bank said they wouldn't do this right up until they did, it came as a complete surprise and it drove the currency markets wild.

The Swiss franc literally soared in one of the biggest moves ever seen in the major currency markets since 1971, when the Bretton Woods system fell apart and currencies began to float freely (see **Chart 11**).

The euro fell sharply. Most of the other currencies followed the euro's lead and they dropped too. The U.S.

CHART 12

THE FALLING OIL EFFECT



dollar surged.

So why the change?

In a nutshell, the Swiss saw that the European Central bank (ECB) was preparing to launch an all out QE program. They figured this would mean an even weaker euro, so they decided to cut their losses.

The Swiss franc has been very volatile since then.

WILD MEASURES, WILD MARKETS

Shortly thereafter, the ECB did in fact go ahead with a larger than expected $1.3 trillion monthly bond buying QE package. This was done to fight off deflationary pressures and revive inflation.

In addition, several countries dropped their interest rates and the oil price plunged. In both cases, this put even more downward pressure on the currency markets.

As you can see on **Chart 12**, the oil producing currencies have been particularly hard hit.

These currencies are mainly focused on the oil price. When it falls, they do too, and if oil rebounds, they do the same. This will likely continue for as long as the weak oil price stays in the headlines.

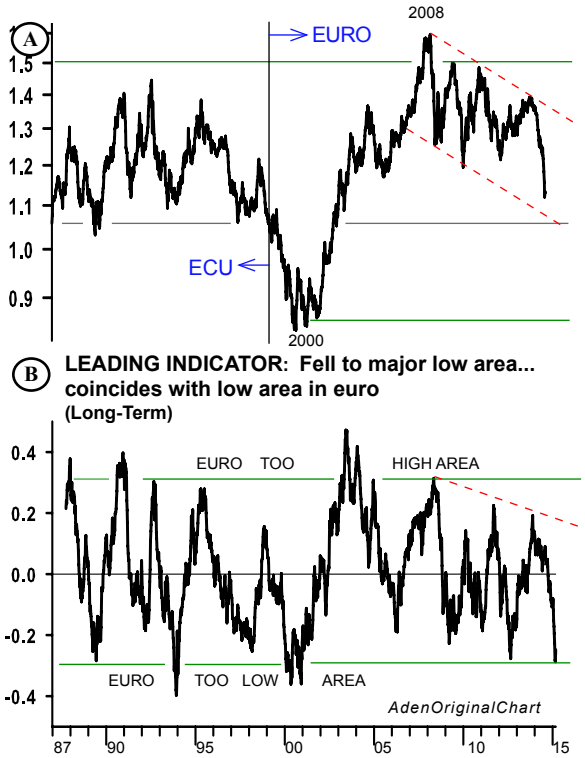
Another wild card was the Greek election. Since the winning party was the one that pledged to leave the euro, it was surprising the euro didn't fall more. On the contrary, the euro is starting to stabilize as the new leaders attempt to negotiate their debt problems.

At the same time, however, Germany's inflation rate went negative (deflation). And since Germany is the Eurozone's locomotive, that's not good news for the euro. But will the new QE program succeed in turning things around?

Only time will tell. QE hasn't worked for Japan but it did boost the U.S. economy. So we'll soon see what happens.

CHART 13

TRACKING EURO HISTORY



EURO PLUNGE CALMING DOWN

In the meantime, let's take a look at what our technical indicators are telling us…

Looking at the top of **Chart 13**, you can see the steep decline the euro's already had. It's fallen more than we expected and it'll remain very weak below 1.15.

CHART 14

BULLISH, SOARING DOLLAR... DUE FOR REST

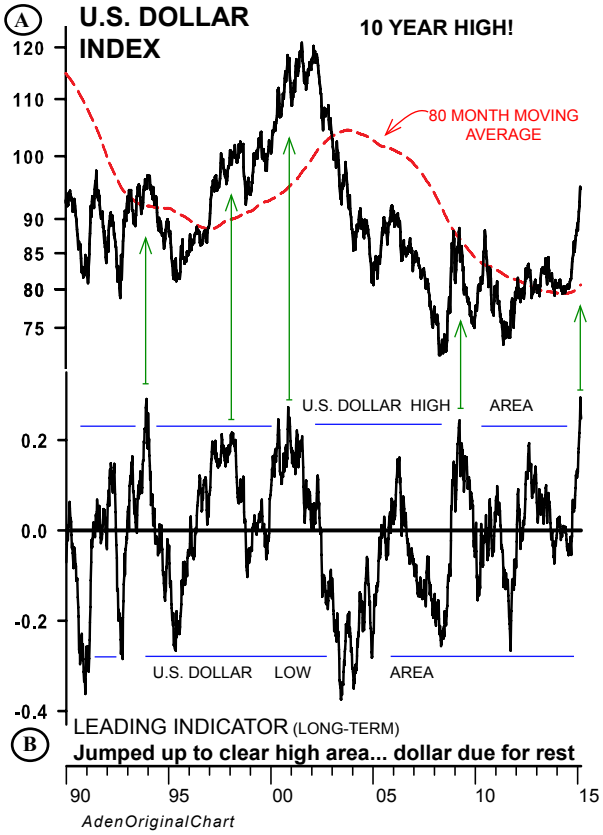
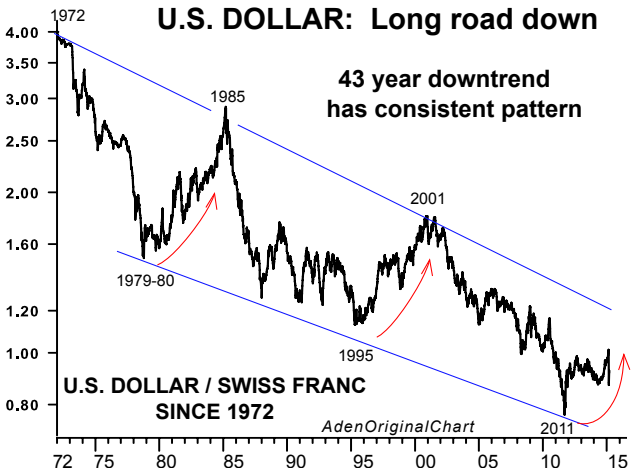


CHART 15



But the euro's leading indicator has now dropped down to a "Euro too low area" (see **Chart 13B**).

Since this indicator leads the euro's price action, it's signaling the euro is likely near a bottom.

In other words, it's telling us the euro has fallen too far, too fast and the downside is limited.

Let's next take a close look at the U.S. dollar.

SOARING DOLLAR OVERDONE

Note the U.S. dollar index is currently at a 10 year high (see **Chart 14A**). It has soared in an almost straight up rise, breaking above all its resistance levels. So as you'd expect, its leading indicator is at a 25 year high (see **Chart 14B**).

Going back to 1990, each time the leading indicator reached these high areas, it preceded or coincided with a top and subsequent decline in the U.S. dollar index (see vertical green arrows). This means the dollar is currently near a top.

The big question is, will this be THE dollar top for the time being, or just the beginning of a normal downward correction before the dollar rises further?

For now, the dollar index will remain very strong by staying above 92. If it does, there's a good possibility it could continue to rise strongly this year, like it did in 1979-85 and in 1995-01, eventually reaching the 43 year downtrend (see **Chart 15**).

Meanwhile, **the currency markets are at their most volatile level in two decades.** So we continue to recommend avoiding them. Keep all of your cash in U.S. dollars until the markets tell us otherwise.

METALS, NATURAL RESOURCES & ENERGY

Fear moving markets

Gold has been off to a great 2015 start. Gold rose almost 14% since the November low. Gold shares rose even more at 40%. Safe haven buying was the main reason why.

The key reasons were several... the growing troubles in Ukraine, the political and now debt uncertainty in Greece, the abrupt move by the Swiss National Bank, not to mention the historical stimulus program announced by the ECB.

Low to negative interest rates and volatile currencies: Bullish for gold

Negative interest rates are a positive for gold too because gold now pays a better rate of return .... zero. You don't have to pay to own gold. .... well maybe storage fees. The point is, gold is a great store of value with little competition.

Negative interest rates are a reflection of fear. Investors are willing to pay and lose a little instead of losing a lot elsewhere.

This is bullish for gold.

Currency wars are here. You can see it in the volatile swings in the currency markets. And it shows up when looking at **gold in several currencies** (see **Chart 16**).

It's very interesting to see gold was relatively quiet in a long consolidation period over the last two years. But this year is different. Gold is shooting up in euros and in Canadian dollars, while gold in U.S. dollars and yen are rising normally.

GOLD & DOLLAR: Both rising

Now you could say, hey, it's not gold that's rising, it's the currencies that are falling... right? Well yes, but then you could also say the same about the rising dollar.

The dollar index, for example, shot up sharply, especially since November when gold started to rise briskly (see **Chart 17**).

The super dollar rise of the last few months has clearly been influenced by the falling euro. The weakness in other currencies, especially the petro currencies, also added power to the dollar's rise.

It's also interesting that gold has been stronger than the strong dollar because its base is in U.S. dollars.

The point is, the commodities and resource sectors fell sharply while gold rose more than the strong dollar. We believe this is a clear sign for the central bankers.

On the one hand, they know the importance of buying gold now during this relatively low level, and you should too.

But on the other hand, central bankers are on a liquidity rampage. They've been, and are buying sovereign bonds with credit created out of thin air, pushing interest rates and their currencies lower.

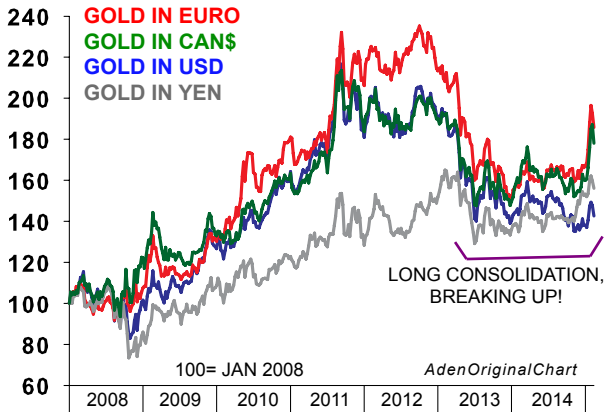
The only market that's been stronger than gold is bonds. So here we have it. **Gold and bonds have both had the best safe haven buying in recent months.**

Chart 18, however, shows that gold has been steadily weaker than bonds, but this past year has been most intense.

Note the ratio has now fallen sharply to the lower side of the downchannel. This level coincides with a now oversold gold market compared to bonds.

CHART 16

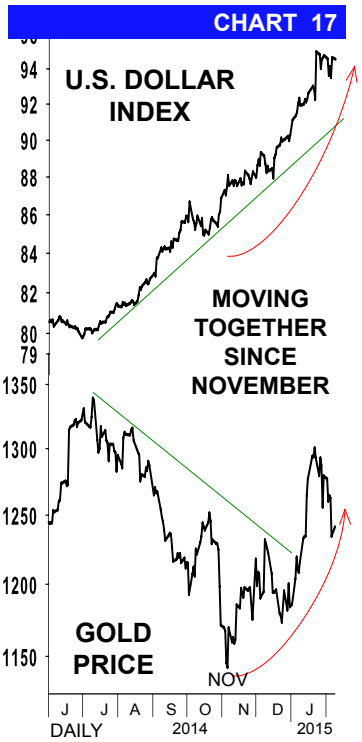
GOLD AROUND THE WORLD... BREAKING UP!



This means we could see gold start to outperform the strong bond market later this year.

We'll keep both our gold and bond positions until a trend change takes place.

Gold has been spooked by the threat of rising interest rates later this year. The upbeat jobs reports are adding wind to the sails for upcoming rising rates, but we'll have to see it to believe it.



We don't think it'll be easy for the Fed to raise rates later this year. Meanwhile, bonds and gold will remain strong while rates stay low and move lower.

GOLD & SILVER DEMAND: On the rise

It's been an incredibly strong year for Chinese gold demand, as they continue buying gold en masse. According to Koos Jensen, in just January alone a staggering 255 tonnes has been withdrawn from the Shanghai Gold Exchange, up 4% from the strongest January ever in 2014!

Russia also continues to buy gold for the ninth straight month. Other Eastern countries and the Middle East are actively buying gold too. Greek investors are now also buying gold to protect themselves from the country's political turmoil. Even hedge funds are stepping back into gold.

Silver demand is also picking up! Silver futures traded on the Shanghai Futures Ex (SHFE) accounted for almost 3 million tonnes! This is more than the tonnes traded on Comex. India alone imported over 7,000 tonnes of silver last year. That's up 15% from the previous year.

The list goes on but one thing seems clear, many central banks are protecting their countries by buying gold or repatriating their gold by returning it to their own country.

Germany was the best example when they shipped home 85 tonnes of gold from the Federal Reserve Bank of New York. And other countries are doing the same.

Meanwhile, the same central banks are drunk on liquidity. This is all unprecedented action, and it's no wonder why they're protecting themselves.

We should protect ourselves too; keep the gold you have and buy more, ideally on weakness.

We've showed you in recent months why we believe 2015 will be a key turnaround year for gold. It could be later in the year, but gold will likely be higher with more ongoing up years as 2016 gets started.

We believe this year is a great buying year for newcomers. And weakness is once again here....

GOLD TIMING: 'B' decline starting

Our older subscribers know our timing tools well. Gold is a cyclical market and when it does, or doesn't do something at a certain time it tells us a lot about the market.

For example, **Chart 19A** shows that when gold reached its low last November near $1143 (D), it could've easily fallen further in December, but it didn't. This told us gold was not that weak and the worst of the bear market could be behind us.

It's still too soon to tell, but the brisk rise has been a great start for the new year. And the weakness this past week will clearly tell us even more.

Most interesting, the gold price rose above its 65 week moving average, which was a good major trend change start, but it has yet to surpass the last major hurdle, the 23 month moving average at $1290.

This moving average has proved to be the best mega trend identifier. Gold resisted right at it in January, and it's coming down.

This means the rise was a classic intermediate A rise in time and shape. But the major

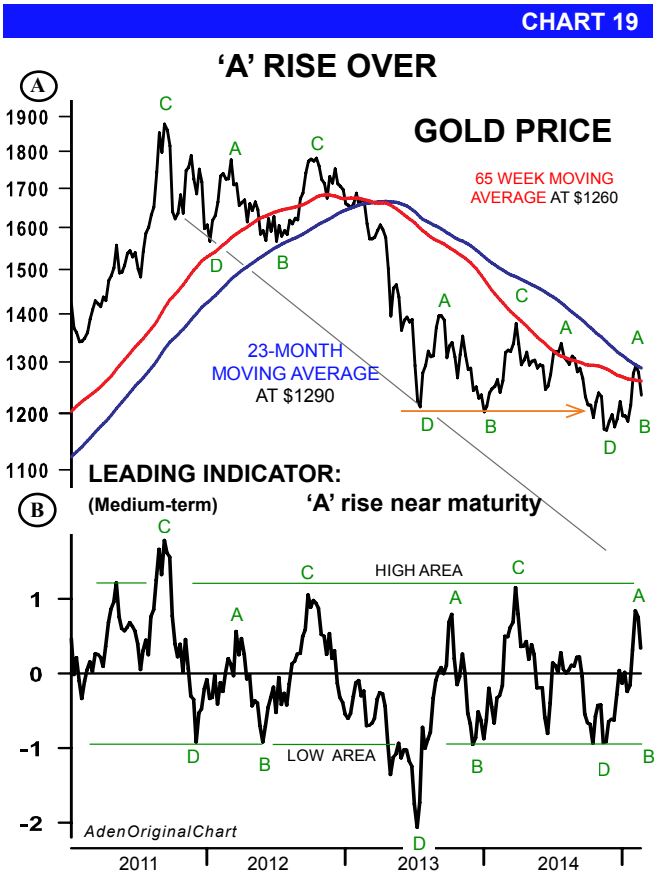
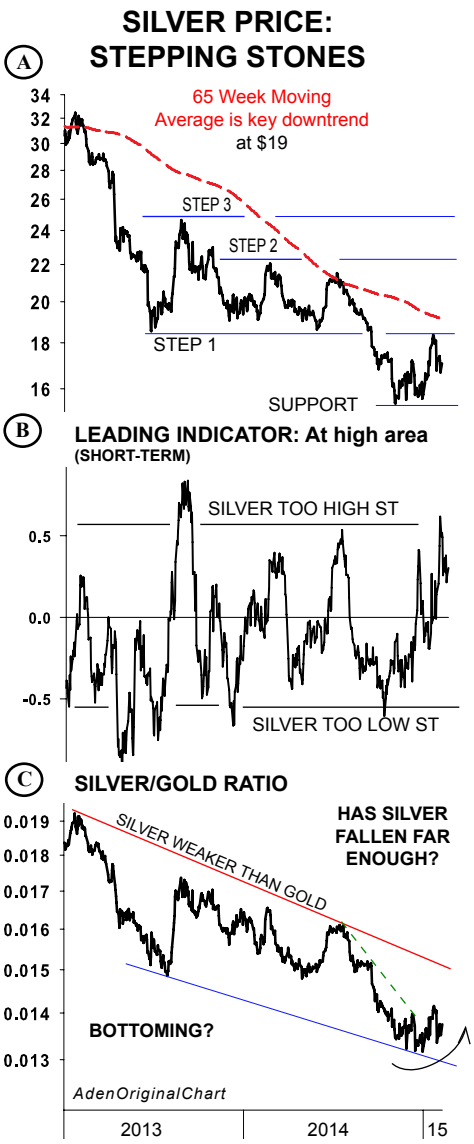


CHART 20



trend is still down and a B decline is currently in process.

The key question now is... will the new 'B' decline be a bullish decline? This will help us know how well the bottom area of the past 1½ years is forming.

Keep an eye on the following this month...

First, note the prior B decline at end of 2013 held essentially at the 2013 D low, which was the most severe fall in the bear market.

This shows the current B decline could test the November lows in a worst case, but more likely this B decline could be moderate.

Whatever it is, most important is that a new low doesn't develop in order for the bullish bottom formation to continue.

Keep an eye on the $1290 - $1300 level. This is the next strong resistance and it's important. By staying below it, gold could fall to the $1210 level and it would still be firm within a moderate B decline.

Then, $1180-$1190 would be the next support, and the final one is the November low at $1143.

Again, this weakness will provide a good buying opportunity.

This past month we've seen several gold experts turn bullish on gold. And we admit, it's in a great value area, but a full blown buy signal has yet to be triggered. We're ready.

Precious metals are the most inexpensive sector of the markets today... and especially their stocks.

SILVER: Best start to a new year in 3 decades

Silver's rise, like gold, has been fueled by haven demand. It's risen almost 22% in less than a month, from Dec 31 to Jan 23. It's off to a good start, but it's not out of the bearish woods yet.

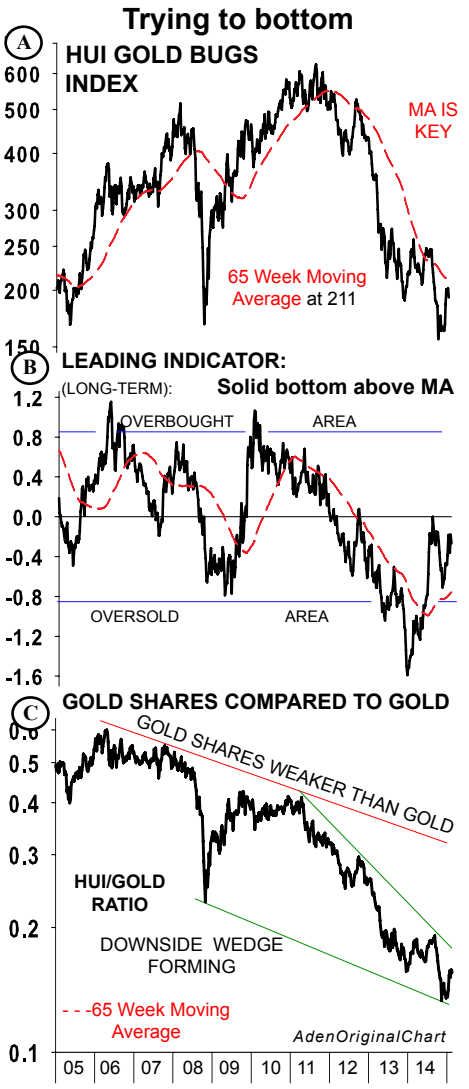
Chart 20A shows silver's steps. It has yet to rise above its first step and 65 week moving average. $19 is the key level here. The leading indicator (B) is at a high area, which means we probably won't see $19 surpassed right away. Silver is more likely to soften first.

Keep an eye on $19 and the low at $15.10. If a bottom is indeed trying to form as all suggests, we could see the lows tested, but then we'll likely see $19 surpassed when this sideways band is clearly broken.

Silver has been weaker than gold, but it's looking more stable too. Note that the ratio (C) is trying to bottom. And once silver starts to outperform gold, it'll be a bullish

CHART 22

CHART 21



sign for both. We'll be keeping our eye on this for a change as well.

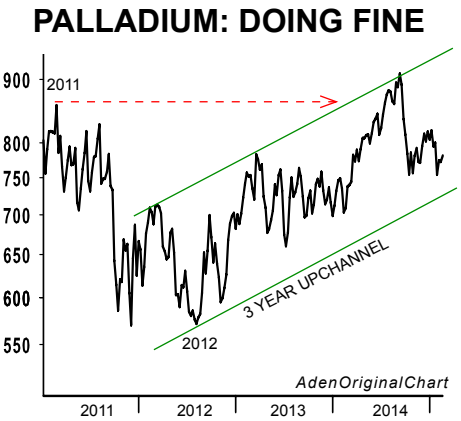
GOLD SHARES: Rising more than gold

Gold shares have had a great bounce up from their bombed out lows, rising over 40% based on the HUI index. Their leading indicator on **Chart 21B** is still poised to rise further from an oversold area. And the ratio of gold shares to gold (C) is rising from a multi decade low.

But the last hold out is the HUI index itself (A). Note it has yet to rise and stay above its 65 week moving average. Once it does, however, it'll turn bullish! You can see on the chart how well this moving average works with HUI. It has been very consistent.

Let's see if HUI can now close and

CHART 23



stay above 211.

Another weak spot are the junior gold mines. **Chart 22** shows they remain very weak compared to the seniors. This is saying the weakness isn't over just yet.

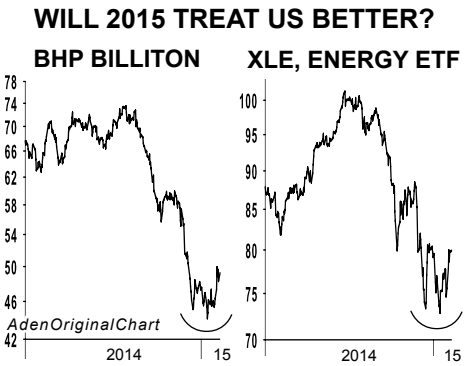
Palladium is used in catalytic converters, which has helped keep the metal strong. So as long as new car sales remain strong, palladium will continue its ascent. **Chart 23** shows palladium is strong above $760.

Some believe that low inflation and higher interest rates will drag gold down this year. This seems like pie in the sky for now because we must first see higher interest rates. And we think this is highly unlikely in the deflationary world today.

ENERGY & RESOURCES:
The hard road down

The oil price collapse will go down in history. In simply 7½ months, from mid-June 2014 to January 28, 2015, the oil price has fallen almost 60%! It fell to a six year low when it headed for its longest weekly losing streak since 1986.

CHART 26



This is causing havoc in the global economies. It's telling us the world economy is really not healthy. It's not as well off as people thought just less than a year ago.

You could say, well I'm filling my gas tank for less money, but it's a high price to pay for the tension and volatility it's causing on the world stage. It deepened the deflationary pressures and the slowdown in the global economies.

All the petro currencies fell sharply. And the currency upheaval went up a big notch.

The oil exporting countries have been set way back. Saudi Arabia just had its credit rating outlook cut to negative by S&P, among others.

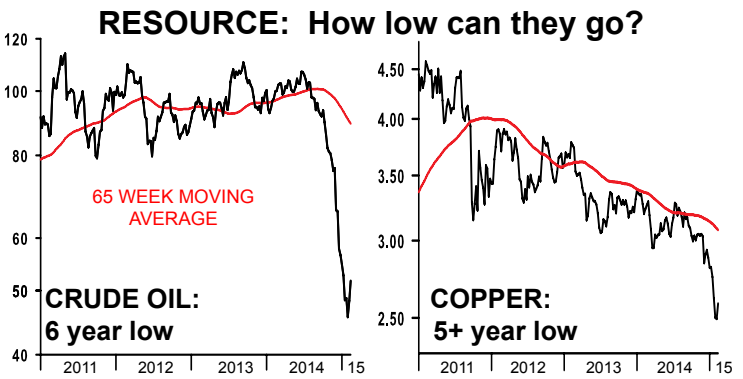
And in fact, a good part of oil's plunge was due to the world's ongoing high oil production.

In a desperate act, countries like Russia and Iraq are producing record supplies, which is adding to the global glut. And when you see Canada's oil shipments plunging in November, triggering the biggest drop in three years, and widening their trade deficit, you can see why.

Clearly, the shale oil production in the U.S. further hurts Canadians, OPEC and all producers. And this is happening while demand is down due to the weak global economy.

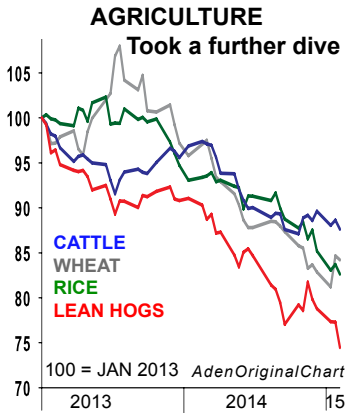
Energy, and steel and construction equipment companies are the types of companies that are struggling with a lower oil price. They find themselves in a scramble to lower costs and make major budget cuts.

CHART 24



This in turn is also affecting the otherwise strong stock market. The resource and commodity sectors overall are hurting as it cuts down demand.

CHART 25



You can see this clearly simply looking at the oil and copper prices on **Chart 24**.

Copper followed oil down further, and more sharply over the last several months. The slowdown in China, copper's largest consumer, is adding to the pressure and so is the uncertainty in Greece.

The already soft agriculture sector has also been affected (see **Chart 25**). Many fell further with the falling oil price.

BHP Billiton is the world's largest resource company, and it's now dealing with low prices and adjustments, just as the other energy companies are (see **Chart 26**).

For now, it looks like the lows have been hit, at least temporarily. We're now starting to see a much needed boost up in the oil price. And this volatility will likely be par for the course in the coming months. If crude now stays above $49, it could rise to $62 in a rebound bounce, and possibly even to as high as $80.

This would be a welcome relief for the world economy. The major pain is oil below $50.

It's premature to buy resources today, as tempting as they are. Let's let the dust settle first.

OVERALL PORTFOLIO RECOMMENDATION

This new year is bringing in lots of surprises. It's been one thing after another, resulting in volatility in nearly all of the markets. Our recommendations are generally doing fine and this month we increased our metals position to 15% of our total portfolio by adding more gold and silver, as well as SLW, CEF and GDX. This lowered our U.S. dollar cash position to 15%.

PRECIOUS METALS, ENERGY, RESOURCE

Gold has been off to a great 2015 start. Gold shares have been even better. But they rose too far, too fast and a B decline is now in process. We still believe that the lows are in and this B decline will reinforce this, or not. We continue to recommend raising your metals related investments to 15% (up from 10%) of your total portfolio. Buy more gold and silver, as well as GLD and SLV. Also buy RGLD and new positions, which are Silver Wheaton (SLW), Central Fund of Canada (CEF) and the Gold Miners ETF, (GDX).

U.S. & GLOBAL STOCK MARKETS

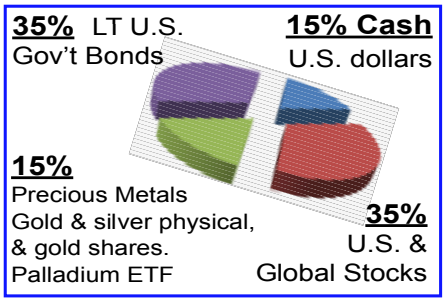
The stock market has been volatile. But it's bullish in a steady uptrend and likely headed higher. The global stock markets are looking better too, which is a good sign. We continue to advise keeping 35% of your total portfolio in our recommended stocks, but we may be selling some of the weaker ones on a rebound. For new positions, buy IHI, IBB, DIA and QQQ.

CURRENCIES

The U.S. dollar is still very strong and it's the king of cash. But it's still overdue for a downward correction. At the same time, the volatile currencies are likely near a bottom. For now, however, keep 15% (down from 20%) of your cash in U.S. dollars and avoid the other currencies for the time being.

INTEREST RATES & BONDS

Bond prices remain very strong. They're the world's favorite safe haven and they're likely headed even higher this year. That is, interest rates are going to fall further. For now, bonds have risen too far, too fast and a normal downward correction is underway. We continue to recommend keeping 35% of your total portfolio in over 10 year U.S. government bonds. We also like the bond ETFs. For new positions, buy UBT, which has been the strongest, ideally during this downward correction. TLT, TLO and TLH are also good to buy.



OUR OPEN POSITIONS in order of strength per section

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Gold Miners ETF	GDX	Jan-15	21.74	21.28	-2.12	Buy/Hold
Silver Wheaton	SLW	Jan-15	23.05	22.17	-3.82	Buy/Hold
Central Fund of Canada	CEF	Jan-15	13.36	12.70	-4.94	Buy/Hold
Royal Gold	RGLD	Mar-14	66.04	70.29	6.44	Buy/Hold
Gold (physical)		Oct-01	277.25	1232.20	344.44	Buy/Hold
Gold Shares SPDR	GLD	Jan-15	125.23	118.47	-5.40	Buy/Hold
Silver (physical)		Aug-03	4.93	16.87	242.25	Buy/Hold
iShares Silver Trust	SLV	Jan-15	17.61	16.19	-8.06	Buy/Hold
Palladium	PALL	Jan-13	69.71	74.71	7.17	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
iShares US Med Dv	IHI	Oct-13	86.70	115.50	33.22	Buy/Hold
Nasdaq Biotech	IBB	Nov-14	296.31	318.26	7.41	Buy/Hold
Dow Diamonds	DIA	Jun-14	169.08	178.51	5.58	Buy/Hold
Nasdaq Powershares	QQQ	Jun-14	92.82	104.40	12.48	Buy/Hold
S&P Glbl Tech	IXN	May-14	87.75	95.38	8.70	Hold
iShares Transports	IYT	Oct-13	118.85	160.08	34.69	Hold
iShares Hong Kong	EWH	Jul-14	21.65	21.81	0.74	Hold
DJ US Telecom	IYZ	Sep-12	25.22	30.53	21.05	Hold
Global 100	IOO	Oct-13	72.97	76.77	5.21	Hold
Utilities Select	XLU	Apr-14	43.11	47.10	9.26	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	100.35	31.76	Hold
Procter & Gamble	PG	Sep-12	68.10	85.39	25.39	Hold
Microsoft	MSFT	Feb-13	28.01	42.60	52.09	Hold
Energy Select SPDR	XLE	Aug-12	72.37	79.86	10.35	Hold
iShares Mexico	EWW	Jul-14	70.93	58.08	-18.12	Hold
iShares Singapore	EWS	Jul-14	14.04	12.90	-8.12	Hold
BHP Billiton	BHP	Aug-13	67.68	48.35	-28.56	Hold
iShares Canada	EWC	Jul-14	32.65	27.60	-15.47	Hold

BONDS

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Ultra 20+ Treasury	UBT	Feb-14	58.00	85.39	47.22	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	137.65	9.48	Buy/Hold
SPDR L-T Treasury	TLO	May-14	66.40	74.70	12.50	Buy/Hold
20+ year Try Bond	TLT	Feb-14	107.78	129.71	20.35	Buy/Hold
Intermediate Muni	MUNI	Feb-14	52.69	53.85	2.20	Hold

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

