THE
ADEN FORECAST
MONEY • METALS • MARKETS

FEBRUARY 2016 *our 35th year*

THE YEAR OF THE BULL... In Gold

It's been a wild and crazy ride.

In just the past few weeks the market action has been unlike anything we've seen in many years. It's as if someone pulled a switch on 2016 and turned the markets upside down, and it's affected all of them in a big way...

...AND YEAR OF THE BEAR... IN STOCKS

Stock markets around the world have dropped sharply in their worst start to a new year in almost 50 years (see **Chart 1**). All of them are currently in bear markets.

As a result, bond prices have been soaring and they're up 12% this year. Basically, investors are running to bonds as a safe haven, thereby avoiding the stock market turmoil. And as they do, long-term interest rates have been falling further.

This turmoil also drove the gold price up sharply. It too is benefitting as a safe haven. Along with U.S. government bonds, it's been one of the few markets to chalk up decent gains of 12½% so far this year.

2016: The year of change

More important, and as you'll see this month, 2016 is the year of change.

A major gold reversal is taking place and this rise is likely the start. If so, it'll mean the 4 year bear market is over and a new bull market is beginning. If that proves to be the case, the gold price is going to rise a lot further.

This is all pretty exciting. One reason why is because the gold price rise is also pulling silver up. The same is true of the gold and silver stocks (finally!). Gold shares have already shot up more than the metals!

INSIDE

You'll remember, these markets were about as bombed out as they could get. That had been the case for months and they stayed bombed out.

But it's now a different story. Like gold and silver, the gold and silver stocks are also turning bullish. And we should know very soon if these major trend reversals are confirmed...

If they are it'll be a major game changer, further affecting all of the markets. In other words, what was good before will not be going forward, and vice versa.

KEY INGREDIENT: U.S. dollar turning down

Currently, for example, the U.S. dollar has also declined. This reinforces the gold rise will probably be long lasting, especially if the dollar confirms the start of a new bear market decline.

That hasn't happened yet but it could happen soon. And if it does, gold and the dollar would continue moving in opposite directions like they usually do, reinforcing their new trends.

One clue telling us this will probably happen is the action in the currency markets.

The Japanese yen has already turned bullish and the euro is following. That is, they're leading the way up and the other currencies will likely follow too. This also means the U.S. dollar's days as a strong currency are numbered.

SYNCHRONICITY

Most important, we're now seeing big changes taking place and they're all happening in synch with one another. And even though these markets are recently rebounding (stocks and the U.S. dollar are rising, and bonds and gold are declining), these big changes are more powerful.

This hasn't happened in a long time and it feels good to see the markets again making sense, fundamentally and in relation to one another... It makes our job smoother and provides more optimism, as far as the markets go for this year compared to last year.

Don't get us wrong... it's not that we necessarily like what's happening, but at least it makes sense.

The main culprit spooking investors, for instance,

has been the oil price. Investors are afraid the price collapse will keep economic growth slow, or trigger a recession, or more deflation.

They're also worried about China's slowdown, the possibility of a 2007-08 financial crash repeat, steeper stock market losses, politics, massive debt repercussions, trouble in the emerging markets and the sharp drop in commodity prices.

You name it and there's a lot to worry about. This has resulted in fear and, unfortunately, that's been the main factor driving the markets since the new year began.

CRUDE OIL: Hit 2003 lows

The oil price alone has dropped 73% over the past 20 months. That's clearly spilled over to the markets, and with reason.

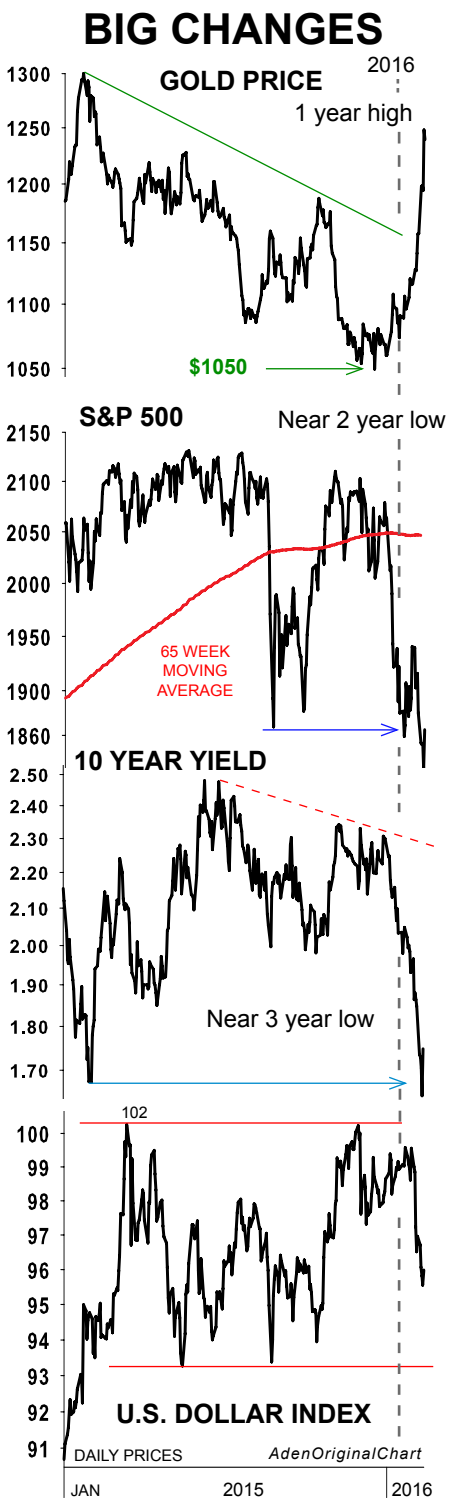
Supply has been flooding the markets and this is keeping downward pressure on the oil price. This in turn is raising concerns of possible massive bankruptcies.

Considering the average cost of producing a barrel of oil by country, the U.K., Brazil, Canada, U.S., Norway, Colombia, China and Mexico are feeling the most pain based on current prices.

That's one of the main reasons why many of these countries are in recession, or teetering on recession. In Brazil's case, it's in the longest recession since the 1930s.

On the other hand, despite the negative news about Saudi Arabia, the low oil price isn't hurting the Middle Eastern countries, as much as the others.

CHART 1



JAPAN JOINED THE NEGATIVE RATE CLUB

Another big event this month happened in Japan when they lowered their interest rate below zero. As we've mentioned before, this means the saver essentially has to pay the bank to keep their money.

This is totally backwards and until recently it's never happened before in all of recorded history. But now things have changed and Japan is not alone...

As you can see on **Chart 2**, the Eurozone, Sweden, Denmark and Switzerland also have negative interest rates.

In fact, about 25% of the world's bonds now have negative interest rates. So it's no wonder U.S. bonds are so attractive in comparison. But what's going on?

The central banks are desperate. For years they've been pumping money into their economies and they've tried QE many times. That is, they've been buying billions of dollars in bonds in an unprecedented effort to get their economies up and running.

But it hasn't worked. The individual economies remain weak or they're in recession. Plus, stocks are plunging and the turmoil is getting worse, threatening the world economy.

As for inflation, it would be a welcome relief. But deflation is in the driver's seat and for the first time since 1932, all major economies have inflation below 2%.

This isn't good, and several central bankers have said they're running out of options. So they're jumping on the negative interest rate band wagon.

WILL U.S. FOLLOW?

Many experts believe it's just a matter of time until the Fed's forced to cut interest rates again. And Janet Yellen and Ben Bernanke have both said that U.S. negative interest rates would not be out of the question, if need be.

Is this becoming a new trend? It could be. Since the central banks tend to follow each other, this appears to be the new popular tool in the ongoing war against deflation.

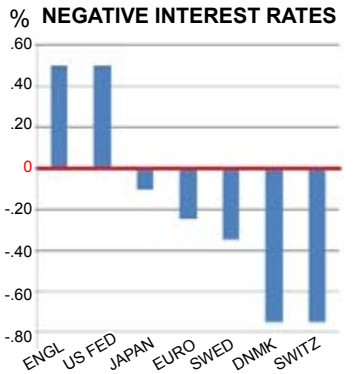
Will it work? We don't know, but the markets are indicating it's unlikely.

Plus, many experts are sounding the alarm that a crisis is a real possibility. The IMF, for instance, is concerned that market liquidity is drying up and this may trigger a violent global sell off, similar to 2008.

This is not meant to scare you, but to point out the many risks facing the global economy, and it's being reflected in the markets.

This in turn is going to mean new opportunities and again, we look forward to sharing them with you as this year unfolds.

CHART 2



SOURCE: http://www.global-rates.com

U.S. & WORLD STOCK MARKETS

A raging bear market

The stock market is plunging. It's getting beaten up. The bear market is striking out in full force and stocks are headed a lot lower.

TECH STOCKS VS MINING STOCKS

The markets have done a complete flip flop. And most impressive, it's all happened so quickly.

This is clearly illustrated on **Chart 3** where you'll see Amazon and the Gold Miners Index.

As you know, Amazon and a handful of tech stocks were the big leaders last year. While most stocks went down, Amazon marched onward and upward.

In fact, Amazon rose so high, its price/earnings (PE) ratio neared 1000, which is unheard of. (Historically, the average PE ratio is about 15.)

So when the stock market turned down sharply this year, Amazon crashed. It's now dropped 27% since its peak at year end. The same is true of some of the other former tech stock darlings.

MAKING AN ABOUT-FACE

In sharp contrast, gold stocks have been falling hard for the past few years, finally reaching extreme oversold levels last year.

This year, however, they've done an about-face... Gold stocks have soared. The GDX Gold Miners index, for instance, is up 50% so far this year and it's poised to rise much further.

In a dramatic change, what was out last year is now in, and what was in is now out...

As simple as that sounds, that's exactly what happened. It's still happening and this is set to continue for probably most of 2016, and maybe beyond.

BEAR MARKETS: Across the world

Currently, for instance, every major stock market in the world is in a bear market.

CHART 3

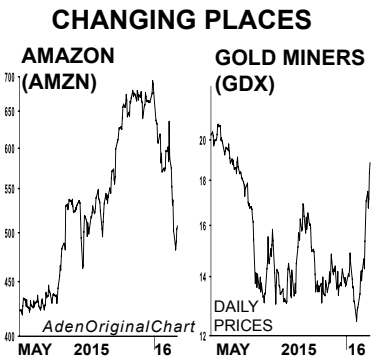


Chart 4 provides an example of some of the markets. In all cases, you can see they're well below their 65-week averages.

This reinforces the major trends are down across the board and the numbers are getting worse.

So far, Nasdaq and the Russell 2000 have declined 16½% and 25%, respectively. Shanghai has plunged 46% and Europe overall is down 25%.

And as long as the markets stay bearish, they'll continue signaling stocks are poised to fall further, despite the recent rebound rises.

OKAY, BUT WHY SO BEARISH?

Aside from all the issues we've already mentioned that're fueling fear in the markets, is something else bothering the stock market?

If we had to guess, it could be as simple as the Fed taking the punch bowl away. It stopped QE and the markets have been upset ever since.

Negative interest rates have also been worrisome. This situation is eroding the profits banks usually make, which is why so many bank stocks have been hit hard.

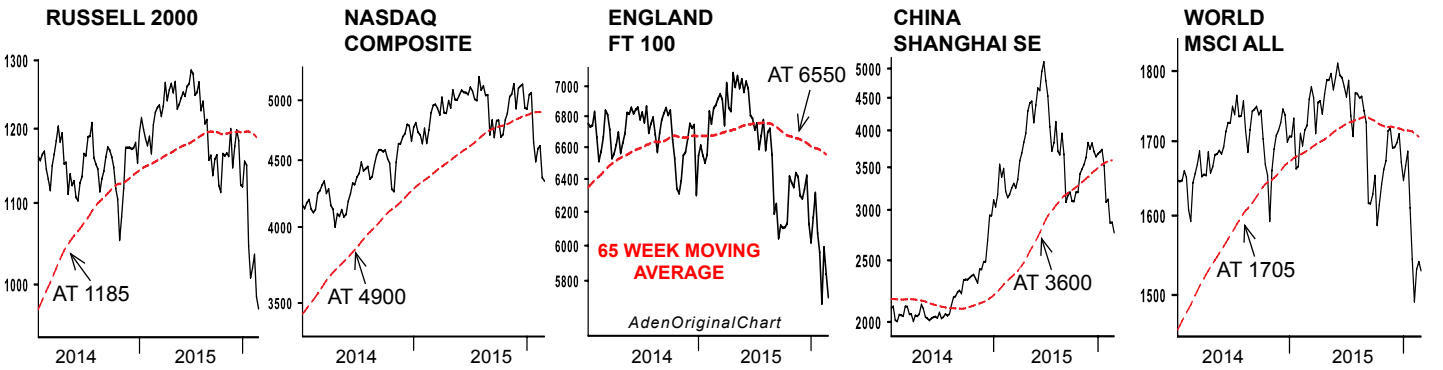
Credit Suisse, for example, recently plunged to a 27 year low. This brings back memories of 2007-08 when banks triggered the worst financial crisis since the Great Depression, and many banks and investors went broke.

Most important, investors are losing confidence in the ability of the Fed and other central banks to boost economic growth and stabilize the markets.

So basically, there's a whole laundry list of things to worry about...

But whatever the reason, the market action is even more important. It's telling the story and it's not a pretty tale.

CHART 4



DOW THEORY: Bearish

Looking at the Dow Industrials and the Dow Transportations on **Chart 5**, you'll see that both broke down to new lows last August. This confirmed a Dow Theory bear market signal.

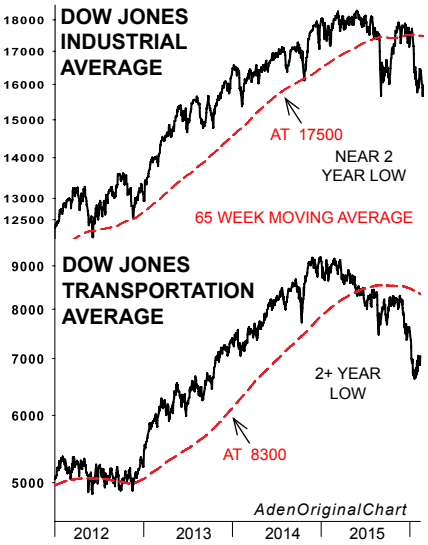
The Dow Transportations then went on to break below the August lows in late 2015, but the Dow Industrials didn't. This signaled a non-confirmation.

But recently, the Dow Industrials dipped below its August low. This reconfirmed the important bear market signal, also reinforcing the stock market is indeed going lower.

For the record, the Nasdaq, S&P500 and Russell 2000 have all broken below their August lows, which is more bearish action.

CHART 5

DOW THEORY BEAR MARKET... Reconfirmed!



JANUARY BAROMETER: Bearish

Then there's the January barometer... "As January goes, so goes the year." And before you think this is trite, consider that this indicator has been accurate 88% of the time, going back to 1950. So it can't be shrugged off.

The bottom line... January 2016 was one of the worst Januarys on record. And this too does not bode well for stocks this year.

In fact, if we next take a look at the big picture for stocks, it's telling us the bear market is actually just getting started.

TECHNICALS: Bearish

We know that's a bummer and it's probably not what you want to hear, but we're just the messengers and here's the story...

Looking at **Chart 6A**, you'll see the S&P500 going back to 1995. Since that time it's traded in a 1 through 4 pattern, which has been pretty consistent.

Note that the 3s have coincided with stock market tops, and the 4s have coincided with stock market lows, all within a 21 year upchannel.

Most impressive, is where the market now stands...

As you can see, the S&P 500 formed a major #3 top last year. Currently, a #4 decline is in process but it's still in its early stages.

The S&P's leading indicator is reinforcing this (**Chart 6B**).

Note that it's only now dropping below the zero line and it has a long way to go before it reaches the major low area, which coincides with stock market bottoms. In other words, stocks are likely going to drop much further.

CHART 6

ROOM TO MOVE MUCH LOWER

SO HOW LONG COULD THIS BEAR MARKET LAST?

According to Morgan Stanley and based on a study of 40 bear markets, the average bear market has lasted about 9 months and the declines have been about 30%.

Of course, some bears have been longer and others have been shorter, but this gives you an idea of what we might expect based on the average.

As an aside, we wanted to mention the 20% rule of thumb many analysts follow. We're sure you've heard commentators say it's not a bear market until the stock market has declined 20%. Anything less than 20% is considered to be a downward correction in the stock market.

This 'rule' doesn't really mean anything. Basically, someone just made it up and it's become popular in recent years.

There are many tools that told us last August that a bear market was getting started... most of the 65 week moving averages for the individual stock indexes were broken, for example, the leading indictors were breaking down and Dow Theory also triggered a bear market.

So please, don't follow the 20% rule. Essentially, it'll keep you in a bear market longer than necessary.

WHAT TO DO IF STILL INVESTED

In the meantime, many of you have asked us what to do if you didn't sell your stocks prior to this steep decline...

Under normal circumstances, stocks will rebound following such a big decline. That's what's currently happening and stocks will probably head higher in the weeks ahead.

If they do, we'd advise lightening up on your stocks if you feel you're still too heavily invested.

For those of you who are out of the market, it's best to stay out and remain on the sidelines, like we've been recommending since last August.

U.S. INTEREST RATES AND BONDS

Bonds are soaring

Bond prices have been surging.

They're still one of the favorite safe havens. With all of the world's stock markets bearish and the world economies vulnerable to a recession, or already in one, bonds have become even more attractive.

INVESTOR'S GROWING FEAR, SEEK SAFETY

U.S. government bonds are considered the safest and most secure investments in the world. Since they're backed by the U.S. government, and the U.S. economy is the biggest in the world, U.S. bonds are the shining star in the global safety arena.

But they shine even brighter when fear enters the picture, and that's what's been happening lately.

As we previously mentioned, there are plenty of reasons why investors are fearful worldwide. And as long as they are, bond prices will keep rising.

That's why we continue to recommend buying and holding 20% of your total portfolio in long-term U.S. government bonds and/or the bond funds listed on page 12. They're posting solid double digit gains and we expect this will continue.

RATE HIKE IN DECEMBER, A MISTAKE?

As you know, the Fed raised interest rates for the first time in nine years last month. We believe that was a mistake.

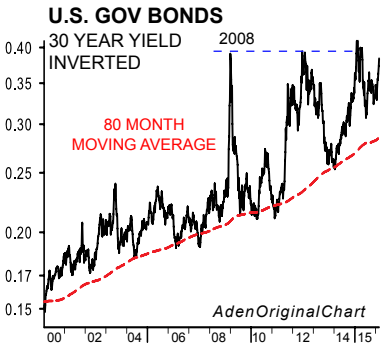
The economy wasn't strong enough to handle an interest rate hike. And neither was the rest of the world. The end result has been panic, fear and market volatility.

And while this all can't be blamed on the Fed's interest rate hike, it was a very influential contributing factor.

The Fed basically said so when they recently decided to leave interest rates unchanged. They noted they'll be watching to see how the global economy and markets impact the U.S. outlook.

This means the Fed will now have to consider market volatility when making decisions on monetary policy.

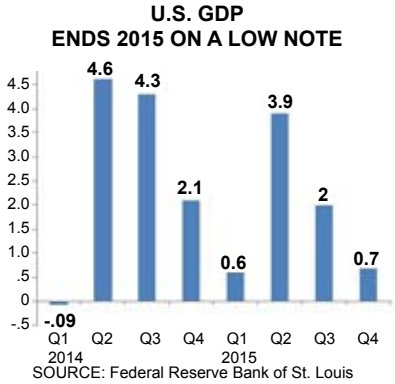
CHART 8



This makes sense. The Fed simply can't make decisions in a vacuum. The world is more interconnected than ever before and the Fed has to consider global repercussions, as well as reactions at home.

That's why we're fairly certain the Fed will not be raising interest rates this year. With the world economy so weak, an interest rate rise would only make matters worse.

CHART 7



SLOW GROWTH: NEW NORMAL

The Fed knows this and so do the rest of the world's central banks. That's why many countries are going in the opposite direction...

Aside from negative interest rates in several countries, the U.S. economy really slowed down in the fourth quarter (see **Chart 7**). So we're pretty sure that long-term interest rates will keep falling. And as they do, bond prices will head higher.

As you know, this type of environment is super bullish for bond prices. They do well when the economy is slow or when there's a recession, and it's happening again.

The big picture for bond prices shows the major trend has been up for the past 35 years (see **Chart 8** which shows this trend since 2000).

The record 2008 highs have been a strong resistance level, but eventually, that will probably be broken on the upside.

Taking a more close up view on **Chart 9A**, you can see the upside potential for bond prices.

That is, if this resistance is clearly broken, then bonds will likely rise to the top side of their upchannel as a next target. This could happen once the current downward pressure on bond prices ends.

And since the leading indicator has room to rise further before it's too high, it reinforces that this upside target is not out of the question (see

CHART 9

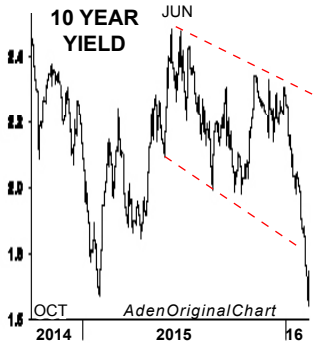
Chart 9B).

Currently, several countries are falling into recession like dominoes. And with the rest of the world struggling with slow growth, it wouldn't take much for those countries to fall into recession too.

This alone is going to keep interest rates low, probably for a long time (see **Chart 10**)

CHART 10

ONE YEAR LOW



THE BEAT GOES ON

And finally, there's another interesting bond tidbit we want to pass on...

As you know, China's economy has been slowing and the oil price has been dropping. As a result, China and Saudi Arabia have been selling their Treasury bonds like hot cakes to help boost their economies and currencies.

Since they're both big bond holders, this has raised some concerns. But something more important is also happening.

As our dear friend Chuck Butler reports, the Fed never ended rolling over their maturing bonds, which they bought during the QE days. So they'll stay indefinitely active in the market.

For example, "this year they'll have to purchase about $216 billion to replace matured Treasuries.

In 2017 it'll be $194 billion, about $373 billion in 2018 and $329 billion in 2019 for a grand total of $1.1 trillion over the next four years."

This means the Fed will monetize about half of the total issuance this year. It doesn't mean their total holding will rise, which sits at $2.5 trillion, but it means Treasury yields sure aren't going to rise, not with half of the total issuance being monetized by the Fed."

So again, buy and keep those bonds.

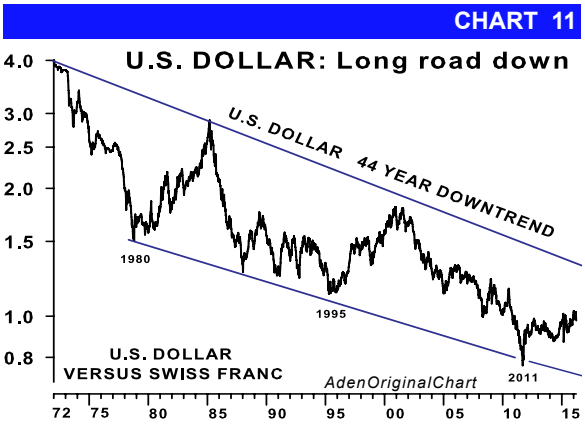
CURRENCIES

U.S. dollar: Declining from highs

The U.S. dollar has also been an important safe haven.

Nearly all of the other currencies have been weak, and with the U.S. dollar now starting to break down, it's joining the weak currency parade.

CHART 11



DOLLAR'S THRONE IS WOBBLING

As the currency wars rage on, the U.S. dollar is still near the top of the heap. That doesn't mean it wants to be there, but it is.

As we've often mentioned, there's a lot of disadvantages to being the strongest currency. These range from trade deficits, sluggish economic growth, poor earnings, deflation and much more.

That's why none of the countries want their currencies to be strong. And by keeping their interest rates low, or negative, they're making sure their currency stays weak.

So the bottom line is, the U.S. dollar remains fairly strong compared to the others.

INTEREST RATES DICTATE CURRENCIES

The simple fact remains... the world is focused on interest rates. So even though short-term U.S. interest rates are still low, at less than one half of 1%, they're higher than interest rates in other countries.

In other words, it's all relative. And higher U.S. rates continue to favor the U.S. dollar.

That's the reason we still recommend keeping a large cash position in U.S. dollars.

Even though it may seem boring, cash is one of today's best investments. Other markets are mostly volatile and risky, which makes staying in cash more attractive. But we don't think this will be the case for long.

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Published monthly by Aden Research. Also includes access to a weekly update $250 per year (U.S. dollars only). Send all customer service or market related questions to Aden Research, Dept. SJO 874, P.O. Box 025331, Miami, Florida 33102-5331 or E-mail info@adenforecast.com Questions will be answered in future issues.

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For now, however, you can't get hurt holding cash. Plus, you'll be ready for good profitable investment opportunities when they come along, and this could happen soon.

U.S. DOLLAR INDEX: Topping

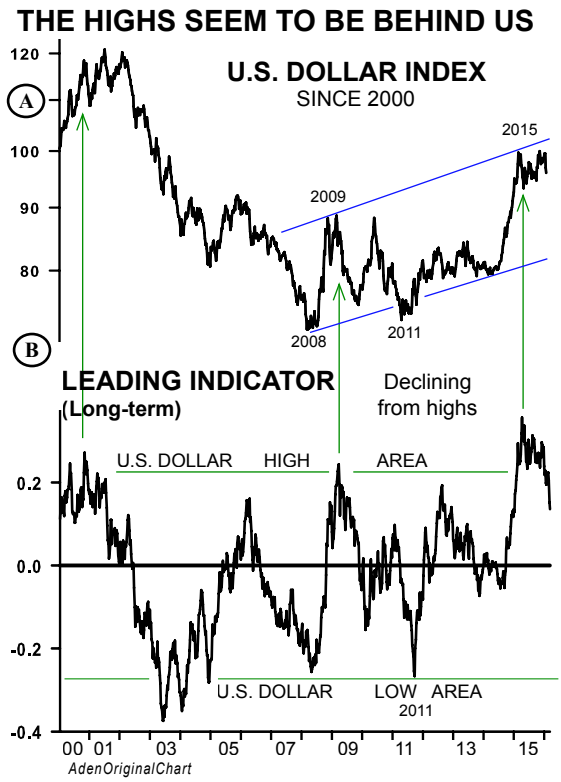
Meanwhile, we'll continue keeping a close watch on the U.S. dollar index (see **Chart 12A**)...

It's been looking toppy for over a year now. And regardless of the bullish reasons why the dollar should be going higher, it hasn't been able to.

Plus, the dollar's leading indicator is breaking down from the high area. This tells us the dollar will soon head lower. If so, it'll probably coincide with a rise in the gold price.

For now, the important number to watch is 95 on the U.S. dollar index. A sustained decline below that level, would be a strong sign the dollar is embarking on a new bear market decline, with all that implies.

CHART 12



CURRENCIES: Bottoming

First, it would mean the other currencies are going to keep rising (see **Chart 13**).

As you can see, they still appear to be bottoming and if they are, we'll want to buy some of the stronger currencies for the upcoming rise.

Currently, the Japanese Yen and euro are leading the way up. But we're only recommending a small position in the euro for the time being.

Once the U.S. dollar turns down it'll again be moving in synch within its long-term mega downtrend (see **Chart 11** on page 6).

U.S. DOLLAR: Major trend is down

This downtrend has been in force for 44 years, ever since the dollar went off the gold standard.

And during this time, the U.S. dollar has dropped about 75%% against some of the major currencies.

You'll also see that within the dollar's mega downmove, it's had three periods of strength and each one lasted about five years.

These happened in 1980, 1995 and 2011. So far, we're now in the fifth year of the third upmove.

So if the previous consistencies repeat, then the current dollar strength could end at any time.

So again, keep an eye on 95 for the U.S. dollar index. That'll tell the story...

Keep in mind, the Fed is the same as the others. That is, a weaker U.S. dollar would make them happy.

It would help boost business and the economy, improve trade, hopefully get inflation to pick up, and it would ease some pressure on the oil price.

A FRAGILE INTERCONNECTED WORLD

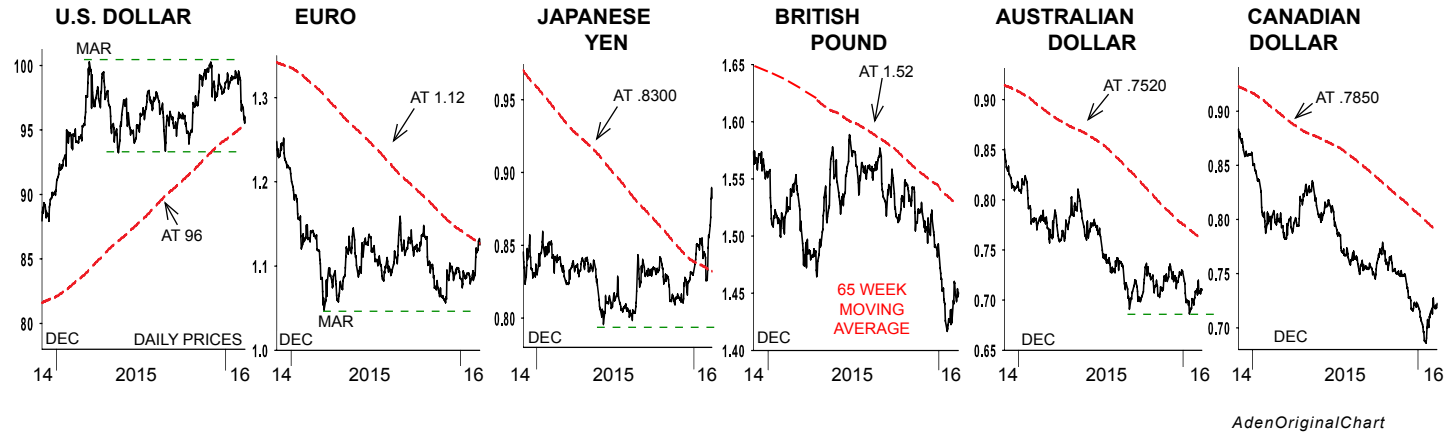
As an aside, the Saudi currency has been super weak and oil accounts for 75% of their revenues. Their currency is pegged to the U.S. dollar and their oil is priced in dollars.

Rumor has it the Saudis may drop their peg to the U.S. dollar. If they do, it could mean more severe currency wars and a lower oil price, which would add to deflation pressures.

This is obviously a worst case scenario, but it provides one example of how vulnerable the global financial system is.

Meanwhile, Ben Bernanke believes the dollar may have peaked. Considering the Saudi scenario, we hope he's right.

CHART 13



METALS, NATURAL RESOURCES & ENERGY

Bull-icious! Gold is flexing its muscles!

Gold jumped out of the gate, soaring to a one year high in its best rise in a long time. Gold gained almost 20% since the December lows while gold shares rose three-fold, rocketing up almost 60% since their lows in January.

Gold is now taking a breather, but it's been one of the best performing assets so far in 2016. And we all got a Valentine's gift with the best weekly gain since the 2008 financial crisis!

Safe haven demand has been the main driver in this strong rise we call a C rise. And this rise has been the best intermediate rise in the current bear market.

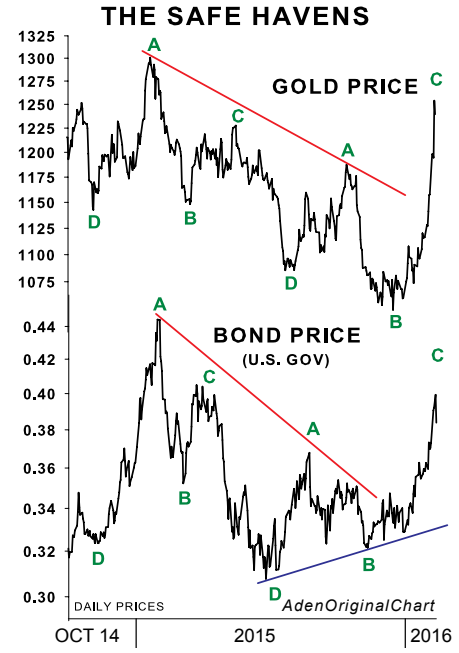
TURNING BULLISH!

Gold's now starting to turn bullish for the first time since the bear market began. By jumping above $1200 it crossed two major bear market resistance levels. It rose above the prior peak last October for the first time since 2012. And it's now clearly crossed above its 23 month mega moving average for the first time in three years!

This rise is promising in a year that's set to become the pivotal year for gold. The falling oil price and steep losses in global stock markets are adding deflationary pressures to the world economy. And it doesn't look like this will change any time soon, especially as investors lose faith in central bankers to spur growth and stabilize markets.

In other words, gold and bonds will likely keep their safe haven status this year. In fact, looking at **Chart 14**, note that gold and the bond market have been moving in lockstep. Instead of being the normal inflation-deflation barometers, they've both been overpowered by safety.

CHART 14



And since the U.S. dollar is now starting to decline, it'll add more luster to the gold price, and to the commodity sector in general.

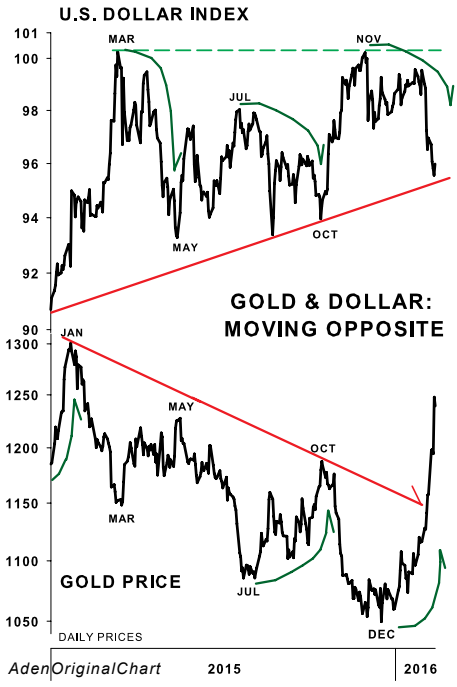
Gold also appears to be reasserting itself as the ultimate currency due to the growing uncertainty in the global economy.

With negative interest rates gaining ground around the world, and Yellen recently adding that the Fed may delay raising interest rates, it's giving gold a big boost.

You'll recall that gold was under the Fed's thumb last year when they repeatedly said that interest rates would rise.

Since gold doesn't pay interest, it shines when the prospect of lower rates prevails.

CHART 15



GOLD AND THE DOLLAR

This alone is putting pressure on the dollar index. As **Chart 15** shows, the dollar index is falling while gold soars. They've been moving opposite over the past year but this time around, the dollar is falling from its November peak area, while gold surpassed its prior high for the first time in the bear market.

Plus, even with the euro also rising, gold is moving up more than the euro (see **Chart 16**). This is bullish for the yellow metal. Interestingly, gold was only down in euro terms one year in 2013.

Very interesting and timely, note the big picture of gold and the dollar since 1972 on **Chart 17**. This clearly reflects their opposite movements over the long term.

But more intriguing are the red contra trends, when gold declined and the dollar rose.

As we previously mentioned, this has happened three times since 1972. These contra trends tend to last five years, like in 1980-1985 and in 1995-2001.

And now, this contra trend of the dollar up and gold down is in its fifth year. Basically, this is saying that this is a good time for **gold and the dollar to change places**.

Further backing this up is gold's position versus the stock and bond markets. Gold is bombed out and it has room to rise more than stocks and bonds.

STRONG DEMAND

Another bullish and impressive factor is the strong and ever growing demand for gold.

The Chinese, Russians, Indians and many former

Soviet states have been steadily accumulating gold reserves. As our good friend Ian McAvity points out, they're reducing their overall exposure to the YES (Yen, euro, US dollar).

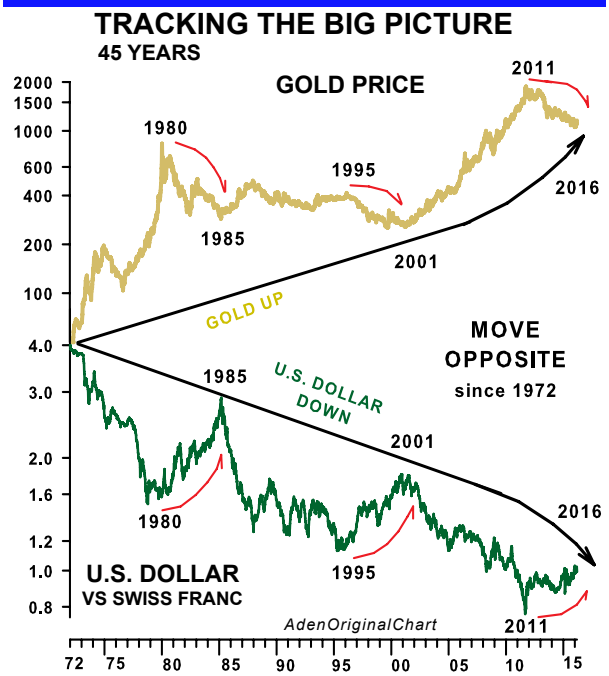
China's gold consumption rose last year and its central bank continues to see the value of diversifying into gold by buying on a monthly basis.

In December alone, India imported more than 100 tonnes of gold. Meanwhile, sales of gold coins by the U.S. Mint soared 53% in January alone! Gold ETF holdings have also soared and prominent hedge funds are buying.

It's no wonder why gold has suddenly become the darling of 2016. After declining steadily since 2012, gold is at a good value versus most asset classes. And its safe haven status makes it shine the most.

Plus, 2016 is the 8 year cycle low time-period we've been showing you. This is the year when it's most probable to see a low and turnaround from bear to bull.

CHART 17



The intermediate rise since December, we call a C rise, was strong, rocketing to a one year high! This rise broke the negative back of the bear market.

As you can see on the chart above, gold rose above its 23 month moving average for the first time since early 2013, which was the start of the worst part of the bear market. This alone is very powerful because the key mega trend is now turning bullish!

Currently, gold is also seriously testing the top side of the down-channel.

If gold can stay above the $1187-$1193 level (the 23 month moving average and the October high), the bear market will be clearly over....

And a new BULL MARKET will be starting!

The C rise, however, is now nearing maturity with its leading indicator at the high area, so it's normal to see some weakness following such a steep rise.

The upcoming D decline will be key to this turnaround! So keep an eye on gold's weakness this month or next. As you may remember, the D declines in gold tend to be the worst intermediate decline in the A through D pattern. In a bear market, gold tends to hit new lows for the move.

This is why the upcoming weakness will be important. It'll actually be part of the full pattern to confirm if a new bull market is truly underway.

The C rise confirmed a new bull market, and now if the upcoming D decline low stays above the December low at $1050, it'll reinforce the bullish C rise and the overall bull market.

Let's try to measure this... If gold declines and stays below $1187, the D decline will clearly be underway.

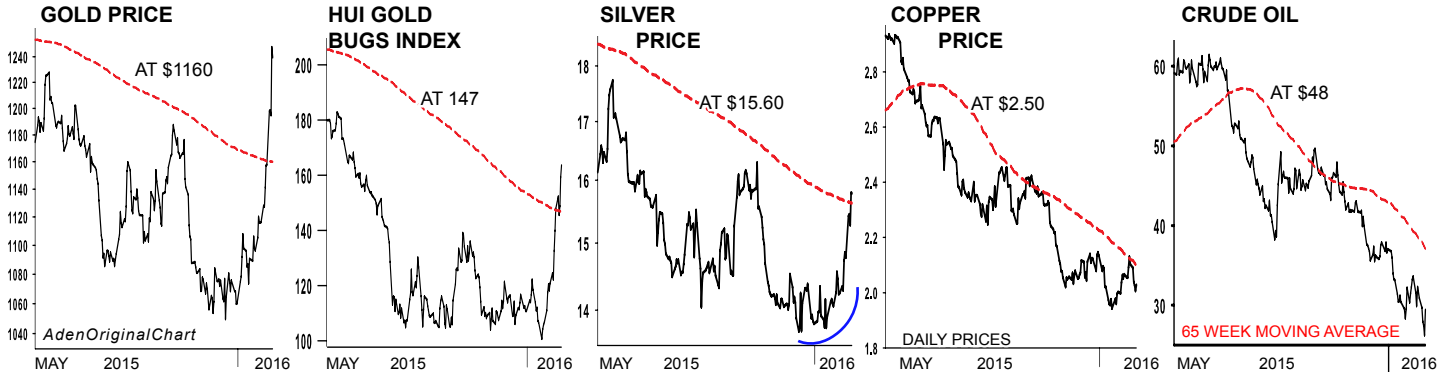
In fact, with gold now turning bullish, it's very possible that the low last December at $1050 was indeed the low for this bear market.

CHART 16

TIMING THE TURNAROUND

Our next indicator is our favorite gold timing tool. **Chart 19** on page 10 will help us understand the current gold turnaround in perspective. It basically shows a closer look at the worst part of the bear market.

CHART 18



On the other hand, gold will be super strong if it holds above this level during weakness.

Gold, however, could decline to the $1160 level and it would still be very strong in a bottoming process. And it would provide a great time to buy new positions.

In fact, for those of you who would like more precision buy areas, hand holding, buy-sell and target timing, you may want to consider subscribing to our trading service, GCRU. Check our website: goldchartsrus.net for more info.

For now, if gold stays well above the low when the upcoming D decline is over, then you can bet the low for this bear market was last December's low.

So even though gold has risen strongly, and it's turning bullish, it's best to wait before buying new positions. A major reversal will be reconfirmed based on how gold's D decline unfolds. And if it's good as we suspect, then we'll want to buy with both hands.

GOLD SHARES: Backing up bullish scenario

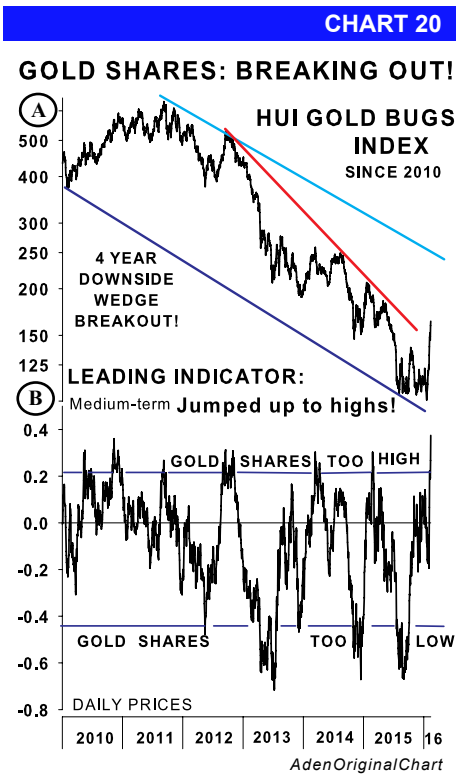
Gold shares had by far the best rise with HUI rising 60% since the January lows.

Many signs have been telling us how bombed out gold shares were, and they were beginning to sound like a broken record.

But patience won out. And it now clearly looks like the lows are behind us. After crashing about 60% in the past 18 months, mining stocks have finally found a bottom.

Many mines have suffered to the point of bankruptcy, but there appears to be some light at the end of this tunnel.

The CEO of Barrick Gold, the world's largest gold miner, said that falling gold production should boost the price. Plus, falling grades and lack of new discoveries are also bullish for the gold outlook going forward.



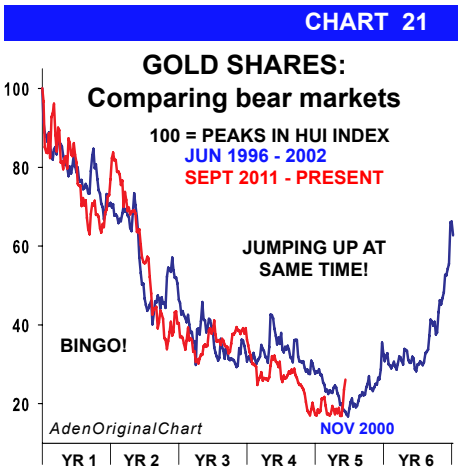
During the gold rise from 2000-2011, Jon Strebler points out that gold mining companies took advantage of low interest rates to dramatically increase their debt loads. And this has been coming back to haunt them, which was one reason for the super low prices.

But with gold going up, this is helping the mining sector and that's why it's bouncing up more than gold.

The gold shares to gold ratio had fallen to record lows, but it's been showing gold shares are poised to outperform gold. It's now bouncing up and breaking out of a bottom formation, which means gold shares will continue rising more than gold!

Gold shares themselves are breaking out of a downside wedge. **Chart 20A** shows the HUI index could rise further to possibly the 2013 levels. But with the leading indicator now at a very high area, we could see some weakness before a rise to the higher levels occurs (see **Chart 20B**).

Weakness will provide a good buying opportunity.



You may remember that the gold share decline from 1996 to 2000 was one of the worst falls (if not the worst) in history. Gold shares fell during the tech rise in the stock market. Gold shares were the laughing stock of any asset class at the time (see **Chart 21**).

Well most interesting

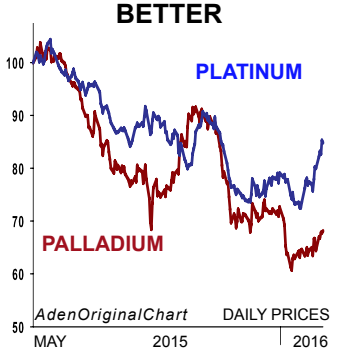
is the comparison between that decline to the fall we've just experienced from 2011 to today. And guess what?

The two declines have been similar and they've both taken the same amount of time. That is, the terrible plunge in the second half of the 1990s was the same as the latest bear market.

So it's exciting that the bounce up in gold shares this new year is following the script in 2000. We'll now see if it continues and rises for the next several years!

CHART 22

PLATINUM LOOKS BETTER



THE OTHER PRECIOUS METALS

Silver is now following gold after a delayed start (see **Chart 18** on page 9). It popped up in true silver fashion. After forming a saucer type bottom, it bounced up to its 65 week moving average. It'll turn bullish once it stays above $15.60

Silver is a great investment to buy and hold. It has the potential to outperform gold, and it probably will when the resource sector turns a corner.

Platinum is similar; it too is starting to come to life (see **Chart 22**). After losing its luster in 2008, it never regained full strength like gold did.

Gold has held a big premium over platinum, which is unusual. Under normal circumstances platinum is usually the more expensive metal, and eventually it'll probably catch up.

Palladium was harder hit during the resource meltdown, but it's been basing in an oversold area for the past month.

Both of these metals are in bear markets, and we'll continue to watch them from the sidelines.

ENERGY & RESOURCES: Is a low finally upcoming?

Fear gripped the market when oil fell below $30... and stayed there. Crude fell to its 2003 lows, dipping below $27 this month (see **Chart 23A**). It's also at an extreme low versus the gold price.

China's demand for oil has been showing signs of cracking, which has been a main reason for the weakness.

Oil extended a 73% drop since June 2014 because the Chinese stock market fueled a rout in the world markets. Plus, U.S. stockpiles remained high, above a five year average.

CHART 23

HIT 2003 LOWS!

> *"Common sense is not so common"*
> *Voltaire*

The energy sector is depressing Q4 earnings and growth for the entire S&P500, making 2015 the weakest year for earnings since 2008.

Plus, energy companies are set for the first earnings decline in 48 years, according to Goldman Sachs.

The IEA said U.S. shale output is expected to decline in February. But so far, the falling oil price is a big concern for the markets because of the deflationary implications. The escalating violence in the Mideast is also worrisome.

The strong U.S. dollar also added insult to injury. But now that the dollar is starting to decline, it will ease this burden on the oil price.

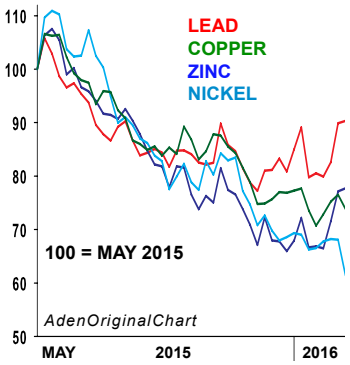
According to oil's leading indicator, oil is extremely oversold, the most since 2009 (see **Chart 23B**).

But keep in mind, oil could rise to the declining 65 week moving average, now at $48, but until it rises back above it will a new bull market begin.

At this point, even a $5-$10 rise would be a welcome relief to oil producing countries, energy companies and the world markets. Maybe that's why Warren Buffett is adding to his holdings in Phillips 66.

CHART 24

TRYING TO BOTTOM



WILL THE FREEZE WORK?

Saudi Arabia decided to drown the world in oil to drive down prices. They wanted to strangle the fracking industry, but at the same time, the oil price collapsed.

So now they're going to freeze production, along with a few other oil producers. This is being done in an attempt to halt the damage from the weak oil price.

A falling oil price could bankrupt several countries and lead to a new debt crisis, which would hurt Western banks exposed to oil exporting countries.

Already many emerging markets are getting crushed and an oil crash raises the risk of a full blown crisis.

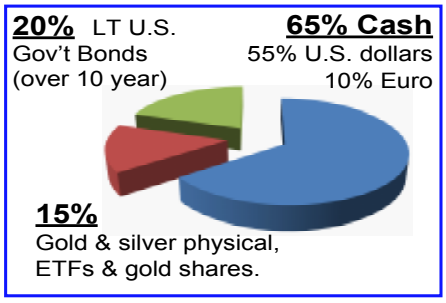
Will it help? We'll soon find out, but there's a lot riding on the outcome.

Meanwhile, the base metals are starting to bottom, see **Chart 24**. If they move up, along with oil and copper, it'll be a sign this deflationary drag may be coming to an end.

We'll see, but there's a lot going on, so stay tuned.

OVERALL PORTFOLIO RECOMMENDATION

Big changes are happening and there's more to come. What was out last year is now in, and what was in is now out. This flip flop is affecting all of the markets, so please stay in touch. Here's the bottom line in a nutshell...



INTEREST RATES & BONDS

Bond prices have been surging. And despite the current downward pressure, they're the world's favorite safe haven and they're poised to keep rising. That is, long-term interest rates are headed lower. That's why we continue to recommend buying and holding 20% of your total portfolio in long-term U.S. government bonds and/or the bond ETFs listed below, which are UBT, TLT and TLH. They're posting solid double digit gains, but watch the trailing stops and sell if they close below these levels.

PRECIOUS METALS, ENERGY, RESOURCE

Gold continued to shoot up, reaching a one year high in its best rise in a long time. It gained almost 20% since its bear market low in mid-December. Gold shares popped up much more than gold, with the HUI gaining about 60%. Gold and gold shares have been one of the best performing assets so far in 2016, and it's been the best intermediate rise in gold's bear market.

Gold is now starting to turn bullish for the first time since 2012. And it's happening in a year that's set to become a pivotal year for gold. We'll now be watching the upcoming decline, we call a D decline, that now appears to be getting started. It'll be important for gold to stay above the December closing low at $1050 for the rise to confirm a major turnaround from bear to bull. Keep your positions, and we'll likely soon be recommending new ones to buy on weakness.

Meanwhile, oil fell well below $30, adding more fear to the investing world. But it's now clearly oversold and at least a bounce up is due. Some of the base metals and platinum are looking better, and they could be leading the resource sector. It's still too soon to tell, and we'll continue to watch from the sidelines.

U.S. & GLOBAL STOCK MARKETS

The stock market is bearish and it's headed a lot lower. The market is high risk and it's best to stay on the sidelines. If you still have stocks, or feel you're too heavily invested, the current rebound rise is providing an opportunity to lighten up.

CURRENCIES

The U.S. dollar is breaking down, joining the weak currency parade. For now, we're still keeping a 55% cash position in U.S. dollars, but that probably won't be the case for long. A sustained decline below 95 on the U.S. dollar index would be a bearish signal and we'd then exit the dollar, taking advantage of other investment opportunities. Also, keep a 10% position in the euro for the time being.

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

OUR OPEN POSITIONS in order of strength per section

BOND ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM	TRAILING STOP
Ultra 20+ Treasury	UBT	Feb-14	58.00	86.00	48.28	Buy/Hold	79.00
20+ year Try Bond	TLT	Feb-14	107.78	130.11	20.72	Buy/Hold	125.00
10-20 Treasury Bond	TLH	Feb-14	125.73	141.06	12.19	Buy/Hold	137.00

CURRENCY ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM	TRAILING STOP
Euro ETF	FXE	May-15	110.15	108.97	-1.07	Hold	107.00

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Gold (physical)		Oct-01	277.25	1208.20	335.78	Hold
Gold Shares SPDR	GLD	Jan-15	125.23	114.77	-8.35	Hold
Central Fund of Canada	CEF	Jan-15	13.36	11.73	-12.20	Hold
Gold Miners ETF	GDX	Jan-15	21.74	17.21	-20.84	Hold
Silver (physical)		Aug-03	4.93	15.33	211.03	Hold
iShares Silver Trust	SLV	Jan-15	17.61	14.51	-17.60	Hold
Silver Wheaton	SLW	Jan-15	23.05	14.72	-36.14	Hold
Royal Gold	RGLD	Mar-14	66.04	39.82	-39.70	Hold

