THE
ADEN FORECAST
MONEY • METALS • MARKETS

FEBRUARY 2017 *Our 36th year*

INVESTING IN AN UNCERTAIN WORLD

Q. There's a lot going on. But what's driving the markets these days?

A. So much has been said about Trump, you're probably tired of hearing about it. He's everywhere on the news, to the point that every comment, tweet, action or innuendo is dissected by a team of commentators.

He's very different than previous presidents and he's controversial. But what many of you have asked is, how's this going to affect the markets?

For now, it's still an uncertainty. That's been the dominant factor overpowering everything else.

As financial commentator Barry Ritholtz pointed out, some investors are spooked following the first few weeks of Trump's administration. That's primarily because the sort of stability that is good for business has been absent.

Adding to the drama, take a look at **Chart 1**. According to Bloomberg, this shows the number of times the word uncertainty has appeared in the news. Uncertainty is surging, it's at a record high and investors don't like uncertainty.

Q. Then why is the stock market hitting new record highs?

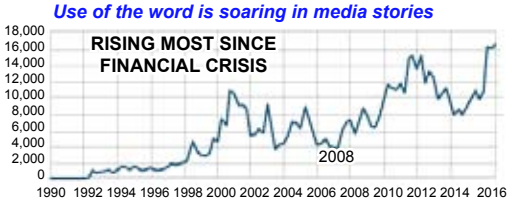
A. Overall, investors have been focusing on the positives, especially the tax reform plans. This alone drove stocks up strongly. Basically, it was seen as another plus in an increasingly good business environment.

At the same time, the risks from trade barriers and protectionism have mostly been ignored. So far, this includes withdrawal from the Pacific trade agreement, which has Japan, Australia and 10 other countries as members, and plans to put tariffs on goods from Mexico and China. Talk of trade wars is in the air and the markets may not be able to ignore some of these ongoing developments for long.

CHART 1

"Uncertainty" Is At Record Highs

Use of the word is soaring in media stories



SOURCE: Bloomberg COURTESY: dailyreckoning.com

As investment guru Seth Klarman noted, "The reason the U.S. long ago abandoned protectionist trade policies was because they not only don't work, they actually leave society worse off." In other words, these policies could hurt the global economy.

INSIDE

UNCERTAINTIES COULD TAKE A TOLL

Considering the overall situation, it seems like these uncertainties could eventually take a toll on stocks. It probably won't happen any time soon but it could at some point. That's especially true because stocks are already way overvalued.

But as you'll see in this month's Stock Market section, stocks could stay overvalued for a long time while stocks surge higher. Plus, the VIX index is at a super low level, signaling the stock market isn't worried about what's happening, at least not for the time being.

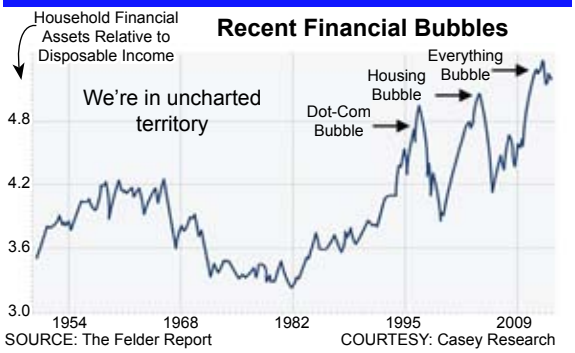
One reason for this is because, despite the ever growing debt, derivatives and some of the other fundamentals we've often discussed, the economy is showing signs of improvement.

Yes, growth is still slow, but **consider the following**, courtesy of our *Dow Theory Letters* friend and colleague Matt Kerkhoff... Consumer spending is up 4½% over last year and it's responsible for over two-thirds of economic growth. Home prices are rising and jobless claims hit a 43 year low. Manufacturing is picking up and earnings are looking a lot better. And there's nothing like improving earnings to put a bid under stock prices. Deflation pressures have also eased, thanks to rising commodity prices.

So in essence, it's not all about Trump. Stocks are rising because things have been steadily improving since before the election. Plus, interest rates remain low, so investors have been moving out of bonds and into stocks. And these appear to be the overpowering factors driving stocks higher.

Whatever it is, we still have to maintain caution and stay alert in this new age of uncertainty. Markets may not make sense, volatility could trip us up and so on. We essentially have to be prepared for anything, and quick to change when the markets change.

CHART 2



Q. Are you concerned about a bubble bursting?

A. It could happen. This bull market in stocks is already the second longest in U.S. history. And as we previously mentioned, stocks are overvalued. They're currently near levels that preceded the stock drops in 2000 and 2008.

As we've discussed before, many experts also believe the bond bubble is bursting, following a nearly 40 year bull market. That is, they're looking for inflation and interest rates to eventually rise while bond prices come crashing down.

As far as we're concerned, neither of these scenarios have been confirmed. But yes, they could happen and that's why we have to maintain caution. Plus, **Chart 2** may be flashing the first signal.

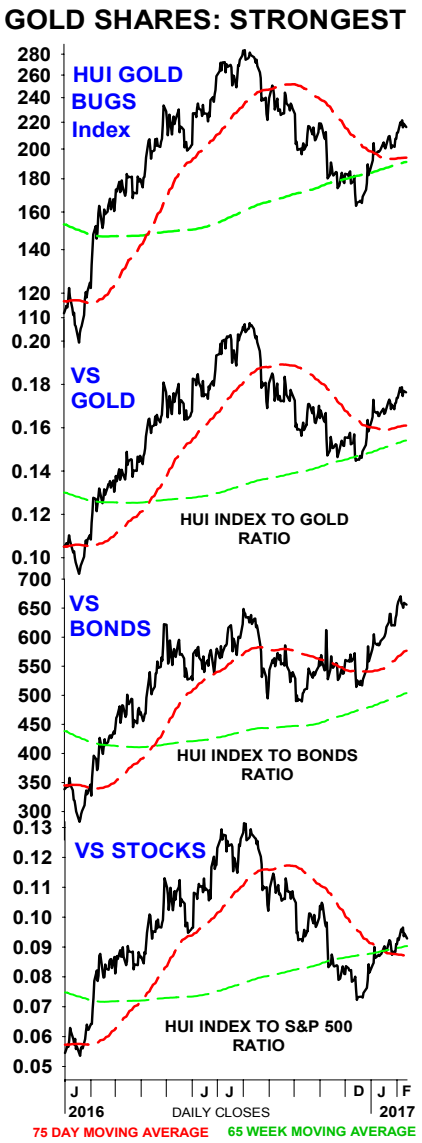
Here you'll see the value of U.S. financial assets (real estate, stocks and bonds) compared to the disposable income of a typical family. What's most interesting is that this ratio dropped with the dot.com bubble and the housing bubble, and it's now at a record high.

They're calling this the everything bubble, mainly thanks to the Fed's easy money following the 2008 financial crisis, which essentially boosted the stock market. But the point is, we're in uncharted waters and it's a warning sign.

Q. Okay, how does gold fit into this uncertainty era?

A. Gold loves uncertainty. And with uncertainty intensifying, gold has risen steadily higher.

CHART 3



In fact, gold has again turned bullish and it's looking good. A weaker U.S. dollar has also given gold a good boost and so have the gold shares. They've been leading the metals sector and they're very bullish.

This alone is a good sign. That's because gold shares are usually stronger than gold during bull markets and that's what we're currently seeing. But the strength in gold shares is even more impressive this time around.

Looking at **Chart 3**, you'll see what we mean... The top chart shows the HUI gold share, which is now very bullish above its moving average and at a four month high. This is good technical action.

Below that you'll see gold shares compared to gold, compared to bonds and the bottom chart shows gold compared to stocks. In all cases, note the ratios are rising, signaling gold is stronger than these other sectors. Again, **this is impressive action.**

As you know, the stock market has been the strongest market. But just last week, gold shares punched up and they're now outperforming the S&P500. In other words, gold shares are one of the strongest stock sectors and that's why we now recommend buying some gold shares (see the Metals section for more details).

Q. So is this a change in strategy?

A. Yes. Like we've always said, when the market changes, we change with it.

Now the situation is bullish for the metals. And in the last several weeks gold finally rose back above its 65 week and 23 month moving averages, reinforcing the action in gold shares.

So this warrants adding to our metals positions and getting back on board the gold share train. With gold shares currently the strongest, it should be quite a ride as they'll likely benefit most from this era of uncertainty.

As for our other recommendations, we're making some adjustments in stocks, by buying some new positions and selling two of the laggards.

The stock market is looking good and as you'll see, several of our current recommendations are also good to buy for new positions.

U.S. & WORLD STOCK MARKETS

The never-ending bull market continues

The stock market keeps on surging. It's strong and bullish, and it's set to rise further... Many wonder, how can this be?

MARKET LIKES TRUMP PLAN

Yes, there's a lot of uncertainty out there. That's primarily because so much is going on and some of the more controversial items could possibly hurt the stock market. But they haven't. It's so far, so good.

Basically, the stock market is climbing a wall of worry. This is often the case during major bull markets and this one is not an exception.

Sure, there's some concern, but overall the market likes the Trump vibes. He's pro-business and less regulation, which seems to be enough for Wall Street.

For now, the market is focusing on these positive factors and essentially ignoring some of the more worrisome actions.

CHART 5

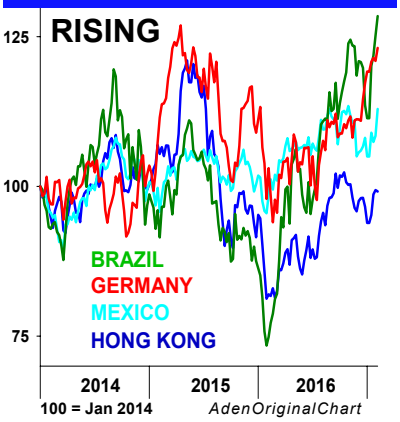
Good earnings have also provided a good boost and so has economic optimism. Until this changes, stocks will likely continue to power higher.

RECORD HIGHS

The end result is... the Dow Jones Industrials broke well above the 20,000 level, hitting an all time record high. Plus, some of the other stock indexes, like Nasdaq, Russell 2000 and the S&P500, hit new record highs too as upside momentum keeps picking up steam.

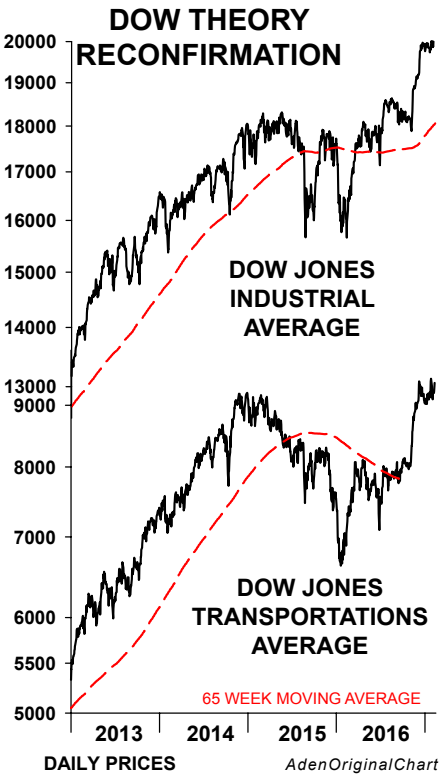
Also very bullish, the Dow Theory has reconfirmed its bull market signal. This happened a couple of weeks ago when the Dow Industrials and the Dow Transportations both hit new record highs (see **Chart 4**).

CHART 6



Since the stock market looks ahead, these new highs are good news, despite the political distractions. They continue to tell us that good times lie ahead.

CHART 4



That is, the outlook for the economy, earnings and business remains positive, looking out to the months ahead. This is also being reinforced by the Advance/Decline line (see **Chart 5**).

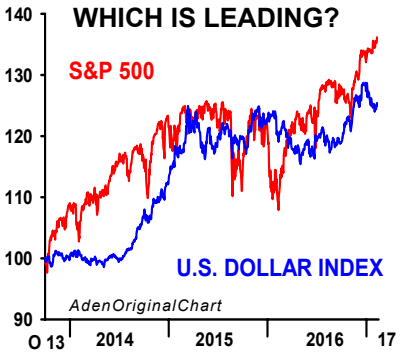
GOOD BREADTH, GOOD WORLD MARKETS

Note, the Advance/Decline line keeps hitting new bull market highs. This means more stocks are rising than declining, which is a bullish overall sign, indicating market breadth is strong.

In addition, most of the world stock markets are bullish as well (see **Chart 6**). And when the global stock markets generally move together, it's a positive omen for all of the markets and the global economy, making the upmove more powerful.

Nevertheless, even though nearly all of the world stock markets are technically bullish, our top pick is still the U.S. stock market. Why?

CHART 7



It's basically been the stock market leader and it's essentially been stronger than the other major markets.

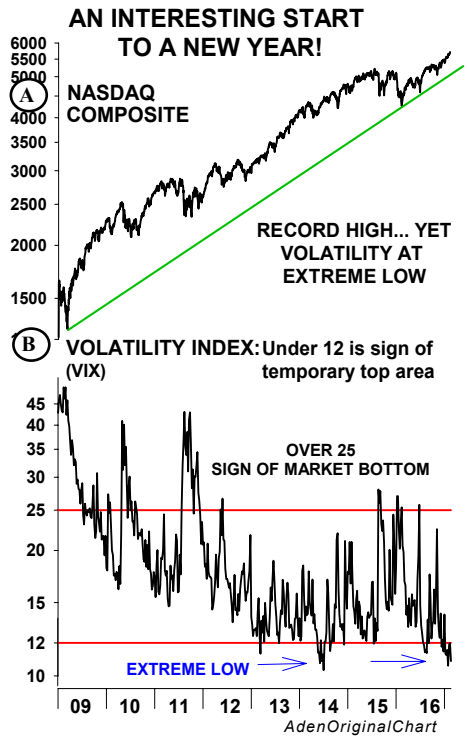
But not all is rosey and you still have to be selective. Here are a few examples of what we mean...

STOCKS & DOLLAR: What next?

Looking at the broad picture first... You can see that stocks and the U.S. dollar have generally been moving together (see **Chart 7**). This is not set in stone but it's been happening.

Now, however, the U.S. dollar is losing some of its attraction and it seems to be getting tired. Does this

CHART 8



mean stocks are going to follow the dollar down? It's still too soon to tell, but it's a possibility and it's something we're watching.

VOLATILITY AT LOWS

Another indicator investors have been following is the VIX index. It's commonly referred to as Wall Street's fear index and as you can see on **Chart 8B**, it's at an extreme low.

This is important because the VIX index measures the volatility in the stock market. And since it's low, it suggests the market is unlikely to experience any major swings over the next month or so. That is, the market is currently low risk.

But here too, we want to keep an eye on this... Why? Mainly because a very low VIX level, below 12, tends to coincide with a temporary market top area. In other words, it suggests a downward correction could soon materialize.

THIRD PHASE OF BULL MARKET

We'll see what happens, but the stock market is also expensive and this too has worried some investors. But even though stocks have been overvalued for a while, that doesn't necessarily mean the market's near a major top.

As you know, stocks can stay overvalued while stocks keep climbing. That's especially true during the third phase of a bull market, which is where we believe the market currently stands.

During the 1990s, for instance, stocks soared for a few years while stocks stayed overvalued. That's not a great situation but it has happened.

As our old friend and market expert Steve Sjuggerud recently noted, "My mistake was that I put too much weight on stock valuations in the late 1990s... and not enough weight on what investors were actually doing with their money." The situation today is similar but not nearly as extreme as it was in the late 1990s.

For now, our leading indicators continue to show there's plenty of room for stocks to rise further before they reach a major high area... All factors considered,

CHART 9

that's why we continue to recommend buying and holding a 40% position in our recommended stocks.

BUY SELECTIVE STOCKS

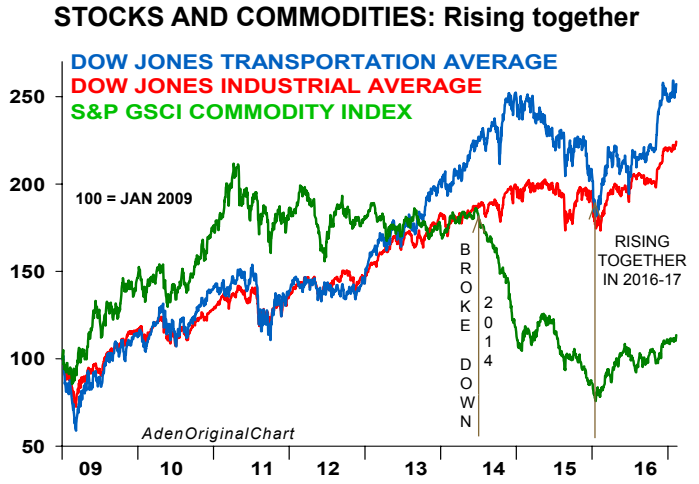
But it's important to be selective. Some sectors are doing very well, but others aren't. Retail provides an impressive example (see **Chart 9**). As you can see, Amazon totally dominated the holiday shopping season while retail stores did not. This sharp contrast explains why many stores are closing and cutting down on their employees. It marks a huge shift.

It's also one reason why the FANGs (Facebook, Amazon, Netflix and Google) are strong.

The bottom line is, we're making some adjustments this month... selling a couple of our laggards and buying some of the leaders. So please check out page 12 and our Stock Recommendation.

So far, our top performers have been U.S. Steel and Alcoa, and we advise buying more. These two stocks are benefitting from the rise in commodities, which is poised to continue (see **Chart 10**). That is, it looks like stocks and commodities will continue to move together and that's a good thing for now.

CHART 10



U.S. INTEREST RATES AND BONDS

Mega trend is still down for interest rates

Interest rates have moved to the back burner for the time being.

MORE BALANCED FOCUS

With so many things happening on the political front, other factors have become top priorities. So when Janet Yellen or other Fed members make comments, it's not as big of a deal as it was before.

It's become more balanced.

We think this is a positive change. Of course interest rates are still important, but the whole interest rate obsession was getting crazed. And basically, things have now calmed down.

As we mentioned last month, the reason interest rates are so important is because they move all of the major markets. They also influence business and retirement plans, the economy, the real estate market and so on.

Interest rates are powerful and you want to keep an eye on them. So what are interest rates currently telling us?

MEGA INTEREST RATE TREND STILL DOWN

Lately, interest rates have been quiet. But interest rates are still trading near 5,000 year lows and it'll be interesting to see what happens next.

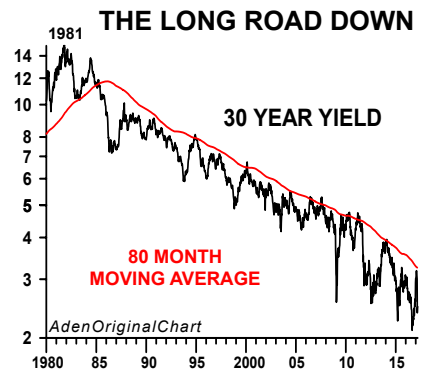
To gain perspective, we'll start by looking at the big picture for interest rates and then we'll zoom in from there...

Chart 11 shows the 30 year yield going back to 1980. Inflation was raging then and this yield hit a peak near 15%. From that point, interest rates began a mega decline that is still in force to this day, more than 36 years later!

As you know, the 80-month moving average identifies the mega interest rate trend. It's currently at 3.23% and as long as the 30 year yield stays below that level, the mega trend for interest rates will remain down.

This shouldn't come as a surprise, considering the still sluggish economy...

CHART 11



Just when it looked like things were picking up, economic growth slowed to 1.9% in the fourth quarter.

The bottom line is this... economic growth in 2016 was the worst in five years. It was also the 11th year in a row that growth failed to reach 3%. So despite a lot of good news, the economy is still bumping along.

This means interest rates will probably stay low for quite a while, regardless of what the Fed and the experts say. In other words, everyone's been wrong about interest rates for years now, and that's unlikely to change.

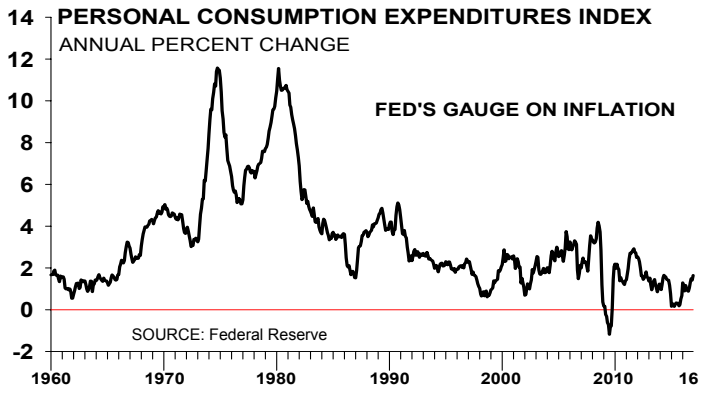
BURSTING BOND BUBBLE?

Currently, for instance, many believe interest rates are going to keep rising and when they do, bond prices will plunge.

This could happen, but as you'll see next, it doesn't look like it'll be happening any time soon.

One key reason why is because inflation is still low (see **Chart 12**). Even though it's been perking up lately, it's not a big deal, at least not yet. Translation: interest rates are not going to surge as long as inflation remains near current levels.

CHART 12



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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. FREE WEEKLY UPDATE, Thursdays at 8 P.M. (Eastern time). You can access it through our website, http://www.adenforecast.com. To receive the market update by fax every week $160 per year for U.S. subscribers and $260 for subscribers outside the U.S. FASTER NEWSLETTER DELIVERY OPTIONS: Downloading from the website, no extra charge. Fax only, $65 more per year for U.S. subscribers and $170 more outside the U.S. Make checks payable to Aden Research, S.A.

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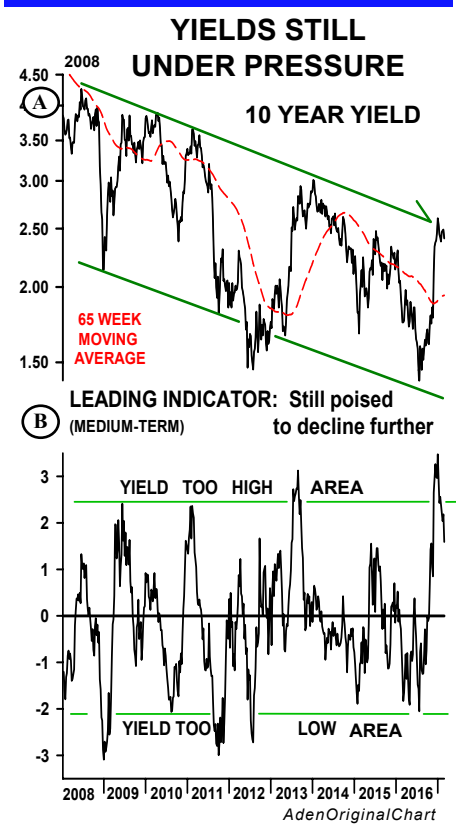
CHART 13



YIELDS: Set to decline... for now

This also continues to be reinforced by our leading indicators. Looking at **Chart 13**, you'll see what we mean. This shows the 10 year yield since the 2008 financial crisis, along with its leading indicator.

First, it's quite obvious that ongoing lower interest rates have taken center stage ever since the financial crisis hit.

They were a key tool in the Fed's actions to help stimulate the economy following the terrible housing bust and recession.

Interest rates bounced up sharply in the second half of 2016, but they've been resisting at the downtrend. Plus, the leading indicator is still declining from a "too high" area, signaling interest rates remain poised to decline further in the weeks ahead.

Lately, interest rates have been stabilizing, but we don't think that'll be the case for long.

On the contrary, downward pressure persists.

BOND MARKET: Poised to rise

Bond prices move opposite to interest rates and lower interest rates mean bond prices are going to rise... If so, shouldn't we jump back on board the bond train?

Currently, the answer is no... bonds are risky and if the bubble does burst, you'll want to stay out of harm's way.

Technically, bonds are bearish below their 65 week moving average (see **Chart 14A**).

Bonds, however, are also at bombed out, super low levels. That is, they're set to rise (**14B**).

But will they be able to overcome their bearish status? Only time will tell.

In the meantime, we continue to recommend staying on the sidelines. Opinions are all over the place and sentiment could turn on a dime.

We'll be ready to take action, if need be. But that's not currently the case.

For now, let's wait and see how this all plays out.

CHART 14

CURRENCIES

U.S. dollar index: Bull market is losing steam

Just when it looked like the U.S. dollar was going to seriously take off, it pulled an about-face.

The dollar has been steadily declining since reaching a 14 year high in January. And the outlook for the dollar is now more uncertain than it was before.

SO WHAT HAPPENED?

As you know, the greenback has been on the rise. Following Trump's election it surged even higher, like the stock market did.

This was due to the post Trump honeymoon and the optimistic view that his policies would be good for the U.S. economy and business in general.

But then Trump threw a wrench into the works, saying the U.S. dollar was too strong. And while some officials later tried to backpedal, it didn't seem to make much of a difference.

On the contrary, the Trump team also acknowledged that a strong dollar could have a negative effect on the economy and trade, which is true.

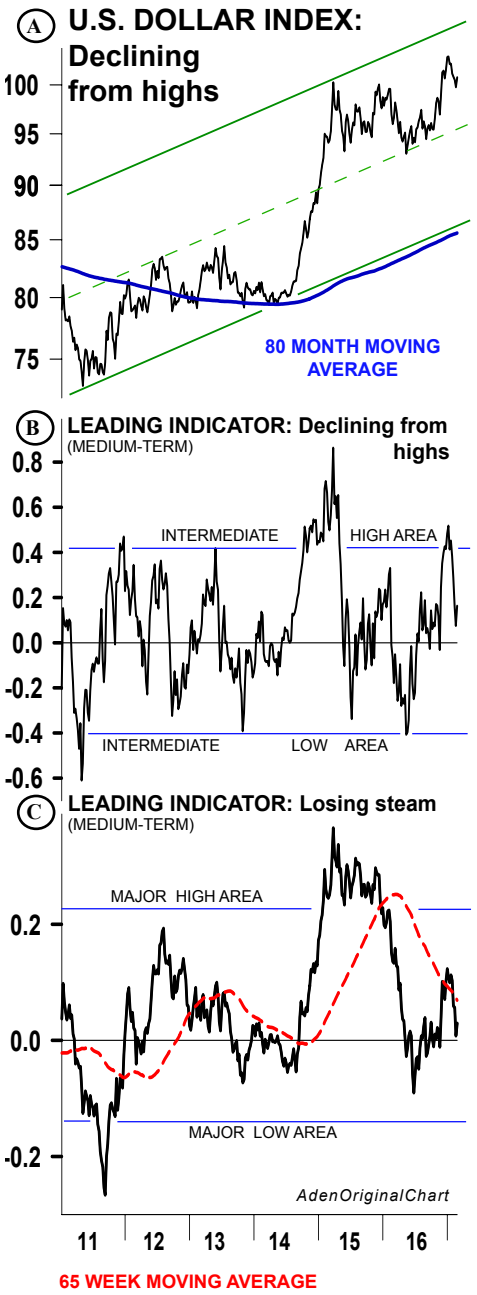
Plus, they're threatening higher tariffs on imports, and they're accusing China, Japan and Germany of devaluing their currencies to gain trade advantages.

Is a trade war or currency war brewing?

That's the big question.

Japan's Abe meeting at the White House went well, which is so far, so good. But the U.S. trade deficit is currently at a four year high and a weaker U.S. dollar would certainly help. So we'll see what happens.

CHART 15



U.S. DOLLAR: Bullish...

Currently, the U.S. dollar index remains bullish (see **Chart 15A**). Despite its recent weakness, you can see it's still holding near its highs and it's clearly in an uptrend.

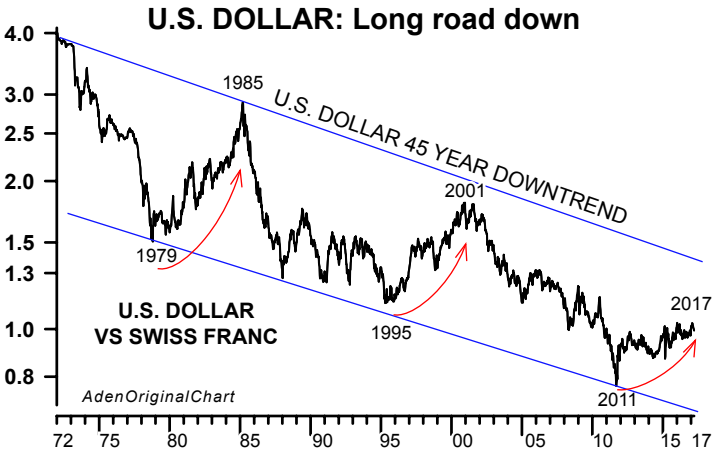
The leading indicators, however, are starting to tell a different story...

Note, the medium-term indicator is now declining from a high area, signaling the dollar is likely headed lower in the weeks ahead (**15B**).

And if interest rates head lower as we suspect, that'll keep downward pressure on the dollar. Protectionist measures are also usually bearish for a currency.

The long-term indicator also turned down, but it's still bullish for the dollar above the zero line (**15C**). For now, here's what we're watching...

CHART 16



The U.S. dollar index will remain firm if it can now stay above 101. But if it declines below 99.50, it'll be a sign it's going to fall further. However, if it does, the dollar index will stay bullish even if it declines to as low as its 80 month moving average at 85.50.

...BUT DOLLAR POISED TO TURN DOWN

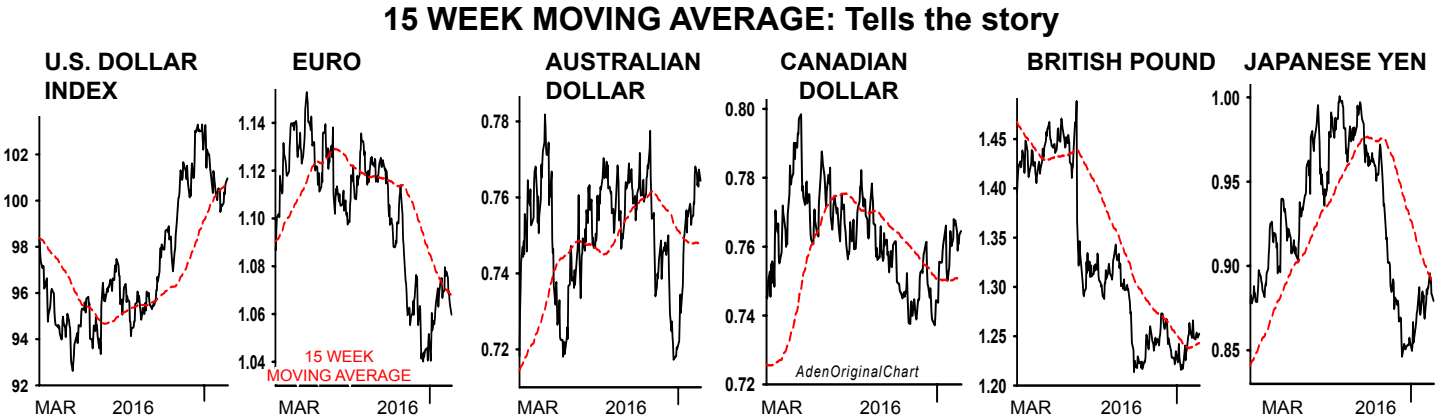
If we next take a look at the U.S. dollar's big picture on **Chart 16**, you can see that going back to 1971, when the dollar was no longer backed by gold, it began to trade in the free market and it's been on the decline ever since.

However, during this time there have also been three big upmoves in the dollar and they happened during interesting times.

In 1979-1985, for example, Reagan took over the Carter presidency following a steep plunge in the dollar. Reagan got it back on track. It then took Clinton's second term in 1995-2001 to get the dollar back up again, during the dot-com craze. And finally Obama was able to stabilize the dollar when gold peaked during his second term.

But despite these upmoves, it's most important, to note that the dollar's mega trend has been down for 45 years. Within this downtrend, those three upmoves lasted about 6 years. (We're currently in the third up-

CHART 17



move and it's getting mature.)

So if the dollar keeps falling from here, it would not be unusual. In fact, it would fit in with the pattern, based on timing, politics and the mega downtrend.

WATCH FOR CHANGE

This means we could be in for a change in currency strength coming up and you'll want to keep a watch on this. If so, then the currencies will rise while the dollar falls (see **Chart 17**).

This month, the resource currencies are the strongest. The Australian dollar moved up, followed by the Canadian dollar... Are they leading the way for the others?

They might be and if they can now stay above their moving averages at .7400 and .7560, respectively, it'll be a positive sign for the currencies in general.

In the meantime, until we see more, we continue to recommend keeping your cash in U.S. dollars, for the time being.

METALS, NATURAL RESOURCES & ENERGY

Uncertainty in a Trump world is good for gold

INVESTORS USING DIPS AS BUYING OPPORTUNITIES

Gold, silver, platinum and palladium rose further this month.

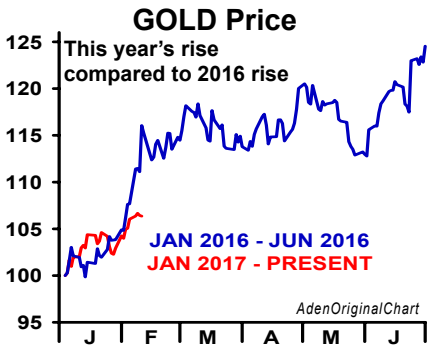
Gold shares took off the most and they've outperformed all of the major markets.

Trump insecurities, Britain's Brexit concerns and a weaker U.S.dollar are all pushing gold up.

The unclear pace of the Federal Reserve's interest rate increases has also given a good boost in gold's direction.

It all goes together. The Fed has been uncertain due to Trump's economic environment, and investors and the world alike are uncertain for the same reasons. We can't blame this growing uncertainty sentiment, when drama continues to be a daily event in this new era.

CHART 18



A SIMILAR BULLISH PATH

For now, it seems fairly certain that while gold's path won't be straight up, its bullish trajectory is set. It's already risen as much as it did last year at this same time.

The price is becoming a repeat performance, but the environment is very different.

Chart 18 shows gold's rise since January compared to the first half of last year, 2016. You can see the January rises were similar.

Gold rose $78 this January and it's still in a rise we call 'A.' If these similarities continue to develop, we could see the higher $1400 level tested later this year!

Gold shares are more impressive. **Chart 19** compares the HUI's current bull market to the prior two bull markets.

You can see the current rise in red is on a bullish path and it's on track with the previous bulls.

CHART 19

COMPARING FIRST YEARS OF BULL MARKETS

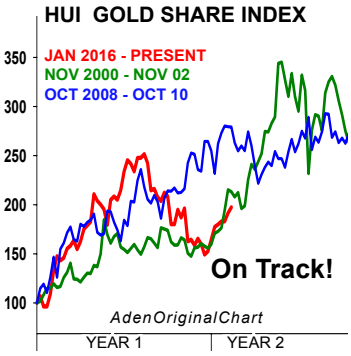


CHART 20

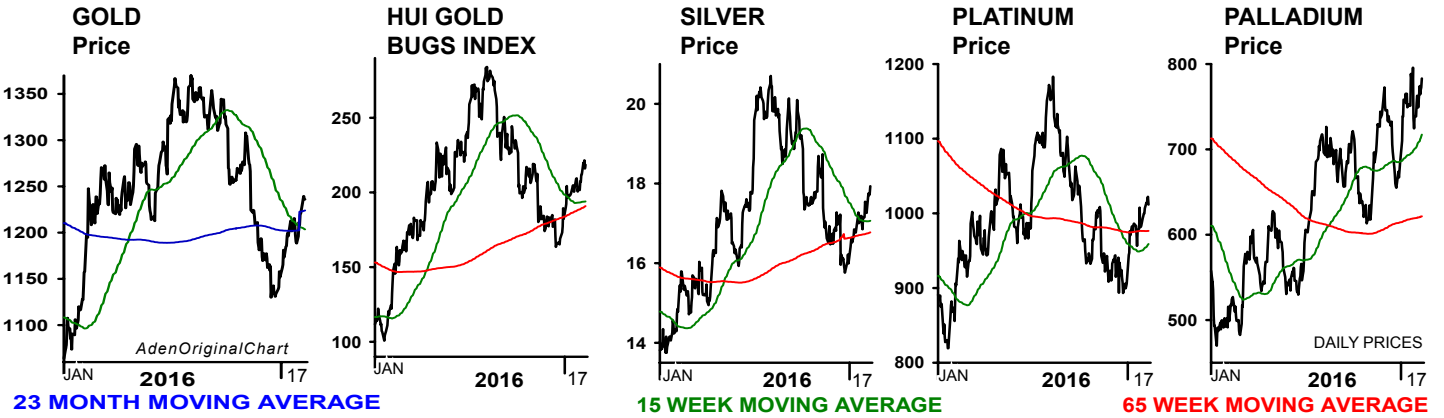
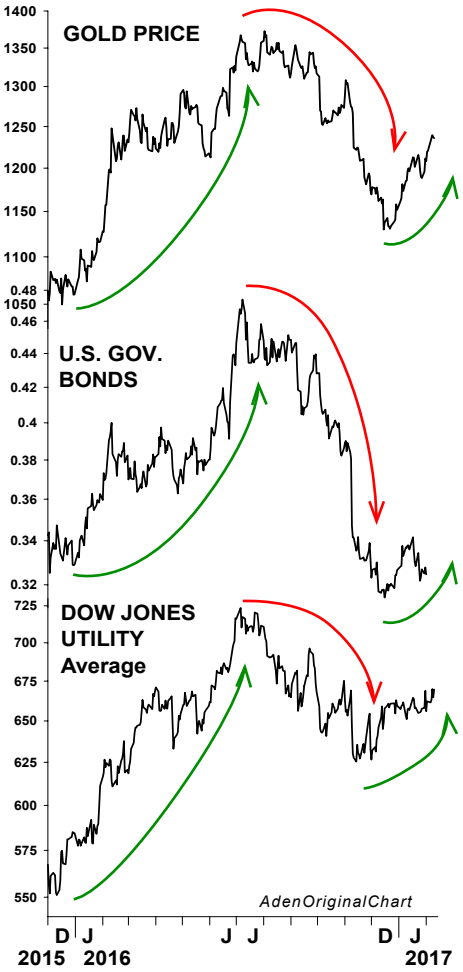


CHART 21

MOVING TOGETHER



DEMAND IS GOOD

Global gold investment demand for 2016 hit its highest level in four years. Gold exports to China soared in a run-up to the year of the Rooster.

According to the Swiss Federal Customs, more gold was sent from Swiss refiners to the world's top consumer (China) than in any month since at least January 2014.

Russia's gold reserves also grew almost 15% in 2016. India has always been fond of gold, but the young population has an even stronger affinity with gold. And 45% of India's population is under the age of 25.

Gold is special. It can't go broke and it's stood the test of thousands of years. This is why wealthy people own large quantities of gold. Gold is the ultimate safe haven asset; it's real money, which is probably why Germany continues to take its gold back from U.S. and Paris vaults. Once you own enough physical gold for protection, you can own gold stocks for profit.

GOLD,THE DOLLAR AND INFLATION

Trump's comments about the dollar being too strong started the fall in the dollar index, which gave gold an initial boost. But the strong gold rise so far this year is a sign that the Trump rally may be shifting.

The Fed is on guard. They are cautioning that Trump's fiscal and tax plans could spur a short term economic boost that would result in long run inflation and debt problems. This in turn could potentially raise demand for gold as an inflation hedge.

Already, rising commodity prices are hinting at potential inflation down the road. We can't forget that gold is the ultimate inflation hedge, and this could be the "surprise" in the coming years.

For now, it's the uncertainty surrounding the U.S. presidency that's good for gold. But Trump's reflation policies could end up being even better for gold this year too.

In this vein, gold could easily become a hiding place from riskier markets, even the stock market. We could see correlations change, and gold and the stock market could rise together (like they've been doing). The point is... don't be surprised by changing scenarios.

ALL PRECIOUS METALS ARE BULLISH

When all of the precious metals rise together, the bull market tends to be a solid one. We've seen all four metals rise this year, as you can see on **Chart 20**. Palladium has been the strongest, rising steadily over the past year.

Most of palladium's demand comes from catalytic converters for autos to help reduce pollutants produced by gas and diesel engines. Pollution is one of China's big problems and with the government set to reduce smog, palladium will continue to be in demand.

GOLD, BONDS AND UTILITIES: Good partners

Gold, bonds and the Dow Utilities have been moving together for several years now (see **Chart 21**). They have been safe havens, but they also have different influences.

Bonds rose this month, along with the gold price, while the yields fell because investors are uneasy over the scarcity of details surrounding the scope and timing of Trump's pro-growth fiscal policies. And Utilities generally move with bonds.

The declining bond yields are helping to keep gold at three month highs, as well as shifting interest rate expectations due to growing geopolitical risks. That is, Trump's political agenda is fueling safe haven demand because it's not clear.

Gold is a non-yielding asset and it becomes an attractive investment in a low yield environment.

CHART 22

THESE TEND TO RISE WHEN GOLD IS BULLISH

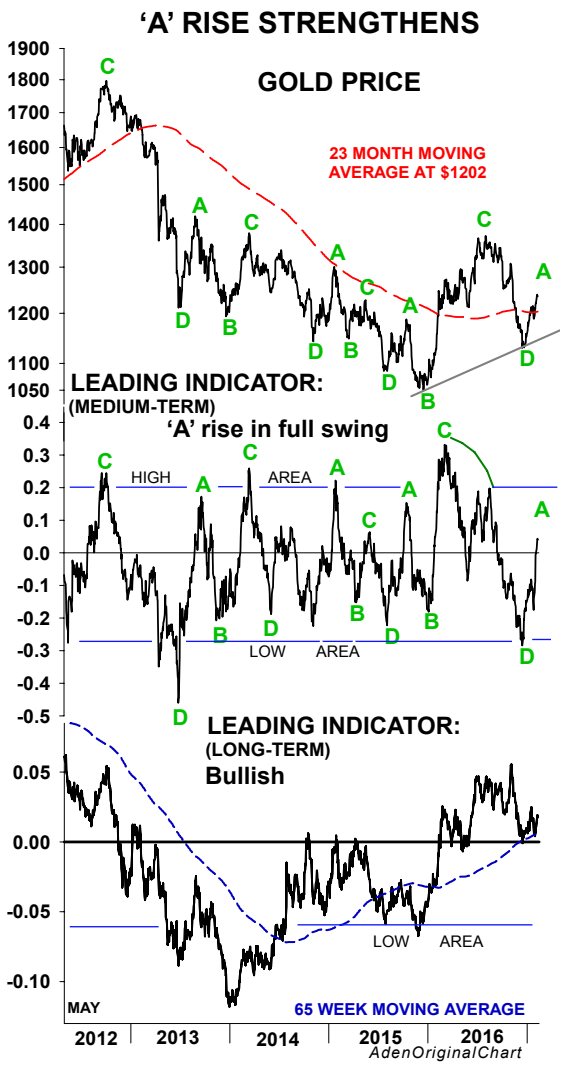
Unless another unknown comes into the picture, gold, bonds and Utilities are set to continue moving together. And for now, the trends are up.

Other correlations reinforce a bull market. For example, junior shares tend to outperform senior shares during a leg up in the bull market.

Likewise for gold and silver shares in general; they tend to outperform the metal during rises. And silver tends to outperform gold during rises as well.

Chart 22 shows this, and it's something to keep an eye on going forward.

CHART 23



GOLD TIMING: 'A' rise is looking good

Gold's starting the year on a positive note. After rising almost 31% last year to its August high, it's once again looking good.

Chart 23 shows a bullish case for gold. First note its (long term) indicator is holding above both its zero-line and its moving average. This means the major trend is up, and it's a good sign.

Our timing indicator is rising from the D lows in a crisp rise we call 'A.' You'll remember that A rises tend to be moderate, and they usually become part of a consolidation period.

Most important for an ongoing bull market, is the strength of the A rise. So far, today's rise is robust and it's showing promise. As you can see, the gold price rose above both its pivotal $1200 level, its 65 week moving average and the 23 month moving average. This is also good action.

If a bear market would have continued following the decline from August to December, this rise would've had a hard time rising back above its 23 month average. So if gold can now stay above this level during upcoming weakness, it'll be a green light for higher highs going forward.

Gold has also already surpassed its next level for a normal A rise above $1220, and it's currently resisting below $1240. The leading indicator has room to rise further, and if $1240 is surpassed we could possibly see the $1300 level tested before the A rise is over.

But if this is all we get, it's not bad. The strong stock market and the bounce up in the dollar have been weakening the need to buy gold, and this could end up being the reason why the A rise ends.

On the downside, once gold closes below $1198, the A rise will be over and a B decline will begin. Once again, it's important to point out that B declines are normally part of the consolidation period. And if gold stays above the B-D uptrend on the chart, it'll be a classic looking consolidation. It's currently at $1145.

With the A rise being strong while gold shares surge in a bullish fashion, we now recommend buying a few gold shares as per our February 9 weekly update.

GOLD SHARES: Not too late to buy

Gold shares have risen the most from their lows. Like you saw upfront, they've outperformed all asset classes and most fascinating, they have room to rise much further.

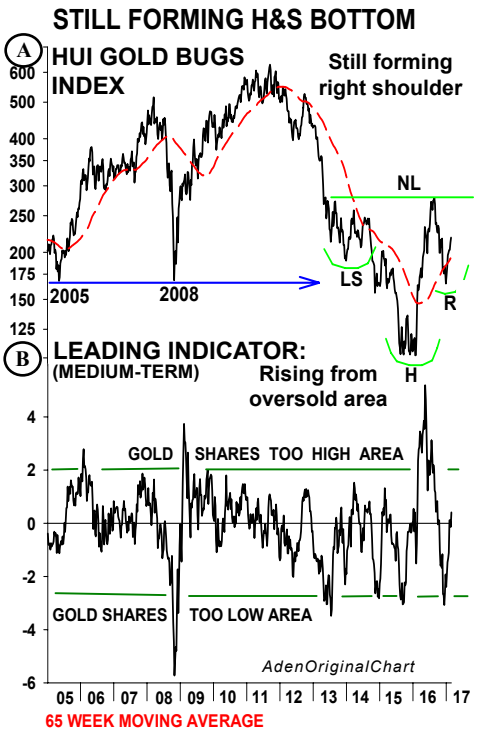
Chart 24A provides a good example of this. The HUI index continued to rise this past month by filling in the right shoulder of a three year major bottom formation. It could rise to the NL line near 250 while the medium term indicator (**B**) rises further to the high area.

This type of rise would begin to complete a major bottom. This is impressive because it comes after a terrific fall well below the 2005 and 2008 lows in a super oversold area, the most ever.

It's been volatile, and indeed gold shares are more volatile than gold. But the trend favors gold shares, and we'll go with it for as long as it lasts.

On the downside, the HUI index could test

CHART 24



the 65 week moving average at 194, but it would still be okay within the whole bottoming process.

We currently advise buying some gold shares and we'll also take advantage of weakness when it comes to buy more (see our Metals recommendation on page 12).

SILVER: Better than gold

Silver is looking good. It's gained $1.50 on the year so far. Last year silver rose 51% from its Dec 2015 low to its Aug 2016 high.

If this year's rise is similar, silver could reach the $24 level. We'll see how it goes, but for now it's strong above $17.20. And it has solid support at $16.80.

Silver has been getting a good boost from the strong resource sector, namely the copper price. And if resources stay strong as we suspect, silver will continue to benefit from both the resource sector and the gold price.

Hedge funds are attracted to silver according to the futures trading commission. The commitment of traders report also showed money managers have increased their speculative long positions in silver futures.

CHART 25

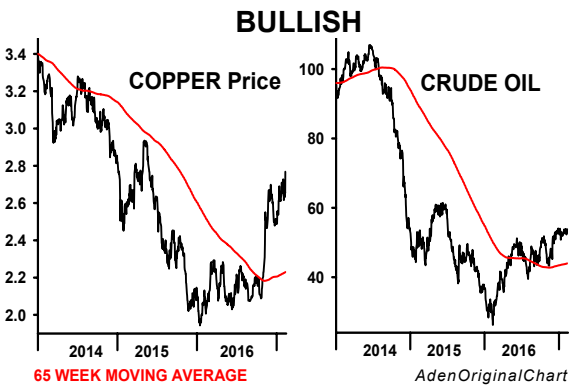
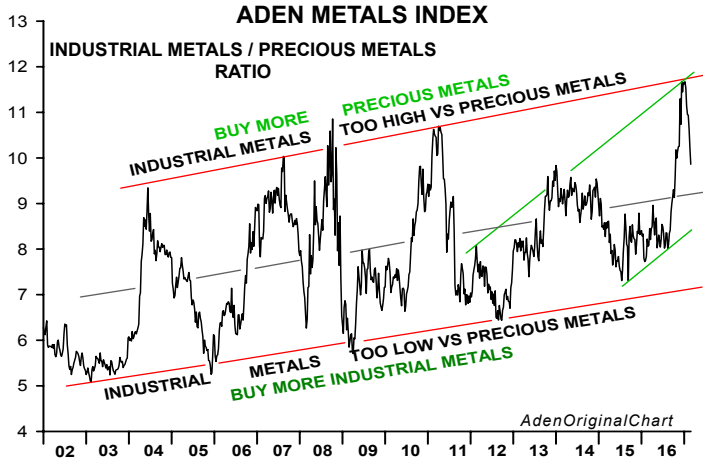


CHART 26



RESOURCE AND ENERGY: Looking good too

Copper is jumping up, reaching a 20 month high this week. It's being boosted by growing demand, optimism over Trump's infrastructure plans, and most recently, unrest and a strike at a major copper mine in Chile. Hedge funds hold their most bullish position ever in copper.

Chart 25 shows copper's major breakout.

It's clearly bullish, and it'll remain that way even if it declines back to test its moving average now at $2.25.

We've created a new indicator that gives us more insight. It tells us which is stronger... the base metals or the precious metals.

Chart 26 shows this new key indicator since 2002. Note, when the ratio rises, the industrial metals are stronger than the precious metals. And when the ratio declines, the precious metals are stronger.

You can see how much the ratio shot up last year reaching the top side of a 15 year channel. This marked the enthusiasm for infrastructure surrounding a Trump win while safe havens took a back seat.

But this year is different. The ratio is now coming down, favoring the precious metals. It hit a "buy more precious metals" area, and it has room to fall further, in spite of copper's jump up.

That is, the precious metals are in the driver's seat.

Chart 27 shows that while resources and resource shares have been strong, some like BHP and tin are coming down. BHP is the owner of the copper mine on strike, which could explain the current weakness.

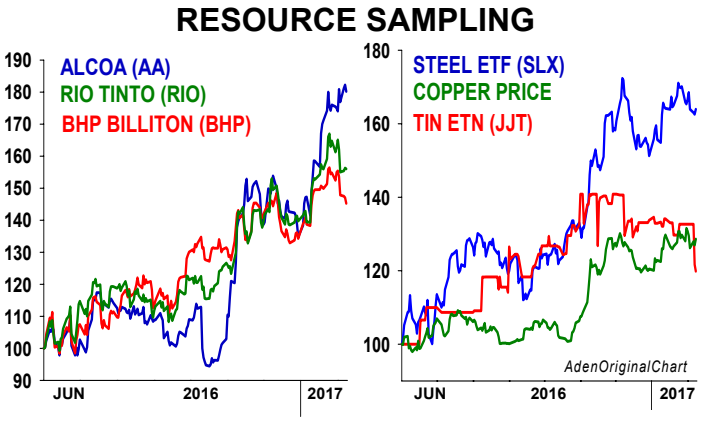
Regarding resources, we should keep in mind that Trump's infrastructure spending will take time. U.S. projects probably will take years to pick, design and build. Plus, the estimated $1 trillion in government spending will actually add just 0.4% to global demand growth for steel and copper, according to Goldman Sachs.

Crude Oil: Slowly rising

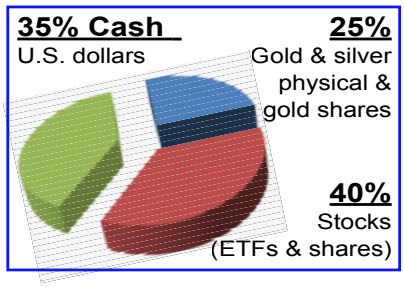
Crude has been holding near the highs, well above its 65 week moving average at $44 (see **Chart 25**). Oil has been up on signs of more OPEC compliance, and the global oil glut is disappearing faster than expected.

The Energy Information Administration (EIA) expects the global oil market to be relatively balanced this year and next. Plus, it raised its forecast on crude production and prices for this year. World Bank also forecasts the 2017 oil price at $55.

CHART 27



OVERALL PORTFOLIO RECOMMENDATION



As the new year unfolds, uncertainty is driving the markets. It's been the dominant factor overpowering everything else. It's driving stocks to record highs and propelling the metals sector higher. This has led to a couple of changes in our recommendations, which you'll see below...

PRECIOUS METALS, ENERGY, RESOURCE

Gold and silver rose to three month highs this month while gold shares outperformed them all. In fact, all the precious metals rose, which in itself is a bullish reinforcement. Gold's A rise has been a stronger one, rising clearly above the $1200 level and its key moving averages, which is a bullish sign for the whole turnaround from bear to bull over the past one+ year. For this reason, we now recommend buying some gold shares (as of our February 9 weekly update). The A rise has now given us the okay to buy and hold for a further ongoing rise. Granted they've all risen far and fast, so buying some now and on any upcoming weakness is the best way to buy. We recommend buying: Agnico Eagle (AEM), Gold Miners ETF (GDX) and Jr Gold Miners ETF (GDXJ). Raise your gold and silver position to 25% (up from 20%) to buy these gold shares. Copper is also soaring, reaching a 20 month high. Our resource shares, Alcoa and Steel have been our best performers. The resource sector is looking good, and it's also been giving silver an extra boost.

U.S. & GLOBAL STOCK MARKETS

The stock market is soaring and it's strong and bullish. The Dow Industrials, Nasdaq, Russell 2000 and S&P 500 all hit new record highs as upside momentum keeps picking up steam. Plus, the market is set to rise further. Continue to buy and hold a 40% position in stocks. But please note the following adjustments... basically we're selling a couple of our laggards and buying some of the leaders. For now, we advise buying new positions in Adobe Systems (ADBE) and Templeton Emerging Markets (EMF). And we recommend selling Dynamic Leisure (PEJ) and S&P 500 Energy (XLE). We also advise buying more positions in Alcoa (AA) and U.S. Steel (X). QQQ, DIA, KIE and IOO are good to buy for new positions too. And continue to hold the other recommended stocks.

INTEREST RATES & BONDS

Interest rates have been stabilizing. But they're still poised to decline further while bond prices bounce up from the lows. The mega trend remains down for the 30 year yield by staying below 3.23%. And with economic growth still bumping along, interest rates will probably stay low for quite a while, regardless of what the Fed and the experts say. We continue to recommend staying on the sidelines and out of bonds.

CURRENCIES

The U.S. dollar has been steadily declining and it's set to decline further. The dollar remains bullish but the outlook is now more uncertain than it was before. Currently, if the U.S. dollar index declines below 99.50, it'll be a sign it's going to fall further. Meanwhile, we continue to advise keeping your cash in U.S. dollars 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

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE 1st BOT	CURRENT RECOMM
GOLD AND SILVER						
Agnico Eagle	AEM	Feb-17		49.22		Buy/Hold
Gold Miners ETF	GDX	Feb-17		24.90		Buy/Hold
Jr Gold Miners ETF	GDXJ	Feb-17		41.51		Buy/Hold
Silver (physical)		Aug-03	4.93	17.89	262.86	Buy/Hold
Gold (physical)		Oct-01	277.25	1225.40	341.98	Buy/Hold
STOCK ETFS & SHARES						
Alcoa Corp	AA	Nov-16	31.85	37.86	18.85	Buy/Hold
Adobe Systems	ADBE	Feb-17		118.79		Buy
Templeton Emerg Mkts	EMF	Feb-17		13.38		Buy
US Steel	X	Nov-16	29.17	39.57	35.65	Buy/Hold
Nasdaq Pwrshrs	QQQ	Aug-16	117.7	129.20	9.77	Buy/Hold
Dow Industrials	DIA	Aug-16	186.52	206.30	10.60	Buy/Hold
SPDR S&P Insurance	KIE	Nov-16	80.24	86.69	8.04	Buy/Hold
S&P Global 100	IOO	Aug-16	75.34	80.00	6.19	Buy/Hold
S&P 500 Index Equal	RSP	Dec-16	87.55	90.97	3.91	Hold
US Financial Services	IYG	Dec-16	107.06	113.41	5.93	Hold
SPDR S&P Bank	KBE	Dec-16	43.41	45.65	5.16	Hold
SPDR Russell 2000	TWOK	Nov-16	77.19	82.52	6.91	Hold
Microsoft	MSFT	Dec-16	63.62	64.54	1.45	Hold
DJ Transportation	IYT	Nov-16	158.29	172.14	8.75	Hold

