THE
ADEN FORECAST
MONEY • METALS • MARKETS

MARCH, 2009

in our 28th year!

BOOMS & BUSTS: A MIRROR OF HUMAN BEHAVIOR

The honeymoon didn't last long. In fact, there wasn't a honeymoon at all. With the economy as bad as it is, there simply wasn't time because things aren't looking good.

MARKETS LEAD ECONOMY

The markets have spoken and, unfortunately, the verdict was harsh. The markets do not like what they see. They don't like the way the economy is evolving and currently, they're not hopeful for the future.

In other words, the initial Obama optimism has essentially dissipated, primarily due to the worsening economy. Job losses are intensifying, the stimulus package isn't what many thought it would be and it won't be enough, the debt load is overwhelming and there doesn't appear to be an end in sight. In a nutshell, that's what the markets are telling us.

The seriousness of this situation also seems to be sinking in more deeply. Increasingly, people are recognizing that this isn't your typical recession. It's global and massive, way bigger than anything ever seen before and it potentially involves the collapse of the banking and financial system.

Obama has been at the forefront repeatedly warning that, "we are facing an economic crisis of historic proportions… our nation will sink into a crisis that we may be unable to reverse… we risk falling into a deflationary spiral", and so on. And the debate rages on over what to do.

FINANCIAL CRISES OF THE PAST

Most of us in this generation have never suffered through a financial crisis, but they are nothing new. We went back to review financial crises of the past and here's what we found…

The past 800 years have involved a series of bubbles and busts, debt defaults, banking collapses, excessive speculation, panics, currency devaluations, recessions, deflations, inflation and of course normal times. And ever since the first stocks traded 400 years ago, the markets have had a long consistent history of booms and crashes.

Internationally, there have actually been 148 crises in the past 140 years. In more recent times, an interesting analysis looked at the aftermath of 14 severe banking busts, including the Great Depression, and others in various countries that have followed since then. Most important, the conclusions reinforce that the effects of this crisis could drag on for quite a long time.

On average, banking crises tend to last about seven years, from beginning to end. Unemployment tends to remain a problem for about four years. Housing prices fall for around five years, averaging a 36% decline, while stock prices tend to drop 56% with the decline lasting about three years. Government debt also surges by nearly 90%.

We know that doesn't mean it has to happen the same way again but so far, the similarities cannot be ignored. It's also important to recognize that every effort is being made to soften the blow, which means that the effects of this crisis may not be as severe as those in the past in other countries.

Plus, all crises affect some, but not others. We've all heard horror stories about the Great Depression, yet a 90 year old friend of ours recently told us that he barely knew a depression was going on at the time, as he was a young man working and busy playing music. So it's all a matter of degree, what you're doing, where you're working, how prepared you are and how you can best get through it.

HERD MENTALITY

Another factor that has been consistent throughout history is the herd mentality and here too, it's best to recognize this and try to avoid being part of it. During wild market swings, for instance, investors are not rational. Everyone wants to buy when everyone else is buying, and sell when everyone is selling.

This psychological action and reaction creates booms and busts.

INSIDE

The markets are simply a mirror of human behavior, and it's always been that way.

In the past few years we've seen a lot of the herd mentality at work, and we'll probably be seeing even more of this as the crisis evolves. That'll mean lots of volatility, commentary, opinions, forecasts and confusion. So try to stay focused on the big picture, the fundamentals and the markets as they'll continue telling us what likely lies ahead.

For now, the stock market is shouting the loudest. As you'll see next, the market has broken down, below several very important, historical levels and since the stock market leads the economy, the implications for the economy remain negative.

There's no getting around it. In fact, it's a huge deal and we'll primarily be focusing on the importance of this latest market action in this month's stock market section, as well as what to be watching for.

GLOOMY OUTLOOK

What upset the market and sent it reeling? Basically, it doesn't like the way things are going. Among other things, that included the new $787 billion stimulus plan, which was signed into law. This was followed by a $287 billion housing initiative, bringing this month's total amount to be spent to over $1 trillion. Remember, that's on top of the first $700 billion stimulus package and surely there's still more to come.

Growing speculation that the government may nationalize some of the banks, and the latest $30 billion for AIG made matters worse.

We know the first stimulus package was just a band-aid. It stopped the bleeding for a while but the patient is still in critical condition. Will Obama's bigger stimulus package make things better? Will there be even more? Where will it end? When? How? These are the big questions, and no one knows the answers yet.

Essentially, this uncertainty is the engine moving the markets and driving the stock market down. So it's making assumptions and reacting to what it believes will be a worst case scenario. That's the current situation. The market simply sees no end in sight.

During the Great Depression, the Treasury Secretary admitted that they were spending more money than they'd ever spent before and it does not work. Will that happen again this time around? These are the unknowns we're all currently dealing with.

U.S. AND GLOBAL CONSUMERS

We do know that U.S. consumers saved the day during the last two recessions by borrowing and spending. But this time it's different. Not only are consumers tapped out but they're generally in bad shape, so they're cutting back.

Internationally, it's a different picture. Thanks to globalization and the emergence of developing countries over the past 15 years or so, more than half of the world has now joined the ranks of the middle class for the first time in history.

This is a huge market, in the billions, and while these folks will obviously be hurt by the recession too, it does add a new dimension capable of helping to boost the global economy when it needs it the most. In this case, the more the merrier seems to apply. But again, at this point no one knows how this new middle class will react, depending on how the situation unfolds.

GOLD SOARING ON UNCERTAINTY

These same factors have also been driving the gold market. It soared briefly rising back above $1000, and within a couple of dollars of its all time, record high.

Gold is once again showing that it is the safe haven and it thrives in times of global turmoil, uncertainty, nervousness and fear. That's what we're seeing now and gold is certainly behaving in traditional fashion.

But this is just the beginning. Once inflation eventually kicks in, in reaction to all of this massive government spending, gold is going to soar. With deflationary pressures intensifying due to the recession, this is going to take time.

It's not going to happen from one day to the next, but that's the underlying foundation pushing gold's bull market higher, and it's not going away any time soon. So stay with your gold. It's your best, and probably only solid bet looking out to the years ahead.

GLOOM IS THICKEST AT BOTTOM

Also, keep in mind that despite all of the gloom and doom, gold continues to signal an upcoming turnaround in this recession. And since the average recession lasts about 14 months, we're now approaching this time frame.

If that seems unlikely, remember that the news is always the worst near the bottom and that may be what's happening now.

Copper, bonds, oil and the U.S. dollar will also continue to signal what's likely coming downstream. Of course, stocks will too, but in this case it's not a pretty picture, essentially throwing a wrench into the works. But let's take it as it comes and with each passing month we'll know more.

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U.S. & WORLD STOCK MARKETS

The bear market roars

The stock market is the big news this month. It has broken down big time, not once or twice, but in three very important areas.

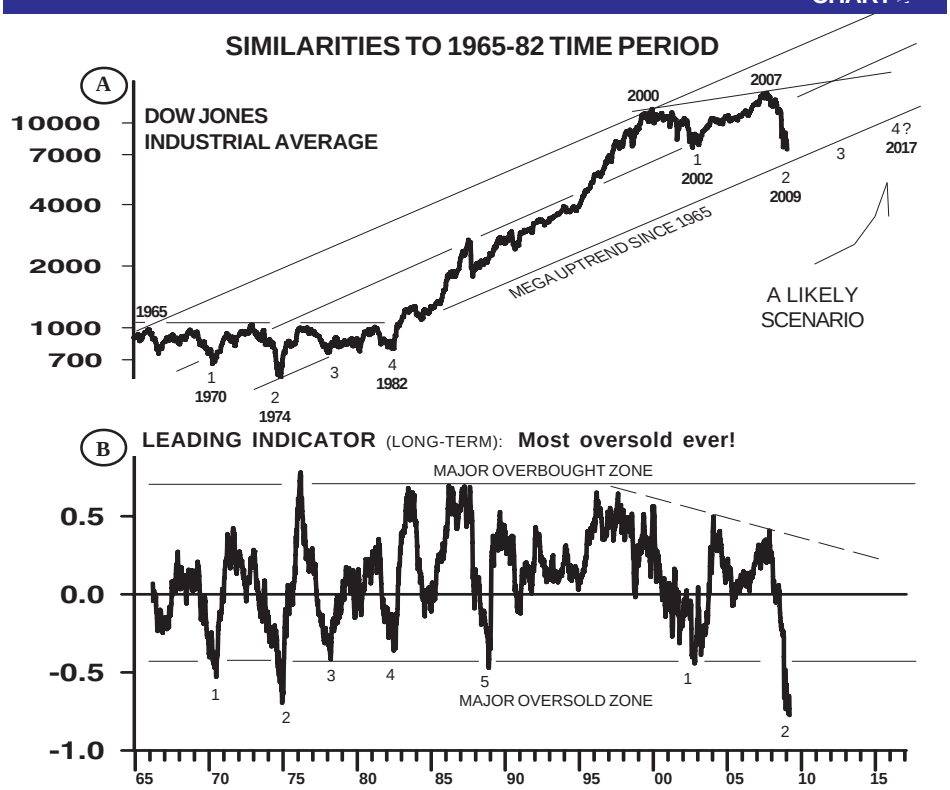
Some of the positive signs we were seeing last month were thrown out of the window. Instead, the major bear market was clearly and solidly reconfirmed. This means that stocks are going much lower. It also means that the economy will not be recovering any time soon.

Since this is a major development, this month we'll focus on what happened and what it implies. Using the Dow Jones Industrials Average as our base, we'll also take a look at the long-term outlook, as well as what's likely to happen in the near term, and what to be watching.

FURTHER BEARISH CONFIRMATION

The first big negative happened on February 19 when the Dow Industrials closed below its November low, hitting an over six year low. As you'll remember, the Dow Jones Transportations had broken below its November low on January 22. So the Dow Industrials confirmed the bearish action in the Transports.

CHART 1



Based on Dow Theory, this is a strong signal that the bear market remains in force. In these cases, it means that stocks will continue falling until they become great values. In other words, until they reach bargain basement prices, which has normally coincided with price/earnings ratios in the single digits and dividend yields at the 5% to 6% level.

Currently, the price/earnings ratio for the Dow Industrials is about 23 and the dividend yield is around 4.45%. So you can see that stocks still have a long way to fall until they reach bargain basement prices.

Another negative...

The second big negative was that the Dow also closed below 7470. This level was extremely important because it marked the 50% level of the huge bull market that started in 1982 at 776.92 and ended in 2007 at 14164.53 (see **Chart 1A**, which shows the Dow's big picture going back to 1965).

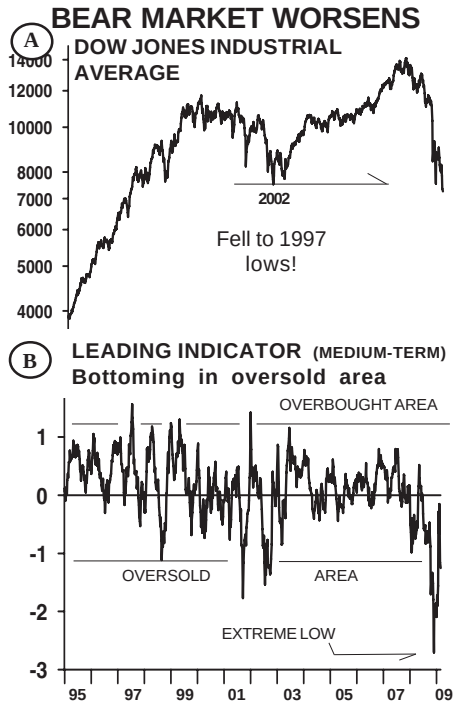
That bull market lasted 25 years and it was massive. But by breaking below the 50% level, the Dow is now telling us that the current bear market is going to correct that entire 25 year rise. That is, the excesses of the 1980s and 1990s will be cleaned up and based on the 50% Principle, the Dow could decline to near the level where the bull market started in 1982 near 1000. This would be the worst case scenario.

... and yet another

As if that weren't enough, the third negative happened on February 23 when the Dow Industrials broke below its 2002 lows, hitting a 12 year low (see **Chart 2A**).

So like we said, it's not a pretty picture. And since the stock market leads the economy, the implications for the economy are currently very bearish too. It means that the situation is going to get worse, possibly for

CHART 2



quite a while, before it gets better.

But we also know that no market goes straight up or straight down. There will be counter moves along the way. As we've been showing you in recent months, the stock market is extremely oversold and it's way overdue for at least a decent rebound rise.

1974 REVISITED

At that point, it'll be most important to see how the rebound unfolds. If it's strong, then this crisis may not fall into the worst case scenario category and going back to **Chart 1A**, you'll see a perfect example of what we mean.

In our January issue, we showed you the similarities between the action in the Dow in recent years and the action in the years preceding the 1974 bear market. In both cases, the Dow's behavior was similar in movements and percentage declines.

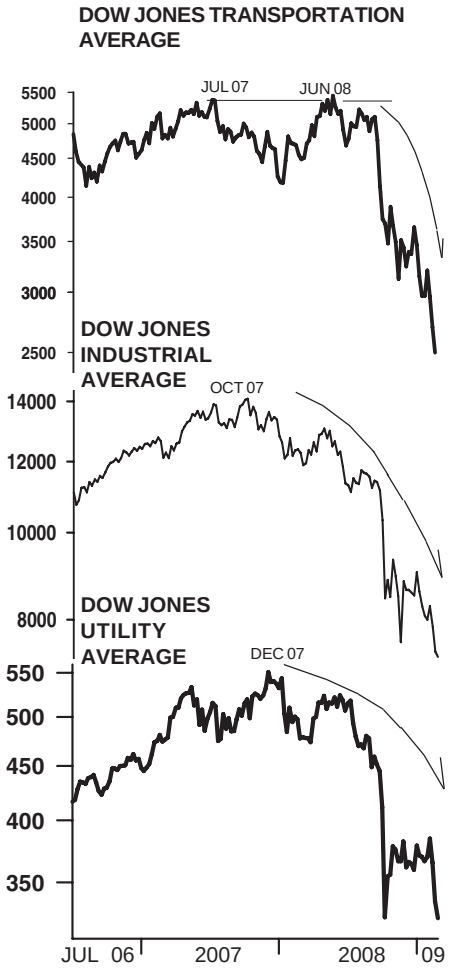
For those of you who don't remember, and even though it doesn't look like much on the chart, the 1974 bear market was one of the worst in history. It coincided with a bad recession, an oil embargo, the Watergate scandal and finally, the resignation of President Nixon. The Dow plunged 45%.

But following that 1974 low, the Dow rebounded to near its previous high. It rose 75% over the next 21 months before it fell again, and then it essentially moved sideways for the next few years until reaching its major low in 1982.

So could the Dow continue repeating this pattern? It sure could. Note

CHART 3

A LOOK AT THE PLUNGE



that **the Dow is now the most oversold it's ever been, even more so than in 1974** (see **Chart 1B**). This means that the Dow could start moving up at any time in at least a rebound rise, following its steep decline. And if this pattern does generally repeat, then following a potentially great rebound, the Dow could essentially move sideways near the bottom of its mega upchannel while the economic excesses are worked off, which could take another five years or more.

This would be a better case scenario and hopefully, that's the way it'll work out. If so, it would provide a good opportunity to get out of some of our stocks at a much better price. It would also suggest that all of this government spending will eventually help soften the blow and keep the recession from spiraling into a full blown depression, which would obviously coincide with the stock market's worst case scenario.

NOT ALL INDICES AT NEW LOWS

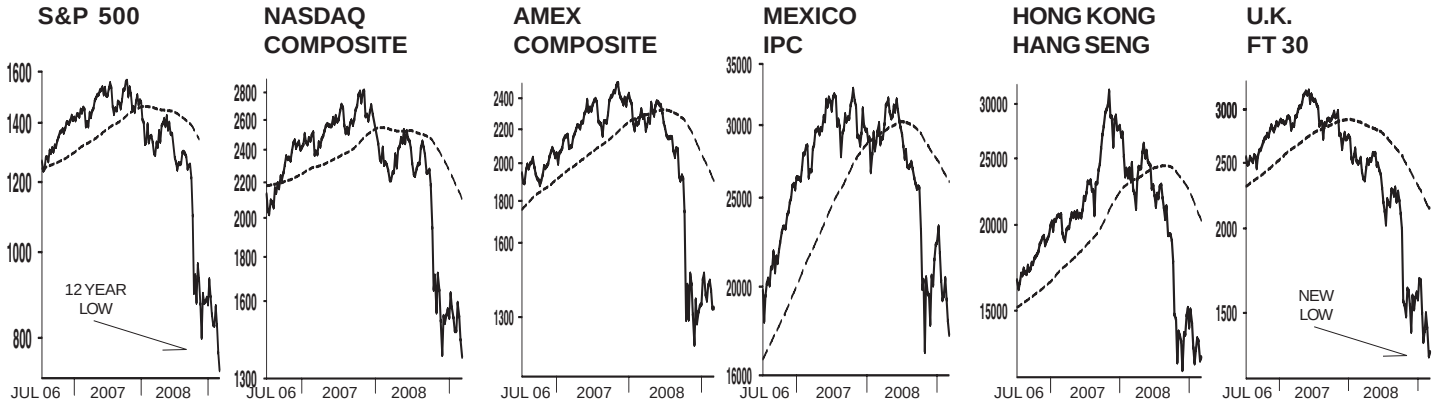
Meanwhile, we know the Transportations led the way down (see **Chart 3**). That was followed by the Dow Industrials and finally, the Dow Utilities and S&P 500 broke below their November lows too. But a couple of the other markets have not (see **Chart 4**).

This may be grasping at straws, but it's now important to watch. If Nasdaq and Amex can hold above their November lows, it may be the first subtle signs that some sort of bottom is forming, which will precede the rebound rise in stocks. If these levels are broken, however, it would reinforce the bearishness, signaling that the rebound is not going to happen yet.

If that ends up being the case, it would be similar to what's currently happening with the Dow compared to gold ratio (see **Chart 5**).

CHART 4

WEAKNESS ACROSS THE BOARD... BUT SOME WORSE THAN OTHERS



- - - 65 Week Moving Average; bearish below it

DOW AT 18 YEAR LOW VS GOLD

The top chart shows that this ratio has been plunging. It shows that stocks have been much weaker than gold, and that's been true this entire decade. In other words, gold has been the better investment. Its percentage gains have been far greater than what you would've made by holding stocks.

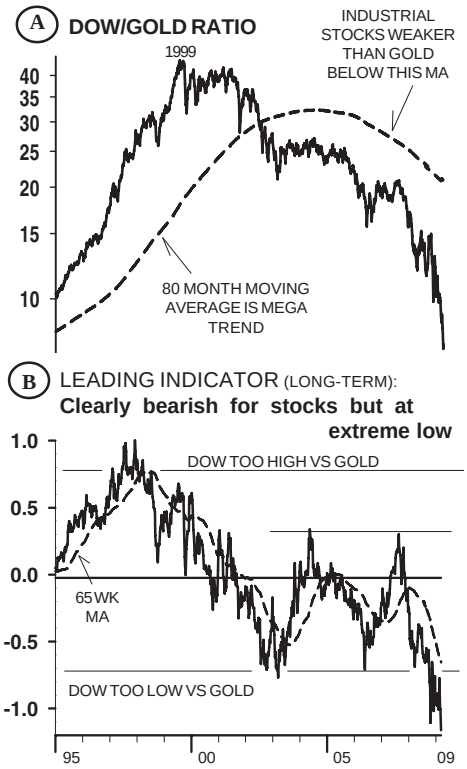
Not to toot our own horns, but we've been saying this for years. The mainstream financial media didn't want to hear this but this ratio tells the story. It shows that the Dow has dropped 82% against gold, and holding industrial stocks rather than gold has been a disaster for those who listened to the mainstream.

But looking at the leading indicator, you can see that it's way oversold (see **Chart 5B**). This tells us that stocks are due to outperform gold, which would likely coincide with the rebound rise in stocks. But it's also interesting to note that it's been extremely oversold since late 2008 and it has stayed oversold while the ratio has continued to plunge.

This happens sometimes and it could happen now with stocks. That is, the stock market could stay oversold for several months as stocks fall further. And if that's the way the market unfolds, it shouldn't come as a shock.

CHART 5

STOCKS MUCH WEAKER THAN GOLD



SENTIMENT VERY LOW

Sentiment is about as negative as it could be. The market is focused on the crisis and so far, no matter what Obama or Bernanke say, or what plans they have, the market isn't listening. It needs to see some concrete evidence. It needs action, not words, and you can understand why.

The world stock markets have already lost about half of their value, resulting in about $30 trillion of lost wealth. On top of that, global real estate prices have lost around another $30 trillion, making it a total of about $60 trillion in lost wealth in the past couple of years.

No matter how you look at it, that's very depressing and it's ingrained a "show me" attitude among battered investors who are either devastated, extremely set back as far as retirement plans go, wiped out, angry, disgusted and/or gun shy.

It's been a vast, global destruction and the effects are not going to end overnight. That's very important to keep in mind. Major damage has been done. It's going to take a lot to turn this sentiment and the market around, and it'll take time. How long we don't know but we'll keep watching closely. On the upside, if the Dow were to close above 7600, it would be a good first sign.

We'll be keeping you posted in our weekly updates, so stay in touch as this real life drama continues to unfold. Meanwhile, sit tight with the small position in stocks that you have.

U.S. INTEREST RATES AND BONDS

Rates: Rising steadily

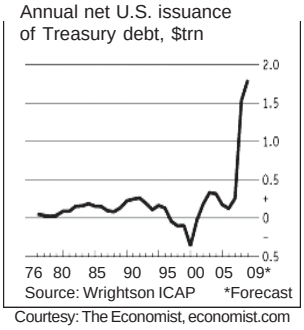
Bond prices have been coming down. This is actually a very good sign because it shows that investors are not as scared as they were before. Increasingly, they're not feeling the desperate need for safety.

Even though it's not obvious yet, bond investors are starting to feel better and the numbers reflect the bottom line. This year, for instance, Treasuries have lost nearly 4%. That doesn't sound like much, but it's the worst start of a new year in nearly 30 years.

CHART 6

Surf's up

Annual net U.S. issuance of Treasury debt, $trn



Courtesy: The Economist, economist.com

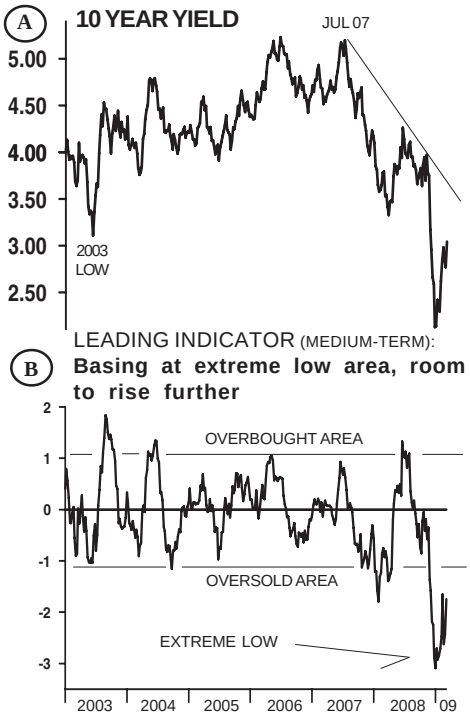
Another reason why bonds have been declining is that there's just too many of them (see **Chart 6**). As you can see, the issuance of Treasury debt has been soaring, but this should not come as a surprise.

With all the spending, stimulus packages, rescue plans and bailouts that are going on, the Treasury Dept will have to keep issuing even more government bonds than it already has. This quarter it's already borrowing almost $500 billion more than it originally planned, but the longer-term outlook is way more extreme.

It's estimated that the Treasury will issue $1.8 trillion in bonds this year. If you add that to the $1.5 trillion of last year, the borrowing for

CHART 7

REBOUND RISE



these two years will be greater than all of the borrowing of the past 27 years combined.

It's all pretty mind boggling. But one thing is certain, when there's too much of anything, the price will go down. That will be the case for bonds too. The fundamentals are becoming more bearish with each passing week and this will continue to be reflected in bond prices as they head lower from their extremely high, overbought levels.

INTEREST RATES RISING

This also means that interest rates will continue to rise. So far, the rises have barely been noticed but rates have been moving steadily higher this year from their bombed out levels (see **Chart 7A**). And since the leading indicator is still very oversold, interest rates could now move even higher than most are expecting.

That may sound crazy, considering how bad the economy is. But as we've often discussed, these markets are also leaders and even though it's still early, they may be starting to indicate that the economy is not going to go off the deep end, into a worst case scenario as some of the stock market's signals are showing.

We'll soon see but whatever happens, we're pretty sure we won't see interest rates soaring in the current environment. More likely, they'll probably just quietly creep higher, at least initially. If that proves to be the case, interest rates would still be very low. So even though they'd be rising, it'll unlikely further harm the economy in any worrisome way, for the time being.

HOUSING BOTTOMING WITH RATES

Interestingly, you can see on **Chart 8** that the housing index appears to be bottoming along with the 30 year yield. These two markets used to move in opposite directions but since the subprime problems hit in 2007, they've been moving together. But due to the seriousness of the crisis, the housing meltdown and the recession, the sharp drop in interest rates didn't help housing as was previously the case.

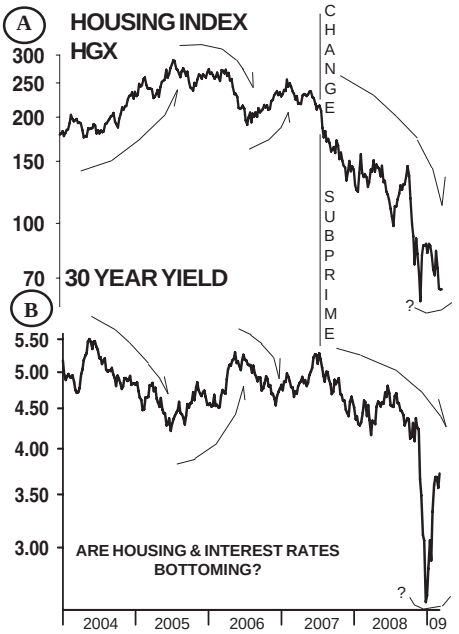
As strange as it may seem, a gradual interest rate rise may help boost housing as they continue moving together. How could that be?

For one, it would be a sign that the worst of the crisis may be near an end and that alone would be a huge deal. This may be wishful thinking, but so far that's what this chart seems to be saying. And if these markets keep bottoming and don't break down like stocks did, that'll continue to be the message.

In the meantime, the major trend for all interest rates remains down

CHART 8

HOUSING & INTEREST RATES:
Move together since subprime crisis hit



(see **Chart 9**). We don't think that's going to change in the near future.

KEEP AN EYE ON MEGA TREND

Even if interest rates were to rise to as high as 4.18% on the 30 year yield, 3.55% for the 10 year and 1.30% for the 90-day T-Bill rate, the major trend will continue to be down. So if you're currently holding bonds, we'd hang on to them.

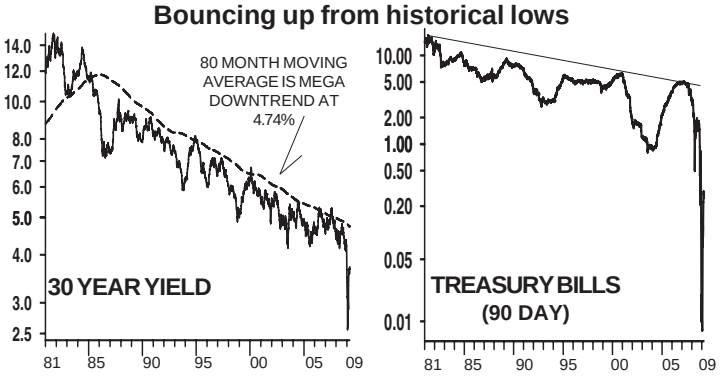
If the major trend changes, it would be another story. Once it does, it'll mean that inflationary forces are overpowering the deflationary forces and at that point, you wouldn't want to hold bonds. Why?

With all the spending that's taking place, the eventual resulting inflation will be unprecedented. Currently, that's the least of anyone's concerns but it's going to happen… it's just a matter of time and you definitely wouldn't want to be in bonds when that happens as they'll be very hard hit.

Whether this happens sooner or later, to profit as bonds decline, we continue to recommend buying the Proshares TR (TBT) fund.

CHART 9

LONG & SHORT RATES:
Bouncing up from historical lows



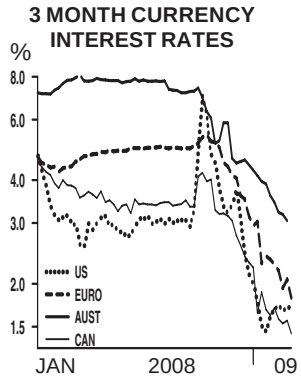
CURRENCIES

U.S. Dollar: Strong… but for long?

The U.S. dollar is strong. The reason it's strong is because the economy is so weak and it's considered a safe haven.

We know that doesn't make sense but that's the way it's been during this financial crisis. And since the U.S. and global economy has gotten so bad, so fast, this continues boosting the dollar.

CHART 10



ECONOMY: Surprises on downside

The latest numbers came as a surprise to even the most pessimistic. The U.S. economy contracted more than 6% in the last quarter, primarily due to a huge drop in consumer spending. This was its worst showing in 26 years. Companies continued laying off workers by the thousands and more than 5,000,000 people are now collecting unemployment benefits. That's the most ever, even higher than during the 1974-75 or 1982 recessions.

Home prices have dropped 26% from their 2006 peaks and home sales have plunged by 75%. Along with the big decline in stocks, it's no wonder that consumer confidence has collapsed to an over 40 year low.

There's no question, the news is depressing. The situation has gone from bad to worse and despite the bailouts, stimulus plans, money supply soaring at 34%, and super low interest rates, there's not yet light at the end of the tunnel (see **Chart 10**). Then why is the dollar rising?

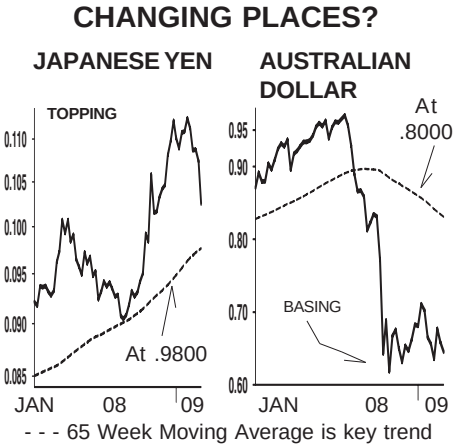
Well, as bad as things are, they're just as bad or worse in the other major countries. Not to keep harping on this but in a nutshell, here's what some of the other countries are facing…

DEVELOPED WORLD HURTING

Britain and France, for example, are suffering through the biggest contractions in three decades. Germany's recession is the worst since World War II. The same is true in Japan where the economy plunged more than 12% in the last quarter.

This is now finally starting to take its toll on the Japanese yen, which had been benefitting from the unwinding of the carry trade and indirectly as a safe haven (see **Chart 11**). But eventually, the negative fundamentals caught up with the yen, and the U.S. dollar will likely come to a similar fate.

CHART 11



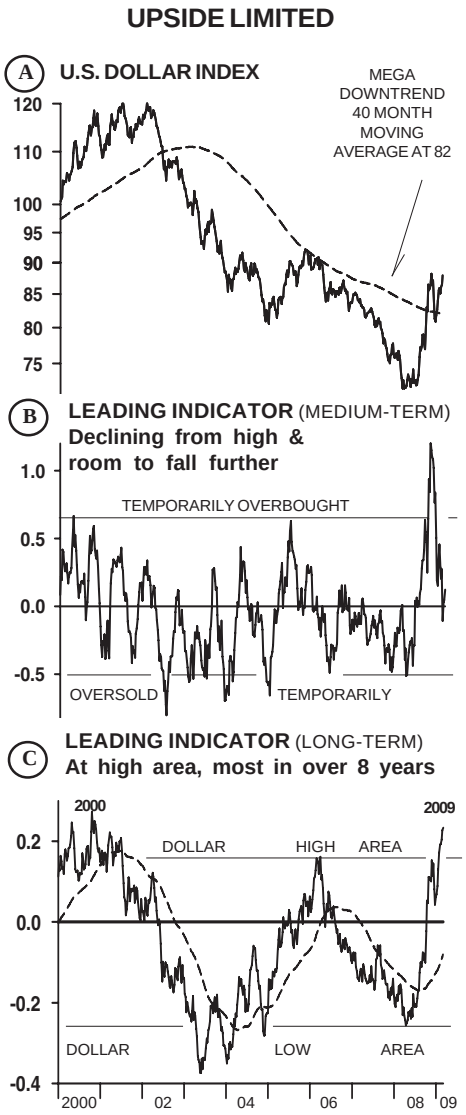
U.S. DOLLAR RISE LIMITED

Note that the dollar's leading indicator is now at the same level as it was in 2000 (see **Chart 12C**). This preceded a huge dollar decline and we believe that's what this reliable tool is telling us again. The medium-term indicator is already declining, from a super high level, signaling that the dollar itself is likely topping and it could begin a renewed decline at any time.

This would be confirmed once the U.S. dollar index declines and stays below 82, its mega moving average. At that point, the mega trend would turn down, meaning that the dollar's going to fall much further.

That is not happening yet, but it will. Just the huge issuance of Treasury debt, which we discussed on pages 5 and 6, will apply to the dollar too since bonds are denominated in U.S. dollars. And as the debt burden keeps mounting as a result of all the ongoing spending, how will

CHART 12



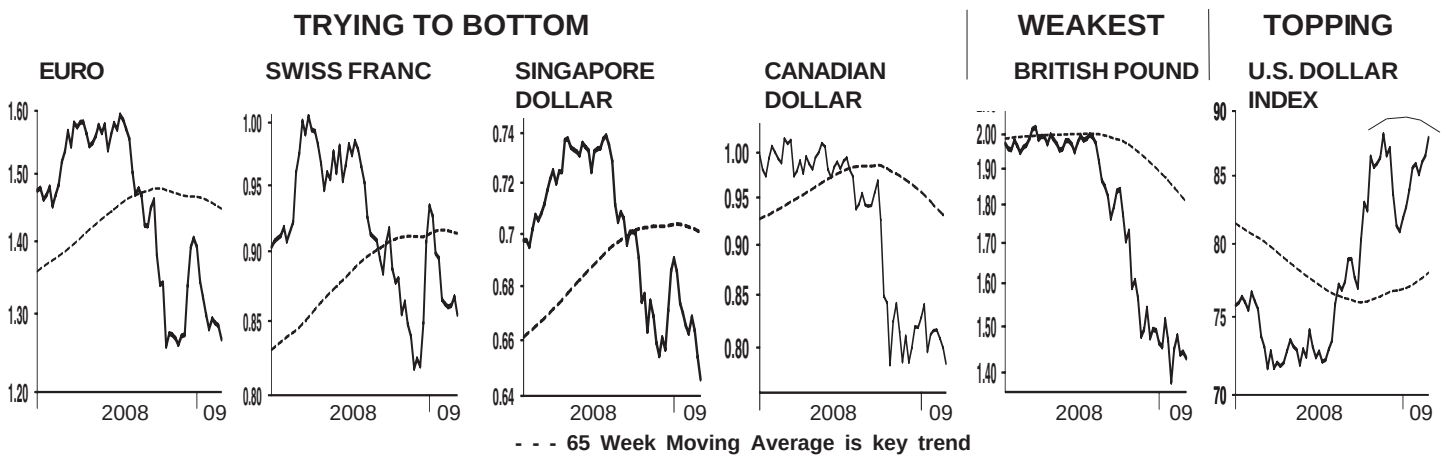
this debt be paid back?

It won't, not in current dollars at least. The dollar will drop and that will ease the debt burden because the debt will be repaid in cheaper dollars. It's what's been going on for years, and throughout history, and now more than ever the dollar will need to weaken again. But this time around, the dollar will be even more vulnerable because of its dependence on foreign funding.

Once the dollar starts down, the currencies will rise, despite their currently weak fundamentals (see **Chart 13**). As you can see, they generally still appear to be bottoming and they're oversold.

Even though none of the currencies look exciting right now, that could soon change. For now, we wouldn't buy any new positions yet but continue to hold the currencies you have.

CHART 13



METALS, NATURAL RESOURCES & ENERGY

Gold in seventh haven

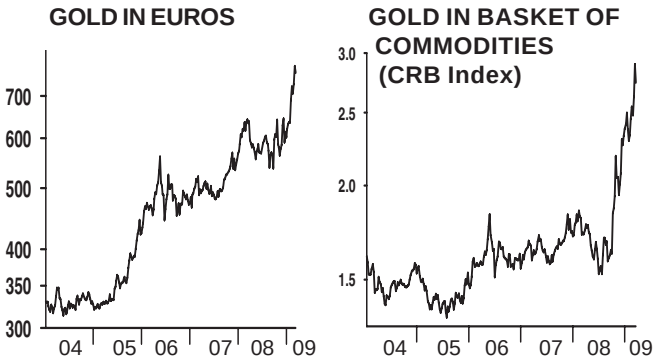
Gold continued to be the star investment, rising to $1000 this past month and testing its record highs posted almost a year ago. Gold has been impressive. It was one of the few investments that ended 2008 with a gain, and so far this year it's up 28%. Not bad considering that most investments are way down.

But that's precisely why gold is rising. Investors are looking to protect their wealth as stocks fall and the recession deepens. Plus, Obama's stimulus package pushed gold up as it creates long term inflation worries.

Gold is the asset that will hold its value during dollar weakness, looking out to the years ahead. This is why investors are moving to gold, and not to the currencies. They see that the other economies are weaker than the U.S., so they move into gold first as the ultimate safe haven, then into the U.S. dollar, the reserve currency of the world, as a second choice.

Chart 14 shows a good example of gold's strength. It soared to new highs in euro terms and it soared versus a basket of commodities. But gold is also shining brightly, reaching new highs against many markets… versus most currencies, base metals, crude oil, the U.S. and world stock markets, and even the bond markets. It jumped up versus just about everything. Gold is king when everything else looks hopeless. It is truly the haven asset during uncertain times.

CHART 14



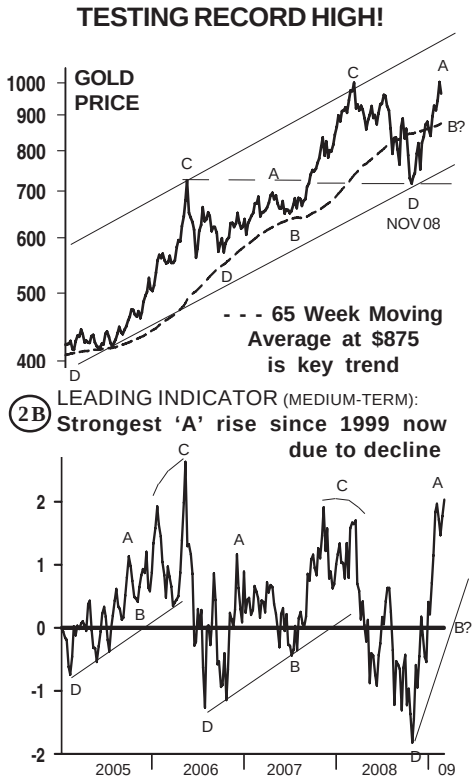
GOLD & DOLLAR RISING TOGETHER

Gold and the dollar tend to move in opposite directions. This trend makes sense because gold moves as another currency. It's a measuring stick for many central banks.

But there are times when gold and the dollar move together, like they've been doing since December. In today's case, they are both strong because both have been safe havens during the crisis, and this will continue for now. At some point, this will change. And the way the world is going, it seems like a no brainer as to which one will eventually win out.

In the past, when the dollar and gold moved together, it tended to precede a change. If, for example, the dollar remains weak while gold declines like it did in January

CHART 15



1975 to August 1976, it's saying that gold has the upper hand, which it did when gold then went on to rise in the best bull market rise to date.

When gold reached its super record peak in 1980, the dollar had stopped falling almost a year before. The dollar was showing strength by not falling while gold soared. The dollar turned bullish thereafter.

There are more examples but the point is that the unprecedented crisis we are now experiencing is far more serious than at any time in the last 40 years. The dollar could therefore remain a safe haven longer than we think, but most important gold's bull market is solid and it has yet to really heat up.

GOLD DEMAND STRONG

Many believe there's too much hype about gold on TV, the radio… well just about everywhere you look. This is normally a sign of a top, and certainly following a 42% gold rise since November. The hype will die down as gold corrects but don't think that this is a sign of a major top. Gold's just been the lone ranger in strength, which has attracted attention.

And with reason; demand for gold has been high. According to the World Gold Council, gold demand in 2008 was 29% higher than 2007. And demand for bars and coins was up by 87%, offsetting the lower jewelry demand.

This demand has mainly been fueled by safe haven purchases, but the Exchange Traded Funds (ETF) are also hot. The SPDR Gold Trust Holdings rose about five tons to a record while silver holdings in iShares Silver Trust climbed to an all time high. There is clearly a wide interest in gold that is here to stay. The turbulent economic years ahead makes gold a super investment.

Many of you ask about holding ETFs versus coins or bars. We like them both but coins and bars are a safer bet and we recommend keeping more physical gold in your portfolio. The ETFs are easy to buy and we like them. They are easy to sell too, unlike coins. As our dear friend Richard Russell points out, gold coins are rarely sold. People tend to buy them and put them away.

IMPORTANT GOLD LOW AT HAND

Last month we showed you that gold may be forming an important low, because it tends to reach a low every eight years (see Chart 17 in our February 09 issue). If this pattern continues, gold is ready to rise in a sustained powerful bull market rise in the upcoming years.

Last November's low could've been this major low level, or it's still possible that gold could decline to a major low by the summer time. The point is, a major low is in the making and we want to take advantage of weakness and be well positioned before year end.

Considering that gold has jumped well ahead of most markets and its intermediate rise is over, we could now see weakness in gold for several months to work off the excess rise. This would be normal.

COMPARING BEAR MARKETS

Gold lost nearly 30% last year from its March peak to the November low. Many feel that this was not enough compared to prior bear market declines.

It's true, a 30% decline is mild compared to the other bear markets. In the 1975 to August 1976 bear, for instance, gold lost 41.60%. The January 1980 to February 1985 bear was clearly the worst with gold losing 65.60%. Then in the February 1996 to February 2001 bear, when tech stocks were all the rage, gold dropped 38%.

Intermediate moves are key

The upcoming intermediate

CHART 16

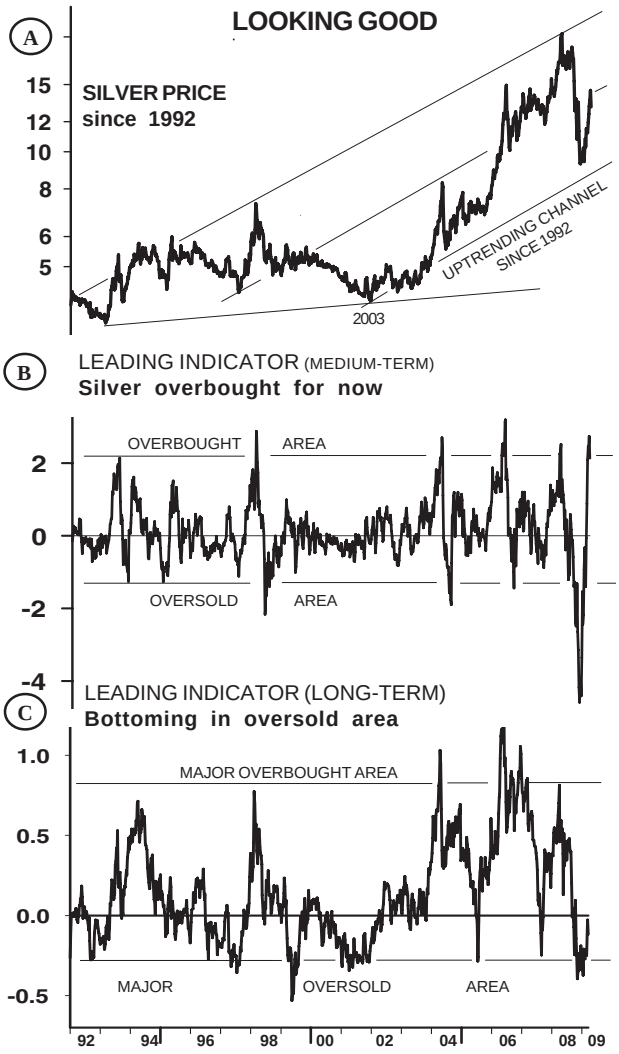
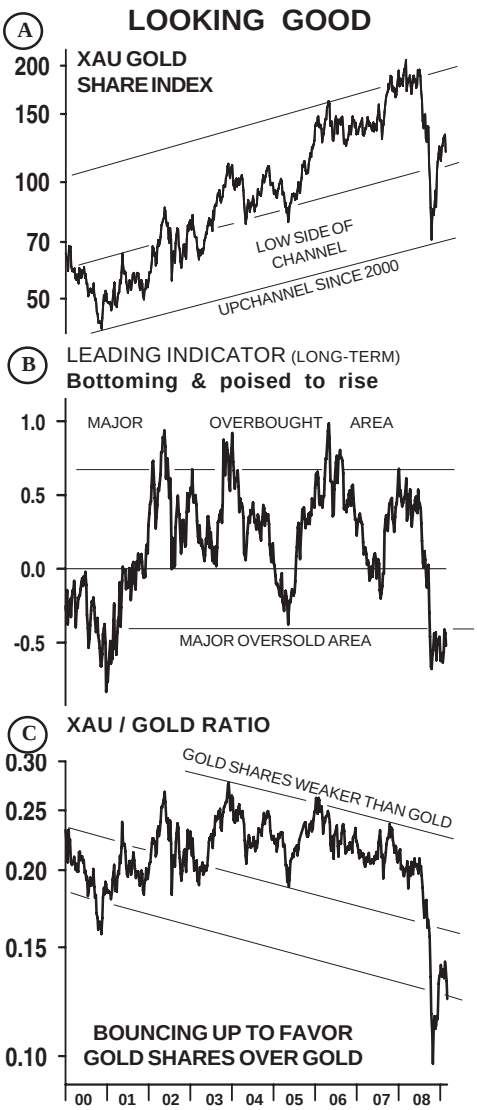


CHART 17



moves will tell us when the major low is at hand or if the November low was the low. The rise since November we call an "A" rise was very bullish because it was the strongest A rise since 1999 and it certainly provided a good start to a stronger bull market rise.

But it's now equally important to see what kind of weakness and strength we'll see in the upcoming months. Currently, the great 14 week A rise is at or near maturity (see **Chart 15**). The indicator (2B) is starting to form a top in a high area while the gold price (above) is resisting below the record highs. If gold now stays below $950, the A rise will be over and a B decline will be underway.

Keep an eye on…

The key levels will guide us as to how strong or vulnerable gold really is. For example, B declines tend to be mild and during the upcoming B decline, gold will show strength if it stays above its 65-week moving average now at $875.

This is important because gold would then be saying that the break below this average in October-November was just an aberration caused by the crisis. You'll remember that this average works well in identifying the major trend, and gold has stayed above this average since 2001, with the exception of last Fall.

This is our first step to keep an eye on. Of course, if gold reaches a record high, it would be super strong. In a bull market, gold reaches a new bull market high during C rises.

Jumping ahead, in a bull market gold always stays higher than its prior D low. This means that during weakness gold should stay above $705, last November's D low, in order to stay bullish.

In a worst case, the prior B low in June 2007 would be the absolute low point for a bull market to stay active, at $645.

Overall, we believe gold is stronger this time around because of the unusual crisis we are experiencing. Gold is the ultimate safe haven and as long as economic uncertainty prevails, gold will be the place to park your money.

Our subscribers ask if gold can rise in a disinflationary recession environment. Gold will rise in any uncertain environment. In the 1970s it rose due to a falling dollar and rising inflation, but it will rise when the world is vulnerable, both economically and financially. During the Great Depression in 1930-1935, for example, gold shares rose because of the uncertainty.

So our answer to that question is yes, gold can rise in environments that are not inflationary, and much depends on the level of uncertainty.

Our job is to monitor this for you and so far all signs point upward for gold in the coming years along with a likely downward correction in the months ahead.

SILVER: Better than gold

Silver is both a precious metal and a base metal. It will outperform gold when the U.S. and global economic growth is strong, like it did from 2003 to 2007. And it tends to underperform gold when the economy is slowing, much like it did last year. Silver fell sharply with the resource sector.

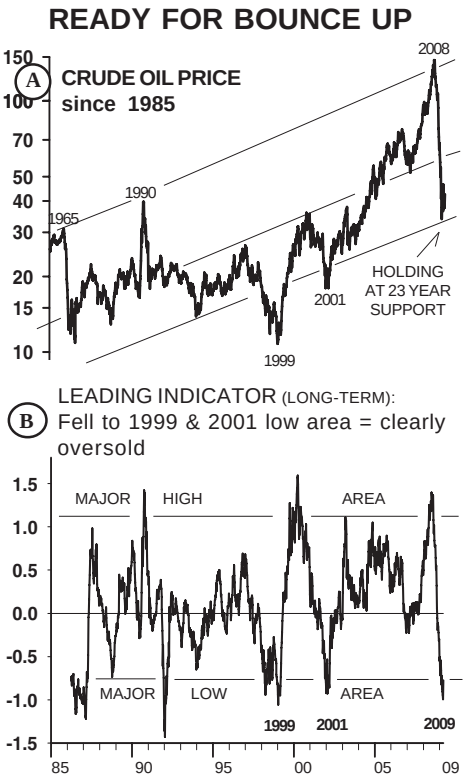
Interestingly, silver started to outperform gold this year. Granted it was bombed out versus gold but it now looks set to continue outperforming gold going forward, which would also be a good sign for the world economy.

Chart 16A shows silver since 1992 moving in a clear uptrending channel. It bounced up from this trend when silver was extremely oversold on an interim basis (B), gaining 64% from that mid-November low to the February 20 high. It's now overbought for the time being.

Silver had an impressive rise, reaching our first target level, but it remains below its 65-week moving average and, therefore, it's vulnerable below $14.60. It could decline to $11.70 but it would still be firm.

Once weakness is over, it will be time to buy silver again because the long-term leading indicator shows that a major low is forming (**Chart**

CHART 18



16C). This means silver is poised to head higher in a sustained rise later this year it'll be stronger than gold.

GOLD SHARES: Great rebound

Gold shares have been rising with gold and outperforming both gold and silver on this rebound. The XAU gold share index gained over 100% from end October to mid-February. And while this fast rebound is overdone, gold shares have good potential going forward.

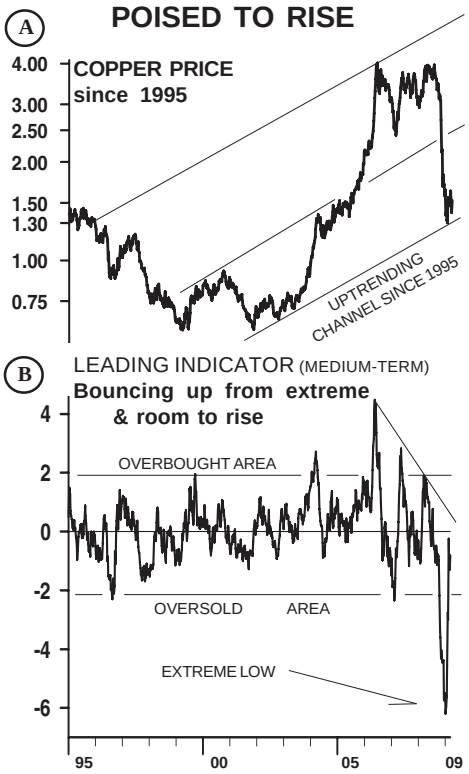
Chart17A shows the XAU index bouncing up from its upchannel while its leading indicator (B) continues to bottom in a major oversold area. This indicator reflects the major trend and since it's at lows last seen in 2001, it's saying that gold shares are headed higher in the years ahead.

Gold shares were much weaker than gold last year. With both stocks and gold falling, gold shares were hit hard (see **Chart 17C,** which shows gold shares compared to gold). The recent bounce up from extremely low levels suggests that the ratio has further to rise to get back to normal. Gold shares may be indirectly saying that the stock market is also poised to rise, which in turn would give gold shares an extra boost.

ENERGY & RESOURCE: Feel the recession most

The global economy continues to sink with each passing month. This has been keeping pressure on the energy and resource sector. With less demand for raw materials in the world, supply is exceeding demand in base metals like lead and zinc for the first time since 2002.

CHART 19



On the other hand, we are starting to see iron ore demand recover somewhat in China for steel making. In fact, the Baltic Dry Index rose from the December lows, the most since 1985, as demand for iron ore has improved. The Baltic Dry Index is a good leading barometer for the world economy.

Meanwhile, China is bargain hunting for resources all over the world.

So far, it looks like the worst for oil and copper (the barometers for energy and resources) was in December. As bad as the economic and financial news has been in 2009, both oil and copper have not declined to new lows. In fact, it looks like both have found a major low area.

Starting with **crude** first, **Chart 18A** shows that oil is basing at a 23 year support area while its leading indicator (B) fell to a major low area, the lowest since the rise began in 1999. This is saying that the downside is limited and the worst is behind us.

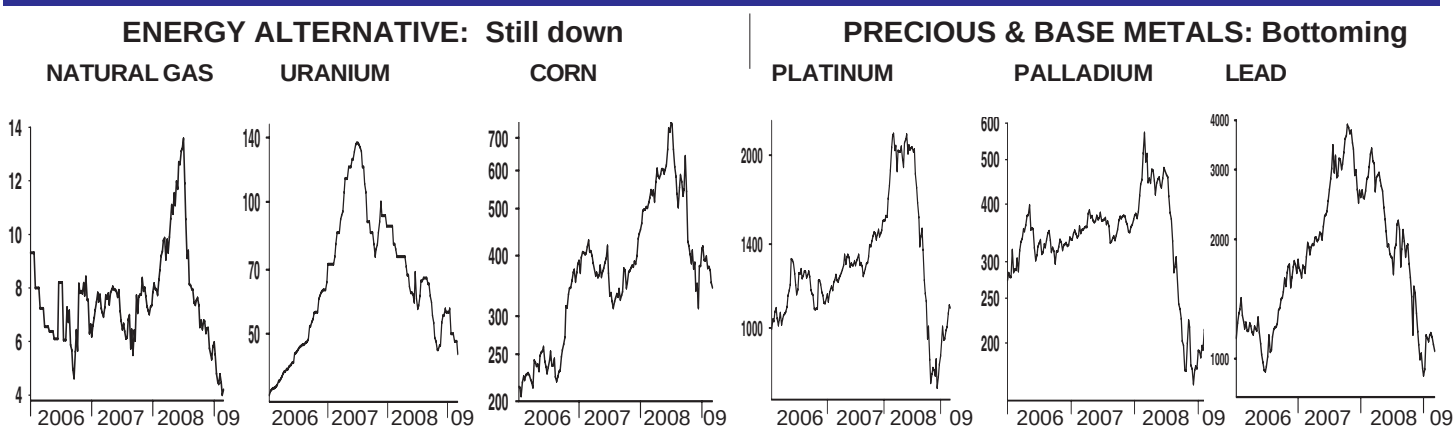
Of course this will not be confirmed until oil can rise and stay above $46. A rebound rise would then be underway, which would provide a breather in the economic crisis. For now, oil must stay above its December low at $33.87, for the bottom to continue forming.

Copper is a reliable barometer for the world economy. The good news is that it's already starting a rebound rise. **Chart 19A** shows the copper price holding at the lower side of the upchannel, while its indicator is bouncing up from an extreme low. This indicator identifies the medium-term and since it has room to rise further before it's overbought, it's signaling that copper is now poised to bounce up.

As long as copper stays above its December low at $1.2750, a bottom will continue to form. Copper has now risen above its 15-week moving average at $1.48 for the first time since the plunge began in July. This alone shows strength for a rebound rise.

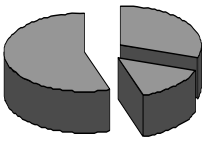
Keep your energy and resource stocks as the worst is likely behind us.

CHART 20



OVERALL PORTFOLIO RECOMMENDATION

Things are not looking good. The markets have spoken and they don't like what they see. That's especially true of the stock market. We're fairly well positioned with a large position in cash and metals. But we'll be making some adjustments on rebounds and/or downward corrections, ideally reducing our stock holdings and adding to our metals positions. For now, sit tight with what you have but do not buy new positions yet.



30% Metals
20% Gold & silver physical & ETFs, & gold shares
10% Gold only

15% Energy, resource & other stocks

55% Cash: 35% in US dollar T-Bills; 20% in euro, Swiss Franc and Australian dollar, or currency funds

STOCK MARKET RECOMMENDATION

The stock market continued to get beaten down by the deepening financial crisis as the Dow Industrials plunged to a 12 year low. The bear market has clearly been reconfirmed, which means that stocks are going lower. The market, however, is also extremely oversold and it's well overdue for at least a rebound rise. Keep the stocks you have for the time being and do not sell at these bombed out levels. Whether the rebound is strong or weak, it'll provide an opportunity to get out of some of our small stock position at a better price. At this point, do not buy any new stock positions. On the upside, if the Dow Industrials were to close above 7600, it would be a good first sign.

PRECIOUS METALS AND THEIR SHARES RECOMMENDATION

The gold price jumped above $1000 this month, testing the record high posted almost a year ago. The rise since November is a rise we call 'A" and it was the best performing A rise since 1999, gaining 42%. The rise is now correcting in a normal downward correction, and if gold can stay above $875 during weakness, the bull market is very strong. The precious metals arena is similar; downward corrections are normal at this time.

It's now important to see if gold will form an eight year cyclical low by the summer time. But one thing is certain, be prepared to buy more gold, silver and their shares when upcoming weakness is about over. Otherwise, keep the positions you have.

Gold is leading the resource and energy sector. They're now poised to rise in a rebound rise while the precious metals' group softens. This will give a boost to our recommended resource and energy shares listed in the box on the right.

INTEREST RATE & BOND RECOMMENDATION

Bond prices continued to decline this month, and they're poised to fall further. That is, interest rates are headed higher. The major trend, however, will remain down for rates with the 10 and 30 year yields below 3.55% and 4.18%, respectively. If you have bonds, keep them, especially as long as the economy stays weak. To profit as bond prices decline, we continue to recommend buying and/or holding the Proshares Tr (TBT) fund.

CURRENCIES RECOMMENDATION

The U.S. dollar is strong. With the economy so weak, it's still benefiting as a safe haven. But the dollar is likely topping and it could begin a renewed decline at any time. That would be confirmed once the U.S. dollar index declines and stays below 82. For now, keep your 35% cash position in U.S. dollars. This will enable us to take advantage of bargains as they arise. Also keep your 20% position in our recommended currencies. The currencies are still bottoming and once the dollar starts down, they will head higher but don't buy new positions yet. Sell the Singapore dollar if you have it.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

SPDR Gold Trust	**GLD-NYSE**
iShares Comex Gold	**IAU-AMEX**
Eldorado Gold	EGO-AMEX
Central Fd of Can	CEF-AMEX
iShares Silver Trust	**SLV-AMEX**
Agnico Eagle	AEM-NYSE
Mkt Vectors ETF	GDX-AMEX
GoldCorp	GG-NYSE

RESOURCE, ENERGY & OTHER SHARES

Proshares Tr	TBT-NYSEArca
Rio Tinto	RTP-NYSE
Transocean	RIG-NYSE
BHP Billiton	BHP-NYSE
Suncor Energy	SU-NYSE
DB Commodity Ind	DBC-AMEX
Dow Diamonds	DIA-NYSEArca
Apache Corp	APA-NYSE

CURRENCY ETFs & FUNDS

Swiss Franc Tr	FXF-NYSE
Merk HD Cur Inv	MERKX-NSDQ
Euro Currency Tr	FXE-NYSE
Australian Dl Tr	FXA-NYSE
Franklin Temp Hard	ICPHX-NSDQ

Note:
All of the shares, funds and ETFs are listed in order of strength per section.
The gold and silver ETFs are listed above in bold.

