THE
ADEN FORECAST
MONEY • METALS • MARKETS

MARCH, 2010 *in our 29th year*

DOUBT AND UNCERTAINTY ARE COMMONPLACE

Most people seem to be confused these days. This not only applies to investors, but to everyday folks across the spectrum. People hear one thing, but they see another. Doubt and uncertainty are, therefore, fairly common.

CONFUSING TIMES

We see this among investment professionals as well. The writers and analysts we like and respect the most are veterans like Harry Schultz and Richard Russell, who've been following the markets for more than 50 years. We also like the work of Ned Davis, Chris Weber, Doug Casey, David Galland, Chuck Butler and *The Economist*. But here too we find differing opinions, some uncertainty and caution, which is good.

This is not unusual. The times are uncertain. Unprecedented historical events are taking place. And even though many aren't aware of the details, a majority of nearly 90% feel that the U.S. government is broken. They know things aren't right, so this leads to confusion.

INSIDE

We know by your letters that's how some of you are feeling and we totally understand why. This tells us that it's a good time to stand back and review some basics…

TRADERS VS INVESTORS

Many of you, for instance, want to know when to buy or sell a certain sector or stock. That's especially true now that the markets have been correcting. What to do, should I sell and so on. These questions can essentially be categorized as trading questions, so we'll start with that.

The simple facts show that sooner or later, most traders end up losing money. Sure, there are some who follow the markets daily, they're nimble and smart and they make money, but these are a very small minority.

Whatever happened to all of the hot shot day traders who were making bundles during the tech boom?

The reason you haven't heard about them over the past 10 years is because there aren't many. From what we've heard, most of them lost nearly everything. So was it worth it? No.

We know trading can be fun. If you know what you're doing it can be profitable. Some investors are very good at it and they provide trading services, which are very worthwhile.

But for the majority of investors we advise investing based on the major trends. These are the trends that last at least a year and sometimes many years. That's where the big moves take place and it's where you'll make the most money over the long haul.

To do this, however, you have to be patient. And you have to understand that there will be ups and downs (corrections) along the way. No market goes straight up, but if a major trend is up, you will profit. As legendary investor Warren Buffett has often said, you only need to make one or two good trades a year and that's enough.

GOLD IS A GOOD EXAMPLE

Gold provides a good example of this. It started moving up in 2001 after bottoming near $250. It's now above $1100 and it's been the best investment of the decade. Does it really matter if you bought it at $350, $500, $800 or more? No it doesn't. Was the price too high near $1000 when India bought gold from the IMF? No it wasn't.

The main point is, the major trend is up, meaning it's going higher. Ideally, you'd want to buy new positions during a downward correction, which is what we strive to do, but it's really okay to buy at any time. That's what we mean by taking a big picture view and it applies to all investments that are in major uptrends.

Remember, markets are always looking ahead. They're not inter-

ested in what's happening today or yesterday. That's why **it's most important to let the markets tell you what's likely coming up**, which is what we focus on, and then go with it. All of the reasons why will always become obvious in time.

Of course, the news is important, at times, it's very important. There are also times, however, when it's a non-event. But if you make investment decisions based solely on the news instead of the market action, you generally won't do well.

To make our point, we'll use the economy as an example since it's currently the cause of a lot of this confusion…

IT'S A RECOVERY, AFTER ALL...

We know that many people don't believe this but the economy is recovering. We also know that there are many things wrong with this recovery, but nevertheless it is a recovery.

The stock market has been rising for a year now. It's been telling us that an economic recovery was coming. The stock market is still in a major uptrend, despite its recent correction, and it's beginning to move up again. So here again, it's likely telling us that the economic recovery is going to continue.

The index of leading economic indicators is reinforcing this. It's been rising for 10 consecutive months. This indicates a strengthening recovery over the next six months or so. Other economic signs are pointing in the same direction.

This is one case of the market action and the news coinciding, which is ideal. But it doesn't always happen that way. It also doesn't tell us how long the recovery is going to last. But still, that's the reality and we have to go with it for however long it does last.

... BUT HIGH PRICE TO PAY

We all know that this recovery is clearly based on unsound fundamentals. Massive spending and excessive stimulus have been the primary driving factors boosting the economy, which grew at an annual rate of 5.9% in the last quarter of 2009, which is the largest quarterly gain in six years.

So there has been a high price to pay for this recovery. It has come about because an unthinkable amount of debt has been taken on. **Consider this...**

In the U.S., it took nearly 200 years for debt to reach the $1 trillion level. Last year alone the debt was almost twice that and it's now near $13 trillion. This happened in a relatively short period of time and all U.S. debt now amounts to about $250,000 per person.

UNSUSTAINABLE SITUATION

Is this healthy? Of course not! Experts estimate that in about 10 years just the expenses for the interest payments on the debt and Social Security will take up about 80% of all of the government's income.

The other 20% will have to pay for everything else. So obviously this means huge debts for as far as the eye can see. It also means that further efforts will be made to keep interest rates low for as long as possible to avoid exploding interest payments, which would rise along with rising interest rates.

In addition, inflation will eventually result due to the Fed's aggressive monetary policies. In fact, this is already getting started since producer prices have had sporadic surges in recent months with the latest being a 17% annualized rise in January.

That's why so many experts are pessimistic and/or uncertain about the economy's future. The same goes for the public, and they're right.

Nevertheless, the economy is still recovering. Even though it may not make sense or have a healthy foundation, it's happening and as an investor that's what we have to deal with.

CHANGE TAKES TIME

One important factor, which could partially explain why this discrepancy is currently taking place is because big changes usually end up taking much longer than you'd think.

In other words, sooner or later the negative economic fundamentals (debt) are going to catch up with reality. There will be severe consequences. But again, no one knows exactly when that's going to happen.

The markets, however, will provide plenty of insight and we'll take that, rather than the dozens of expert opinions out there.

Meanwhile, as an investor, try not to feel pressured. There really isn't a hurry and in case there is, rest assured that we'll always alert you.

BOTTOM LINE STRATEGY

As for new subscribers, when we say wait to buy new positions, in regard to stocks we're recommending, we're simply looking to get in at a better price. This is usually when downward corrections are taking place.

But whether you wait or not, for starters we'd go with buying the strongest stocks in each sector, which are always listed at the top of each sector on page 12.

We hope this helps clear up some of the concerns you may have. If not, let us know and we'll continue to discuss these important "what to do" items next time.

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U.S. & WORLD STOCK MARKETS
Slow start but good potential

The market has been holding near the January highs, but overall it hasn't been a very exciting year for stocks so far. And it certainly hasn't been like last year when most of the world stock markets boomed. Now it's another story.

Yes, stocks remain bullish and this month most of the markets rose. But overall it's been a lackluster year. This is something we're watching closely because stocks are currently somewhat of a mixed market.

SELECTIVE RISE

On the one hand, if we stand back and look at the big picture, we find that more than half of the 63 global stock markets we follow are down for the year. Granted, this new year isn't even three months old, but it's not off to a good start.

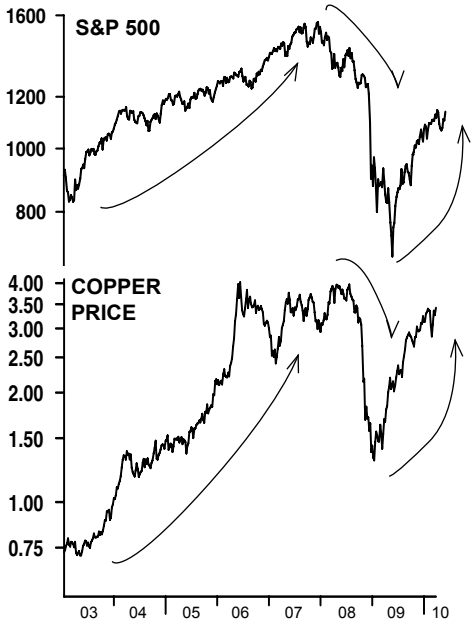
In addition, out of these 63 world stock markets, only 13% have gained more than 10% in 2010. That's only eight markets and several of these are located in countries we wouldn't consider stable and/or emerging, like Nigeria for instance. The strongest world stock market has been Estonia, followed by Kenya, which have gained 37% and 22%, respectively.

The main point is, it's been a challenging or frustrating year for stock investors, depending of course on which stock markets you've been invested in. Sectors have been important too and we're happy to report that several, like Consumer Discretionary and Technology, have been very strong. So all factors considered, it's been a very selective stock market environment.

On the other hand, the major trends are the most important. They are up and they have been for one year now (see **Chart 1**). That'll continue to be the case as long as the stock indices stay above the levels listed on the chart. For now, the declines earlier this year have simply been downward corrections following the steep rises in 2009. That's pretty normal and until proven otherwise, this is the current technical condition of the markets.

CHART 2

STOCKS & RESOURCES:
Move together



NEW HIGHS IN ONE YEAR RISE

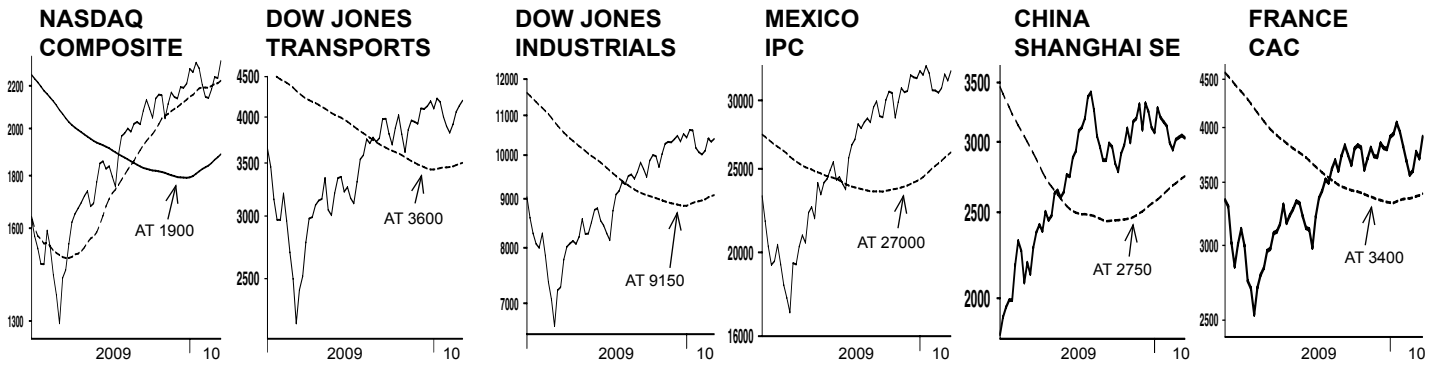
Another positive is that most of the stock markets rose this month. In the U.S., for example, Nasdaq and the Dow Jones Transportations hit new bull market highs. That was also the case for some of the other world stock markets.

Could they be leading the way up for the other stock indices? They sure could and this will be reinforced once the other U.S. stock indices break above their January highs, which is the next strong resistance level. As for the other world stock markets, the same would apply but the bull market highs took place between 2009-10.

Remember, if this happens it would be a very good sign for the U.S. economy, signaling the recovery has further to go. This would obviously have other repercussions too.

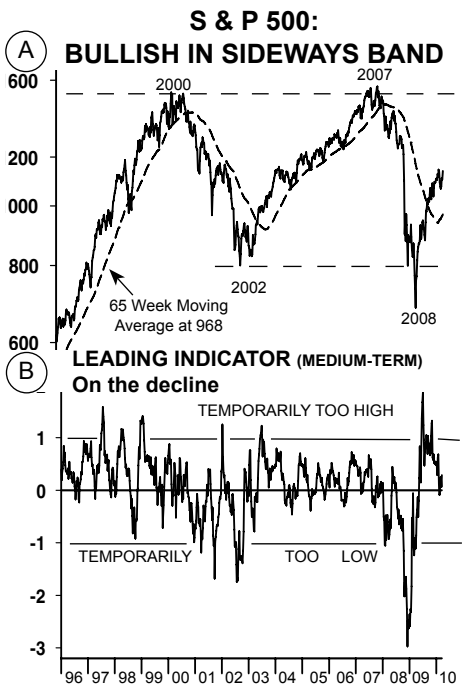
CHART 1

MAJOR TRENDS ARE UP



- - - 65 Week Moving Average is major uptrend

CHART 3



A sustained world recovery, for instance, would keep the demand for raw materials and other commodities strong. This in turn would keep upward pressure on commodity prices.

STOCKS AND MATERIALS: Move together

As you can see on **Chart 2**, the S&P500 and the copper price have been moving together. The same is generally true of many of the other resource and commodity markets.

Let's take copper as the example. It's known to be a reliable gauge for the world global economy. If the world economy is growing, demand for copper and other raw materials increases because building is picking up, factories are operating at a higher capacity and so on.

But if world growth is slow, and especially if a recession is in force, then demand decreases as companies cut back. The copper price then falls, which is exactly what happened during the 2008 global financial crisis.

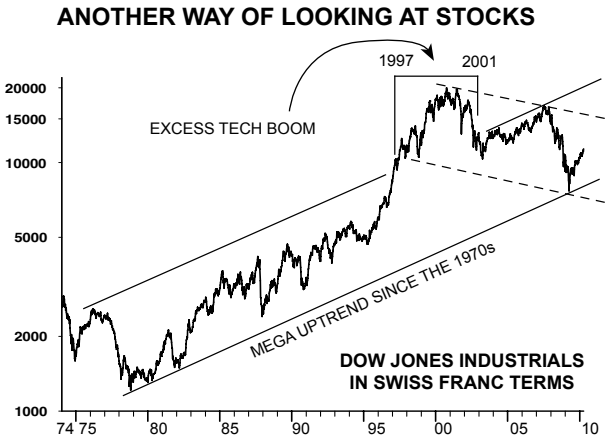
Stocks fell too. So here we're essentially looking at two markets, which also happen to be reliable economic indicators. And for now they're telling us that the world economy is on track for future growth.

If this continues, and it would clearly continue if the stock indices rise and stay above their January highs, it will improve the odds that stocks could go significantly higher.

Looking at the S&P 500, for instance, it could then possibly rise up to the top side of its 13 year sideways channel (see **Chart 3A**). If so, this upmove could become similar to the one from 2002 to 2007, which would mean there are still good profits to be made. You'd still want to be selective though and only invest in the strongest markets and sectors.

Another way of looking at this can be seen on **Chart 4**, which shows the Dow Industrials in Swiss franc terms. Changing the base to a stronger currency instead of the U.S. dollar, you can also see good upside potential. This is the way a non-U.S. investor would evaluate the Dow and it's looking pretty good, bouncing up from a decades long uptrend.

CHART 4



Plus, corporate insiders have been buying their own stocks, which means they believe their stocks are headed higher. And this too is another positive sign.

CAUTIOUSLY BULLISH FOR NOW

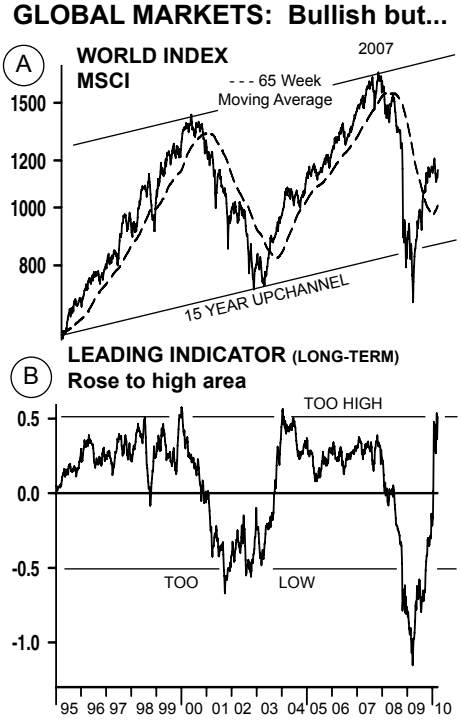
Then why aren't we recommending more common stocks? As you know, we've been holding off on buying new stocks positions, but keeping the stocks we have. As we've been pointing out in previous issues, there are valid reasons for our caution.

One important reason is that several of the markets are now too high or overbought, meaning they've generally risen too far, too fast (see **Chart 5B** as an example, showing the leading indicator for the World index). The VIX volatility index is also at levels that tend to coincide with temporary tops.

Sometimes markets can stay high as stocks move higher, which is what happened in 2004 until 2007 (see **Chart 5A**). This could happen again.

For now, we want to see more before we recommend buying new stocks. But since the major trends are up, if the January highs are clearly broken, we'll take it as a positive sign that the bull market is resuming its upward path and we'll then recommend buying some of the stocks we like best.

CHART 5



U.S. INTEREST RATES AND BONDS

On the eve of change

Interest rates are becoming more interesting with each passing month.

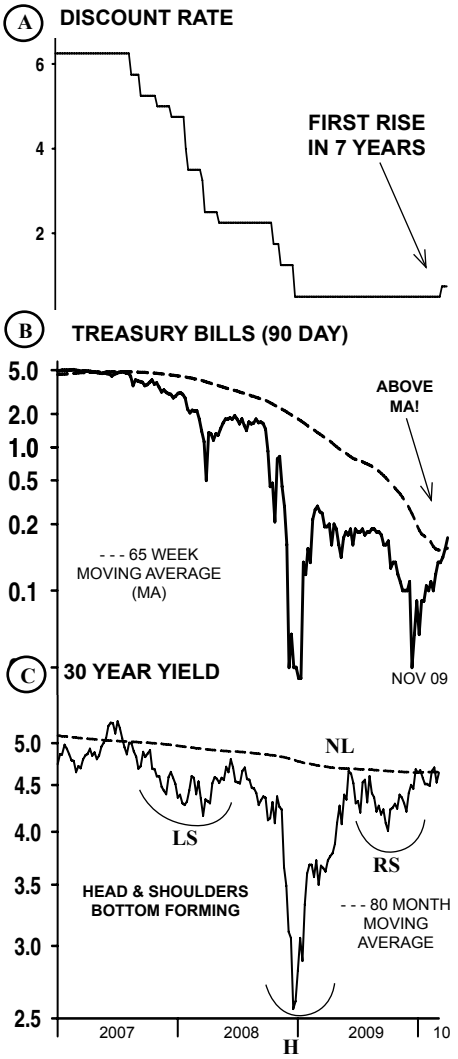
On the one hand, Fed chairman Bernanke keeps saying that interest rates are going to stay low for quite a while as long as the recovery remains fragile. The markets, however, are telling us another story. And as you know, the markets have the final word.

SUBTLE SIGN OF CHANGE

Actions always speak louder than words. And this month we saw some important action take place.

CHART 6

READY TO TURN UP?



It didn't attract much attention, but that's primarily because it was subtle and few recognize what these actions mean.

First, the discount rate went up (see **Chart 6A**). The Fed raised it for the first time in seven years. Since the discount rate is the interest rate that the Fed charges banks for short-term loans, it's not considered a big deal and it's not widely followed. At most, this was seen as a sign that financial conditions are improving, and in many ways they are. Financial firms have been building up cash, for instance, and adding to liquidity (see **Chart 7**). But that wasn't the point…

Far more important is the discount rate's historical track record. Boring as the discount rate may seem, the discount rate lags behind other interest rates and it's been very reliable in confirming major trend directions for all interest rates. In other words, this discount rate hike is strongly telling us that the T-Bill interest rate reached a major bottom last November (see **Chart 6B**).

SHORT RATES: Turning up

As you can see, T-Bills have been rising since then and this key short-term interest rate is now rising above its 65-week moving average, which identifies the major trend.

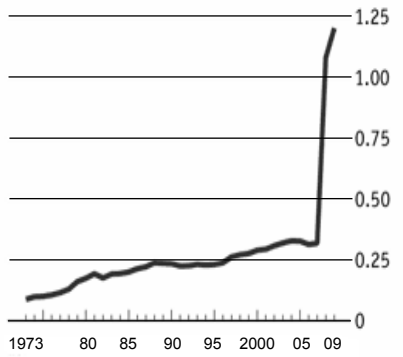
This average is currently very low at .11% but if T-Bills now stay above that level it will confirm that the major interest rate trend is turning up for the first time in six years. If so, it would also confirm the end of the steep drop in interest rates and that rates will head much higher, probably later this year and next. For now, the discount rate is signaling that it's going to happen.

Taking this a step further, since all interest rates generally move together, this also strongly suggests that it's just a matter of time until long-term interest rates move higher too (see the 30 year yield on **Chart 6C**).

CHART 7

FILLING THE POOL

US BANKS'S CASH ASSETS, $TRN



SOURCES: Federal Reserve; Goldman Sachs
COURTESY: The Economist, economist.com

30 YEAR YIELD; KEY

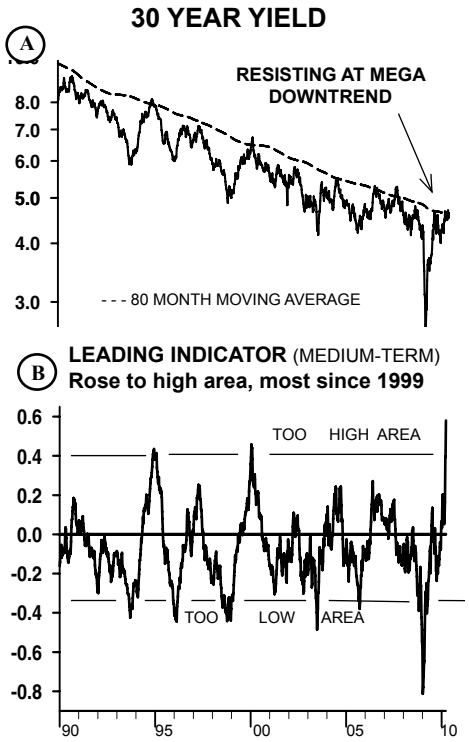
As you know, we've been watching this all important rate for a long time now. The 30 year yield has been resisting at its mega trend (the 80-month moving average) since last year. Eventually this long-term rate is going to break clearly above this average and when it does, look out because the implications would be far reaching.

First, it would mean that the mega downtrend in interest rates that's been in force since 1981 has turned up, signaling that rates are going to keep rising for a decade or more. This would obviously affect most of the major markets and the economy, and it would indicate that big inflation is coming.

So far, the discount rate hike and T-Bills are reinforcing this outcome. Also interesting is the massive head and shoulders bottom on the 30 year yield since 2007. As we've mentioned before, this is a powerful formation and it'll tell us a lot.

Note that the right shoulder is now complete (RS) and the yield is pushing up against strong resistance at the mega average, which is also the neckline (NL, see **Chart 6C**). While this is obviously not fool proof, it works well using this rule of thumb…

CHART 8



POSSIBLE SCENARIO

Once the 30 year yield breaks above this resistance, now at 4.65%, and especially above 4.75%, the odds will favor a continuation of the rise equivalent to the size of the head (H). Since the head encompassed about a 2% rise, from say 2.60% to 4.60%, the yield could quickly jump up to near the 7% level. And that would be just for starters within the new mega uptrend.

This really isn't hard to imagine considering the underlying fundamentals. As we've also discussed many times, the unprecedented U.S. debt, the reliance on foreign money to finance the debt, the fact that China is the U.S.'s biggest lender and it's been selling Treasuries for the past five months, bond investors in general are already demanding a higher interest rate to keep lending the government money, and the fact that the Fed can't control long-term interest rates all point to higher rates ahead.

This is another one of those cases where **the fundamentals and the technical indicators are totally in synch**, which makes it easier to see and understand what's happening, and what's likely coming. That's of course not always the case, but it is now.

CHANGE TAKES TIME

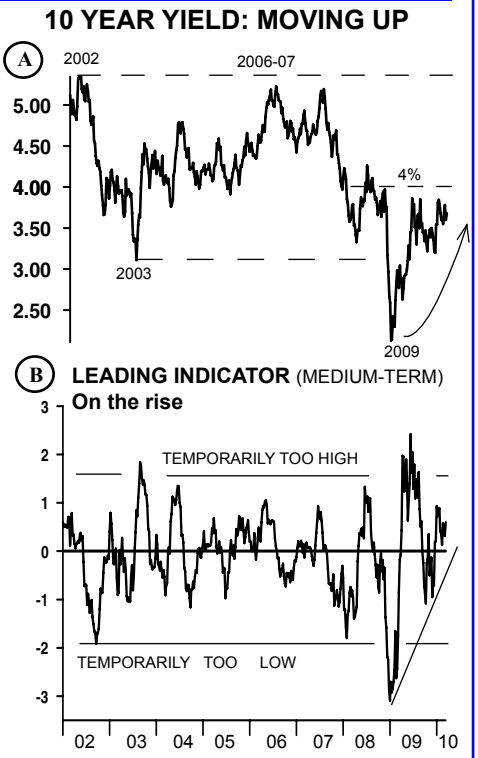
Many of you have written asking us to recommend a rising rate fund or ETF as a way to profit from rising interest rates. We will soon, but not yet. Why?

For one, the 30 year yield is currently too high (see **Chart 8B**). In other words, it's overbought and, therefore, the yield is due to decline in the weeks ahead. This would provide a better buying opportunity.

Second, the mega uptrend has not yet been confirmed. Even though we think it will be, there are no guaranties and it would be far safer to wait and buy once we're more certain that this huge change has indeed taken place. Again, that would happen with the 30 year yield rising and staying above 4.65%, along with the 10 year yield pushing above 4% (see **Chart 9A**).

At that point we'd know that one of the top trades of the decade is emerging and we'd take action. We'd also recommend that bond investors sell because the resulting drop would likely be extremely severe.

CHART 9



Meanwhile, sit tight, be patient and let's continue to see how this all works out. Remember, if a mega trend is unfolding, you'll have plenty of time to take action, which reminds us of a story…

The last time the mega trend changed (from up to down) our old boss became overly excited about getting into the market. This was in the very early 1980s and he loaded up on leveraged bond positions. Even though the big move he was banking on finally evolved, he got whipped out during the topping process and lost a bundle… and we don't want that to happen to any of you.

CURRENCIES

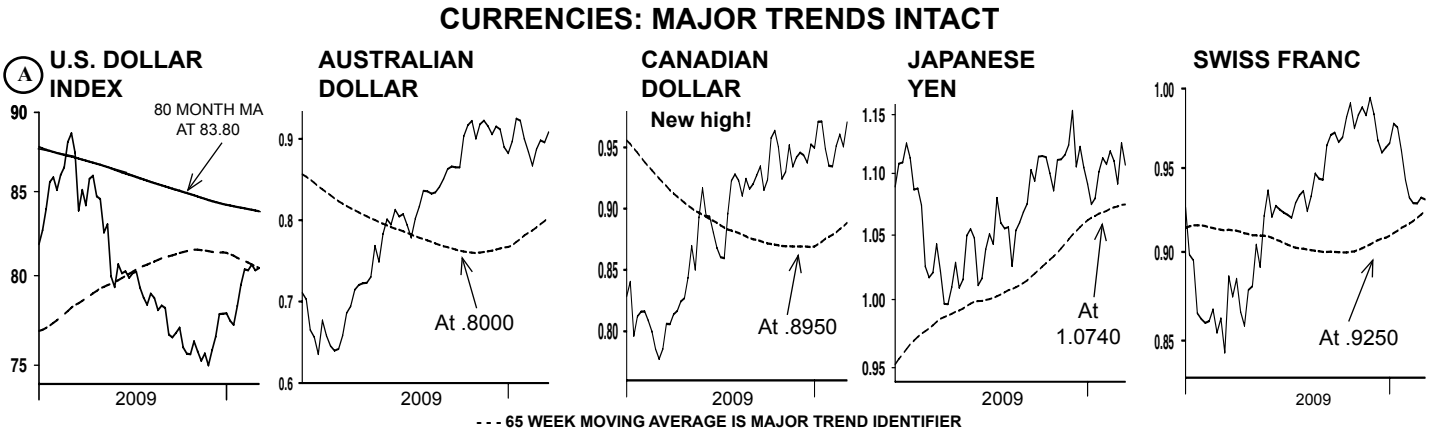
U.S. dollar: Rebound rise about over?

The big news this month was Greece, and it went on and on. This weak link in the European Union pushed the euro down as the financial crisis fueled on itself over what might happen next.

The state of Greece's finances ultimately reached a frenzy on speculation that the entire European Union was likely doomed… But it was all vastly overblown and emotional.

Nevertheless, this drove the U.S. dollar even higher because it's viewed as a safe haven currency. But when

CHART 10



you think about it, the current sentiment doesn't make sense.

Remember, Greece only accounts for 2% of the Eurozone's GDP. That's practically nothing and it's certainly not going to bring the European Union down. As our dear friend Chuck Butler points out, California is also in deep financial trouble and in comparison, it accounts for about 11% of the U.S. economy.

Even considering the other Euro countries that have too much debt, like Portugal, Ireland, and Spain, it's the same story. In perspective, Illinois, New York, Michigan, Florida and a few other states are facing financial troubles too and as a group their total GDP's are more than double that of the troubled European countries.

U.S. DOLLAR: Bear market ready to take hold

As we've seen many times before, this is a clear case of the fundamentals not coinciding with the market action. This happens fairly often but usually, the two will get back into synch and that may be starting now.

As we've often discussed, the dollar's fundamentals are extremely bearish. We won't rehash all of the reasons why but at the top of the list is massive deficit spending, excessive money creation, a large and growing trade deficit, huge debt, and the very important fact that the deficit is near 11% of GDP, a record held by only four of the major countries in the world, including Greece.

Normally, when a deficit hits around 5% of GDP it's a red flag that the currency of that country is headed lower, yet the U.S dollar has been rising this year… and that's what we mean by being out of synch.

But as you can see on **Chart 10A**, the dollar index has recently been resisting at its 65-week moving average, which identifies the major trend. This average is currently at 80.50 and if the dollar index stays below that level, there's a good chance that following this year's rebound rise, it'll resume its super long-term decline that started back in the early 1970s. On the other hand, if the dollar index breaks clearly above 81, then it could continue up to its mega downtrend near 83.80 before it turns down again.

CURRENCIES: Major trend up

Interestingly, the countries with the lowest percentages of deficits to GDP are China, Canada, Brazil and Germany. Most of these countries have strong currencies and that's one important reason why (see **Chart 10**). Note that all of the currencies shown remain technically bullish, signaling they're headed higher. That'll continue to be the case as long as the major trends remain up.

As for Germany (euro), yes it's been hurt by Greece. The euro, however, is down but it's not out (see

CHART 11

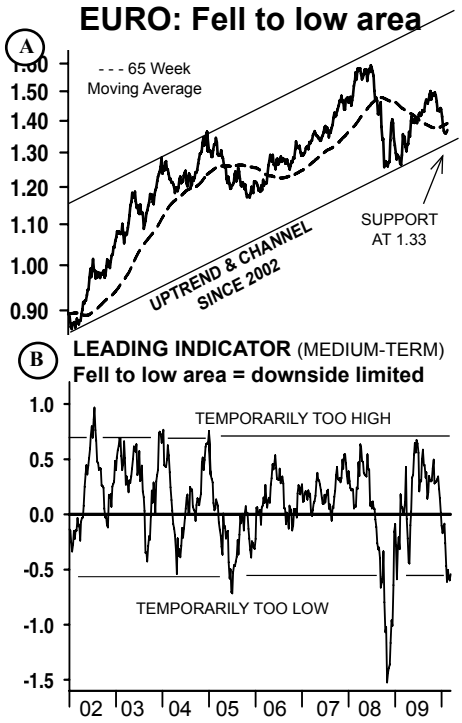


CHART 12

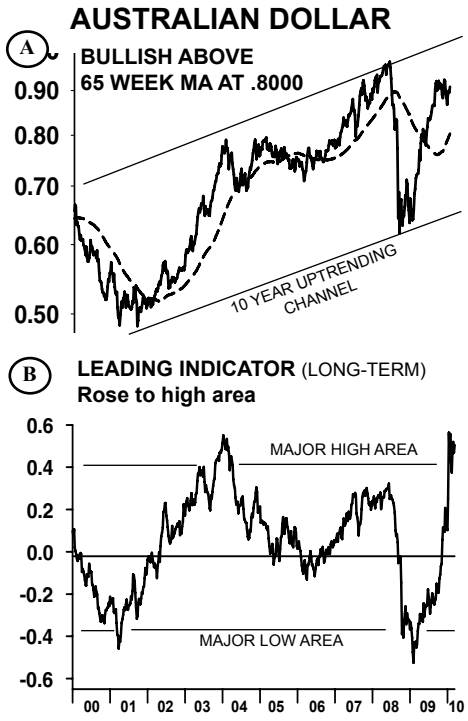
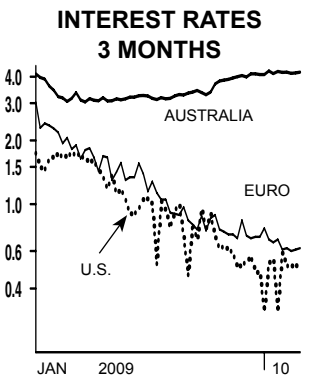


Chart 11A). Don't forget, it's had other problems in its 10 year history but it's always come back, despite the naysayers. We're fairly certain that a plan will be worked out to help Greece get back on track, calming things down, which is also what our technical indicators are showing.

As you can see, the euro has strong support at 1.33 and it'll likely hold well above that level. One main reason why is because the euro's leading indicator has dropped to a low area, which tends to precede rises in the euro. In other words, the euro has fallen too far, too fast. It's oversold and poised for a rise. In fact, if the euro now stays above 1.37, a rebound rise has started.

In contrast, the Australian dollar has been among the strongest currencies (see **Chart 12A**). The same is true of the Canadian dollar as it closed at a high last seen in July 2008. We continue to like these currencies and recommend them.

CHART 13



The Australian economy is doing well, in large part thanks to China's demand for raw materials. Most important, Australian interest rates keep rising, making the Aussie dollar very attractive compared to other currencies (see **Chart 13**).

But the Australian dollar has risen far and fast and it's now at a major high area (see **Chart 12B**). This means it's gotten ahead of itself for the time being. But considering the super attraction of Australia's high interest rates in this low global interest rate world, the indicator could easily stay at this high area for a while as the Australian dollar continues higher.

In Canada's case, its economy is even stronger and it continues to benefit from the higher oil price. So even if U.S. interest rates do head higher, which would be a plus for the dollar, these two currencies will likely continue to be among the strongest.

As for the euro, we'll see if it's able to regain its former strong currency status. If not, we'll keep more of our position in the stronger currencies. For now, hold on to the euro and we'll see how the rebound rise develops. Continue to keep all of the currencies you have and buy new positions in the strongest currencies.

METALS, NATURAL RESOURCES & ENERGY

Holding firm, time for patience

Downward corrections are trying for many investors. It's the time when we get more questions and complaints… Should we sell at the highs? Why did you let us ride through a correction… and so on.

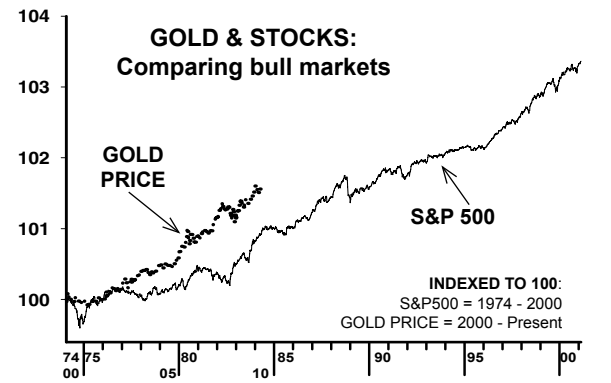
Strategy is the most important thing to understand as an investor… are you a buy and hold, and buy more on dips, kind of investor… or do you want to sell during intermediate peaks, and buy back during intermediate lows.

The later sounds good when it can be accomplished, but it's hard to do on an ongoing basis. We've often seen in and out traders left behind when the big moves come.

On the contrary, we have found that buying and holding during a major bull market is a consistent money making strategy. When the major trends are being tested it's a stress test indeed, but having an exit strategy is vital because it takes the emotions out of investing. **Our main goal has always been to stay invested for the lion's share of a major rise.** To buy in a general low area and sell at a general high area is our focus and we feel it's the best strategy for you.

We also strive to identify intermediate highs and lows, which is where our indicators help a lot. This is important for a few reasons… It helps us focus on good buying or selling areas and it helps us measure the overall strength of the major bull market.

CHART 14



A DISCRETE BULL MARKET

Gold's major trend has been up for nine consecutive years, yet the investing public has barely begun to invest. It's not well known that this bull market even exists. This in itself is bullish because it means the 375% gain over the last almost decade will be pale compared to the potential this second phase of the bull market could have.

The markets are one big ball of mass emotions. And in many ways, the first nine years of the stock market's mega bull market rise from the mid-1970s through the 1990s was similar to this bull market rise in gold.

Chart 14 shows the S&P500 from the 1974 major low to the 2000 peak, compared to the gold market from its 2001 low to the present. Here you can see the similarities of the first

nine years.

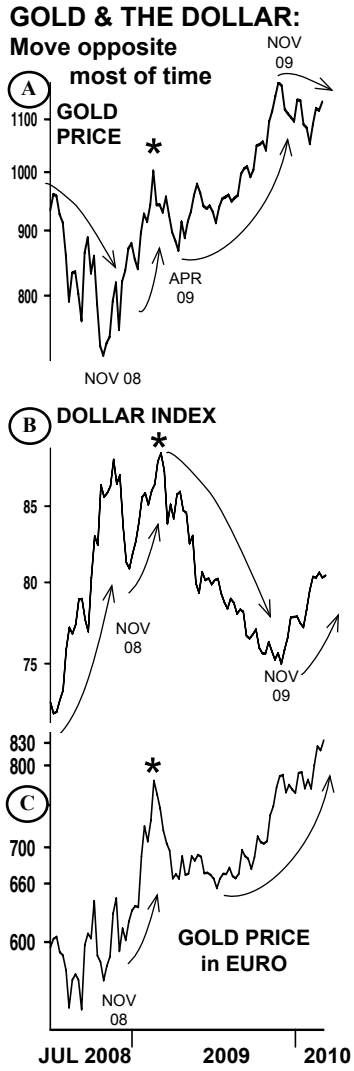
In both cases, the rise wasn't generally noticeable because another overpowering market was the main focus. In 1974-1983 the gold market was the flurry, not the stock market. Since 2001, it's been the stock market flurry, which carried over from the tech and global boom, that has had more attention.

This is not to say that gold today is where the stock market was in 1983, ready to embark upon a mega decade bull market, but it could. These similarities and many others suggest that gold's bull market has much further to run.

GOLD: Stronger than dollar weak

Gold has held up very well considering it's only declined 13½% after rising over 40% in seven months when it reached a record high last November. If the February low ends up being the low for the current downward correction, gold will indeed be flexing its muscles as the world's ultimate currency.

CHART 15



It's common knowledge that gold moves opposite to the dollar. **Charts 15A & B** clearly show this relationship, during the meltdown and its aftermath: the subtleties are most interesting.

When Wall Street seemed to be crumbling before our eyes, the dollar shot up while gold and everything else fell. Gold, however, fell much less than the other markets as it ended that terrible year up. Most interesting, when it rose to its highs in early 2009, gold reached a record high in euros and the dollar also rose (see asterisks). Gold's decoupling from the currency market was starting but the dollar soon gave way to gold and the other markets thereafter.

A similar situation is happening today. The dollar's been rising in a rebound rise since last November, while gold declines following its great rise. But recently a decoupling is starting again... gold is bouncing up and reaching a record high in euros (C) while the dollar stays firm.

A pattern has developed. The dollar is strong when concerns resurface that the economy is slowing. It's not so much that the dollar is a safe haven, it's more that global debt is based in dollars. When this concern eases, gold rises.

But the new twist is the rest of the developed world. The Greek debt burden on the EC has caused the euro to fall, which is why gold reached a new record high in euros. This is powerful for the gold price because at every bad turn gold is reaching a record high in some currency. The British pound is similar as gold is also at a record high in the pound sterling.

GOLD IS FINANCIAL SECURITY

Gold is the ultimate safe haven. Investors turn to gold when financial uncertainty prevails. This was the case in the 1930s when deflation was the glaring problem and it happened in the 1970s when inflation was the major threat.

Since the 1970s was more recent history, it left many thinking that gold only rises during times of inflation and when the dollar is weak. This is true but it's not the only truth.

Chart 16 provides a good example. It shows gold and inflation (based on the annual change of the producer price index, PPI) have moved together for decades, and the PPI tended to stay at a higher level than the gold price. This relationship began to change in 2005 when gold shot up much more than the PPI. By 2007, this relationship broke down, the PPI fell as gold shot up even further.

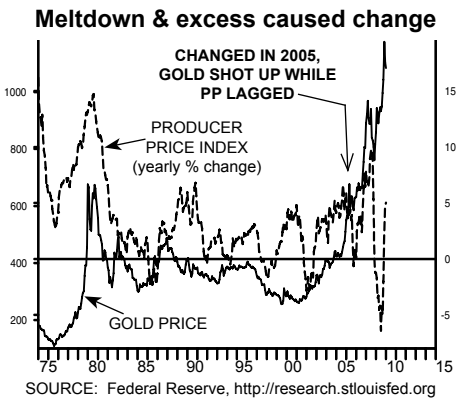
It's not a coincidence that this time period coincided with the start of the subprime mortgage problems. A deflationary debt ridden environment took over. The PPI is now bouncing back up from the super lows, and it's still to be seen how this all plays out.

We currently have deflationary pressures, combined with rising commodity prices due to global demand, together with excessive monetary inflation. A unique situation indeed but an unsustainable one, which is causing gold to rise.

The situation is global, making it even more unique because we have the developed world stimulating their economies with record liquidity and low interest rates, which is planned to continue. This easy environment is good for construction and growth, and it's why emerging countries have been bouncing up faster.

China is the leader in the emerging world and it continues to buy commodities as their demand for raw materials and energy grow. Keep in mind, not all of the world had a subprime problem. This meltdown in the developed world gave an indirect boost to the rest of the world, including China. In other words, the emerging world

CHART 16



led the global economy out of the recession.

If you had to pinpoint a time when it all began, we'd have to say 1971 when the U.S. took the dollar off the gold standard. As a result, financial discipline went out the window, eventually leading to the use of massive leverage, excessive spending and lots of debt.

GOLD: Strong phase underway

Last September when gold reached a record high near $1000, it confirmed the start of a stronger phase of the bull market. When gold went on to reach the $1200 level a few months later in November, it reconfirmed this stronger phase, which was impressive because these were the first record highs in gold after the meltdown.

This is saying the new phase of the bull market is alive and well. It started at the November 2008 low and gold is poised to rise considerably in the years ahead.

Gold Timing

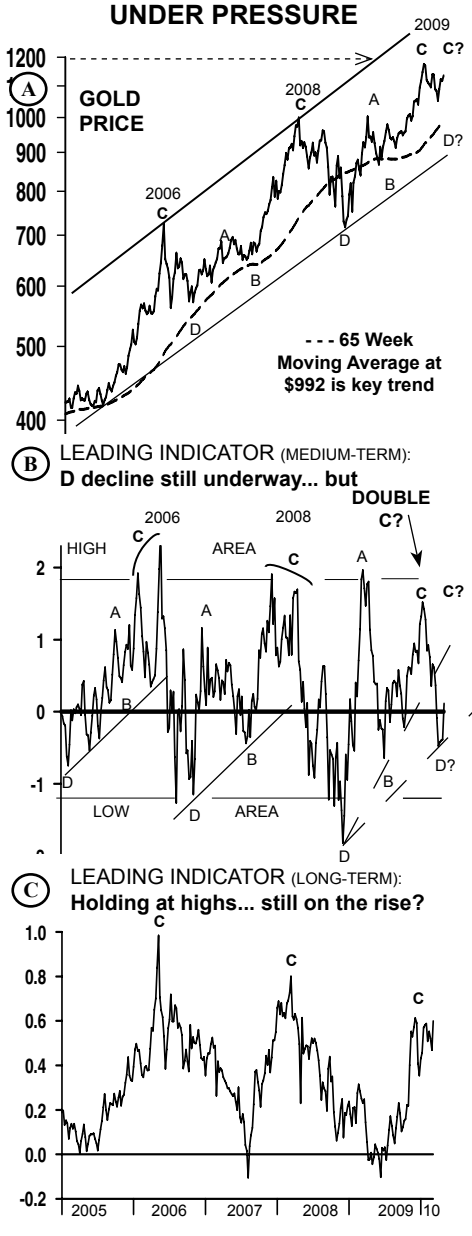
Meanwhile, the downward correction we call "D" has been underway since late November and this gold weakness has been coinciding with concern about the recovery and, therefore, a rising dollar.

So far, gold's just over two month decline has been mild. **Chart 17A** shows that the D declines of the last five years have been sharper and longer lasting. The decline so far is moving more in line to the D declines during the first years of the bull market.

Note that the leading indicator (B) has yet to fall to the low area while

CHART 17

HOLDING UP WELL UNDER PRESSURE



gold's long-term indicator (C) is still holding near the highs. If weakness is really over and the D low was truly the February 5 low at $1053, then the bull market is super strong and it sees something ahead which could cause it to soar.

If gold now stays above $1100 and closes above $1152, and especially above the November high at $1218, gold would be super strong and we could see $1300 as a next target.

Playing devil's advocate, let's say gold is in the process of forming a double C peak, and the D decline hasn't even begun yet. If gold shoots up from today's level to a new high and the February low holds, then a double C peak will likely be in the making, especially because gold's long-term indicator has yet to decline (**Chart 17C**).

Let's keep an eye on gold. If it closes below $1053 this month, the D decline will be alive and gold could then test its 65-week moving average near $992. This rising average will be near $1000 by month end, and it's reasonable to assume that if gold declines below $1000 it'll unlikely last for long.

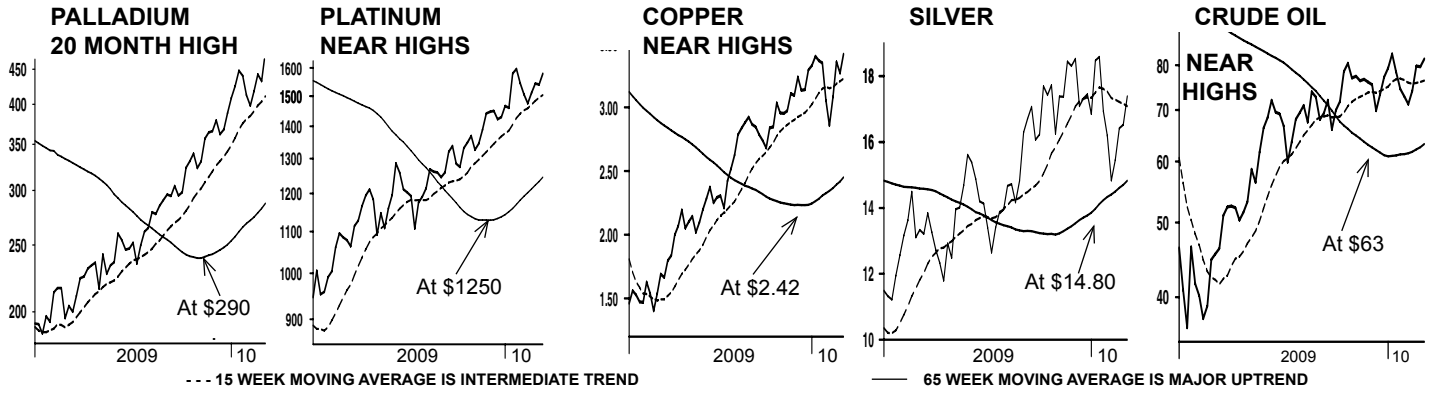
We have adjusted the uptrending channel on the gold price to encompass the movement since 2005. We believe 2005 marked an important era change when $500 was broken and this uptrend near $900 is backup support to the key average.

DEMAND IS SOLID

Demand is the key to a strong market. When prices rise because everyone wants it, the market is in the best kind of bull market. If demand is strong while the dollar is

CHART 18

METALS: GOING STRONG



weak, then it's a double plus for the market. We've seen both in action in the commodity world for the last eight years.

Investor demand has been growing and this continues to be an influence on gold, as well as on oil and raw materials. The China Sovereign fund is buying the exchange traded funds, ETFs, in gold and oil. And BHP Billiton, the largest resource company in the world, sees more demand from China next year. They are planning on increasing copper spending by 63% next year to meet surging demand from China while India is open to acquisitions.

The Soros fund more than doubled their holdings in gold's ETF, GLD, in the fourth quarter after gold rose to a record. Ironically, just weeks prior, George Soros said gold was in a bubble.

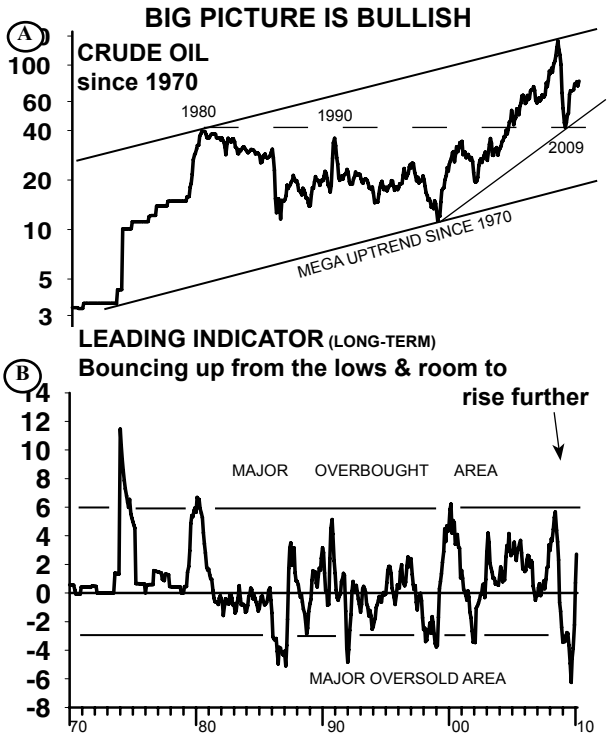
The tragic earthquake in Chile and the aftershocks have been keeping copper firm. With Chile being the world's largest producer of copper, there are worries that supply will be curtailed.

OTHER METALS: Looking good

Silver has been moving more in line with gold but the other precious metals are strong in their own world. Palladium recently hit an almost two year high, while platinum is near its January highs (see **Chart 18**).

Overall, the commodity world is strong. That is, the precious metals, base metals, raw materials and energy are all in major bull markets. Copper and oil are also testing their January highs, which means that palladium may be leading the way up. The major trend will remain up as long as the metals and oil stay above their 65-week moving averages shown on the chart.

CHART 19



Crude oil is bullish and poised to rise further. **Chart 19** shows oil's big picture since 1970 when it first rose from super cheap levels. We can still remember the oil embargo of 1973 and the shock and disbelief it caused at that time.

Interestingly, the 1980 peak was a true shock, just as the 1990 Gulf war peak was. In both instances, a $40 or near $40 price per barrel was scary. Now fast forwarding to today, it's impressive how time and mentalities change.

When oil fell in 2008, finally dipping down to this same $40 level a year ago, there was relief. Of course it's because it fell from $140. The point is, what used to be a shocking price is now a floor price.

The leading indicator on **Chart 19B** shows how extremely oversold the oil price was a year ago when oil fell to the $40 level. It has since bounced up with the price but as you can see, it still has room to rise further before it's overbought. If oil and the metals break above their January highs at $83.10 for oil and $3.50 for copper, a renewed rise will be underway.

GOLD SHARES: Firm

Gold shares, like silver, are the two markets that move more closely to gold. Gold shares will also be influenced by the stock market whereas silver's "outside" influence is with the resource sector.

Using the XAU index for gold shares on **Chart 20**, you can see that gold shares have formed a wide sideways market band since 2005. The 65-week moving average serves to show if gold shares are firm or not. The XAU index has been firm since last May when it rose back above the average where it has stayed since then. XAU is firm above 150 and it's now strong if it can stay above 163.

Gold has been stronger than gold shares on a big trend basis (see **Chart 21**). The trend was reinforced during the 2008 meltdown when gold fell much less than gold shares thereby causing the ratio to jump up. The ratio has since come down but a stronger trend has emerged favoring gold.

This is interesting because the ratio is now rising within the strong half of the upchannel telling us that gold is clearly stronger than gold shares. Keep more of your positions in gold, although it's good to keep some in the strongest gold shares as well.

CHART 20

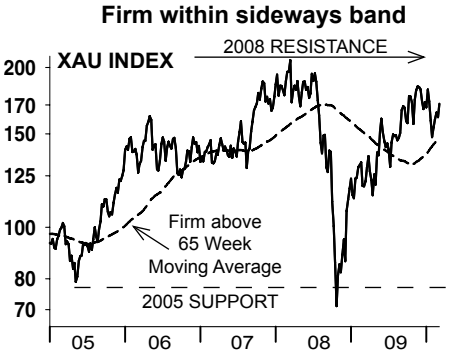
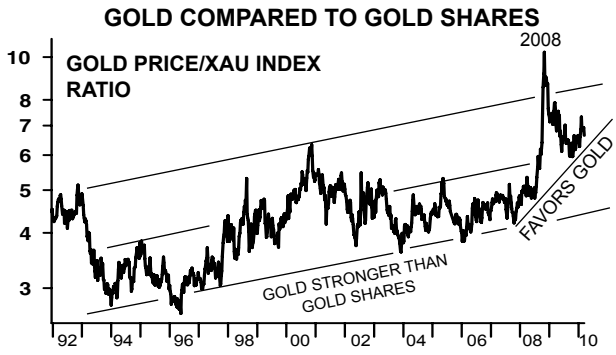


CHART 21



OVERALL PORTFOLIO RECOMMENDATION

The markets, from stocks in the U.S. and globally to metals, resource, energy and currencies, have all bounced up from their early February lows. Some in each group have surpassed their January highs, like the Transportations, Nasdaq, England, the Canadian dollar and palladium, while several are holding at the highs. It looks like the downward corrections are over, but it's too soon to tell. We are keeping our open positions and buying some more.

PRECIOUS METALS, ENERGY, RESOURCE & THEIR SHARES RECOMMENDATION

It looks like the downward corrections are nearing an end. This whole sector, precious metals, the base metals, oil and raw materials, reached a low in early February and some have been bouncing up more. Palladium reached a 20 month high while platinum, copper, crude and some other base metals are near their January highs. Gold, silver and their shares are the laggards this time around.

Since gold's decline has been moderate so far, it's still to be seen if the D decline will end up being a short one or if gold's in the midst of forming a double C peak. This doubt should be clarified this month. Keep your positions and stay posted with our weekly updates for new purchases.

Our resource stocks have held up better than the gold sector this month. Buy new positions in the first three listed in this sector, BHP, X and BTU. BTU has been our best energy stock, but SU and DO have yet to pick up steam.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

Stocks remain bullish, the major trends are up and most of the markets rose this month. Nasdaq and the Dow Jones Transportations hit new bull market highs and they may be leading the way for the other stock indices. This will be reinforced once the other indices rise and stay above their January highs. For now, we're maintaining caution and watching the market closely. This has been a selective stock market, but most of our recommended stocks are doing well as the first eight in this sector listed in the box are at or near the highs. Continue to keep the stocks you have and buy a small position in the best ones. We may be buying new positions in some of the stocks we like best, but we want to see more. We'll be keeping you posted in our weekly updates.

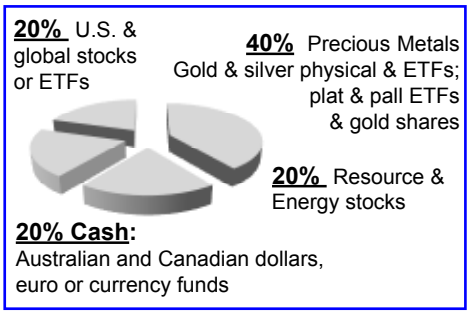
CURRENCIES RECOMMENDATION

The U.S. dollar rose further in its rebound rise this past month, but it's been resisting at a key level as the financial crisis in Greece dies down. The commodity currencies, the Canadian and Australian dollars, got a boost from oil and resources. The Canadian dollar is the strongest currency as it reached a new high last seen in July 2008, which is very bullish. The Aussie dollar has the added higher interest rate bonus while the euro is oversold and a bounce up is likely beginning. We recommend keeping your positions and buying new ones in the three currencies with a smaller position in the euro.

The U.S. dollar index's rebound rise could end soon. Keep an eye on 81 and 79.50; above 81 means it could rise to possibly the 83-84 level in the rebound, but a close below 79.50 means the rebound rise is over.

INTEREST RATE & BOND RECOMMENDATION

Interesting developments on the interest rate front... the Fed raised its discount rate for the first time in seven years, the major trend for T-Bills is turning up for the first time in six years and the 30 year yield is at its mega trend. This strongly indicates that interest rates are headed much higher, probably later this year and next. But since interest rates are overbought, they'll likely decline in the weeks ahead before they head higher. For now, we continue to recommend sitting tight and don't trade one way or another. This will obviously soon change and when it does, we'll take action but not yet.



OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Physical Palladium	**PALL-NYSEArca**
Physical Platinum	**PPLT-NYSEArca**
Silver Wheaton	SLW-NYSE
Central Fd of Can	CEF-AMEX
iShares Silver Trust	**SLV-AMEX**
Central Gold Trust	GTU-NYSE
Eldorado Gold	EGO-AMEX
SPDR Gold Shares	**GLD-NYSE**
iShares Comex Gold	**IAU-AMEX**
Mkt Vectors ETF	GDX-AMEX
Iamgold	IAG-NYSE

RESOURCE & ENERGY SHARES

US Steel	X-NYSE
BHP Billiton	BHP-NYSE
Peabody Energy	BTU-NYSE
RioTinto	RTP-NYSE
Freeport McMoran	FCX-NYSE
iShares Tr Glbl En	IXC-NYSEArca
Arcelor Mittal New	MT-NYSE
Diamond Offshore	DO-NYSE
Suncor Energy	SU-NYSE

U.S. & GLOBAL STOCKS

SPDR Consumer Dis	XLY-NYSEArca
Prshrs Dynamic Soft	PSJ-NYSEArca
Nasdaq ETF	QQQQ-Nasdaq
iShares Malaysia	EWM-NYSEArca
iShares S&P Tech	IGM-NYSEArca
iShares Mexico	EWW-NYSEArca
Dow Diamonds	DIA-NYSEArca
iShares S&P Glbl Tech	IXN-NYSEArca
iShares BRIC	BKF-NYSEArca
Templeton Emg Mkts	EMF-NYSE

CURRENCY ETFs & FUNDS

Canadian DL Tr	FXC-NYSE
Australian Dl Tr	FXA-NYSE
Franklin Temp Hard	ICPHX-NSDQ
Merk HD Cur Inv	MERKX-NSDQ
Euro Currency Tr	FXE-NYSE

Note: All of the shares, funds and ETFs are listed in order of strength in each section.
Buy new positions in the strongest ones.
The gold and silver ETFs are listed in bold.

