THE
ADEN FORECAST
MONEY • METALS • MARKETS

MARCH 2011 *our 30th year*

POLITICAL TURMOIL COINCIDING WITH MEGA TRENDS

Things are changing in the world and they're changing fast. It's almost become difficult keeping up with daily events, the domino effect happening in the Middle East and Northern Africa, and its impact on the markets.

HISTORY IN THE MAKING

This is truly history in the making and most of us can't help but watch these unfolding events in awe. The fact that it's happening so fast is mind boggling, not to mention that what were 30 to 40 year old well entrenched regimes are crumbling before our eyes.

In Libya's case, Gaddafi is fighting hard, but many of his own people have joined the growing opposition. Unrest continues in other countries like Bahrain and Yemen. And now Saudi Arabia is growing more concerned as protestors call for two days of rage in March, which sent the Saudi stock market plunging.

Inspired by Egypt and fueled by soaring food prices, China is starting to feel the heat too. It's been cracking down on internet protest organizers and trying to nip potential demonstrations in the bud.

For now, it's a fascinating time and it warrants close attention. As we're seeing, changes can and they often do happen quickly.

TIDE TURNS QUICKLY

The fall of the Iron Curtain is just one example that comes to mind. We happened to be in that area when the first cracks began to appear.

Still, we never imagined that the situation would unravel as quickly as it did. The next thing you knew, the Berlin Wall came down in 1989 and the Soviet empire disintegrated.

So now it's the Middle East and it remains to be seen how it will play out. One thing is certain, aside from the historical repercussions, the markets will continue to be affected as well.

SOARING GOLD, SILVER & OIL

We're already seeing this as the oil price soars well above $100 on supply concerns. At the same time, gold and silver are soaring to new bull market highs as investors turn to these traditional safe havens.

Interestingly, what's happening in the Middle East is coinciding with some of the mega trends we've often discussed. These are trends that last for many years and the way things are developing, these trends still have years to run. Here's the way it's unfolding....

FIVE BIG TRENDS FOR THE NEXT FIVE YEARS

1-Inflation is starting to pick up. This trend is set to intensify and it'll be an important factor fueling the other big trends.

How can we be so sure? Most people think of inflation as rising prices. And while it's true that rising prices push inflation higher, it's not the cause of inflation.

The direct cause is excessive money creation. Too much money equals price inflation. And the fact is, far more money has been created over the past couple of years than at any other time in U.S. history.

So the cause has already taken place. The effect is arriving.

Why was so much money created? To pull the global economy out of its worst recession since the Great Depression, but there's more...

In the U.S., for instance, government spending has gone wild. But since the government can't afford massive spending on so many programs, it's gone into the biggest debt hole ever.

The Fed has to create money to pay for all this spending and to stimulate the economy, and the situation is similar in many other countries. All of this money creation comes at a high price, and that's inflation.

This has happened over and over for thousands of years and it's happening again. Only this time the amounts involved are so huge and unprecedented, we can only

INSIDE

imagine how big the eventual inflation will be.

For now, food and oil prices are surging but this is likely still the early stages of much higher prices in the future. Meanwhile, events in the Middle East are only adding fuel to the fire, especially for the oil price.

2- Gold and silver are soaring and the fundamentals point to much higher prices for years to come. There are several reasons for this, which we've often discussed.

Currently, gold and silver are hitting new bull market highs because they are the ultimate safe havens in times of uncertainty. This could be geopolitical or monetary uncertainty and we're now seeing both.

Investors are nervous about the Middle East and how this will unfold. They're also nervous about the ongoing monetary path the Fed has chosen, the European debt crisis and so on. So increasingly, they are turning to gold and silver.

Another huge positive, which has kept a strong foundation under the gold and silver markets is the growing, huge demand coming from the emerging countries. As hundreds of millions of people worldwide become more affluent, they're buying gold.

Central banks have also been big buyers, further increasing demand. Here too, they see what's happening on the world monetary stage and they don't like it. So they're adding to their gold reserves rather than just holding cash.

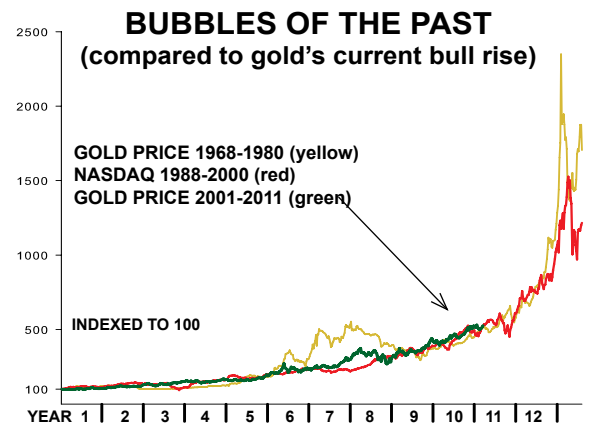
Gold is also the ultimate inflation hedge and it always has been. If the marketplace anticipates higher inflation, either due to monetary policies, rising oil prices or whatever, investors will turn to gold as protection, driving the price even higher.

This too is now happening and if inflation picks up as we anticipate, it will push prices higher than most people expect.

In the 1970s during the last big inflation, for example, gold soared about 2,300% and silver 3,600%. We believe the current and upcoming inflation could be even more serious than it was then due to the causes that have already taken place.

But let's say it is similar to the 1970s, then as we mentioned last month, gold could eventually rise to about $6,000 and silver to $150. We're not saying these will be the ultimate upside targets, but they could be.

CHART 1



You can see gold's current rise, which began in 2001, compared to gold's rise in the 1970s on **Chart 1** as well as gold compared to the huge Nasdaq tech boom in the 1990s. In both cases, note that gold is still far from being in a bubble, despite its rise over the past 10 years.

The point is, gold and silver have lots of upside potential and they'll very likely be the best investments in the years ahead.

3-Unfortunately, we can't say the same about the **U.S. dollar**. It's been dropping for 40 years, ever since the U.S. went off the gold standard and the era of undisciplined deficit spending began. The dollar has plunged nearly 80% against the other major currencies since then and all signs point to a continuation of this trend in the years to come.

That's especially true considering the massive spending and debt build up over the past few years, combined with unprecedented money creation. More dollars make the dollar worth less.

That's why the dollar is falling and why it's going to drop much further. This will result in a loss of purchasing power for those who hold U.S. dollars. Higher inflation will only make matters worse.

A weaker dollar also means that some of the stronger major currencies will keep rising. So it will become increasingly important to diversify your savings into a basket of the stronger currencies and out of dollars in the upcoming years.

4- Interest rates rise during times of inflation, even more so when the U.S. dollar is weak. That's because rising rates become necessary to attract investors into U.S. dollars.

Even though the Fed says they're going to keep interest rates low to help the economy, they simply won't be able to. The Fed can control short-term interest rates, but not long-term rates. And with the U.S. needing more and more money to finance all of its expenses, the marketplace will demand higher rates in exchange for the growing risk.

Under the current circumstances, interest rates are poised to rise much further in the years ahead. This will be good for those who need some income, but not for borrowers. For example, if you're currently paying a higher rate on

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your mortgage, now is the time to refinance and lock in a low rate, which you may never see again.

5- Higher U.S. interest rates mean **bond prices** will fall and they'll likely fall sharply.

In the 1970s, for instance, U.S. government bond prices plunged about 60%. The U.S. dollar also dropped around 60% and since bonds are denominated in dollars, it made the overall decline even more damaging. This will probably happen again.

If you need the income and don't mind the devaluation of your bonds via U.S. dollar purchasing power, then okay. But if you do, we would not hold U.S. government bonds in the upcoming years.

Inflation is the bond market's worst enemy. A declining dollar is yet another enemy. So we're not at all optimistic about the future of bonds. In fact, they may prove to be one of the worst investments over the next five years.

In a nutshell, that's our brief summary for the years ahead. And depending on what happens in the Middle East, these trends could intensify sooner rather than later.

Again, it's a fascinating and historical time, so please be prepared. Take action, protect yourself and stay tuned...

U.S. & WORLD STOCK MARKETS

Bull market turns 2 years old

The stock market was strong this month, hitting a 2½ year high in mid-February. It has since been stalling as the turmoil heated up and the oil price took off.

GOOD ECONOMIC NEWS VS POLITICAL TURMOIL

On the one hand, the economic news is good. Consumer confidence hit a three year high and unemployment is finally coming down. Plus, corporate earnings are doing great, interest rates and inflation are still low, and these are all positive for stocks.

On the other hand, events in the Middle East are weighing on the market. In the past month alone, civil war has become a reality in Libya. And unrest is spreading in one country after another.

As one Middle East expert noted... "For the first time in 1,000 years, Arabs are taking control of their own affairs. They were ruled for centuries by the Ottoman Empire, then came the Europeans... The winds of change are blowing and where it will lead is unclear. But this is a big historic shift."

This is not going unnoticed by the global stock markets as they nervously watch closely.

MIDDLE EAST MARKETS COLLAPSING

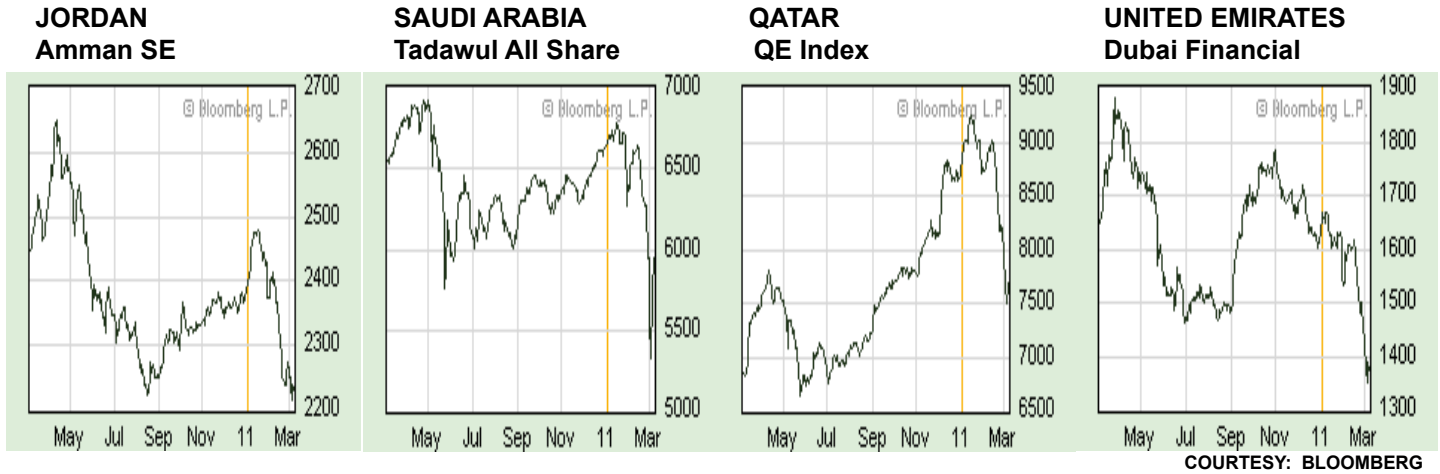
As you'd expect, stock markets throughout the Middle East have been plunging, whether they're having troubles or not (see **Chart 2**). As we noted last month, rising food prices and Middle East unrest have affected most of the other global emerging markets as well.

Now, however, it's also creating some unease in the U.S. and European stock markets (see **Chart 3**). Aside from the entire uncertainty factor, the oil price is surging, hitting a 2½ year high, and the markets are concerned this could slow economic growth and fuel inflation. This in turn would boost interest rates, which are not good for stocks.

Despite recent optimism, investors also remember 2008 only too well. Food prices were soaring then too, causing riots in many countries. This put pressure on the global economies, the financial crisis hit and stocks plunged.

The story is similar today and it

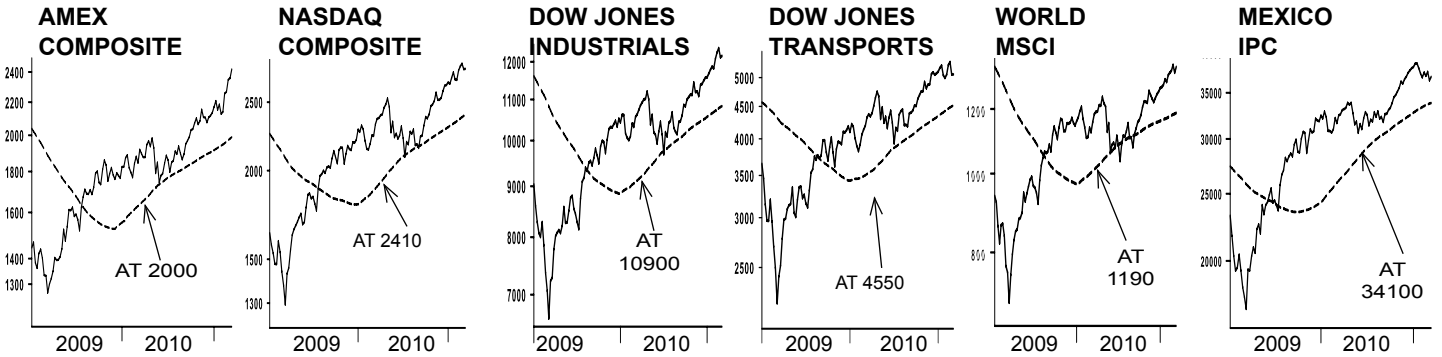
CHART 2



COURTESY: BLOOMBERG

CHART 3

STILL LOOK GOOD



- - - 65 WEEK MOVING AVERAGE IS KEY TREND. MAJOR TRENDS ARE UP ABOVE THESE LEVELS.

could happen again. Really, anything is possible and we just have to stay alert.

Currently, for example, growth is looking good in most parts of the world. Mexico has been an emerging stock market favorite and its economy recently expanded at the fastest rate in a decade, but it doesn't seem to matter. Its stock market has turned sluggish and the **U.S. may be starting to follow the emerging markets, which had been the global leaders.**

Even though the U.S. economy is increasingly looking better, the huge increase in the Federal budget deficit in February, the largest one month increase in history, is adding pressure to the stock market. The Dow Jones Transportations has been the most vulnerable, reaching a new low for the year. This may be a warning sign that the other stock indices are going to follow. We'll have to wait and see.

STILL FIRM & SOLID MARKET

For now, the Dow Industrials has been holding up well. The Amex index is soaring and our recommended stocks are doing fine.

In addition, all of the leading indicators for the various stock indices remain bullish (see **Chart 4** as an example). As long as this continues, then stocks are headed higher and there's a good possibility that the indices could test their 2000 and/or 2007 highs as the next significant target. If they do, then the Dow Industrials could eventually reach the 14000 level.

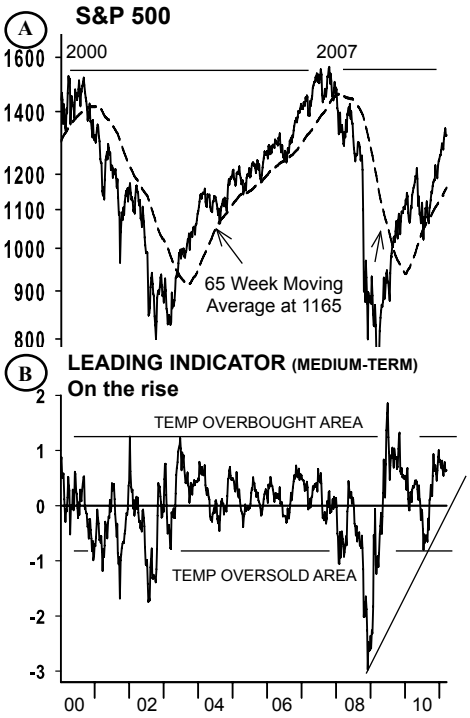
But we also have to watch the downside. Currently, the Dow Transportations will remain under downward pressure by staying below 5150. Nevertheless, if it stays above 4550 during this period of weakness, the major trend will remain up and it'll still be bullish.

As for the Dow Industrials, watch 11800. If it declines and stays below that level then it will be following the Transports, which would be a sign of weakness. But the bull market will remain in force above 10900.

Also bullish is the internal action

CHART 4

ON ITS WAY TO 2007 HIGHS?



of the market. As our dear friend and long time stock expert Richard Russell points out, Lowry's buying power recently hit a new high. At the same time, selling pressure reached a new low. That kind of action has never occurred at a major market top.

SO FAR... SO GOOD

So for the time being, it looks like the market is jittery but it's not in trouble. It could have a further downward correction, like it did in 2010, which would be normal considering its strong rise since then.

But there's no question, what's happening in the Middle East is worrisome. As we know, the world has become far more global and interconnected than ever before.

As we've seen, this alone has already affected the emerging stock markets. It's beginning to have an effect on the U.S. stock market and other markets as well, like the precious metals, bonds, currencies and others.

For now, we're taking profits by selling IXN and JOF. Should more sell signals trigger, you'll be the first to know. **Of course we want to stay with the major trend for as long as it lasts but our caution level has been kicked up a notch.**

At this point, we wouldn't buy new positions or add to your stock portfolio. If the bull market continues and the stock indices show renewed strength, we'll be reassured and signal the okay. But this is a time to stand back and let the market tell us what to do next.

U.S. INTEREST RATES AND BONDS

Long rates: On an upward path

Interest rates are holding firm. Even though they declined this month, that's not unusual following their steep rise since last Fall, but we don't expect this will last long.

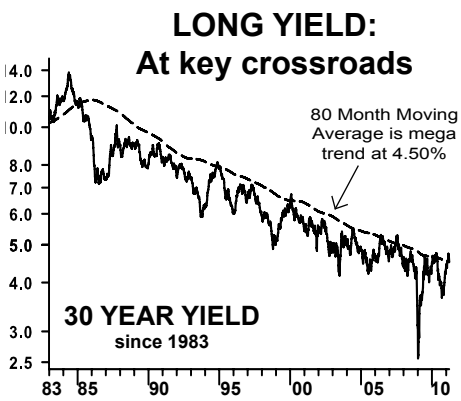
30 YEAR YIELD: At key level

For now, the 30 year yield, which is a free market long-term interest rate, is holding near its mega trend, now at 4.50% (see **Chart 5**). As we've often discussed, this 80 month moving average identifies the mega interest rate trend and it has ever since the 1930s.

As you can see on **Chart 6**, the mega trend has been down since the early 1980s, but this now appears to be changing. If this trend is turning up as we suspect, it would mean a total change in the overall economic environment. And it'll last for decades because once these trends change they last a very long time.

Most important, it would strongly reinforce that big inflation is indeed coming. In fact, aside from the developments we've already seen, this would be the final confirmation that it's happening.

CHART 6



As we previously mentioned and we won't rehash here, inflation is pretty much inevitable looking out to the years ahead.

On top of the mushrooming debt, deficits, spending and money creation that's currently in place, there are two important factors that nearly guaranty this trend...

BOOMERS & BUST

First, the bulging baby boom population is now entering their retirement years and the numbers speak for themselves. Thousands of people will reach age 65 every day for the next 19 years.

That's going to mean way more Medicare and Social Security spending, which is going to balloon the deficits even more.

Already, the deficit will be more than $1 trillion next year for the fourth consecutive year, and in four years the government expects deficits to reach $4 trillion. The baby boomers alone tell us that the deficit is going to keep growing, despite what anyone says.

Second, interest payments on the debt are expected to grow by four times what they are now over the next decade. Plus, if interest rates rise as we anticipate, this growth could be even greater.

All of these factors absolutely coincide with big inflation in the upcoming years. In fact, it's already starting to happen.

Producer prices in the U.S. recently had their biggest gain in 2½ years. And in the last four months, producer prices have risen at a 9% annualized rate. We're fairly certain there's a lot more coming.

Inflation and interest rates are currently rising in most countries (see **Chart 7**). The U.S. is now following the global trend.

CHART 7

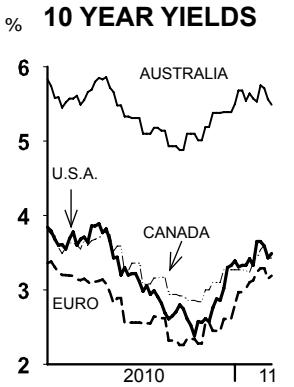
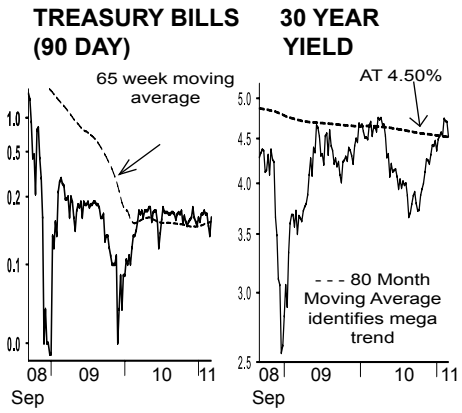


CHART 5

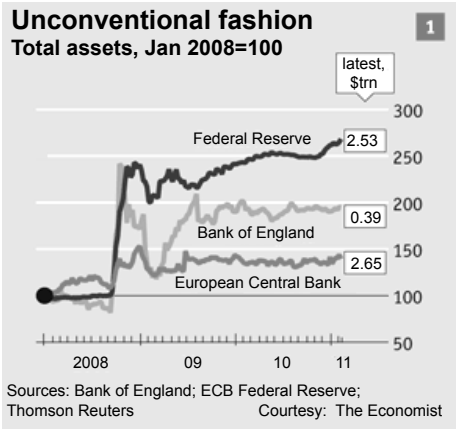


FED STABILITY... FOR NOW

Some, however, feel that inflation won't become a big problem as Bernanke says. If anything, it'll just be temporary. The quantitative easing (QE) program is working and the Fed is determined to keep interest rates down as it continues on its bond buying binge, which is helping to maintain stability, but...

It's not a coincidence that two well respected central bank officials resigned last month, one at the Fed as well as the head of the German central bank. In both cases, they opposed the monetary path the Fed and the European central bank have chosen. That is, creating money to

CHART 8



purchase government bonds, which is beyond the range of normal central bank policy.

In other words, it's downright risky, yet it's been going on since the financial panic of 2008 (**Chart 8**).

Once again, the world is in uncharted waters. Very simply, it's a dangerous situation and no one really knows when, where or how this will all end up. So we take it one step at a time, and point out what's happening and the probable effects.

THE EFFECTS OF EASY MONEY

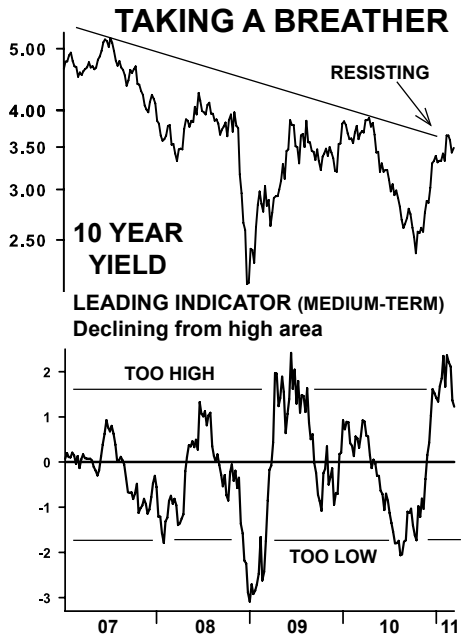
For now, the Middle East is brewing, in large part because of soaring food prices, which is a result of what we've been discussing. Nevertheless, in times of crisis, U.S. bonds are often still seen as a safe haven and that's one reason why interest rates have been declining. There's been more demand.

This could continue and it could drive rates even lower in the weeks ahead. But as you can see on the 10 year yield chart, its leading indicator was overextended and a downward correction would be normal at this time (see **Chart 9**).

Most important, even if the 30 year yield declines to 4.30%, the major interest rate trend would still be up. But as long as it stays above 4.50%, the mega trend will be turning up with all that it represents.

So despite near-term weakness, keep your eye on the big picture. Continue to hold the interest rate related investments we previously recommended, but don't buy new positions yet. We believe better opportunities are coming to take advantage of this mega interest rate trend and we'll be keeping you posted.

CHART 9



CURRENCIES

U.S. dollar: Vulnerable

The U.S. dollar wasn't able to make it. For a while it was enjoying its safe haven status, but it didn't last long. As we've so often seen, the dollar is hitting new lows for the year and it looks like this will continue.

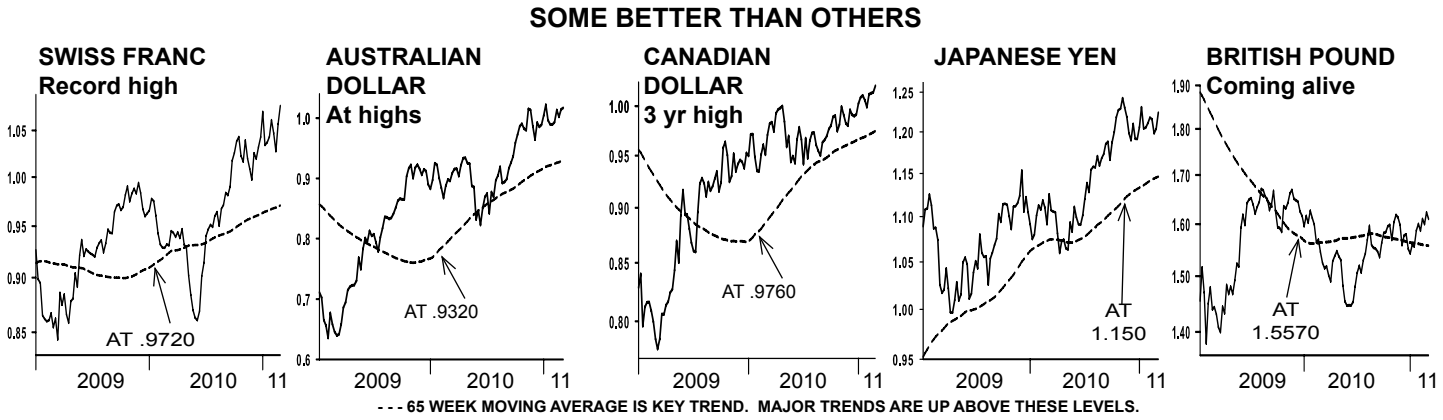
HEAVY LOAD ON DOLLAR

So what happened? When push came to shove, investors started moving out of dollars. That's because of growing concerns that inflation is heating up, still low U.S. interest rates, the Fed's monetary policies, the spreading problems in the Middle East, concerns oil is going even higher, adding fuel to inflation's fire, ongoing U.S. government spending, the fact the country is broke, and the list goes on.

Stock analyst Mary Meeker recently summed it up best by asking the question… Would you invest in a company that lost $2 trillion last year and has a negative net worth of $44 trillion? She was of course referring to the U.S… also noting that if nearly all expenses were cut, including the armed services, and only interest payments on the debts were made, as well as entitlement benefits, then the U.S. could finance its budget in about 14 years.

We all know that's not going to happen and the world knows it too. That's basically the fundamental

CHART 10



reason why the U.S. dollar will keep falling.

This is nothing new. As we previously mentioned, this has been going on since 1971, only now the decline will likely intensify. This will be confirmed if the U.S. dollar index declines below 76 and 74, and then reconfirmed if it falls below its 2008 record low at 71.50.

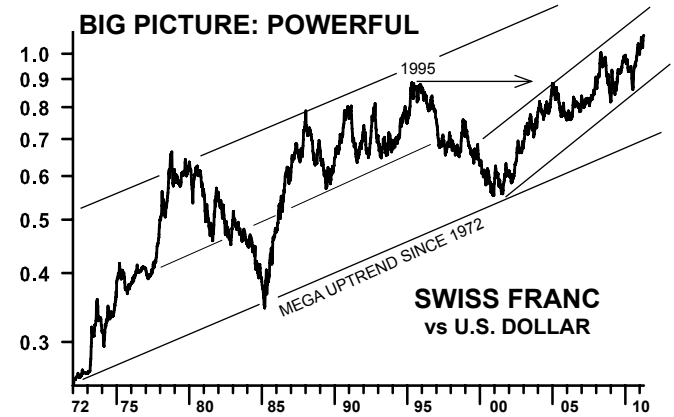
SWISS FRANC LEADING?

Increasingly, it looks like it eventually will. Why? The Swiss franc has been leading the other currencies, but they're all moving higher, some more than others, and for different reasons (see **Chart 10**).

In the Swiss franc's case, it's been one of the strongest currencies due to its economic strength and its safe haven attraction during times of geopolitical turmoil, as we're now seeing. It already hit a new all time record high against the U.S. dollar (see the Swiss franc's big picture on **Chart 11**).

Based on the usual patterns, the other currencies will likely follow. But watch the dollar index as it'll tell the story since it's a composite of the major currencies versus the U.S. dollar (see **Chart 12**).

CHART 11



Currently, we're still holding a small cash position in U.S. dollars. But if the dollar index declines and stays below 76, we'd recommend switching your dollars into Swiss francs.

We know this may not be so easy for U.S. based investors. You need dollars to pay your expenses and so on. That's fine but for your investing cash in savings or pension plans, you'll want to switch at least some of it into stronger currencies like the Swiss franc.

You can open an account at Everbank (everbank.com). There you can keep an account or CDs in almost any currency you want. We've known them for decades and highly recommend them.

If that's not easy enough, then you can always buy the ETF for the Swiss franc, which is FXF. We also have been recommending the Canadian dollar or its ETF. The symbol is FXC.

CANADIAN DOLLAR: Over 3 year high

The Canadian dollar has been doing very well, thanks to its strong economy and the higher oil price. It's commonly known as a commodity currency but it's mainly oil related since Canada is a big oil country.

If oil goes up, so does the Canadian dollar. And since oil is poised to rise for as long as unrest continues in the Middle East, and there's no end yet in sight, the Canadian dollar is a good currency to own.

The same is true of the Australian dollar. It's also a commodity currency and it does particularly well when gold rises. Here too, since gold is on the rise, the Aussie dollar will likely continue to shine.

Even the euro is looking a lot better (see **Chart 13**). The Eurozone is seeing good economic growth, confidence is rising, but the debt woes of some of the Eurozone's countries still lurk overhead.

That makes the euro a little more risky, but it's been rising and showing renewed strength. This tells us that perhaps things will work out okay, at least for the time being. We'll be watching but for now, the euro is also looking good.

U.S. RESERVE STATUS CHANGING

Based on their actions, the rest of the world is favoring the stronger currencies and they're losing confidence in the U.S. dollar. Many feel the U.S. has become an empire in decline, and China and India will soon catch up, as well as many

CHART 12

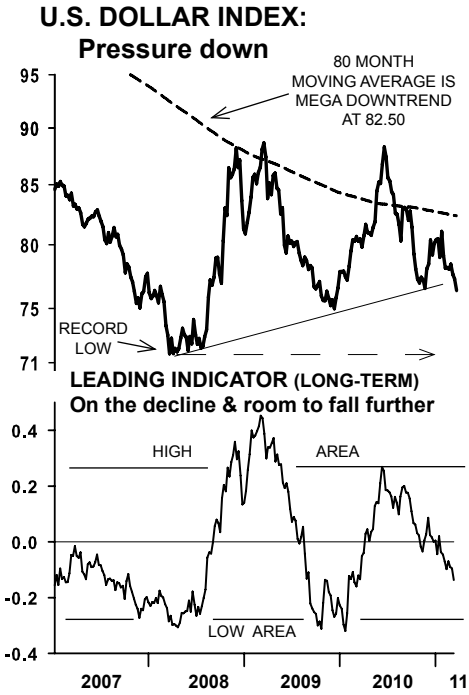
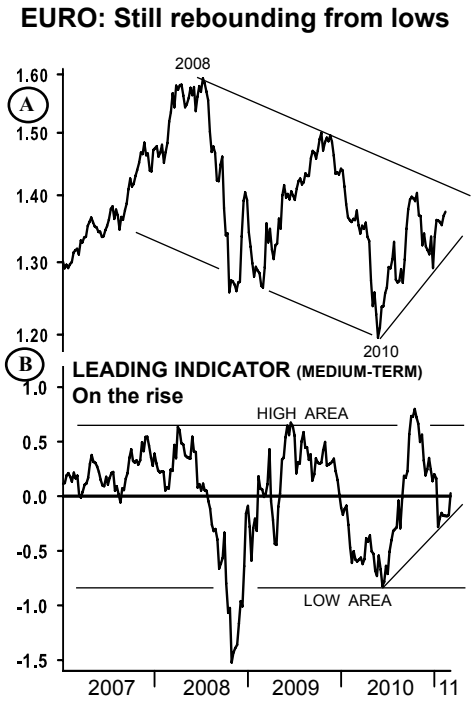


CHART 13



other countries. That is, the days of having one big empire may end over the next decade, with power shared by many nations.

We'll see, but it is interesting that in all of the great empires over the centuries, once the debt servicing costs (interest payments on the debt) became greater than the military expenses, it essentially marked the beginning of the end for that empire. It happened in Spain when it ruled the world, France, the Ottoman empire and Britain, and the U.S. is heading in that direction too.

That's one important reason why we recommend keeping a much larger portion of your portfolio in the metals sector. Cash is great but gold is real money. It has stood the test of time. As you'll see next, it's outperforming all of the currencies and this alone illustrates what we mean.

METALS, NATURAL RESOURCES & ENERGY

The never ending surge...

Gold nearing $1500, silver at $36, oil well above $100! What a week... what a month... what a year!

We're seeing record highs in the gold price on a daily basis, silver soaring to 31 year highs day after day, while crude oil takes off, reaching 2½ year highs.

LOTS OF FUEL IN THE RISE

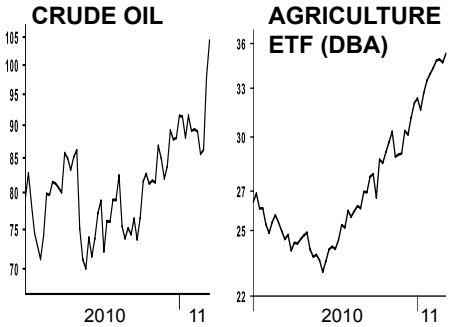
Escalating violence in Libya is adding fuel to the already strong bull markets, especially with concern growing that turmoil could spread into other countries (see **Chart 14**).

The threat of possible supply disruptions is providing the real fire under oil, while demand continues to grow. Gold and silver in turn are the safe havens as inflation concerns and uncertainty prevail.

This turmoil will continue to keep upward pressure on these markets, but there's more to this bull market... Rising consumer prices are becoming more evident, worldwide. That is, we're now seeing the effects from a cause that's been in place for quite a while.

CHART 15

SURGING OIL AND FOOD... NOT GOOD FOR WORLD PEACE



FOOD & FIGHTS

As we previously mentioned, the cause is a sea of liquidity that has pushed all of the markets higher.

This time around, soaring agricultural prices have been the most dangerous. Global food prices rose to a record in February. Rising food and oil are a deadly match because higher oil prices push food prices even higher (see **Chart 15**).

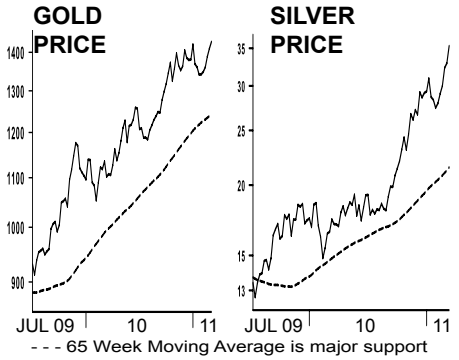
Just since last June, 44 million people were pushed into extreme poverty according to the World Bank. This alone explains why governments are being toppled. With food costs taking up a much larger portion of a families' income in the emerging world, it's understandable that surging prices helped spur the outbreak in the Middle East and North Africa. The United Nations says other countries at risk of food riots are Bolivia and Mozambique.

Some say food is in a bubble, and possibly that's true, but when you consider climate change, political change and geopolitical tension, together with price inflation, we don't think a bubble is here... not yet.

Inflation is becoming more evident and it's the culprit in this scenario. But there's also a common thread between QE1&2 and rising global consumer prices, soaring food, clothing and raw materials.

CHART 14

OFF & RUNNING!



Inflation is clearly becoming a global problem in both the developed world and the emerging world. For example, China's costs accelerated by the most in about six years, while Asia is grappling with consumer price pressures too. In the United Kingdom, manufacturers are planning to raise prices as consumer prices reach a two year high. In the U.S., the cost of living climbed in January for the seventh month. The list goes on, but rising inflation is clearly moving off the back burner.

VOLATILE TIMES AHEAD

We have an environment today that ensures volatile times ahead... times when protecting yourselves and your assets is most important.

China is smart. While the West debases its currencies, China continues to appreciate the bull market in gold. Most interesting, they are making it even easier for

their citizens to buy gold, to the point that when the bull market is over, they'll have real wealth.

Late last year, for instance, the World Gold Council (WGC), and the Industrial and Commercial Bank of China (ICBC) launched a gold investment product. It's called the ICBC Gold Accumulation Plan where people can obtain a physical gold linked savings account. Over one million accounts have already been opened with over 12 tons of gold stored for these accounts, according to several sources.

DEMAND STILL STRONG

Demand is growing... no question about it. As each month passes, more people, sectors, and countries around the globe are buying and holding gold and silver. Most important, central banks are still buying and holding gold for the first time in 21 years. They made a structural shift in policy last year when they become net buyers of gold.

China was the strongest market for investment demand growth last year. Their demand for small bars and coins increased by 70% year over year. Likewise for jewelry... China and India were key in pushing jewelry demand 17% higher than in 2009. And it's the same story this year. China's gold purchases have already climbed to 200 metric tons in the first two months of 2011.

China is also the largest gold producer in the world, outpacing South Africa since 2007.

The Middle East is joining in as well. Demand for bars and coins jumped 39% in Q4 from a year earlier, according to the WGC. And the way things are going, there's likely a lot more potential.

REFLECTIONS

Now that gold is within a stone throws from the $1500 milestone, it's time for some reflection. With the gold price on a 10 year journey with the best still to come, let's take a walk through this bull market...

Gold was waking up from the dead in 2001, but it started to rise quietly thereafter (see **Chart 16A**). For four years its rise wasn't taken seriously, even when silver and copper joined the upmove in 2003. The main argument was that it was dollar weakness, not a gold rise, that was moving the market.

But this changed in 2005. The first milestone occurred when gold broke clearly above $500. Gold soared in its first major surge in the bull market. This was the rise when it broke clearly away from the dollar and started soaring in all currencies (see gold in Swiss francs on **Chart 17**).

This was a major feat! Gold became the strongest currency, and it went on to break up to record highs, reaching a peak in 2008 near $1000. Silver and copper also continued soaring as the housing boom and world economic growth heated up.

2009 was the next milestone when gold broke clearly above $1000. This started a stronger phase of the bull market and since then, gold hasn't looked back soaring to its recent record closing high at $1437.

We'd say this rise has certainly lived up to a stronger phase, rising 66% since its April 2009 low, which is when the current rise first started.

The rule of thumb is, when gold's rise reaches a new high for the bull market, it's a super strong market. And as we've just seen, when it's combined with the stronger phase of the bull market, it makes for an explosive rise.

And explosive it has been! With gold now approaching $1500, it's near our first important target level for this stronger phase (see **Chart 16A**). Gold will most likely resist near $1500 before moving clearly above this level into the next phase of the bull market.

CHART 16

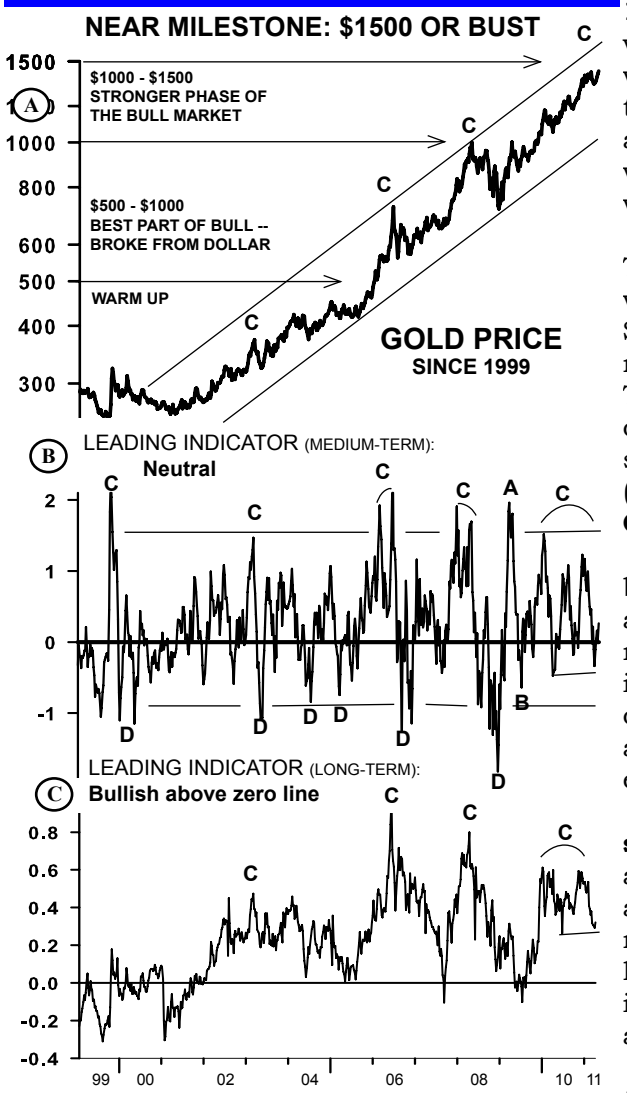
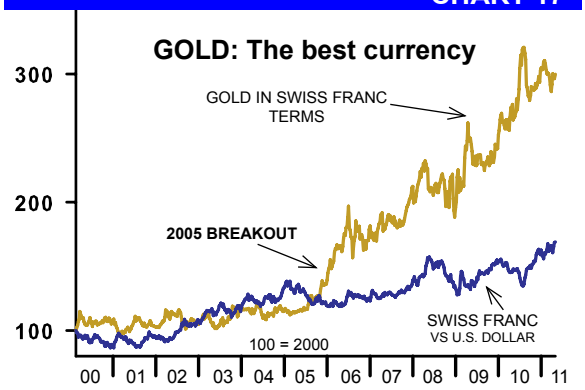


CHART 17



In the big picture and on the upside, once $1500 is well surpassed, the $2000 area will then be the next target. Will $5000 - $6000 or more end up being the final target? Time will tell. It looks like this is a possibility but more important is that **we will stay with the trend for as long as it lasts.**

As good as it's been, gold is far from being in a bubble, as you saw on **Chart 1**. And you must admit, it's been the quietest bull market in history. Just ask the average person.

TIMING: Gold & Silver

With the past month's shoot up, many of you have asked us what rise this is… is it still the C rise, or is it an A rise?

Chart 16B shows that as amazing as it is, the current rise is still part of the C rise that began in April 2009… almost two years ago. This is totally out of the norm but it's been very powerful since it's pushed gold well into a stronger phase of the bull market. Under this condition, the unusually long, extended C rise is justified… it just needed more space on its own time.

Gold's rise has been tremendous over the last 10 years. It's gained 464% since its 2001 lows, while silver has gained much more at 790%! These bull markets have been beauties.

Gold's record closing high was on March 2 at $1437.70 (April). Silver's is at $36.047 (basis May) on March 9.

Interestingly, silver has only been above $36 for four weeks in history, during the flurry of the 1979-80 peak. You could essentially say silver is at (and definitely near) its record highs. So it's no wonder silver has formed a big smile (see **Chart 18A**).

Gold's 7.25% decline in January was very mild… barely a correction, which means a D decline is still to come. In fact, since the 2008 meltdown, gold has gained 104% with only a 13.3% decline along the way.

Silver is even more impressive. It's risen over 300% with only a 23% decline since then. These rises will remain robust by staying above $31 for silver and $1390 for gold.

At some point, gravity will take over and they will correct. But as long as they stay above their 65-week moving averages at $22 and $1255, respectively, during weakness the major trends will remain up.

CHART 18

POOR MAN'S GOLD

This very phase was probably one main reason why silver shot up much more than gold this past month. Silver is more affordable but it's also proving to be true to form…

Silver tends to go through long periods of hibernation time, like it did for a good part of the "smile" from 1980-2003, but once it started up, it soared (see **Chart 18A**).

The last seven months were yet another example of this. Silver sat well below $20 for nine months, but once it jumped above $20 last September, it quickly shot up to $30 in a three month period. Now, it's heading toward the $40 mark!

Even with this wonderful rise, silver is still cheap compared to gold. **Chart 18B** shows silver compared to gold. Silver's recent jump up above $20 is finally causing silver to clearly outperform gold, for the first time since the financial crisis.

The ratio is now rising sharply but even so, you can see the historical norm is higher. This means that silver will continue to be a better investment than gold… although both are great.

If demand has any say in the matter, you know the price will stay strong. Silver coins are very popular and a nice gift too. This could explain why the U.S. Mint sold more Eagles in January than any other month since the coin was launched in 1986. This is one good example of many, which reinforces a buy and hold strategy.

Silver shares have also been fantastic. Silver Wheaton, for example, reached a new high. It's up 50% since this year's low. Platinum and palladium are also holding firm, as you can see on **Chart 20**. And Stillwater Mining (SWC) reached a high this month. We've now,

CHART 19

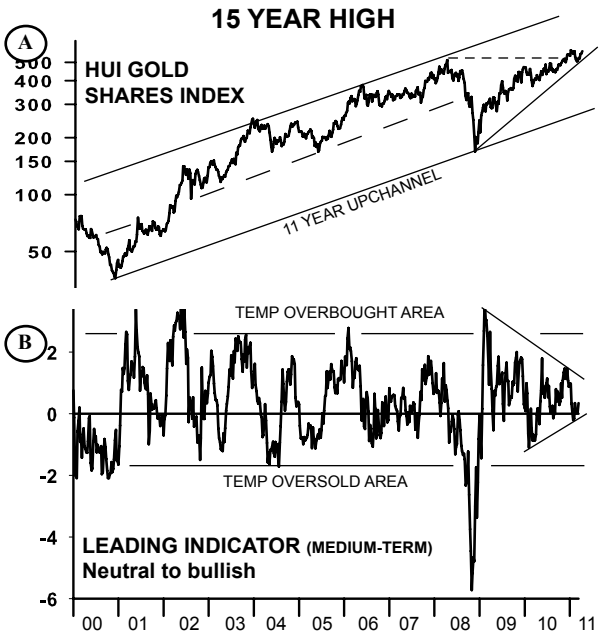
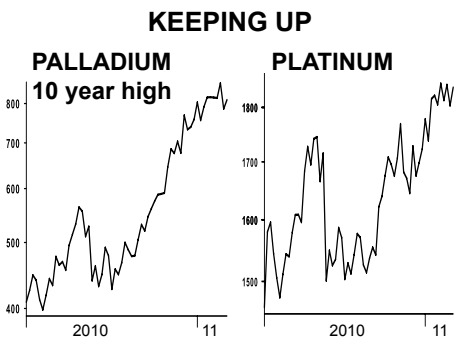


CHART 20



however, taking profits and selling palladium (PALL).

GOLD SHARES: Strong

Gold shares have been great... some much more than others. It's important to be selective but in general, they have been very good. New Gold (NGD) reached a new high in recent weeks.

Reinforcing this, the HUI index on **Chart 19A** is at a new high within a grand bull market, and it has room to rise further. Its leading indicator is neutral, however, in spite of the rise. This is saying, whichever way it breaks out of that triangle formation will point the way for gold shares.

Keep an eye on 525 for the HUI as it will remain strong above it. It could eventually reach the top of its 11 year channel as a reasonable target. Keep your gold shares.

ENERGY & RESOURCES

Crude oil jumped up sharply with Libya's crisis pushing it well above $100. As long as tension continues in the Middle East and North Africa, oil will remain high.

Libya is the fifth largest oil producing country and the third largest in Africa. Oil is the "bloodline of the world" and any threat to disrupt the flow will push oil up fast.

Saudi Arabia is the most sensitive country as it's the main oil producing country... more than double Iran, the second largest producer. They are the giants. Currently, anything is possible and any uneasiness will be felt by the oil price.

It's also interesting to see that oil was only discovered in Saudi Arabia in 1938. It wasn't that long ago, considering that 90% of their exports are now crude oil and it accounts for 75% of its income.

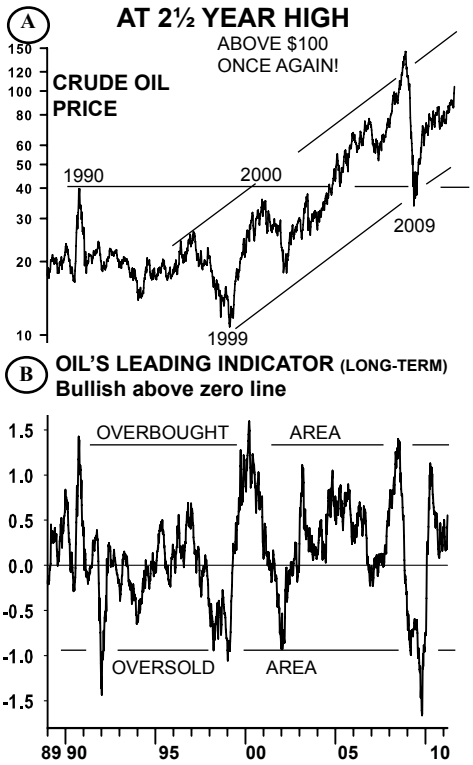
The West depends on the Middle East for much of its oil. It's in a vulnerable position, which obviously makes the Middle East a very important area for the world. And for now, all eyes are on Libya, the Middle East and oil.

If crude continues to rise to say the $110 level, it could hurt the global economy. It will put more upward pressure on commodities and it'll likely cause more unrest in the world (see **Chart 21**). For now, it's in everyone's interest to see the price of oil contained.

Chart 22A shows the oil price since the first Gulf war in 1990. Back then oil jumped to $40 to everyone's horror. But now some 20 years later, we'd love to see $40 oil again, but that's history, and it's now the base price for the current rise. Oil has room to rise further and the rise is solid above $93.

Rising oil, however, has put a damper on the strong copper price. It's not a coincidence that when

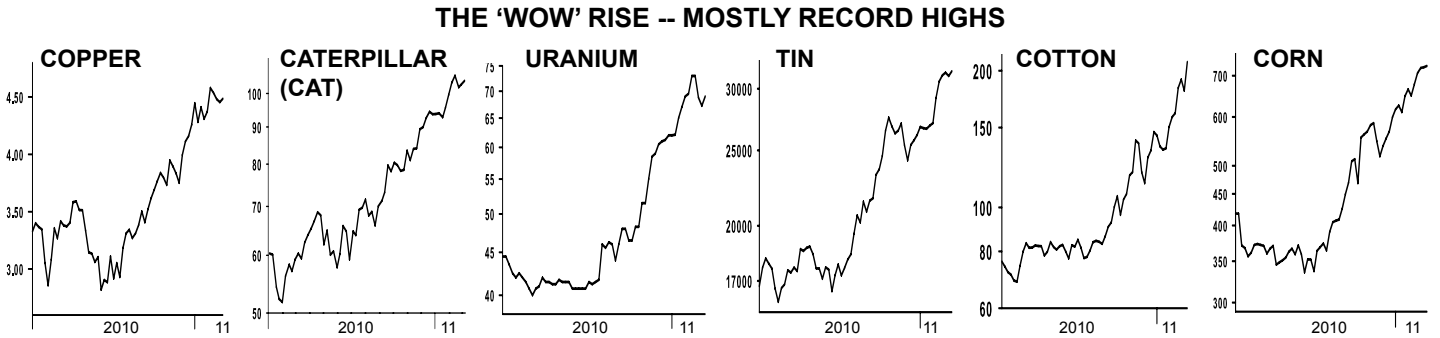
CHART 22



oil jumped above $93 in February, copper's rise slowed down and it recently closed below a key level at $4.30, which shows weakness for the intermediate term. We recommend selling Freeport McMoran (FCX) and take profits, as we said in this week's update. Considering that the base metals in general are down with copper, we now also recommend selling U.S. Steel (X) and Rio Tinto (RIO). Otherwise, keep our other positions, like BHP and CAT, as they're firm.

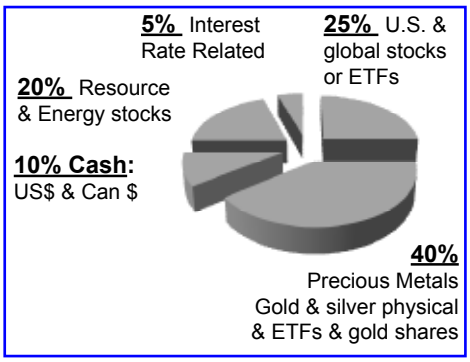
Of our energy shares: BTU, USO, SU, IXC and DIG all reached new highs in recent weeks. They're now taking a breather.

CHART 21



OVERALL PORTFOLIO RECOMMENDATION

It's been an action packed month. Gold surged to a new record high. Silver soared much more, reaching a 31 year high. Gold and silver shares are on the rise, and so are many other stocks. The oil price is up strongly too. In fact, most of the markets have been affected one way or another by the fast moving events in the Middle East. Economic factors have weighed in too. But the bottom line is that, while our recommendations overall are doing good,we are selling and taking profits on six stock positions. Otherwise, we advise staying put for now.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold and silver continued to soar on safe haven buying while crude oil benefitted from a threat to supply disruption. This surge in oil, in turn, put downward pressure on copper and the resource sector in general, as high oil prices puts a strain on the global economy. The incredible rise, especially in silver, will remain super strong by staying above $33 for silver, $1400 for gold and $96 for oil, but some down time, a breather decline, would be normal at this time. A 'D' decline in gold has yet to occur and at some point this will kick in. If gold declines and stays below $1385, it could decline, to $1300 but still be strong within the ten year old bull market. Silver could decline to $31 but still be very strong as well. There's room on the downside for some healthy volatility.

Copper may be leading oil in the end, in a downward correction. Copper closed below $4.30, its 15 week moving average, for the first time since the rise began last July. This shows weakness for now. **We recommend selling and taking profits on Freeport McMoran (FCX) as per our weekly update. We also recommend selling palladium (PALL), U.S. Steel (X) and Rio Tinto (RIO).**

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The bull market in stocks turns two years old this month. The Dow Jones Industrials reached a 2½ year high in mid February. It's been stalling since then, and while the bull market remains firm, the lackluster emerging markets may be leading the way for the U.S. market in a downward correction. Currently, we're watching the Dow Transportations as it's under pressure by staying below 5150. But if the Dow Industrials can hold above 11800, it'll continue to look good. **We now recommend selling and taking profits on two shares... S&P Global Tech (IXN) and Japan Sml Cap (JOF). For now maintain caution, keep the other positions you have, but don't buy new positions. Let's wait and let the market tell us what's coming next.**

CURRENCIES RECOMMENDATION

The U.S. dollar is still under pressure, recently declining to the November lows. The Swiss franc has been leading the way for the other currencies, reaching an all time record high, and the others are all moving higher. For now, we're holding a small cash position in U.S. dollars but if the dollar index declines and stays below 76, we'd recommend selling your dollars and buying the Swiss franc. The Canadian dollar remains strong reaching an over three year high this week. It's benefitting from the high oil price, so keep your small position. If you have other currencies, it's fine to keep them but hold off on buying new positions for the time being.

INTEREST RATE & BOND RECOMMENDATION

Interest rates declined this month but they're holding firm. The new mega uptrend is still intact with the 30 year yield above 4.50% At this point, however, more downward pressure on rates would be normal, but even if the 30 year rate declines to 4.30%, the major interest rate trend would remain up. If you're holding our previously recommended interest rate related investments, keep them but don't buy new positions yet. Currently, there are better opportunities in other sectors, but they'll soon improve in this sector as well.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

iShares Silver Trust	SLV-AMEX
Central Fd of Can	CEF-AMEX
Silver Wheaton	SLW-NYSE
SPDR Gold Shares	GLD-NYSE
New Gold	NGD-AMEX
Stillwater Mining	SWC-Nasdaq
iShares Comex Gold	IAU-AMEX
Central Gold Trust	GTU-NYSE

RESOURCE & ENERGY SHARES

US Oil Fund	USO-Nasdaq
Caterpillar Inc.	CAT-NYSE
iShares Tr Glbl En	IXC-NYSEArca
Peabody Energy	BTU-NYSE
Ultra Oil & Gas	DIG-AMEX
Suncor Energy	SU-NYSE
BHP Billiton	BHP-NYSE
Apache	APA-NYSE

U.S. & GLOBAL STOCKS

Dow Diamonds	DIA-NYSEArca
PowerShrs Finan	PFI-NYSEArca
SPDR Consumer Dis	XLY-NYSEArca
Prshrs Dynamic Soft	PSJ-NYSEArca
Nasdaq ETF	QQQQ-Nasdaq
SPDR S&P Bio	XBI-NYSEArca
PowerShrs Leisure	PEJ-NYSEArca
iShares Mexico	EWW-NYSEArca
iShares Malaysia	EWM-NYSEArca
iShares S&P Tech	IGM-NYSEArca
Templeton Emg Mkts	EMF-NYSE

CURRENCY ETFs & FUNDS

Canadian DL Tr	FXC-NYSE

INTEREST RATES

Profunds Rising Rates	RRPIX-NYSE
Proshrs Ultra Short20+	TBT-NYSEArca

Note: All of the shares, funds and ETFs are listed in the box above in order of strength per each section. Keep the ones you have on the list.

Big Picture

By *Uncle Harry Schultz* Mar.10, 2011. Dear Reader, Re Wisconsin demonstrations (which looks like Libya on TV): Brilliant author Linda Bowles, & sadly deceased, said it all for the coming **age of austerity** cum poverty: *"The task of weaning various people & groups from the national nipple will not be easy. The sound of whines, bawls, screams & invective will fill the air as the agony of withdrawal pangs finds voice."* This is not Wisconsin. It is Ohio & Greece & Portugal & the UK, & beyond. It is an ongoing global protest against govt's need to plug holes as the boats takes water, financially sinking. It's mainly in the West, where the Welfare State over played its hand. Started with PM Atlee in UK (Labour),1945-51, & quickly spread to Europe & then the US. Excess grew as the majority will always welcome state largesse, & then demand more, & then call it their "right." Labour unions often exploit the opportunity (as in Wis). Look for many years of "Wisconsins" in the West. Try cutting a kid's allowance & U'll get the idea. ☺

Ex *HSL* editor Gordon Frisch says: It's all in the Bible. Ever wonder why conservatives are called the 'right' & the liberals called the 'left?' Check out Ecclesiastes 10:2 *"The heart of the wise inclines to the right, but the heart of the fool to the left.*

There's an oil boom underway all over the US in oil shale's. New technology has enabled them to get more of the oil out of rocks that are very tight porosity-wise & permeability-wise.

In support of my last column's claim re popularity: In a straw poll Feb 13, Ron Paul was voted the front-runner for Republican presidential candidate in 2012, beating out Mitt Romney, Sarah Palin & Newt Ginrgrich. "The National Inflation Assoc (NIA) declared Ron Paul the front-runner to win the upcoming 2012 presidential election. It's the 2nd year Ron Paul won the CPAC straw poll. He received 30% of the vote vs Mitt Romney with 23% & Sarah Palin with 3%. U can see an NIA blog video on how FOX News downplayed & discredited Ron Paul's 2010 CPAC straw poll win. NIA also posted a video from this year's CPAC showing the ignorant comments of Donald Trump, claiming Ron Paul can't get elected. (How many elections has Donald Trump won? Ron Paul has been elected to Congress 11 times. ☺ http://inflation.us/blog/2011/02/the-political-establishment-is-afraid-of-ron-paul/

"NIA believes Ron Paul's beliefs reflect a majority of educated Americans. In our opinion, Ron Paul's CPAC straw poll win 2 years in a row is significant & suggests the US is ready to move away from the GOP that acts like Democrats once in power. Paul is the only candidate who would implement real change. Ron Paul is the only sane candidate in an insane Washington, DC, which thinks it's OK to print $4.6 trillion out of the air in order to bailout Wall Street investment banks that produce nothing, & Americans would be better off without.

"The media described John McCain as a 'war hero', yet Ron Paul received triple the amount of campaign contributions from military donors. Paul received more donations from military workers during the primary than McCain, Huckabee, Romney, & even Obama combined. Considering that Ron Paul was the only GOP anti-war candidate, it says a lot about current US foreign policy if members of our military don't believe current wars are worth fighting. To survive hyperinflation, join NIA for free at: http://inflation.us/ " End quote.

Falling walls: The "Dollar Wall" is essential (for insiders) like the "Berlin Wall" was for the whole of the "Iron Curtain." Ditto the Great Wall of China. But walls have a way of falling, from Jericho onward. The Dollar Wall's cracks are widening.

Press Comment seen: -- *"I read a lot about 'the coming hyper-inflation.' If hyper-inflation is in our future,* ***I don't see it*** *in the market action. The precious metals are hesitating, CRB Commodity Index is in a bullish trend, but is now hesitating, XLE, the widely-followed energy exchange traded fund has been in a bullish trend but is now moving sideways, oil has been a yo-yo. And what's most important (nobody seems to be noticing this) is that Chinese stocks are definitely in a down-trend. China has been the monster commodities buyer, & if China is slowing down, it will put a big question mark in the hyper-inflation scenario."* Uncle Harry comment: in *FT* column Feb 12 columnist Michael Mackenzie, pg 21 explains why higher food & fuel prices are NOT raising global inflation very much. The reason: **because** of higher food&fuel prices, people have cutback on "**discretionary spending**"!! (the stuff they don't HAVE to buy). They are even saving a bit. This is slowing inflation's rise. In 3rd world, inflation will rise faster due to food shortages & disproportionate price rises. A 2-speed world. But less discretionary spending doesn't stop underlying inflation (note food riots). Also, hyper inflation is usually a *"confidence event"* & thus not always or necessarily foreseeable in mkt action.

Off the Cuff Much chat around on future of the euro. IMO, odds favour no major change, at least this year. Rules may change for enforcement of austerity by govts. Is 2 separate euro's possible (north&south)? Have said before: yes, but not high odds this year. Death of euro? No, too much at stake. Unless, of course, hyperinflation kicks in, which could force either 2-euro's quickly, or in theory reversion to prior separate currencies. Meantime, more bandages. Most vital clue: the euro **charts are bullish** at this time, vs most currencies. So, if U believe in follow-the-money, stay with the euro. The *SafeWealth* folks in Switz go further; they say stockpile **lots** of euro cash at home. Certainly if U live in or travel to EU. I'll keep U posted, or watch the charts yourself.

Our favourite chartist is Louise Yamada (LY). Her latest predictions include gold to $1,500, later 2,000. Silver (via a 30-year price base) $40, 45, 60, 75, 80. Oil: (2yr base) $115, 125, 140. These are over the next 1-2 yrs, aprox. But most people mistakenly take all predictions the wrong way! Eg, if a longer-term tgt is $2000, some think they will just buy&wait. But when a pro like LY says 1500, then 2000, she doubtless means it is a **sell** at 1500, as price will usually fall 38-50% before rebuilding a base to move up again. Those staging prices are places to unload, wait, & reload lower. If U don't unload, U get killed if U use margin, or tie up your money uselessly for 6-12mos as U swim in red ink. LY prices are not set in stone & she may modify, via chart movements wk by wk. But it's good to see her longer-term parameters. Thank U, LY.

FT recently reported Canadian-$ & SwFranc are favourite currency havens. This is the first time the US$ has not risen in a political or financial crisis (Egypt, etc), so the $'s safe-haven Teflon status has slipped away. US mega debt is most of the reason. Damon Vickers new book *The Day After the Dollar Crashes* gives an example of how US debt has reached saturation point. Says: *"In heavy rains, the soil can't absorb more water, so a flood results. The world can't absorb more US debt. Japan/China/India don't buy much now. We're going to drown in debt."* Perhaps **all** world debt must be restructured & currencies re-aligned. The need goes far beyond a BrettonWoods II.

••• *"During times of universal deceit, telling the truth becomes a revolutionary act"* -George Orwell,

Glenn Beck *(FoxNews,2/19)* says *"The US is burning down"* & the only hope is: *"go back to church/synagogue."* If most people don't understand why he says that, I'd be sad, as thus no solution likely. It has somewhat to do with organized religion, but more to do with ***morality***. With collapsing standards. Like Reality TV. •••• The expression *"creating money out of thin air"* is getting over-used & isn't precisely accurate. We should say: "*creating money with no backing."* That both explains & sends a message. •••• The masses are **benumbed** into sheep, inaction, non-complaint, & complacency via junk food, soft drinks, chemicals in chemtrails in the sky, fluoride in water & toothpaste, excessive prescription drugs, govt/corp controlled media/TV, false govt statistics, & rose-coloured propaganda. •••• *11% of US houses are vacant*. That's a thumbnail view of the economy & society in 6 words. An estimated 5.5mil US households are hog-tied to mortgages that are at least 20% higher than the home value. All previous postwar US recoveries have been able to depend on a growing US housing mkt. That's not happening, & can't. In fact the declining home price (to quote the *FT*): *"is a dagger pointed at the heart of the incipient recovery."*

•••• Answer to question lastime: quadrillion comes after trillion. But chaos also comes—if we're talking debt. •••• The new bank stress tests in Europe are a farce, since the rules have been weakened. But how can stress tests work when banks are allowed to keep 2 sets of books? Toxic assets are still hidden. ••• Congrats to Switz. Referendum defeated bill to ban military rifles from homes & impose new rules for buying other guns. In every country the left wants people as helpless as possible. US founders believed in the reverse.

Uncle Harry health report: not deteriorating. Exiting the excessive deadlines gave rest & an energy lift. Postponed the leg operation again. I'll die with it, not from of it, IMO. My osteoporosis is acting up a bit, but am using a new anti-intuitive approach—which appears to be working. Have upgraded my vitamin selection, with help from Jim Ehmke & Bill Sardi. My health may not be ideal, but it's a lot better than most govts. **Attitude** is again found, thru new studies, to be the best tool in the health box. So is humour ☺.

Breaking News (this news was buried after appeared in *FT*) Italy may raise the **official** price of gold. If they do, the pressure on the US govt will be strong to do the same, for budgetary reasons, as with Italy. It would balance Italy's budget overnight! US official gold price still: $42.00. ••• Flash #2: Egypt bans gold exports. Shows what govts do in crisis!

"Watch out for the canary in the Treasury coal mine" says Michael Mackenzie (*FT*). Well said. The "long bond" (US 30yr) is the only true barometer of mkt sentiment. If yield climbs over 4.7% it could lead to a **long-term** bond bear mkt. The 30yr has been falling (yields rising) for 4 months, so it appears the bond bear has begun. The tech chart point is near. MM says a long bond closing over 4.70 may mark the end of a secular fall in yields since **1987**. If so, when bonds fall, stocks rise. That could mean either corp earnings will carry on increasing, or it could mean US smart money is moving into stocks to escape an accelerated US$ decline—due to govt debt or high inflation—or both. (shades of a mini-Weimar?)

Potpourri: Willie Nelson was arrested for possession of marijuana. Nothing yet on bin Laden, but we got Willie Nelson. ••• *Denis Kleinfeld says "I love living in Miami because It's so near the US."* ••• *"He is a man of fixed & unbending principles, the first of which is to be flexible at all times."* ••• The first testicular guard, the "cup" was used in hockey in 1874, & the first helmet in 1974. That means it took 100 years for men to realize that their brain is also important.. ••• *Nothing sucks more than the moment during an argument when U realize you're wrong.* ••• With warm wiggles from your Uncle Harry D (for Devouring vitamin D) Schultz @ 87.6

••••• Stopress World bond king Bill Gross (Pimco) reduced his US govt bonds/paper to zero! That's the camel's straw. Bond bear mkt confirmed. •••• It never rains but it pours Dept: Moody's just downgraded Spain govt bonds/paper to AA2. And Portugal just paid new high yield in order to sell its paper. Ditto Ireland & Greece. Italy just paid over 5% to sell its paper. Frankly, dear reader, seems we're out of the eye of the financial hurricane, returning to full crisis.