THE
ADEN FORECAST
MONEY • METALS • MARKETS

MARCH 2013 *our 32nd year*

SUBSIDIZED OPTIMISM

The stock market has been the hot market so far this year. It's surging higher, fueled by lots of liquidity, thanks to the Fed.

At the same time, gold has been quiet, the U.S. dollar is rising and so are interest rates.

MOST ASKED QUESTIONS

That being the case, last month we readjusted some of our recommendations and allocations. This raised some questions and the ones most frequently asked follow…

Q. First, many of your questions involve what the Fed's doing, the inflation effects, possibility of a deflationary collapse, effects on the markets, our investments, and so on.

So putting them all together, here's the way we see it…

A. There's no question the Fed is flooding the economy with tons of money to keep the recovery on track (see **Chart 1**). In fact, the amount of dollars in circulation has tripled since 2008.

INSIDE

This is primarily due to the Fed's QE programs over the past four years. But this is happening in several other countries too, and there's no sign it's going to end soon.

FED ASSISTED OPTIMISM

Despite the risk of fueling inflation, both Bernanke and Vice Fed Chairman Yellen have said they'll continue with their $85 billion monthly bond buying binge. They're doing this because they believe deflationary pressures are stronger than inflationary ones.

In other words, the Fed doesn't want to stop its monetary stimulation too soon, which is what happened during the Great Depression. They clearly don't want to repeat that mistake.

QE is, therefore, basically the lesser evil, in spite of its possible inflationary consequences.

Most experts agree that all this money will eventually fuel inflation, which is normally the case. The Fed, however, believes it can manage inflation should it emerge and it currently feels there's little inflation risk.

MONEY NOT MOVING

We believe one important reason why is because of the steep drop in the velocity of money (see **Chart 2**).

As we've shown you before, velocity fell sharply during the 1920s, prior to the Great Depression and it stayed below its average level during the Depression (see horizontal line).

Q. What does this mean?

A. Note that in recent years, money velocity has again dropped well below its average level to an over 60 year low. This means the money that's being created isn't circulating in the economy or changing hands.

Rising velocity indicates that the same quantity of money is being used for several transactions. It's turning over, signaling the economy is robust.

But it's not currently happening, so the normal effects (inflation) aren't materializing. That is, **declining money velocity is a deflationary sign.**

Stocks soared in the 1920s when velocity first dropped below its average level.

At this point, it's hard to say if history will repeat. But so far, stocks have indeed been rising since the money velocity dropped below its average level in 2009.

Q. So could a deflationary collapse follow?

A. It's still to be seen. We're in uncharted territory. The markets will be our guides, and we'll have to be prepared, take what comes and go with it.

Q. What about sequestration, couldn't that trigger a recession or depression?

A. No. Keep in mind, the $1.2 trillion in spending cuts that automatically kicked in on March 1 will be spread out over 10 years.

This year's cuts will only amount to $85 billion and that's probably why it didn't affect the markets.

Our friend Chuck Butler puts these spending cuts well into perspective noting... government spending will grow by $2.4 trillion over the next 10 years, instead of $2.5 trillion with sequestration.

Q. If we bought gold at $1670 are we expected to ride it out? Are you non-stop bullish?

A. Gold has been in a major bull market for 12 years and we have stayed with it, despite the ups and down.

This has resulted in super gains as many of you know. But in any market, timing and when you buy will determine if you're up or down, especially in the months following your purchase.

Gold down, but not out

Unfortunately, subscribers who bought in more recent times are down and while we're cautious, it's okay to keep your gold, especially if it stays above $1536. We will stay invested until the bull market is over.

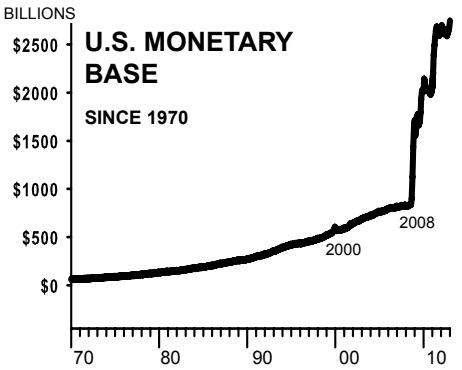
The same is true of any stocks that may have dipped after you bought them. The major stock market trend is up and the laggards will soon catch up to the rest of the market.

Q. How can we protect ourselves from downside risk?

A. The best way is by using stop losses. We've talked about this before, but it again warrants attention, and it applies to any market you invest in.

When a major trend is up, we like stops that aren't too tight. If they are,

CHART 1

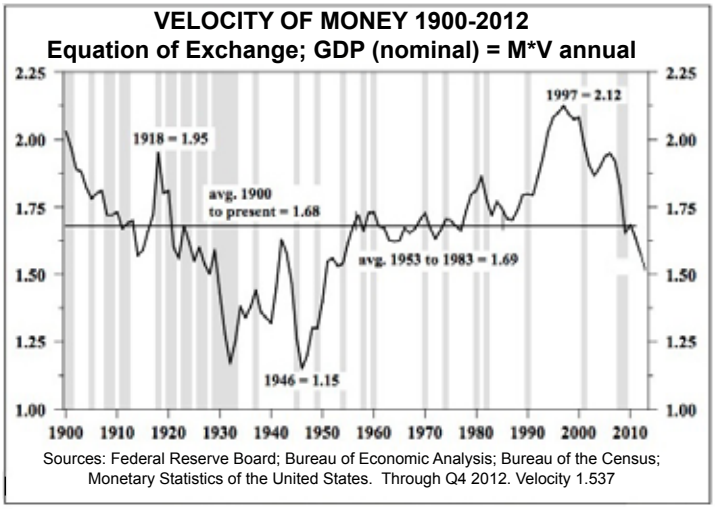


you can get whipped out of a stock on a temporary dip before it heads higher, thereby getting left behind. This is psychologically tiring.

If you want, go with a 25% trailing stop for major moves. But as a market becomes more overbought we suggest tightening it up, using say the 15-week moving average as your stop.

That is, use it as a trailing stop, which means your stop will rise as the price moves up. And if the price declines below your stop, your stock will automatically be sold, protecting your profits and/or limiting your downside risk.

CHART 2



Selling some or all of your original capital as the rise unfolds and letting your profits run is another good strategy.

Q. Which palladium coin is best?

A. We like the Canadian palladium maple leaf coin. You can buy it at American Gold Exchange www.amergold.com

Q. You mentioned that some states have recognized gold as legal tender. Which ones?

A. So far, only Utah allows gold and silver coins to be recognized as legal tender. But several states have introduced bills along the same lines. These are North and South Carolina, Minnesota, Georgia and Idaho.

Q. When you say to sell bonds, do you mean all bonds, including corporate, emerging market bonds, inflation protected treasuries (TIPS) and bonds of your recommended currencies as well?

A. The bond markets of the world generally move together. So if the U.S. bond market has triggered a sell signal, chances are other bonds either have or will follow suit. The same is true of corporate and muni bonds.

But as we mentioned last month, with income hard to come by, if you rely on the income bonds provide, it's still okay to keep them for the time being, especially if your bonds have a high yield.

If the 30 year yield, however, rises and stays above 4.10%, then all bets are off. It would signal the bond bubble is bursting and the mega interest rate trend will likely remain up for the next decade or more. You'd then want to sell all bonds.

Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com

info@adenforecast.com

Published monthly by Aden Research. Also includes access to a weekly update $250 per year (U.S. dollars only). Send all customer service or market related questions to Aden Research, Dept. SJO 874, P.O. Box 025331, Miami, Florida 33102-5331 or E-mail info@adenforecast.com Questions will be answered in future issues. The Editors may have a position in the securities recommended and may change such positions without notice. This publication's sole intended purpose is to provide investment-related information and opinions to subscribers. FREE WEEKLY UPDATE, Thursdays at 8 P.M. (Eastern time). You can access it through our website, http://www.adenforecast.com. To receive the market update by fax every week $160 per year for U.S. subscribers and $260 for subscribers outside the U.S. FASTER NEWSLETTER DELIVERY OPTIONS: Downloading from the website, no extra charge. Fax only, $65 more per year for U.S. subscribers and $170 more outside the U.S. Make checks payable to Aden Research, S.A.

The Aden Forecast
P.O. Box 790260
St. Louis, MO 63179-9927

1-305-395-6141
In Costa Rica:
Ph: 506-2271-2293
Fax: 506-2272-6261
from the U.S. dial 011 first, otherwise dial 00

U.S. & WORLD STOCK MARKETS

Record highs and multi-year highs

Well, it finally happened. The Dow Jones Industrials hit a new all-time record high on March 5, confirming the record high in the Dow Jones Transportations.

Since then, these two stock indices have stayed above the record highs which is very bullish action (see **Chart 4**).

BULL MARKET TRIGGER

It's triggered a Dow Theory bull market signal, strongly indicating stocks are headed even higher. That will be further reinforced if the S&P500 now stays above 1550 (see **Chart 3A**).

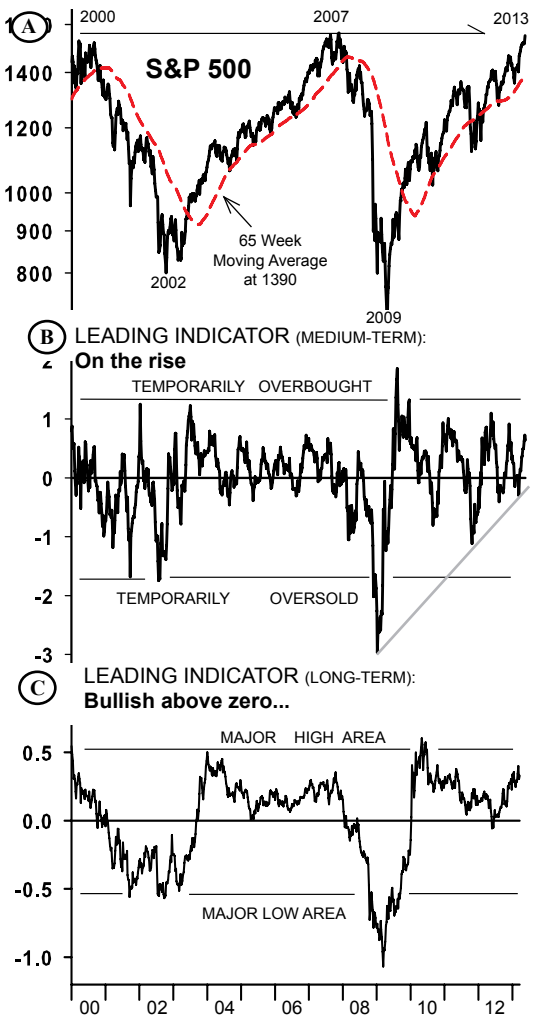
That being the case, we continue to recommend holding the stocks listed on page 12. Buy new stock positions in the strongest stocks, which are Dow Diamonds, Johnson & Johnson, American Elec Power, DJ US Fin Svc and iShares S&P Glbl 100.

But wait, you may be thinking... many things aren't right. Won't that push stocks down?

As we've often mentioned, the stock market leads the economy. And the fact that stocks are hitting new record highs is a good sign for the U.S. and the global economy. It's telling us the economy will likely continue to do well in the months ahead, and that makes sense.

CHART 3

TARGET REACHED!



DRIVEN BY LIQUIDITY

The Fed is plowing ahead with its QE monetary stimulus program, and it's vowed to keep QE going indefinitely.

Japan, Europe and China are doing the same, to one extent or another, in order to keep their economies growing and on track.

All this liquidity is creating a flood of money that's driving stocks higher. As **the old saying goes, a rising tide lifts all boats and it's happening worldwide.** It's basically driving most of the global stock markets higher.

European stocks, for instance, are at multi-year highs and so are many of the Asian markets, with Vietnam probably the best value. A few, however, are not joining in on this global bull market, but the majority of the global markets are.

BULLISH SENTIMENT RISING

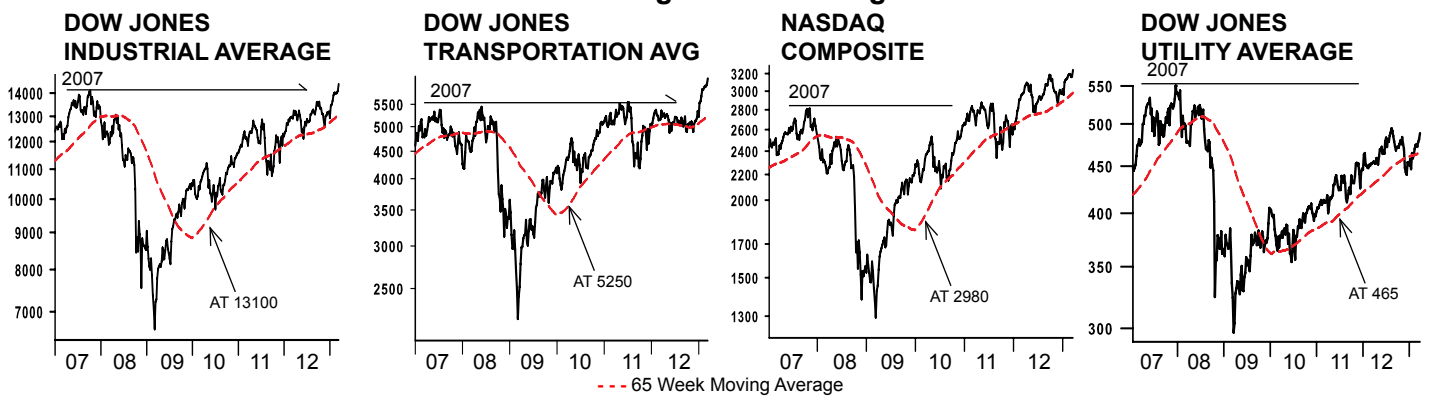
This has attracted a lot of attention and many small investors are jumping into the market, which is also driving prices higher. Sentiment is bullish and it's an important factor.

Investors, for example, poured $25 billion into stock mutual funds in January. That's the largest monthly amount in 13 years and we believe this trend will continue to grow. Why?

Low interest rates are always

CHART 4

Record highs... or new highs



very bullish for stocks. And rates are currently extremely low, the lowest in fact in more than 60 years. That leaves investors and savers with few options.

CD's pay nothing. The yields on bonds are very low. So rising stocks, especially those that pay a decent dividend, are looking all the more attractive.

Plus, stocks are not expensive. They have room to rise further before they become overpriced based on the price/earnings ratio, and this too is a big attraction.

Currently, the PE ratio is at 17.9 and with interest rates as low as they are, the average PE has been about 21.8 based on a study over the past 60 years by our friend Steve Sjuggerud. So again, stocks are a good value at today's levels.

TECHNICALLY BULLISH TOO

The technicals are also very bullish. Looking again at **Chart 3A**, you can see the S&P500 is starting to break above its 2000 and 2007 resistance levels at 1550.

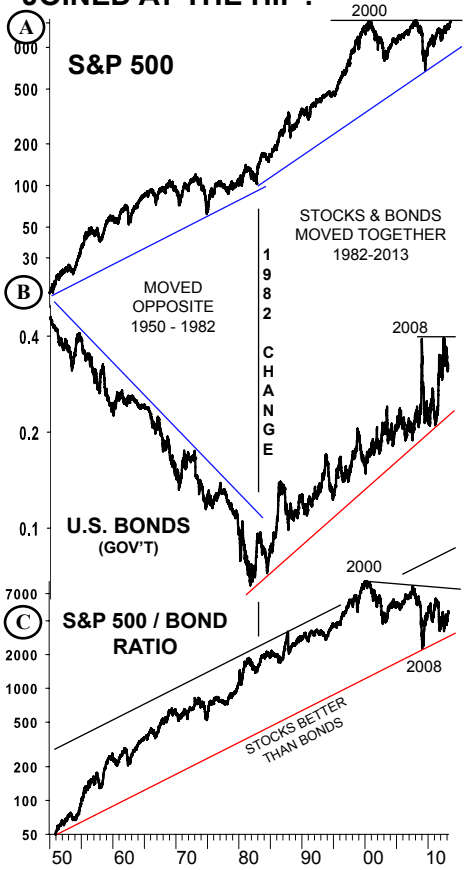
Following on the heels of the Dow Industrials and Transportations, if the S&P500 can rise and stay above 1565, it'll be extremely bullish for the U.S. and global stock markets.

And based on the S&P's leading indicators, this could happen soon (see **Charts 3B and C**). Note that both indicators could rise further before they're overbought or at a major high area. This means stocks will likely keep rising.

The volatility index (VIX) is also known as the fear index and it too is reinforcing this. It tends to move opposite to stocks and it remains at a six year low, which means investors

CHART 5

WILL STOCKS & BONDS STAY JOINED AT THE HIP?



are calm. In other words, despite the huge debt load, the Fed's money policies, the debt ceiling and all the rest, investors are okay with it.

Overall, investors are generally optimistic about the underlying fundamentals and this optimism kicks up when the news is good. And when it's not, it's basically ignored.

STOCKS BETTER THAN BONDS

Another important change is that investors are starting to dump bonds, opting for stocks instead. Looking at **Charts 5A** and **B**, you'll see what we mean.

From 1950 to 1982, stocks and bonds moved in opposite directions. But from 1982 to the present, they rose together. The ratio of the two, however, fine tunes this (**5C**).

When the ratio rises, stocks are stronger than bonds and that was indeed the case until 2000. Since 2000, stocks have been weaker than bonds but another change is now underway.

The ratio has been bottoming for the past few years and it's poised to head higher. That is, stocks will again soon be outperforming bonds, as bonds form a double top.

How high could stocks go?

With small investors moving into the market, it could embark on a speculative phase which could send stocks far higher. We're literally in uncharted territory.

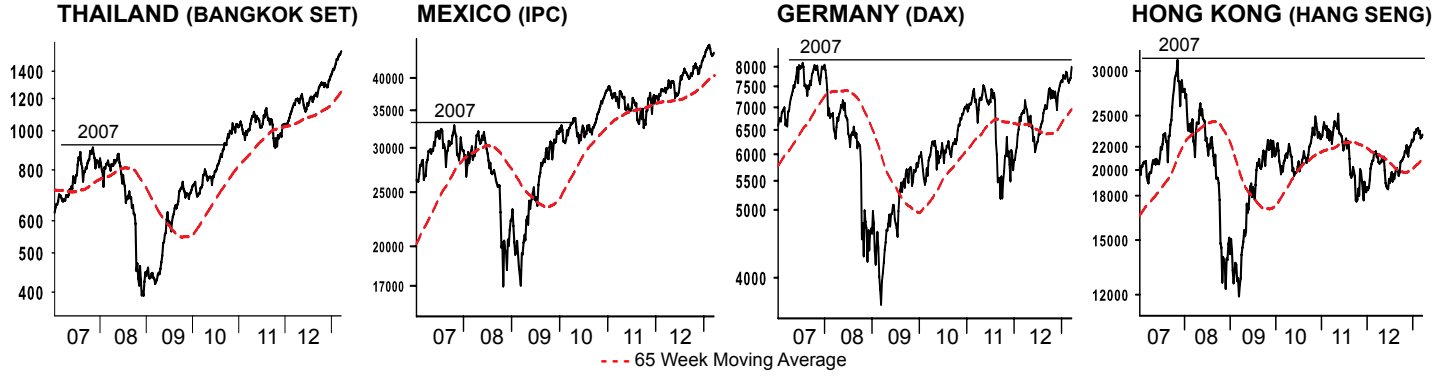
Based on a long-term point and figure chart one estimated target is 17000 on the Dow Industrials. It sure feels like 2006-07, but we'll see what happens.

For now, we feel we're well positioned with a mixture of blue chips and good dividend paying stocks. We also have some tech and global stocks in the mix (see **Chart 6**). These should all do well as the bull market unfolds.

Most important, watch the major uptrend. It will stay intact with the Dow Industrials, Transportations, S&P500 and Nasdaq above 13100, 5250, 1395 and 2975, respectively. As long as that's the case, stay with it.

CHART 6

ALL RISING, BUT MIXED STRENGTH



U.S. INTEREST RATES AND BONDS

Bonds: Falling out of favor

Interest rates dipped this month and bond prices rose. This provided a good opportunity to sell bonds if you were still in the bond market.

As stocks surge, bonds are falling out of favor. In the past few months, for example, investors moved out of bond funds and went heavily into stock funds, and this trend will likely continue.

LOW, NEGATIVE RATES: Unattractive

As you know, interest rates are at extremely low levels and they're historically bombed out. This has made it very difficult for savers because interest income is almost non-existent. In fact, taking inflation into account, interest rates are negative, as we've shown you in the past.

This alone makes U.S. government bonds very unattractive. And it's the same story for bonds in other countries. They all want low rates to help stimulate their economies and offset the strong deflationary pressures, which have picked up steam.

CHART 7

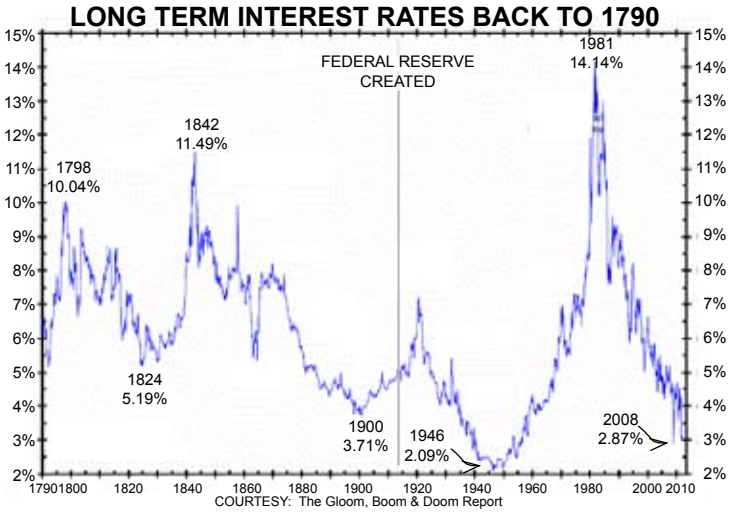


CHART 8

UNUSUAL TIMES

The end result is pretty shocking and **Chart 7** puts it into perspective, clearly showing that these are indeed unusual times.

The chart shows long-term U.S. interest rates going all the way back to 1790. As you can see, the only time interest rates were lower than they are now was in the World War II era.

You can also see that the average long-term interest rate over the years has been about 5% - 6%. And considering the major trend for interest rates is now turning up, it's signaling rates are headed higher.

How much higher? That's the big question. It's like a rubber band that's been stretched as far as it can go. At some point, it'll snap back sharply and that's essentially what's happened to interest rates. Here's what we're watching…

Despite the Fed's ongoing pledge to keep interest rates low, the major trend for rates will remain up if the 30 year yield stays above 2.95%. If so, it could then continue up to 4.10% as its next target. Above 4.10% would be a huge change and a sign the bond bubble is bursting. The yield could then rise to about 5%.

In other words, bond prices would plunge. That's not the case yet, but bonds have been declining since last year (see **Chart 8A**).

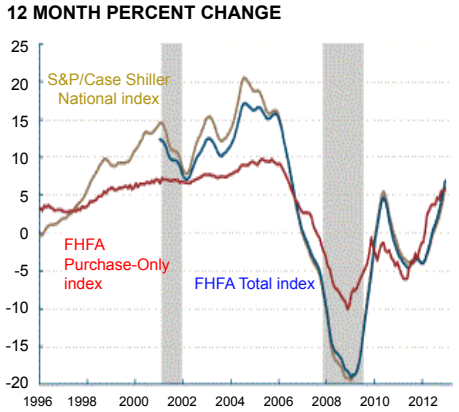
They're currently below their moving average and the leading indicator is turning bearish. This tells us that prices are going to fall further and that's why we're selling our bonds.

HEATED DEBATE ON RATES

Currently, the debate rages on as to which way interest rates are headed.

On the one hand, many experts believe that inflation is in the pipeline and it's just a matter of time until it rears its head. That's especially true because of all the money that's been created since the financial crisis of 2008 via the QE programs.

CHART 9



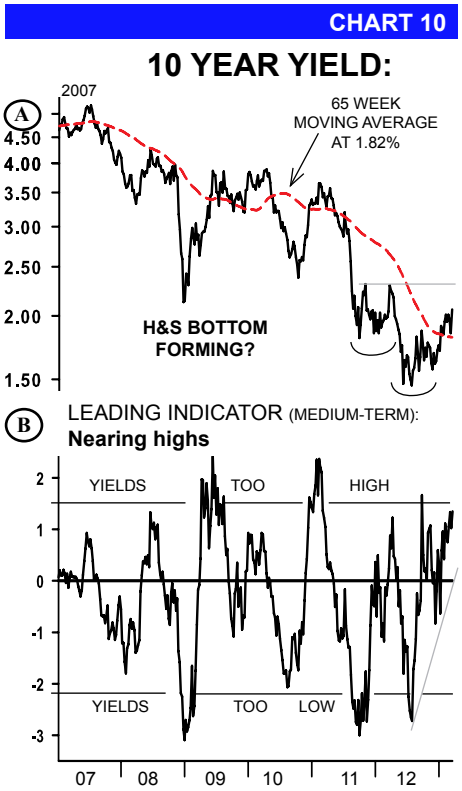
The bottom line is, Bernanke has created three times as much money as all of the other Fed Chairmen combined. This is mind boggling. **The Fed is essentially financing the massive U.S. debt.** Plus, they're going to keep buying bonds indefinitely, creating even more money to do so.

This month when word leaked out that the Fed was growing concerned about QE's inflationary effects, the markets reacted quickly. But Bernanke was also quick to clarify that QE will continue, which calmed the markets because the Fed will keep the recovery going, and all will be well.

The Fed's actions are indeed inflationary but so far deflationary pressures have stifled it. But if and when inflation becomes apparent, interest rates will surge and bonds will embark on a steep bear market decline.

For now, the economy is still sluggish but there are strong signs it's gaining momentum...

Most impressive has been the overall housing sector (see **Chart 9**). Housing prices have been posting strong annual gains and it tends to lead the rest of the economy. Consumer confidence and retail sales also rebounded this month and with stocks on the rise confidence will probably stay strong.



Plus, the rising stock market itself is telling us the economy will likely keep growing. And if it does, chances are this too will help fan inflation pressures. We'll soon see.

On the other hand, other experts argue that inflation is dead. Deflation is dominant and the heavy debt load is dragging on the economy.

This, in turn, means interest rates will stay low for a long time. If this proves to be the case, then bond prices will remain firm and/or they'll rise. Should that happen, we'll change our current position and go with it.

That hasn't happened yet. On the contrary, long-term rates are nearly at a one year high (see **Chart 10A**). And whichever way interest rates go in the months ahead will tell us a lot about what's coming and what to expect, not only in the economy but in many of the other markets too.

BONDS OKAY TO KEEP FOR NOW

That's why if you want to keep your bonds because they provide you with income, it's still okay for the time being.

As we mentioned last month, even though bonds are bearish and we recommend selling, bonds will not give a screaming sell signal until the 30 year yield rises and stays above 4.10%.

Should that happen, it'll be the strongest sign yet that the bond bubble of the past 30 years has burst and prices are going sharply lower.

CURRENCIES

U.S. dollar: Bouncing up... for long?

The U.S. dollar rose briskly this month. Boosted by an improving U.S. economy and global risk aversion, the dollar again became a safe haven hitting a seven month high.

DOLLAR: Default haven

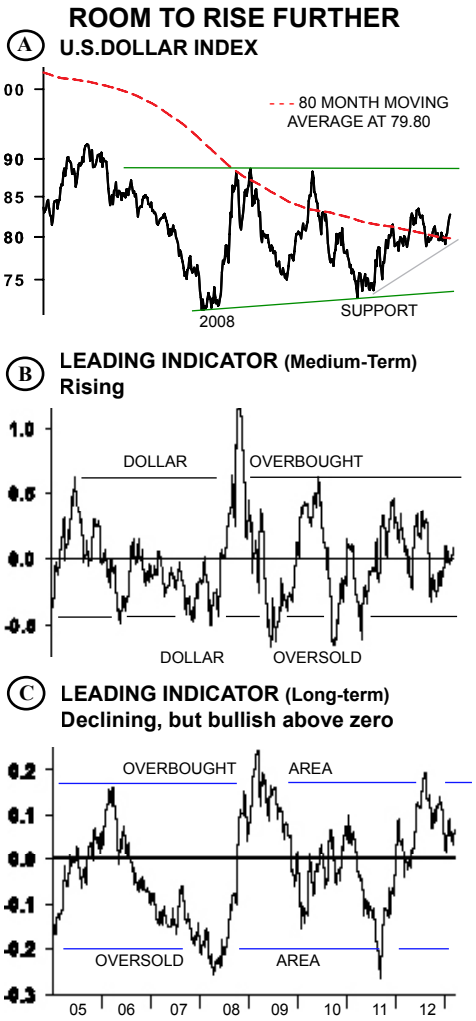
The dollar is the last man standing in the safe haven department. As you'll remember, last year the U.S. dollar, U.S. bonds and the Japanese yen were the safe havens of choice, but that's no longer the case.

U.S. bonds are bearish and the Japanese yen has plunged (see **Chart 11**). Along with the British pound, these two currencies are illustrating the result of sluggish economies and loose inflationary monetary policies.

And while the U.S. is doing the same, its economy is showing greater improvement, which makes the dollar more appealing. How long this will last remains to be seen but the U.S. dollar is the strongest currency for the time being.

This renewed U.S. dollar strength

CHART 12



took us by surprise but we understand why it happened... U.S. employment, for instance, is much stronger than in other countries. The same is true of housing and the services sector. The currencies are reflecting these differences.

CURRENCY WAR BREWING

Overall, the extremely weak yen and British pound have been instrumental in boosting the U.S. dollar index. And they may also be signaling the onset of a currency war.

Even though the G20 recently failed to say anything about the yen's dramatic drop, rumors are flying. It's widely believed that Japan is using monetary policies to dramatically weaken its currency to make their exports less expensive and more competitive. They also want to fight deflation and promote growth.

Currently, Japan is the most extreme but as we've often pointed out, no country wants a strong currency. In one way or another, most countries are doing what Japan is doing... pumping money into their economies and weakening their currencies to boost economic growth. This generally transfers the crisis to developing countries who depend on exports and they're complaining. Thus, the so called currency war.

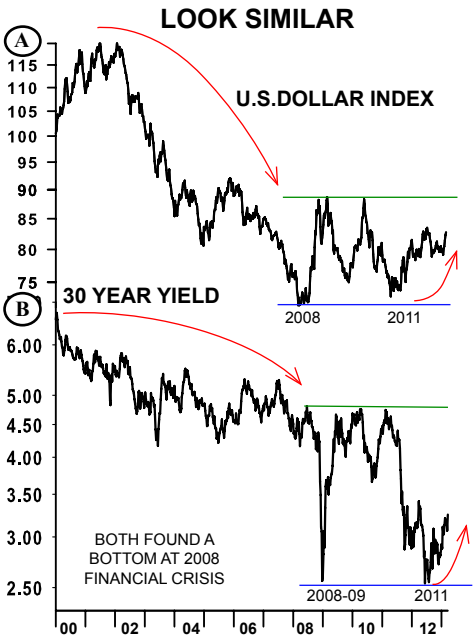
It's a race to the bottom but for now, the U.S. dollar is losing the race to debase and it's holding up a lot better than the rest.

U.S. DOLLAR: Looks good

As you can see, the U.S. dollar index held above its mega moving average and it moved up once again (see **Chart 12A**).

Even though the dollar's long-term leading indicator has been

CHART 13



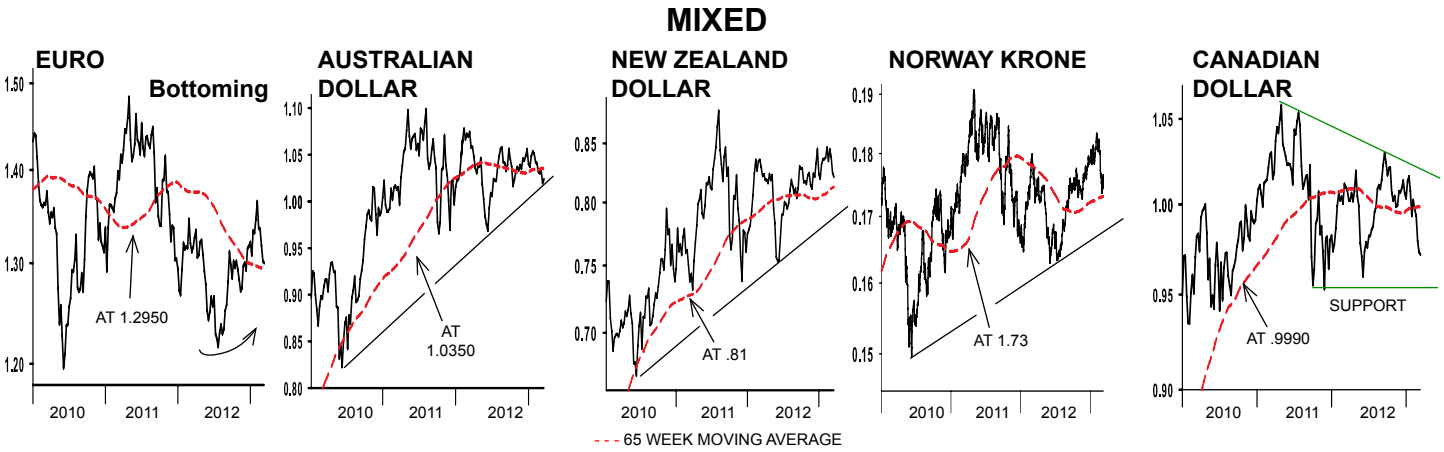
declining, signaling the dollar was likely headed lower, the medium-term indicator pulled an about face (see **Charts 12B** and **C**).

Note that it's now on the rise and it has plenty of room to move higher before it's overbought. This tells us the dollar index could rise further. Interest rates are reinforcing this.

Interestingly and as you'd expect, the dollar and interest rates tend to move together (see **Chart 13**). And with interest rates rising, so is the U.S. dollar index. Will they both now move up to their resistance lines?

That's the big question, but it's indeed a possibility, especially since most of the other countries aren't looking as good as the U.S.

CHART 14



CURRENCIES: Mixed

In Europe, for example, unemployment remains very high and the uncertainty over the Italian election didn't help matters. China has been slowing down, which fuels concerns about the global economy, and so on.

Looking at our recommended currencies, they too have beared some of the brunt of the stronger U.S. dollar, some more than others (see **Chart 14**).

Overall, however, the outlook is mixed. Some of these currencies remain bullish, but others aren't.

The Australian dollar has been affected by the Chinese slowdown. The commodity currencies have felt the pinch too. The weaker oil price, for instance, has put downward pressure on the Canadian dollar and the Norwegian krone.

For now, our currency positions are down about 3% but we don't think this will last long.

We continue to recommend keeping a diversified cash currency position. Hold the currencies you have, as well as the U.S. dollar. But at this point, don't buy new currency positions. Stay put for the time being until we see how this all unfolds.

METALS, NATURAL RESOURCES & ENERGY

Metals taking a back seat

With the stock market hitting record highs, gold has clearly taken a back seat for now. This enthusiasm is taking more glitter out of gold, especially so because gold hasn't reached a record high since September 2011.

The stock markets are getting the benefit of a seemingly better looking economy and an ultra loose monetary policy. This subsidized optimism is boosting the stock market, and it's the focus for now.

We are firm believers in going with the flow. It's the best (only) way to treat the markets, especially since the financial crisis, and it will continue to be our best guide.

The flow for gold is still up, but after a stellar 12 year bull market run, this market is telling us to have patience and to also continue taking advantage of weakness to accumulate at better prices.

Gold's reluctance to fall is most interesting. After rising 660% since 2001, it has fallen less than 20% from the highs. That is, after reaching its record high 1½ years ago, it fell to its low quickly, three months later in December 2011. That low was tested in the Summer of 2012, and it's now being tested again as gold neared this low.

This low is key today… for gold and for silver. Our eyes will be peeled on these two levels… $1536 and $26. If gold and silver can weather the storm by staying above these levels, they will come out smelling like a rose.

Remember, the markets have become addicted to the Fed. This month with just a comment that the Federal Reserve might pull back on its massive quantitative easing program, sent gold falling. This, of course, was a green light for the stock market because it implied the economy can grow without stimulus.

But don't fear, gold is down but not out. ECB council member Weidmann reaffirmed Europe's accommodative monetary stance for "as long as necessary". And gold and silver bounced up on the news.

The bullish backdrop for gold has been rising expectations for inflation and that central bank stimulus won't end anytime soon. It's important to keep in mind that gold is not only an inflation hedge, it's also an uncertainty hedge. Ultimately it's also a hedge against lopsided global monetary policies and further currency debasement by the central banks.

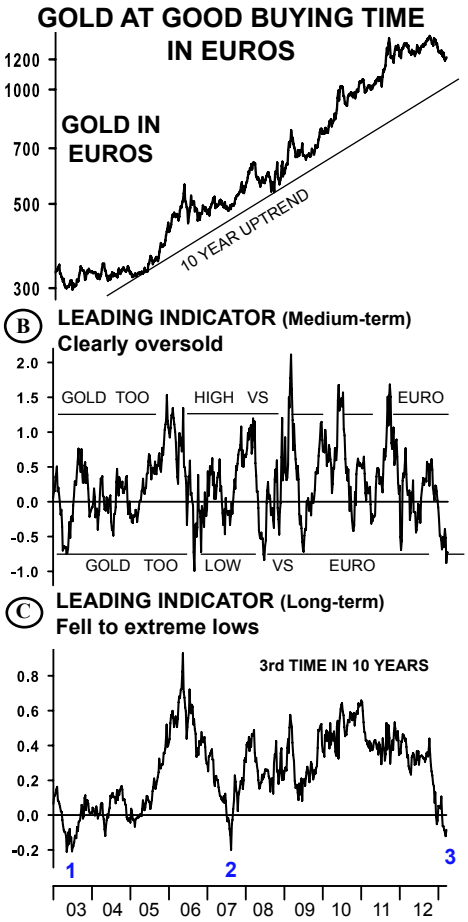
CHART 15

GOLD DEMAND REMAINS STRONG

This is why central banks continue to buy gold. They added 534.6 tons of gold to their reserves last year, the most since 1964. Plus, the World Gold Council also reported official holdings increased to more than $12 trillion in 2012 from $2 trillion in 2000.

India has been the largest buyer and its January gold imports jumped 23% from a year ago. China is launching its first ETF backed by gold, and its new Shanghai gold exchange has become a full on exchange. China's been a major gold producer over the last four years and it's also been importing more gold,

CHART 16



so much that it's surpassing India.

In fact, central banks are not only increasing their gold reserves, they're also buying yen and renminbis to reduce their dollar and euro holdings.

Investor interest is solid as judged by the successful gold EFTs around the world. Just considering that GLD holds more gold than all but four central banks, shows the strength and interest behind the gold move, in spite of the larger than normal sales this past month.

MEGA TREND STILL FAVORS GOLD OVER STOCKS

We'll probably see the stock market continue to outperform the gold market this year, or at least during the first half of the year, but the big picture says the mega trend still favors gold over stocks.

Note on **Chart 15**, it shows the gold to stock ratio going back to 1972. Here you can clearly see the mega moving average trend in red.

When the ratio is above the red moving average, gold is stronger than stocks, and when the ratio is below the moving average, industrial stocks are better.

Note the ratio has been coming down favoring stocks ever since gold peaked in 2011 while the leading indicator (**B**) has declined to a low area. But as long as the ratio stays above the red moving average, gold will have the dominant trend.

We'll be watching this closely going forward for any possible change. For now both gold and stocks are good bets until the ratio rises in a renewed upmove.

GOLD AT GOOD BUYING TIME

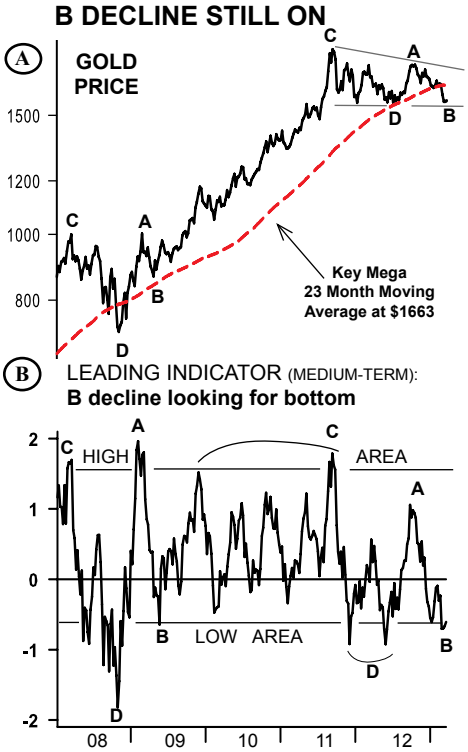
Gold is also at a good buying time in euro terms as **Chart 16** shows. Note that gold's been correcting in a normal bull market decline since reaching its record high last September. The indicators, however, now show that gold is oversold in euro terms.

With the euro now stabilizing versus the dollar in recent weeks, it may also be saying that a good buying time is at hand for both euro and dollar based investors.

And indeed gold is at a low area in dollar terms as it fell sharply to test its May lows.

Most important, gold is holding above the May 2012 closing low at $1536. Last month we showed you the possibility of having this washout within a worst case B decline, and for now, we've seen gold reach $1572 on a close (see **Chart 17**).

CHART 17



Gold's B decline started last October and during these past five months it lost 12+% from the $1796 high to the $1572 low. This decline has been longer, yet normal when compared to prior B declines. The worst one was in 2009 when gold fell over 13%.

Chart 17 shows gold clearly below its 23 month moving average for the second time in the 12 year bull market. The last time was during the 2008 financial crisis. But as long as gold stays above the prior D low at $1536, all is well.

This month it's key to watch $1536 closely on a close.

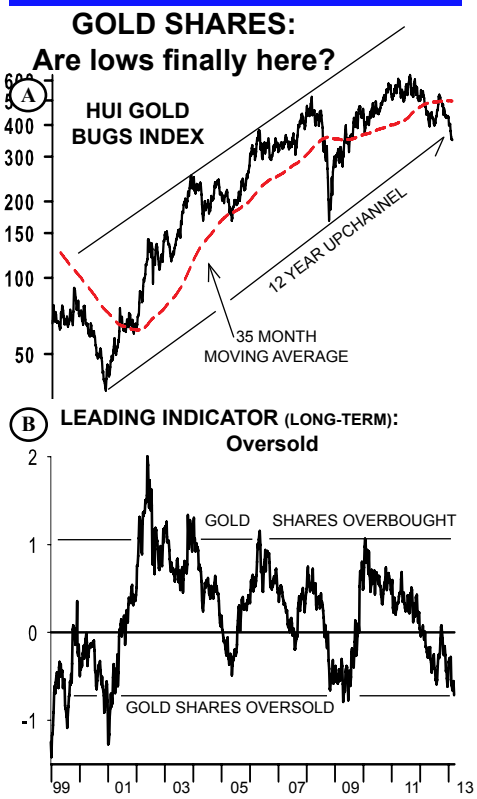
On the downside, if gold falls below this level and stays there, we could see sharper downmoves before the lows are seen. If this happens, we could see possibly the $1300-$1450 level tested.

Gold rose almost $1200 from the Nov 2008 low at $705 to the record peak in 2011 at $1903. If you say gold could fall half of that means gold could fall to possibly $1300 if $1536 is clearly broken.

Another way to measure the downside is to take the difference of the last two gold

CHART 18

CHART 19



peaks of $1004 in 2008 and $1903 in 2011, and taking half of that almost $900 gain away, you could see gold decline to the $1450 level, but it would still be okay in the mega big picture.

This $1450 - $1300 downside potential would mean a fall somewhere between $23% and 31% . During the 2008 plunge (which was the worst fall in the bull market so far) gold fell almost 30%.

Of course, we can't forget that gold rose from $700 to $1900 after the central banks, led by the Fed, started buying more than $3.5 trillion of debt. This stimulation alone says $1536 is unlikely to be violated.

On the upside, if $1536 holds and gold closes and stays above $1600, it could jump up to the $1663 level, and the B decline will most likely be over. Once $1663 is clearly surpassed, a new C rise will begin. Its stepping stone resistance levels before a record high can be reached are the $1750, $1800 and $1903 levels. Gold would be flexing its muscles, however, above $1800, a level it's failed to overcome since Sept 2011.

GOLD SHARES: Dare call it a bottom

No question, gold shares are bombed out, cheap and extremely oversold. They remained weak in February hitting more low levels, but it looks like an extreme low has finally been reached.

The HUI index started slipping below a big head and shoulders top formation, but with HUI holding near 350, gold shares are starting to stabilize (see **Chart 18**).

HUI fell to its 12 year uptrend and, like gold, it's below its mega moving average, like it was in 2008 (see **Chart 19A**).

Gold shares are clearly moving with gold, and not the stock market. They tend to flip flop at times, but with gold shares at such an extreme, they're ripe to rise once gold gets started, and perhaps before.

The leading indicator (**B**) is clearly oversold, the most since 2009 and 2001 when gold shares were at clear low levels.

The Advance/Decline line (taken from our GCRU service) clearly shows the breadth of the market, and it's saying gold shares are bombed out

CHART 21

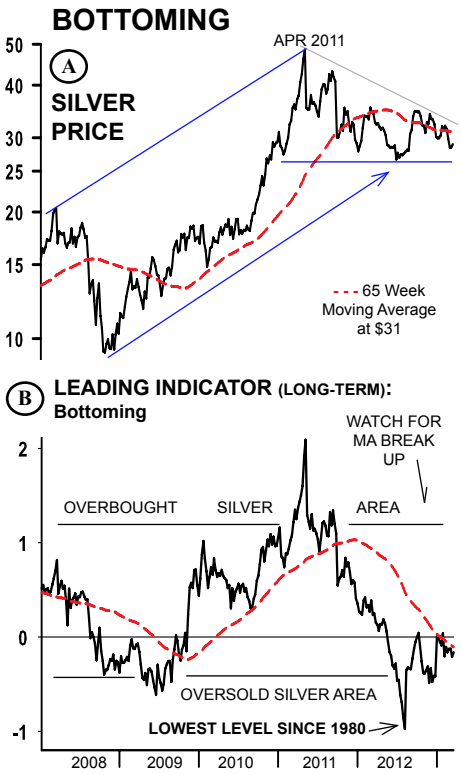
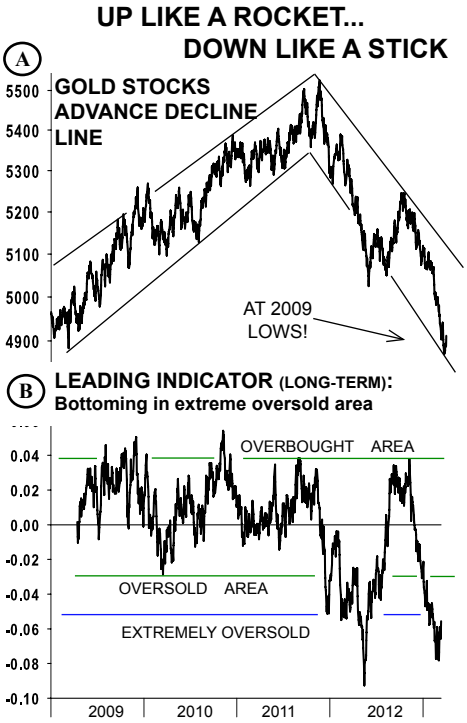


CHART 20



and worth buying (see **Chart 20**). Note the A/D line fell to the 2009 lows while its leading indicator appears to be forming a double bottom in an extreme oversold level.

Gold mining shares are even more oversold that gold, the most in five years, and they're just as oversold as they were in 2008 vs gold. This implys that once gold starts moving up, gold shares will likely outperform gold.

At this point, we have a small position in gold and silver shares, NGD and SLW. We still like these and recommend keeping them.

SILVER: Holding above key lows

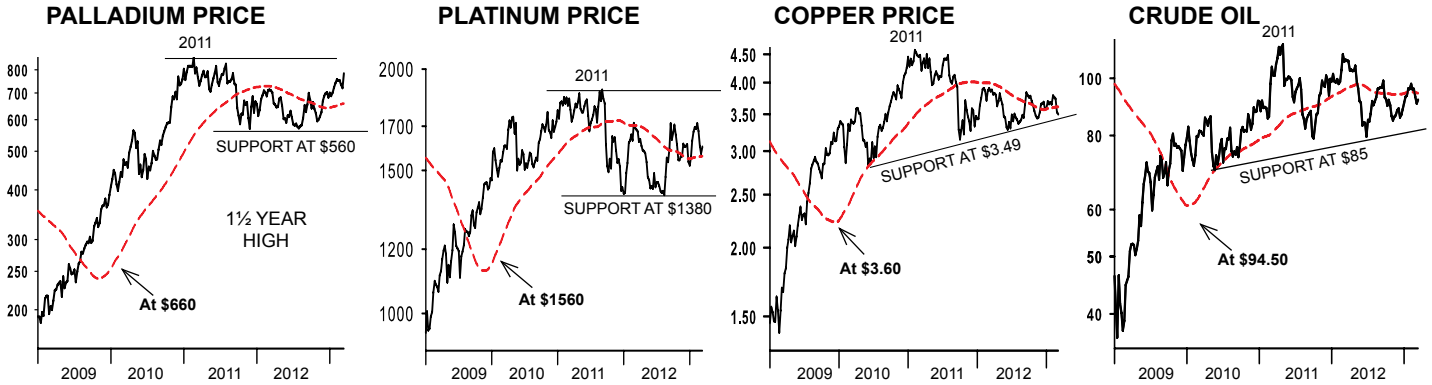
Silver is moving similarly to gold, but it's firmer than gold. Silver will get more benefit from a stronger global economy, and when this becomes more evident silver could soar, as it tends to do.

Chart 21 shows silver's upchannel since 2008. Silver reached a peak almost two years ago, in April 2011, yet like gold, it's holding firmly above its 2012 lows, in spite of recent weakness.

This means silver seems to have lots of buyers below $29. Silver's indicator has been building a bottom in an oversold area since reaching

CHART 22

LOOKING GOOD AND SOLID



extreme lows last Summer. Once it breaks above its moving average, silver will be taking off.

Keep an eye on $26 and $31. If silver stays above the Summer low at $26 and closes above $31, and especially $33, it will be starting another leg up in the bull market.

Silver has extreme moves. It rose, for instance, 450% from its 2008 low to its 2011 high. And it's declined 41% from that record high to the recent low in February. While 41% is a lot, it's small compared to the rise.

Since October, silver is down 19%. Like gold, it looks like this five month weakness is coming to an end... keep your silver position.

Palladium: Best precious metal

Palladium reached another 1½ year high in recent weeks as it approaches its 2011 high near $857. Supply concerns out of South Africa gave the latest boost in price, but palladium, like gold and silver, has remained firmly above its 2011-2012 lows at $560 (see **Chart 22**).

Palladium is strong above $660, and especially above $720. Once the 2001 record high is surpassed near $1080, palladium will have the potential to soar.

Resource sector: Poised to rise

Palladium is moving more with the resource sector and the global economy. And it may be leading this sector up.

The housing sector is improving and lumber is the clear beneficiary as it reached an eight year high this week (see **Chart 23**). This may also be a leading indication.

Copper is also a good barometer for the global economy, which is why it's often called Dr. Copper. **Chart 22** shows the solid bottoming action in copper which has support at $3.49. Once copper closes and says above its 2012 highs near $3.97, a renewed rise could easily take it to test the 2011 record highs near $4.62.

Once copper and crude oil take off in a renewed rise, it will be reflecting a better global economy, including China which has been lagging. Crude looks similar to copper. It has a solid support and the upside is similar (see **Chart 22**).

The big commodity picture is bullish and it shows a good buying opportunity. **Chart 24** shows the CRB index going back to 1970. Here you can see how strong commodities in general have been since 2002.

The CRB resisted at the top of the mega channel in 2011, and while it's been consolidating since then, it remains in a major uptrend since 2002. (This being a semi-log chart makes uptrends more powerful because it reflects percentage growth.)

Most interesting is the leading indicator because it's now bouncing up from a major low area that tends to coincide with low areas in the CRB index.

We have several resource and energy stocks in our group of recommendations, and we suggest keeping them.

CHART 23

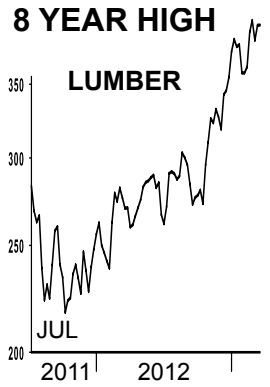
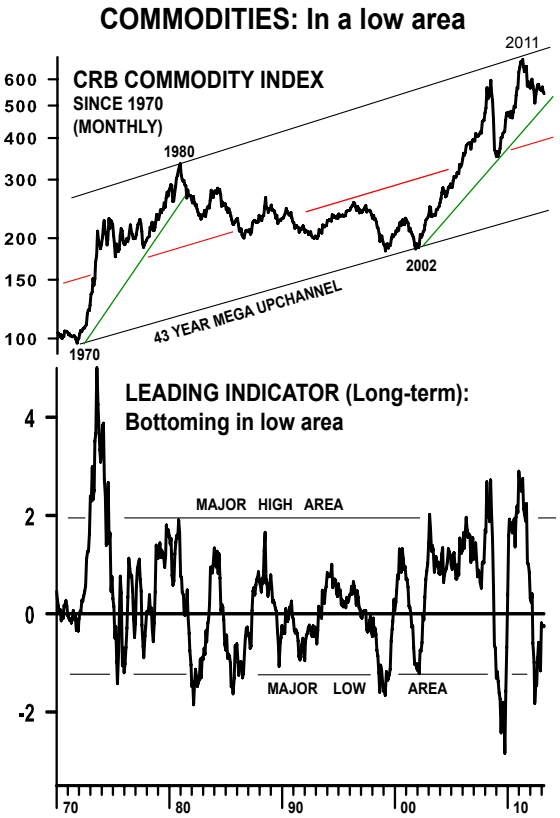


CHART 24

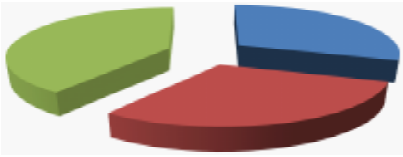


OVERALL PORTFOLIO RECOMMENDATION

The stock market has been the hot market so far this year. It's surging higher, hitting new all time record highs. Gold has been quiet and the U.S. dollar is rising. Interest rates are moving up too and bond prices are bearish. Last month we readjusted some of our recommendations and allocations based on the action in the overall markets. As you can see, we're maintaining these adjustments this month.

30% Cash
U.S., Aust, Can, NZ dollars, Norwegian krone & Euro

40%
U.S. & Global Stocks



30%
Precious Metals Gold & silver physical & ETFs & gold & silver shares

PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold and silver clearly took a back seat to the stock market this month. They fell further while sentiment turned more bearish. But their reluctance to fall below their Summer lows shows strength and they seem to have lots of buyers near those lows. The key this month are those lows at $1536 for gold and $26 for silver. As long as they hold the bull market, while hurt, is fine. The bearishness comes from the length of time it's taking to bottom because gold hasn't even declined 20% from the record highs. It may feel like 1976 again when gold fell sharply in the middle of a raging bull market, but let's keep an eye on these lows.

Palladium continues to rise, reaching a 1½ year high recently. It's strong. Gold shares are bombed out, cheap versus just about everything and it looks like a bottom is trying to form. Last month we lowered our position in anticipation of more weakness, and this month we're keeping our same lower position, on the right. Keep in touch with our weekly updates.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market remains very bullish and it's been the top performer so far this year. The Dow Industrials and Transportations are hitting new record highs, signaling that stocks are likely headed even higher. That will be further confirmed if the S&P 500 now stays above 1550. We continue to recommend keeping a 40% position in the stocks and ETFs listed on the right. If you want to buy new stock positions, buy the strongest ones, which are the top six in the box to the right under Stocks and ETFs. Ten of our recommended stocks hit new highs in March. The major trend will remain up with the Dow Industrials and Transports above 13100 and 5250, respectively.

CURRENCIES RECOMMENDATION

The U.S. dollar rose briskly this month. Boosted by an improving U.S. economy versus other countries and global risk aversion, the dollar again became a safe haven and it's currently the strongest currency. The U.S. dollar index could rise further and it'll remain strong above 82. For now, we're keeping a 30% diversified cash currency position. Keep the currencies you have, as well as the U.S. dollar. But don't buy new currency positions for the time being. With gold firming up, the dollar may not stay strong for long, so stay put until we see how this unfolds.

INTEREST RATE & BOND RECOMMENDATION

Interest rates are on the rise and they're nearly at a one year high. Bond prices are declining and the bond market is bearish. As stocks surge, bonds are falling out of favor and we continue to recommend selling bonds if you have them. The major bond price trend will remain down as long as the 30 year yield stays above 2.95%. If you want to keep bonds for income reasons, it's still okay unless the 30 year yield rises and stays above 4.10%. Should that happen, all bonds should be sold.

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

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Palladium	PALL-NYSE	
New Gold	NGD-AMEX	TSX:NGD
iShares Silver Trust	SLV-NYSE	
SPDR Gold Shares	GLD-NYSE	HKE:2840
iShares Comex Gold	IAU-NYSE	
Central Gold Trust	GTU-AMEX	
Silver Wheaton	SLW-NYSE	TSX:SLW
Central Fd of Can	CEF-AMEX	TSX:CEF-A

STOCKS AND ETFs

Dow Diamonds	DIA-NYSE
Johnson & Johnson	JNJ-NYSE
American Elec Power	AEP-NYSE
DJ US Fn SVC iShrs	IYG-NYSEArca
iShares S&P Glbl 100	IOO-NYSEArca
Energy Select SPDR	XLE-NYSEArca
Procter & Gamble	PG-NYSE
Power Shares Nasdaq	QQQ-Nasdaq
Coca Cola	KO-NYSE
Wal-Mart	WMT-NYSE
Templeton Emerging	EMF-NYSE
Germany iShares	EWG-NYSEArca
Hong Kong iShares	EWH-NYSEArca
Agribusiness Mkt Vec	MOO-NYSEArca
Mexico iShares	EWW-NYSEArca
US Global Res	PSPFX-NYSE
Vietnam ETF	VNM-NYSEArca
Microsoft	MSFT-Nasdaq
DJ US Telecom	IYZ-NYSEArca
Xstrata Plc	XSRAF-OTCMkt
ISE Glbl Copper	CU-Nasdaq

CURRENCY ETFs

Australian dollar	FXA-NYSEArca
Canadian dollar	FXC-NYSEArca
Euro	FXE-NYSEArca