THE
ADEN FORECAST
MONEY • METALS • MARKETS

MARCH 2014 *our 33rd year*

SIGNS OF CAUTION

There was more fast moving action this month. This resulted in many questions and comments so we'll again try to answer as many as we can…

Q. How will events in Ukraine affect the markets?

A. With the Russians moving into Ukraine, all of the markets are reacting. This is not surprising because global uncertainty has intensified.

As a result safe havens, like bonds and gold initially surged (see **Chart 1**). The world stock markets fell sharply, especially in Russia where stocks plunged 13% in one day, but they've since recouped.

As we've seen during other unexpected events, the markets have become insecure. They don't know what's going to happen, or how it'll affect the world economy. Basically, as long as the situation remains tense, the markets will too.

Q. Does this mean the bull market in stocks is over?

A. No. The stock market remains bullish but we need to stay cautious, just in case. That's why we advise keeping stops on your stock positions.

At some point, the bull market is going to end. That's especially true considering the economy is in uncharted waters, as we've often noted.

Sure, stocks have been rising but that's been primarily thanks to the Fed's unprecedented QE monetary policies, rather than on the stock market's own merits.

In either case, bull markets can, and often do end because of random surprises. The bursting of the tech bubble and the subprime crisis were two examples that threw a wrench into the works, triggering steep stock declines in 2000 and 2008.

The Eurozone crisis scared the market after that, and so could developing events in Ukraine.

It'll really just depend on how events unfold on the global stage. For now, however, U.S. stocks are still looking very good and that's a big plus.

Q. Where does China fit into this picture?

A. As you know, China is a very important player in the big picture. Its strong economy has been instrumental in keeping the world economy on track.

China has essentially been the locomotive for global growth. But the locomotive is struggling and it'll have a wide range of effects. So here too, we have to be on the alert.

Q. Could we experience a 2008 repeat, or worse?

A. Yes, anything is possible. For now, it doesn't look like a recession is on the horizon. The world economy is chugging along, slowly but it's still growing.

Keep in mind, since 2008 the stock market has been telling us the economy was going to improve, and that has indeed been the case since then.

Many argue that it's all been fake because of QE and central bank actions. But fake or not, it's been a reality.

And since stocks recently hit new record highs and they lead the economy, they're signaling the recovery will continue, at least for the time being. In other words, deflation is still being kept at bay.

If that changes, it'll be another story. But so far, so good.

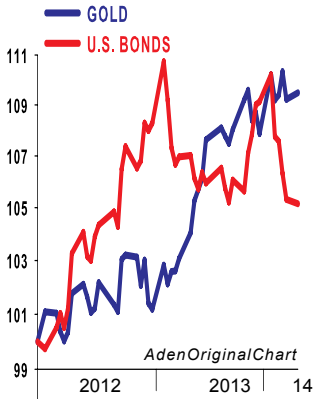
Q. Are the banker suicides a concern?

A. Yes. For those of you who are unaware of this story, many bankers who worked on trading desks have recently committed suicide.

Do they know something we don't? It sure seems like it. We don't know what it is, but we have to assume it's

CHART 1

SAFE HAVEN ASSETS



INSIDE

something serious. So here too, it's another sign of caution.

Q. Could this be connected to the Bitcoin fiasco?

A. It might be, but it's unlikely. Bitcoin was small on a global scale. The collapse of Mt. Gox resulted in many losses, but even the subprime crisis, which lost trillions of dollars, didn't result in many suicides, as far as we know.

The point here is, taking all factors combined, there's always something for the markets to worry about. There always has been and there always will be. Rarely is the environment perfect.

Currently, for instance, we're dealing with manipulation, speculation, rumors, theories and so on. But sooner or later, the truth will come out.

Meanwhile, we'll continue to let the markets be our guides. They know what's happening, it's reflected in their prices and a picture is worth more than 1000 words.

That's one reason why we love charts and technical analysis.

Q. So what are the charts currently telling us?

A. Stocks are rising, and so is gold, silver and their shares. Bonds are also firm and a couple of the currencies are too.

That's why we continue to advise keeping a diversified portfolio. Since the U.S. stock market is currently the strongest, we recommend holding a larger percentage of your total portfolio in stocks.

Gold is showing good improvement but stocks still have the upper hand, so we're keeping a smaller 20% position in the metals sector. This includes gold, silver, palladium, and gold and silver stocks.

U.S. government bonds are showing potential strength and we're keeping 15% in bonds. And since bonds generally move together, we're recommending mostly long term government bonds, as well as a municipal bond index.

The rest of our portfolio is in **cash**, which amounts to 15% in the British pound since it's the strongest currency. These funds are basically ready, to buy into stronger markets as opportunities arise.

We feel this is a good balance for the time being. But whatever you do, don't put all of your eggs in one basket, no matter how good the basket looks, especially during these uncertain times.

As the markets change, we'll change with them but currently we feel this is a good strategy.

Q. How do I divide up the 20% in the metals sector?

A. We would keep one third in gold, one third in silver and one third in the gold and silver shares, along with palladium.

Q. What about new subscribers... how to begin?

A. Our strategy and recommendations are the same for new subscribers. Rather than just jumping in, however, it's best to average into some of our recommendations over the next month or two.

Q. How can I best benefit from your letter?

A. It may take some getting used to but we try to gear our information, commentaries and advice for both beginners and more seasoned investors.

Our charts are primarily used to show why we feel a market is bullish, bearish, and/or it has room to rise or decline further.

Our leading indicators are especially helpful in this regard. And finally, our bottom line recommendations are always listed on page 12.

Q. Sometimes it's confusing when you say, for example, "if a market rises above X, it's headed higher. But if it breaks below X, it's going lower." So what is it, up or down?

A. We do this for a couple of reasons...

In this business, no one is the holder of the torch. If the market is in an uptrend, for instance, it's bullish and it's headed higher. And if it rises above X, it'll reinforce even more bullishness.

But no market goes to the moon and, therefore, we want you to know that if it breaks below X it would be a sign of weakness, or caution, or it could trigger a sell signal.

This provides guidelines, which is why we provide both upside and downside levels to be watching. It's essentially a way to play it safe.

We know some advisors are shouting from the rooftops that X market is going to the moon. Others swear a crash is coming, and so on.

After more than 30 years in this business, we've learned to respect the markets. They can do anything, and it may not be what you think they should be doing, or what the fundamental factors are indicating.

Sometimes market action simply won't make sense and we've learned this the hard way, several times, but it's always a good lesson revisited.

And this brings us full circle, back to the bottom line and the pillar of successful investing...

Let the markets tell you. That's basically our goal here at The Aden Forecast.

Meanwhile, we'll update this info and let you know of any changes in our weekly reports.

"Gold is going to be the safe haven which it's been for 6,000 years."
Ron Paul

Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com
info@adenforecast.com

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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

Five year bull market anniversary

Like the energizer bunny, the stock market keeps on going.

NEW HIGHS: Commonplace

In recent weeks, the Nasdaq, S&P500, Russell 2000, Amex Composite and the Dow Transportations all hit new record, or bull market highs (see **Chart 4**). This is very bullish action.

Currently, the only laggard is the Dow Jones Industrials. But we think it's just a matter of time until it too joins the other stock indexes and hits a new record high above 16570.

If so, that'll be the final confirmation that a renewed major rise within the bull market is clearly underway.

WORLD MARKETS LOOKING BETTER

This is also being reinforced by some of the leading world stock markets.

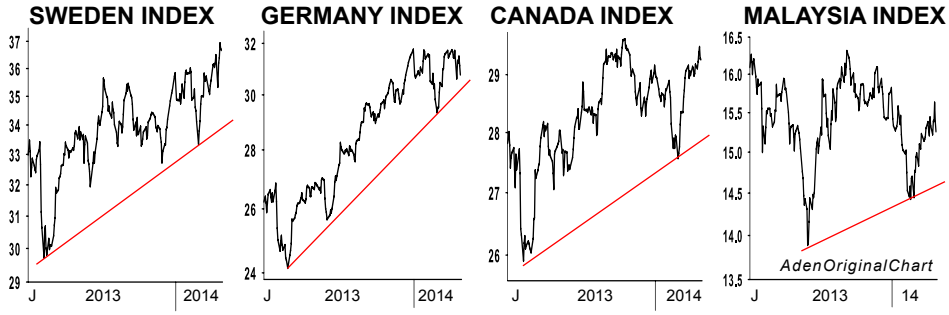
As you can see on **Chart 2**, for instance, they're looking a lot better than before. That's true of other global markets as well, and that's good news.

During important bull market rises, most stock markets around the world will join in. That is, they'll generally move together, and that's one thing that's been bothering us.

The U.S. stock market has essentially been the top performer for the most part.

CHART 2

LOOKING GOOD



As you can see on **Chart 3**, which compares the S&P 500 to the Hong Kong stock market as an example, the U.S. stock market has been a lot stronger than Hong Kong, and most of the other world stock markets too. That's basically been the case since 2009 when the current bull market began five years ago.

CHART 3

U.S. STOCKS STRONGER THAN CHINA'S

Of course, there have been some exceptions, like Germany and a few others. But it's primarily been a U.S. based bull market rise.

The fact that more markets are now joining the party makes it even better.

It also suggests the Dow Industrials will likely confirm the action in the other U.S. stock indexes, and so will the Dow Jones Utilities (see **Chart 5**).

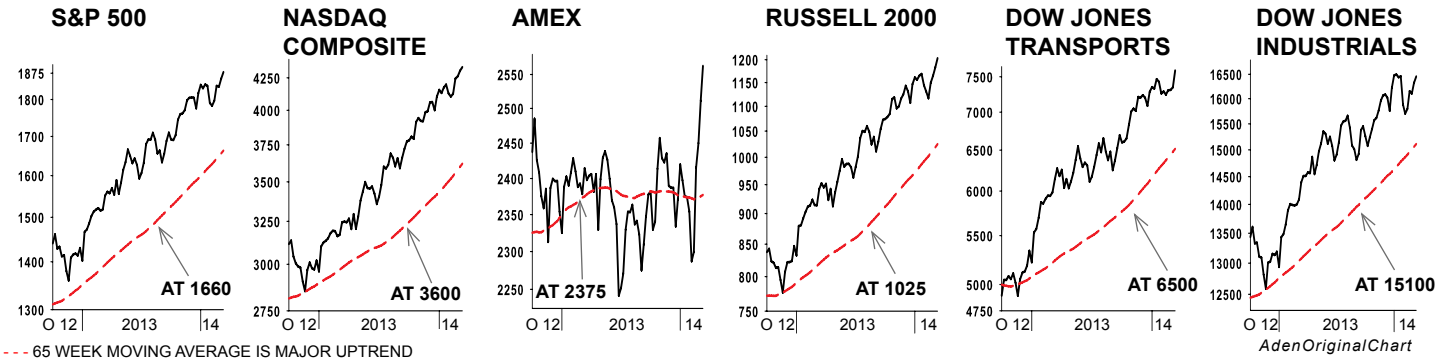
UTILITIES: Firm

The Utilities have been lagging all along but they could soon make up for lost time.

Utilities are very interest rate sensitive. Since they're currently yielding more than Treasury bonds, which is not normally the case, it makes this sector a lot more at-

CHART 4

MOST AT NEW HIGHS



- - - 65 WEEK MOVING AVERAGE IS MAJOR UPTREND

CHART 6

tractive.

Meanwhile, Nasdaq has been leading this market up, but small caps have quickly been catching up. Nevertheless, Nasdaq is still the leader (see **Chart 6**, comparing Nasdaq to the Dow Industrials). It's been our favorite and it still is, but this too might change.

HISTORY TO REPEAT?

Since 2000, the action in the Dow Industrials has been similar to the price movements between 1965 and 1982 (see **Chart 7**). In both cases, the market basically went sideways, unable to break above strong resistance, peppered with bear market declines along the way.

But once the Dow broke above its resistance in 1983, it soared for many years.

So does the Dow's break above its 2007 resistance, this time around, mean we could see something similar in the years ahead?

Some would say that's crazy. There's no way it could happen. The stock market is already in a bubble, and so on. But you could argue the opposite view.

BULLISH BACKDROP

Janet Yellen again stated she'll keep interest rates low and the money flowing to support the economy. This is really all the stock market needed to hear.

As you know, the Fed's ongoing easy monetary policies have been the key factor driving stocks higher all along. And Yellen's assurance sent stocks to record highs, offsetting concerns about Ukraine.

Plus, more Main Street investors have been jumping into the market, attracted by rising prices, also driving stocks higher.

Many investors believe it's a big mistake to buy when stocks are hitting new highs, but the facts prove otherwise.

As Brett Eversole of *True Wealth* points out, new highs signal strong momentum and stocks then tend to keep on going, outperforming average market gains. That's consistently been the case since 1900.

STAY CAUTIOUS...

Still, it would be a mistake to be wildly bullish. As we previously mentioned, there's always something to worry about, which explains the old saying, "stocks climb a wall of worry."

But in this case, there's a tug of war going on, and a very big wild card is hanging overhead, namely Ukraine.

This has become a global affair and, depending on how it unfolds, the necessary ingredients are in place to send stocks reeling, quickly and sharply.

We're not saying this is going to happen, but it could. The situation is tense and anything is possible. That's why it's now very important to maintain caution and stay on the alert.

...AND USE STOPS

The best way to do this and protect yourself is by using stop losses. We discussed this last month but

CHART 7

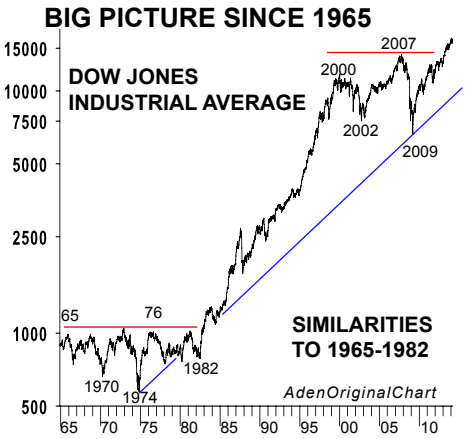
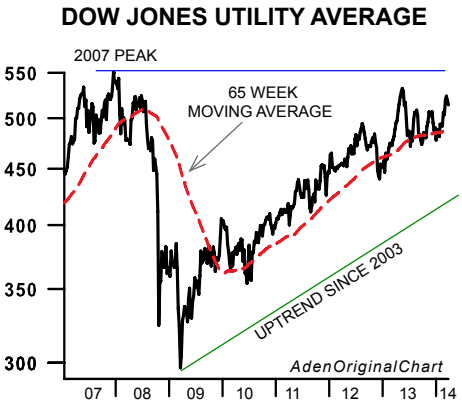


CHART 5



we feel it warrants repeating, just in case a black swan event hits the markets.

When a major trend is up, like it is now, we normally like stops that aren't too tight to avoid getting whipped out of a stock on a temporary dip. We don't want you getting left behind.

But as a market becomes more overbought, or outside situations become more tense, as is currently the case, we suggest using a 15% trailing stop.

Even better, use the 15- week moving averages as your stop since they've been consistent in identifying the intermediate price trends.

This means that as the price moves up, your stop will rise. But if the price declines below the stop, your stock will automatically be sold, protecting profits and limiting your downside risk.

WHAT TO WATCH

Currently, the rising 15-week moving averages for the major stock indexes are 4150 for Nasdaq, 1820 on the S&P500, 16150 for the Dow Industrials and 7300 on the Dow Transportations.

In other words, if these levels are broken on the downside, you'd want to sell and move to the sidelines.

But even if this were to happen, keep in mind that the major stock trends will remain up as long as the stock indexes stay above the levels shown on **Chart 4**.

In either case, we'll be keeping you posted via our weekly updates.

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U.S. INTEREST RATES AND BONDS

Bonds: A safe haven

Over the years interest rates have gone to extreme highs and extreme lows.

VOLATILE

The most widely used short-term interest rate is the 90-day Treasury bill (T-Bills). And in the past three decades or so, it has ranged from near 0%, up to as high as 20%.

This is pretty amazing since interest rates are generally considered to be low volatility. That is, bonds are categorized as conservative investments. But wild swings have become more common in recent years.

Nevertheless, bonds are still considered a safe investment and whenever global conflicts, trouble, or uncertainty flares up, U.S. Treasury bonds almost always benefit as a safe haven.

MOVING TO SAFETY

Currently, this is happening again based on events in Ukraine. With Russian troops going in, it has increased world tensions.

The bottom line... uncertainty has risen to the surface, which is setting the stage for a financial flight to safety.

When this happens, demand for U.S. bonds increases, driving the long-term interest rate lower and bond prices higher.

Even though interest rates are already at historically low levels (in the past 84 years, they've only been lower in the late 1930s to early 1950s), it doesn't seem to matter (see dashed red line on **Chart 8**).

Interest rates could fall even further and we believe they will. Why?

A DETERMINED FED

Most important, the Fed is determined to keep interest rates low for as long as it's needed to help boost the sluggish economy.

Deflationary forces are still weighing on the economy and the Fed's goal of reaching a 2% inflation rate is proving to be elusive, despite improvements in unemployment. **But the rules have changed.**

The Fed has already said they'll keep interest rates low, even if the unemployment rate falls below its previous 6.5% target level.

In other words, other factors will also be considered and there's little doubt that Yellen will continue to follow in Bernanke's footsteps.

The emerging markets are generally having a tough time. Plus, interest rates are heading down in other countries as well.

So all factors considered, most signals are telling us that interest rates are headed lower and/or they'll stay low for probably the rest of this year (see the 10 year yield, for example, on **Chart 9**).

BONDS LOOK GOOD

As you know, when interest rates decline, bond prices rise. And that's why we believe bonds could surprise investors and end up being one of this year's best investments.

Our technical indicators are reinforcing this (see **Chart 10**). As you can see, the 30 year bond price's leading indicator (**B**) is bottoming at a major low area. This has always preceded a steep rise in bond prices.

This suggests bonds could eventually rise back up to near the 2008 and 2012 highs.

If this happens, as the leading indicator suggests, it would result

CHART 8

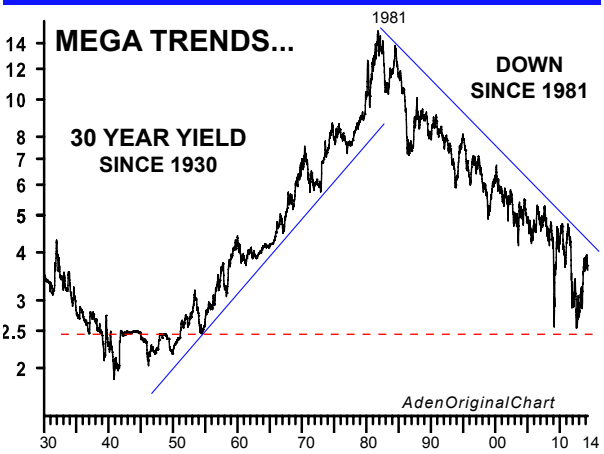


CHART 9

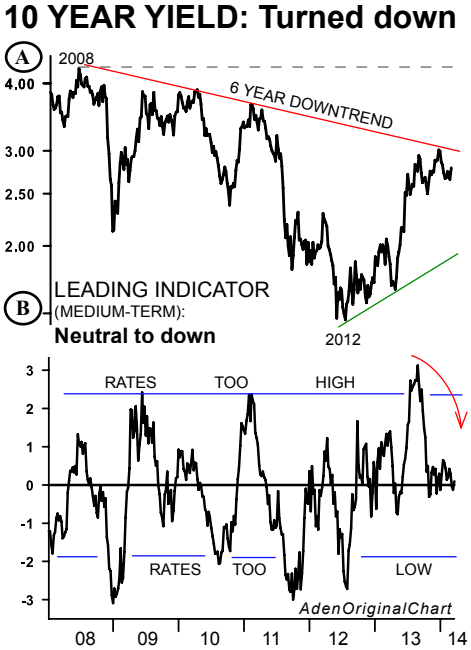
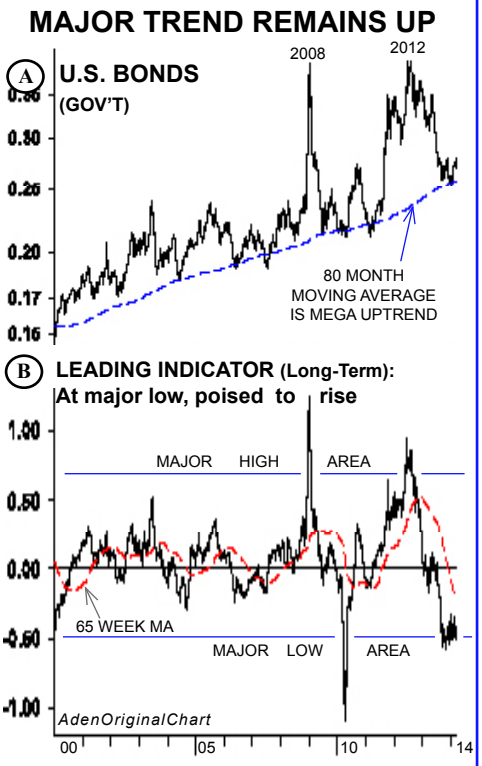


CHART 10



in about a 40% gain in bond prices from current levels. It would also be very bullish for utility stocks because they're very interest rate sensitive. But what about the rest of the stock market?

Poised to outperform stocks

Interestingly, and as we showed you last month, when we compare the Dow Industrials to bonds, the outlook for bonds is becoming even more bullish (see **Chart 11**).

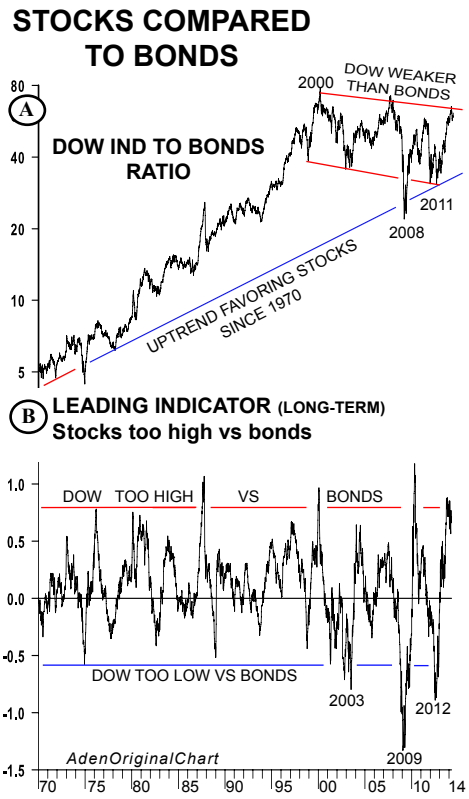
This chart goes back to 1970 and shows that when this ratio rises, stocks are stronger than bonds. That is, the percentage gains are greater in stocks than in bonds, and that was basically the case between 1970 to 2000.

Since then, the ratio's been choppy but the trend has been mildly declining, meaning stocks have generally been weaker than bonds.

That is, bonds have been a better investment than stocks. They were stronger, producing greater percentage gains.

Most important, note the ratio's leading indicator (**B**) is starting to decline from a major high area. This tells us stocks are going to be weaker, and bonds are likely going to outperform stocks in the year ahead. That doesn't mean stocks are going to decline, just that bonds will be stronger.

CHART 11



BUY AND KEEP BONDS

If that proves to be the case, then we'll want to adjust our allocations, keeping a larger percentage in bonds rather than stocks.

That's not the case yet, but this could change. For now, we continue to recommend buying and keeping 15% of your total portfolio in long-term U.S. government bonds.

You can buy the individual over 10 year bonds outright, but bond ETFs are easier for most investors.

The ones we like best and recommend buying are the 20+ year Treasury Bond iShares (TLT), 10-20 year Treasury Bond iShares (TLH), Ultra 20+ year Treasury Proshares (UBT) and Intermediate Muni Bond strategy ETF Pimco (MUNI).

CURRENCIES

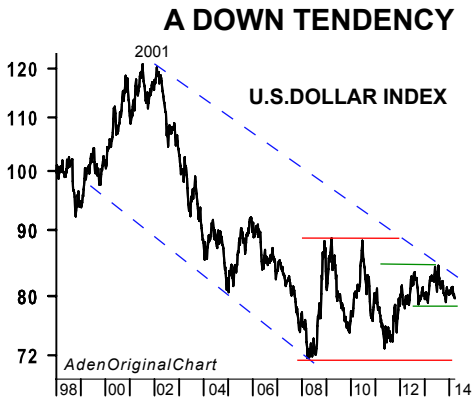
An unusual mix of strength (and weakness)

The U.S. dollar has been quiet this month. There's really little news on the dollar front and that's kept the dollar calm.

The currencies, however, are another story. They're totally mixed, which is something you don't see often.

Currently, for example, some of the currencies are bullish, some are neutral and others are bearish. For the most part, the weakest ones are the emerging market currencies.

CHART 12



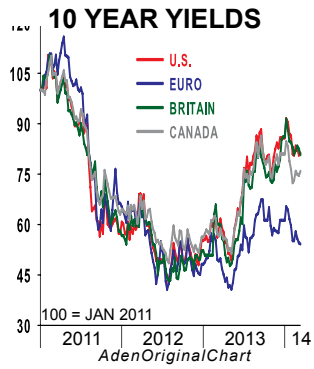
A SIDEWAYS DOLLAR

For now, the U.S. dollar index is near a four month low but it's still trading within its two year sideways band (see **Chart 12**).

If it declines and stays below 79, however, then there's a good chance it could keep falling, down to near the 2008 lows at about 72. If so, that would be a 10% decline.

Interestingly, some of our leading indicators, and other correlations, are beginning to signal a down tendency for the dollar, rather than up.

CHART 13



LOW RATES = BAD FOR DOLLAR

Interest rates, for instance, are heading lower. That makes the dollar less attractive.

But interest rates are stalling or declining in other countries as well, so essentially it's a draw (see **Chart 13**).

Unlike other times in the past, there is no real high yield currency that takes the sweepstakes, driving it higher. Instead, the currencies are basically in the same boat with their strength or weakness dependent on other factors.

Still, interest rates are very important. Looking at the U.S. dollar and the 30 year yield, for example,

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CHART 14

DOLLAR & LONG TERM YIELDS: Move together

you'll see what we mean (see **Chart 14**, which goes back to 1972).

Note that when long-term interest rates have declined steeply, so has the U.S. dollar (see blue arrows). The big exception was in the 1970s. Even though interest rates were soaring, they couldn't stop the dollar from plunging once it went off the gold standard and began trading in the free market.

The only other exception was during the tech boom. Despite declining interest rates, the dollar moved up along with the frenzy in the stock market.

The point, however, is that these two markets generally move together, and they've been moving down in tandem since 2000.

More important, with interest rates now embarking on a renewed decline, it'll likely keep downward pressure on the dollar.

SLUGGISH ECONOMY

The same is true of the sluggish economic indicators. Yes, the economy is plugging along but consumer sentiment, for instance, has been toppy since 2012 (see **Chart 15**).

You could say the same about the U.S. dollar. And if the economy remains lackluster, growing at the slowest post-recession rate in decades, the dollar will be vulnerable.

BRITISH POUND: Best

We haven't been recommending the U.S. dollar since last month. In other words, we advise keeping your cash in a strong currency, like the British pound, which has been the strongest (see **Chart 16**).

The euro and the Swiss franc are also doing fine, rising slowly but surely.

If you have those two currencies, they're okay to keep because, as we've seen before, they're benefitting as safe havens during these times of global tension.

Plus, ECB President Mario Draghi recently said that deflationary risks in the Eurozone are easing after new forecasts show inflation will approach their target by 2016.

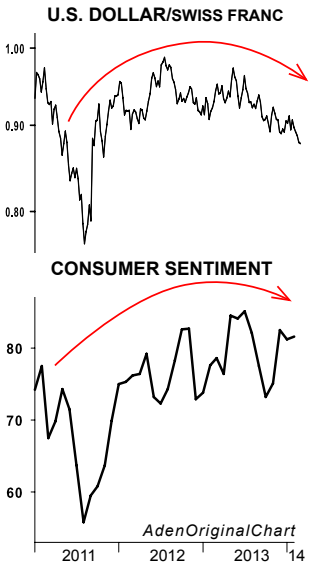
Keep in mind, by holding U.S. government bonds we're already in U.S. dollars since bonds are denominated in U.S. dollars. But by keeping our cash in a strong currency, like the British pound, we'll offset the weakness in the U.S. dollar should it fall further.

GO YOUR OWN WAY

As you can also see on **Chart 16**, the Australian dollar is bearish. That's true of several other currencies, like the Canadian dollar.

CHART 15

MOVING TOGETHER



Normally, the major currencies tend to move together against the U.S. dollar, but that hasn't been happening over the past year or two.

They've essentially been going their own way. Is this part of the currency crisis many are talking about?

We don't think so. At some point, we believe the stronger currencies will eventually pull the weaker ones up. And if the U.S. dollar index declines and stays below 79, the odds would favor this outcome.

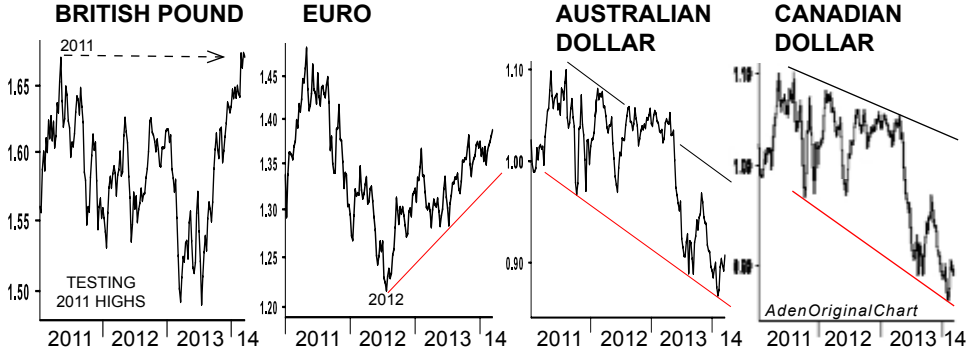
On the other hand, if the U.S. dollar index were to head higher, above 84.50, then the stronger currencies would likely follow the weaker ones down.

For now, the jury's still out. But increasingly it looks like the dollar's going to head South.

Again, the numbers to watch are 84.50 and 79 on the dollar index. Whichever way it breaks out of this range will likely determine its next trend direction. So stay tuned.

CHART 16

POUND STERLING BEST



METALS, NATURAL RESOURCES & ENERGY

In need of financial safety

Gold has been rising steadily since the start of the year.

A GOOD START!

It reached a 4+ month high last week, and it's already up over 13%. Silver is up 15% since last New Year's Eve.

This is an abrupt change compared to last year, and the reason is.... safety.

This month gold rose for nine straight sessions, extending the longest rally since mid-2011, which was before the record high was reached (see **Chart 17**).

Both silver and gold ranked 4th and 5th among 24 commodities tracked by the S&P GSCI gauge.

CHART 17

Gold is a safe haven

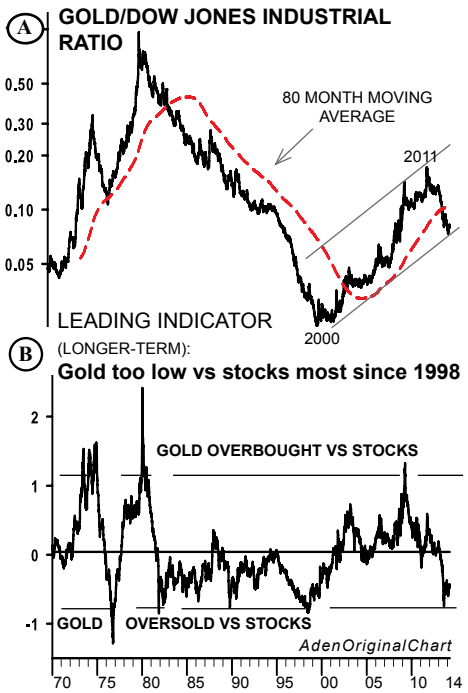
The emerging market turmoil in January got the safe haven ball rolling. The slowing U.S. economy then added another boost, especially with Yellen keeping the same policies as Bernanke.

And now geopolitical concerns, like the crisis in Ukraine, is giving gold yet another safe haven push upward.

Plus, with the U.S. dollar under pressure, while interest rates stay low, it's also bullish for gold.

Overall, physical demand and economic jitters are boosting the gold price.

CHART 18



PALLADIUM: 14 year high

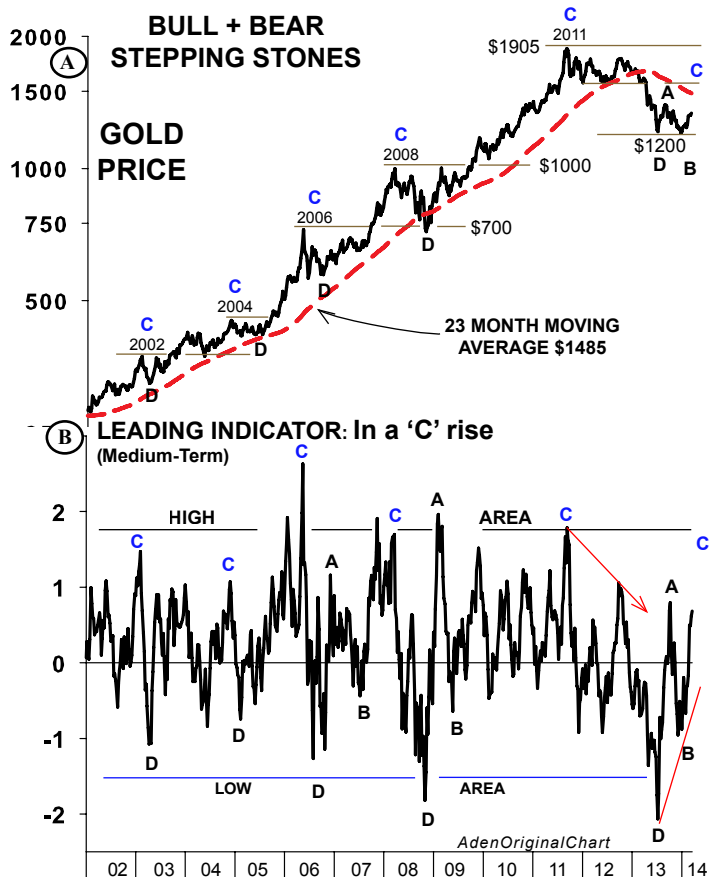
It also wasn't a surprise to see palladium jump up to a one year high last week. This happened when the U.S. and its allies threatened sanctions against Russia.

This ongoing turmoil will certainly keep boosting the palladium price because Russia is the world's biggest supplier of palladium.

Platinum is similar. It's been rising with the ongoing South African strike. It started last January and the miners are at a standoff.

This is also putting upward pressure on palladium since South Africa is the second biggest palladium producer, and it's the largest platinum producer.

CHART 19



The ever growing demand

Clearly, the world has plenty of uncertainty. From Russia, Ukraine, Venezuela, emerging currency devaluations, the sluggish U.S economy, as well as the slowdown in China, the world has hot spots.

With this backdrop it's easy to understand why demand continues to grow. **The world wants gold**.

Investors will continue to buy gold with the ongoing U.S. stimulus. And with Yellen saying that stimulus would be cut in "measured steps," it's boosting demand and giving investors the green light to buy gold, and other alternative assets.

Physical gold buying remains solid, and paper gold buying is picking up too. You'll remember last year when investors sold off gold ETFs while China bought up physi-

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CHART 20

cal gold. This is starting to level out as investors become more friendly toward gold.

Gold at lows compared to stocks

A clear change also took place this year with gold and the stock market. Even though the stock market is strong at new highs, the gold price has been better.

And interestingly, this is happening at a time when gold is near an oversold area, the most versus stocks since 1998. **Chart 18B** shows this well.

As you can see on the top chart, the gold to Dow Industrials ratio has been rising to favor gold since 2000. It's been coming down since 2011, breaking below its mega 80 month moving average.

This was bad for gold. But now the ratio is holding at the lower side of an upchannel. At the same time, the leading indicator is bottoming at a major low area for the first time in 16 years.

This means the downside is limited for gold.

It's still to be seen if the ratio heads higher and turns bullish for gold, but it's looking better.

Gold's been trying to bottom since last June, and this year's rise is reinforcing the bottom.

Gold's steps... so far, so good

When gold's bull market first started in 2001, the hatred for gold couldn't have been thicker. It was truly in the pits after 20 years of a bear market.

With the bearishness as thick as could be, we devised a stepping stone plan for the new bull market to make sure it would stay on track.

Chart 19A shows these steps and as gold surpassed each one, the bull market became stronger.

Back in the 1980s we also identified intermediate moves in the gold price, which measured its strength. This went back to the 1970s when gold first started moving in the free market.

And remarkably, gold continues to follow the same course.

This pattern is called an A through D pattern. Our older subscribers know this well, but for the benefit of our newer subscribers, and as a refresher for all, we'll go over the characteristics of these moves.

Gold's C rises tend to be the best rise in the pattern. In a bull market, the gold price tends to reach new highs for the move.

This is how we reaffirm a bull market. And this was the case from 2002 to 2011. Plus, gold was holding above its 23 month moving average, which was bullish.

Once a C rise is over, a D decline follows, which tends to be the worst gold decline in the pattern. And if a bull market is turning into a bear market, it tends to happen during a D decline.

This happened last year when gold embarked on a steep decline, losing 38% from its 2011 record high until it bottomed last June and December near $1200.

The A rises and B declines tend to be moderate. This is usually a consolidation time. The As are the highs and the Bs are the lows within this consolidation.

A rises can be strong and they can move up to test the prior C peak, and perhaps even surpass it, but normally it's a moderate rise.

Today gold is in a C rise that began with the December lows.

So far its 13+% rise looks good and gold is strong above $1300. Gold could now easily rise further to test its August high near $1420, the prior A peak.

In fact, if gold rises back up to its 23 month moving average and prior support, we could see the $1485 - $1536 level tested.

Keep in mind, a rise of this type would be a very good looking C rise. But gold won't really turn bullish until it can rise and stay above these levels.

For now, we have a potentially explosive situation in Ukraine,

CHART 21

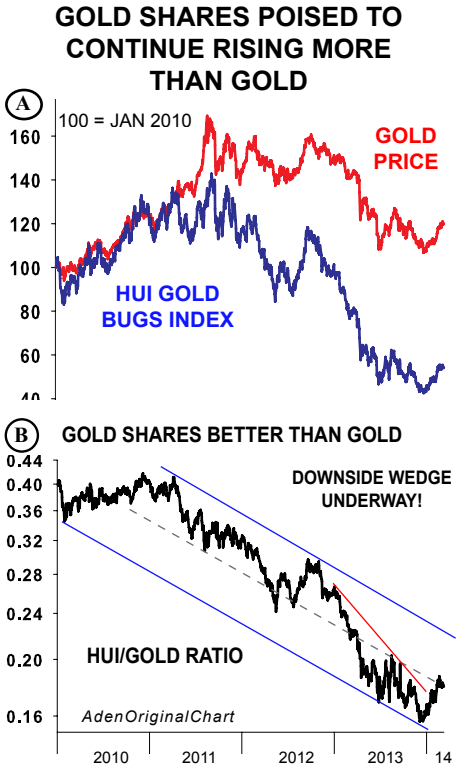
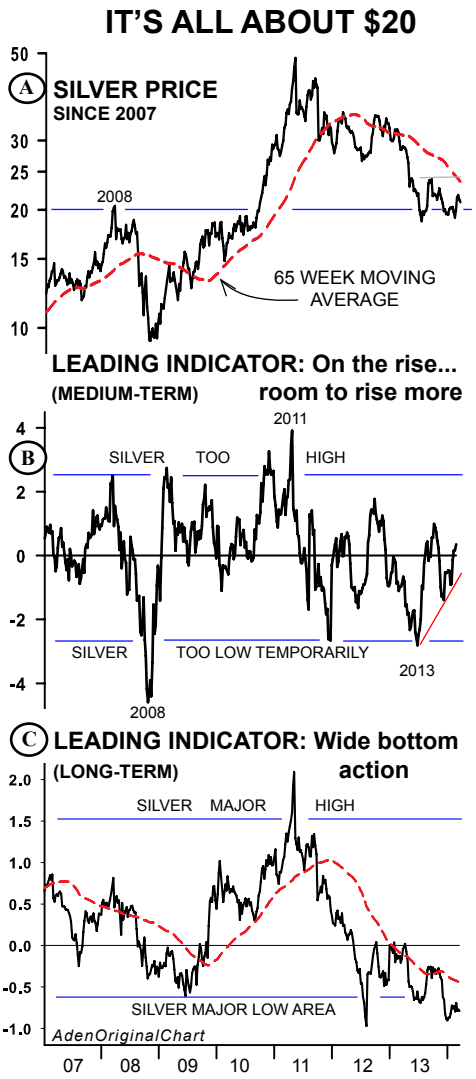


CHART 22



which is the worst standoff between the West and Russia since the Cold War. But also don't forget that just because gold posted its best start this year, for the first time since 1983, doesn't necessarily mean a roaring bull market will develop.

In other words, it could, but we wouldn't be disappointed if the current C rise does not turn into a new gold bull market.

Instead, it's very likely that it could become part of a building block for another bull market in the upcoming years.

For the steps to stay on track, it's vital for the $1180 level to hold for this building block to form. But also, keep in mind, if gold closes above $1225, this year, 2014 will be an up year for gold.*

It's already had 12 consecutive up years, and one down year in 2013. So we'll see how this year unfolds for gold.

Currently, however, the market's looking good for at least a decent intermediate ongoing C rise. That's why we recommend buying and holding gold. We also like silver, palladium, and gold and silver shares.

Gold stronger than gold shares and silver... but for long?

Gold has fallen less than gold shares and silver. Clearly, they are the volatile ones of the group. Gold shares, and silver, tend to rise more, and fall more than gold does.

When comparing gold to gold shares, and to silver, you can see on **Charts 20A & B** that the mega trends favor gold.

In gold shares' case, the ratio rose to an extreme high in 2013, favoring gold, because gold shares collapsed when gold fell. This is saying that gold shares are poised to continue outperforming gold until a more balanced situation evolves.

Comparing gold to silver, it's essentially been a sideways market since 1995. The ratio has been rising since 2011 because gold fell less than silver did over the last two years.

Overall, gold has been the best of the three since 2011. But once a bull market gets underway, we'll most likely see gold shares, and probably silver outperform.

Chart 21A provides another angle. Here you can see how much

CHART 23

weaker gold shares have been compared to gold since the 2011 peak. This weakness widened the most last year. But as the ratio (**B**) shows, it's formed a downside wedge also suggesting that gold shares will continue to outperform gold this year, and possibly beyond.

Gold shares are up 30% on average since their mid-December lows, which suggests that a major shift in sentiment is taking place. Investors are starting to turn toward gold and gold shares.

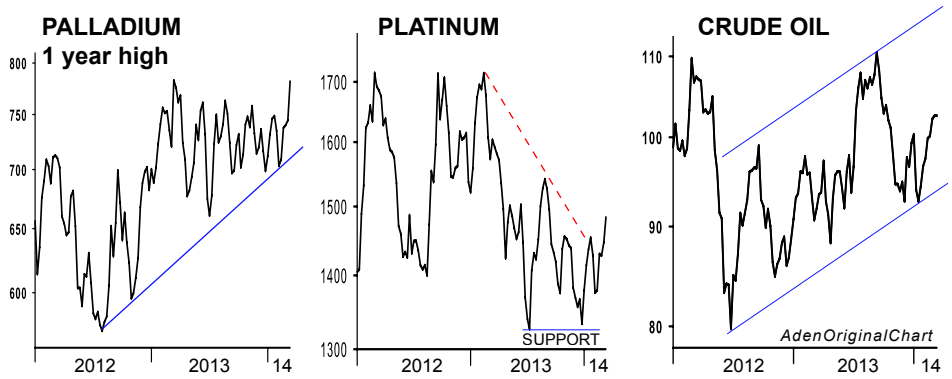
We recommend keeping our gold and silver shares, SLW, AEM and NGD.

We're also adding another share, and the one we like best is Royal Gold. This is a royalty company that lends money to gold mining businesses. It's already risen a lot but even so, it's selling at a dirt cheap valuation, according to John Doody.

SILVER: Poised to rise

You can see silver's technical situation best on **Chart 22A**. It

CHART 24



**Note: We use the nearest most active futures gold price in our analysis*

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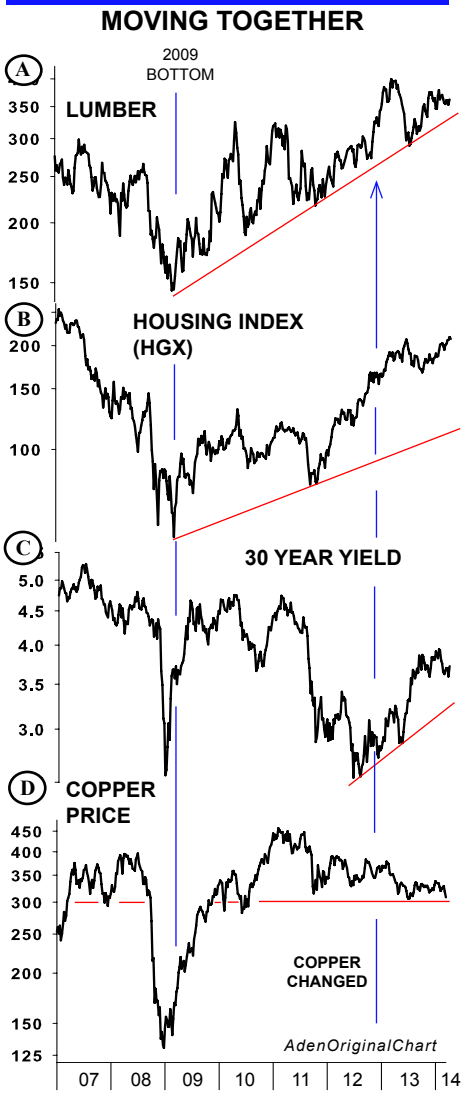
CHART 25



shows that silver has a solid base at $20, and its indicators are poised to rise. The medium-term (**B**) has already been rising from the lows and it has room to rise further before reaching a high area.

The long-term indicator,**C**, is most impressive because it's been forming a bottom in a major low area for almost 2 years. Once silver closes above $23 and the indicator closes above zero, we could see silver explode upward.

Another interesting situation for silver is when we compare it to copper. Silver tends to explode when both gold and copper are rising together. This means if the silver-copper ratio rises, it's usually a good sign for both (see **Chart 23**).

The ratio shows the run up leading to the 2008 and 2011 peaks, when silver outperformed copper and both were strong.

The ratio has been declining since then, but it's now found support, which is positive. We'll be keeping an eye on this ratio for further bullish indications.

RESOURCE SECTOR: Sluggish

Copper has been under pressure. Slowing economic signs in China and the U.S., the two biggest users of the metal, are the main culprits.

China weighed even heavier this week causing the biggest two day drop in copper in over two years on faltering economic growth. China's first onshore default caused concern that rising debt will curb demand. Plus, their exports fell in February by the most since 2009.

It's not a good sign that copper has fallen to its June lows because it's THE global economic barometer. So it'll now be important to see if this level holds.

Copper normally moves with housing, lumber and interest rates. This makes sense because they all have construction and growth in common.

Chart 25, however, shows that copper went its own way over a year ago while the others rose or stayed near their highs.

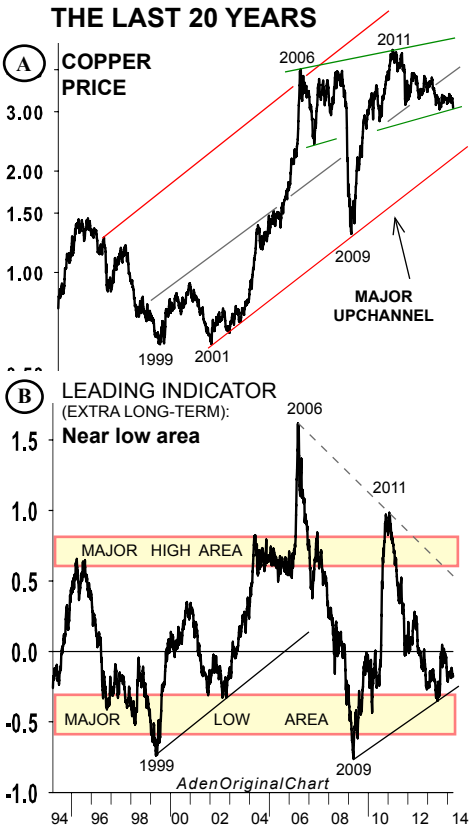
This is unusual and it's saying something is not right. Is copper leading?

Looking at copper technically, you can see it's holding near the highs of the last 7+years (see **Chart 26A**). That is, in spite of its decline since its peak in 2011, it's holding up well.

Plus, its leading indicator, **B**, is bottoming near a major low area, showing similarities to the 2002 time period. Is this saying copper is ready to rise? We'll see.

For now, keep an eye on the $2.95 - $3.35 level. Whichever way copper clearly breaks will tell us the next trend direction.

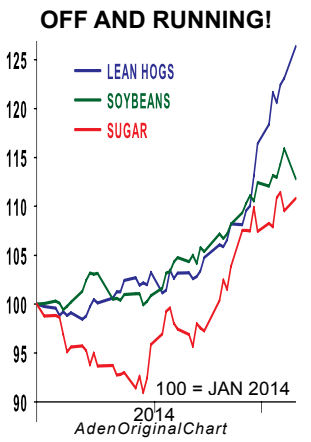
CHART 26



The extreme weather has been the big driver of commodities, from the cold in the Midwest, to droughts in California and South America, it has pushed crude and especially crops higher.

Crude and natural gas have been strong, but hogs, sugar and soybeans soared this month when the worst drought in six decades in Brazil threatened production (see **Chart 27**). Last month we showed you coffee soaring and other strong argri-commodities.

CHART 27



It's not a big surprise to see that hedge funds boosted their bullish commodity bets to the highest since 2012 several weeks ago because of the extreme weather.

We'll continue to watch these markets closely.

OVERALL PORTFOLIO RECOMMENDATION

The action was fast moving this month. Many of the markets were volatile as global tensions intensified. But our recommendations and allocations are basically the same...

PRECIOUS METALS, ENERGY, RESOURCE

Gold shares are doing well. Silver is up more than gold, but it's not as good looking... yet. The rise is stalling somewhat, but it still looks like more upside is likely, especially with the added geopolitical tensions we now have. We recommend buying and/or keeping your gold, silver, palladium and the gold and silver shares listed below. We are adding RoyalGold to the list. It's had a good rise and if you can pick it up closer to the $64 level, it would be a good buy.

Use weakness to add to your positions, if you don't have all that you want.

U.S. & GLOBAL STOCK MARKETS

The stock market is hitting record highs. The action is very bullish but it's also important to maintain caution. We continue to recommend keeping 50% of your total portfolio in our recommended stocks. But we also suggest using the 15 week moving averages as your trailing stop (see page 4 for details).

CURRENCIES

The U.S. dollar index is near a four month low and it'll be weak below 79. Keep your 15% cash position in the British pound. If you have the euro and Swiss franc, they're okay to hold too.

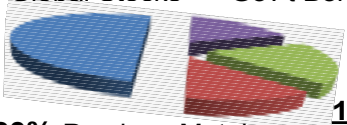
INTEREST RATES & BONDS

Interest rates have been volatile. But U.S. bonds are again benefitting as a safe haven and they're poised to rise further as interest rates decline. We continue to recommend buying and keeping 15% of your total portfolio in long-term U.S. government bonds. You can buy the individual over 10 year bonds outright, but bond ETFs are easier. The ones we recommend are TLT, TLH, UBT, MUNI.

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

50% U.S. & Global Stocks

15% LT U.S. Gov't Bonds



15% BP

20% Precious Metals Gold & silver physical & ETFs & gold & silver shares. Palladium ETF

OUR OPEN POSITIONS

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Royal Gold *	RGLD	Mar-14		68.72		Buy/Hold
Palladium	PALL	Jan-13	69.71	75.14	7.79	Buy/Hold
Agnico Eagle	AEM	Feb-14	33.68	32.57	-3.30	Buy/Hold
Silver Wheaton	SLW	Sep-09	11.66	25.09	115.18	Hold
iShares Gold Trust	IAU	May-05	4.17	13.07	213.50	Hold
SPDR Gold Shares	GLD	Nov-04	44.38	129.86	192.61	Buy/Hold
Gold (physical)		Oct-01	277.25	1346.70	385.73	Buy/Hold
Central Gold Trust	GTU	May-09	36.53	47.44	29.87	Hold
Central Fd of Canada	CEF	Apr-04	6.39	14.64	129.11	Hold
NewGold	NGD	Apr-10	5.13	6.02	17.35	Hold
Silver (physical)		Aug-03	4.93	20.82	322.21	Hold
iShares Silver Trust	SLV	May-06	14.50	20.04	38.21	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
iShares US Med Dv	IHI	Oct-13	86.70	98.95	14.13	Hold
Powershares Nasdaq	QQQ	Aug-12	66.86	90.22	34.94	Hold
iShares Russell 2000	IWM	Oct-13	107.68	118.06	9.64	Hold
iShares Transports	IYT	Oct-13	118.85	135.61	14.10	Hold
Global 100	IOO	Oct-13	72.97	76.66	5.06	Hold
Dow Diamonds	DIA	Dec-13	164.47	163.39	-0.66	Hold
Energy Select SPDR	XLE	Aug-12	72.37	87.13	20.40	Hold
Mkt Vect Retail	RTH	Oct-13	56.05	60.59	8.10	Hold
SPDR S&P Bank	KBE	Jul-13	30.30	33.68	11.16	Hold
US Global Inv Res	PSPFX	Sep-12	10.02	9.59	-4.29	Hold
Microsoft	MSFT	Feb-13	28.01	38.02	35.74	Hold
MSCI Germany	EWG	Oct-13	28.31	30.69	8.41	Hold
Mkt Vect Vietnam	VNM	Feb-13	23.27	22.30	-4.17	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	93.49	22.75	Hold
iShares Glbl Telecm	IXP	Oct-13	65.97	65.85	-0.18	Hold
DJ US Telecom	IYZ	Sep-12	25.22	29.05	15.19	Hold
Procter & Gamble	PG	Sep-12	68.10	78.95	15.93	Hold
BHP Billiton	BHP	Aug-13	67.68	63.86	-5.64	Hold

BONDS

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Ultra 20+ Treasury *	UBT	Feb-14	58.00	55.39	-4.50	Buy/Hold
10-20 Treasury Bond *	TLH	Feb-14	125.73	124.47	-1.00	Buy/Hold
20+ year Try Bond *	TLT	Feb-14	107.78	106.30	-1.37	Buy/Hold
Intermediate Muni *	MUNI	Feb-14	52.69	52.54	-0.28	Buy/Hold

CURRENCIES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
British Pound ETF	FXB	Sep-13	161.11	163.69	1.60	Buy/Hold

* NEW POSITION

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