THE
ADEN FORECAST
MONEY • METALS • MARKETS

MARCH 2015 *our 34th year*

DEBT, DEFLATION AND THE DOLLAR

The markets continue their volatile action. One day they're looking really good and the next day they're not.

Some of the markets have had extreme moves, both up and down.

This has led to more emails from you with many questions and comments.

So this month we'll again answer some of your most frequently asked questions…

Q. We're hearing a lot about deflation, but how bad is it?

A. Currently, it's intensifying.

Inflation is declining around the world and it's gone negative (deflation) in the Euro area and most recently in the U.S. (see **Chart 1)**.

The central banks are fighting these forces with quantitative easing (QE) economic stimulus programs and negative interest rates to help boost their economies and get inflation up to at least 2%.

At this point, the biggest danger would be a deflationary downward spiral, which is what everyone wants to avoid.

Here's the bottom line...

As interest rates fall, it becomes more attractive to borrow rather than save.

So central banks are hoping that banks will lend more money to consumers who will spend, as opposed to just holding the money in their bank reserves.

As we've shown you before, that's primarily why the velocity of money has been falling.

The money created via QE programs has been sitting in banks but it needs to get out there and circulate. That's the main reason why inflation has been declining.

That will also help turn the deflationary pressures around and get inflation to finally pick up. It's not happening yet, but hopefully it will.

Q. What are the chances of another economic crisis?

A. Based on the fact that the stock market is still bullish, despite its recent decline, and it tends to lead, the economy should continue to plug along in the months ahead.

As we've often noted, however, the global economic foundation is not healthy.

The biggest problem is debt and we believe it's passed the tipping point. That is, it's become a real drag on the global economies.

In 2007, for instance, world debt was $142 trillion. In 2014, it had soared to $199. That's a 40% increase in seven years.

So nothing has really changed since the last big recession. In fact, it's gotten worse. There has been no deleveraging and debt is much bigger than the world economy can handle.

Many feel this will lead to another crisis or a collapse, and it's indeed a possibility. Remember, during the last crisis in 2007-08 the world was taken to the brink.

Every major U.S.bank would have failed if the Fed hadn't intervened. And something along these lines could happen again.

DEBT IS A DEFLATOR

Debt, for instance, is definitely keeping a lid on global growth. In the U.S., average annual economic growth has only been 1.2% over the past eight years.

And that's the best it could do after years of QE and super low interest rates.

Plus, median wealth for over half of the people has also dropped 40% since the last recession.

The rich, however, are getting richer via assets that're rising.

So despite the good economic news you keep hearing about, you can see that the underlying economic foundation is on thin ice.

GOV'T BORROWS FROM FED

Our old friend Bill Bonner explains yet another situation that's

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evolved in recent years, in an easy to understand way...

He points out how the government now borrows all they need from the central bank.

They basically sell their debt (bonds) to themselves and there's no limit on the amount of money the central bank can create or lend to the government.

The bonds go onto central banks balance sheets and stay there. So no need to concern yourself about mounting government debt...

Almost too good to be true, right?

That's the basic way it's working in a nutshell.

So there's no telling how long this could last, or how it'll all turn out. It's totally unprecedented but that's what we're dealing with.

Meanwhile, we'll go with the market trends that look best.

Q. What is the typical timing for your investment cycles?

A. Normally, our recommendations tend to last for about a year or more.

We generally try to get onboard the major trends and stay with them for as long as they last.

Of course there are exceptions and some investments are only held for a few months.

In some neutral positions, we'll either hold them if it looks like the market's going to resume its rise, or sell them and move on.

Keeping stop losses on your positions is also a good strategy.

If you put a stop loss at 10% - 20% below your purchase price, for instance, you'll never lose more than that if the market goes against you.

Q. Are German bonds a good buy?

A. With interest rates on the decline worldwide, most bonds are on the rise.

But since the euro is so weak, it makes U.S. bonds a lot more attractive and that's one reason why they're our favorite.

Q. You often recommend ETFs. Why?

A. ETFs provide a convenient way to trade a certain index and/or to diversify in a certain sector.

Instead of buying just one or two biotech stocks, for example, you can buy IBB, which contains dozens of biotech stocks. ETFs are basically a good way to fine tune sectors you're interested in.

Q. Does the Dow Theory non-confirmation of the bull market bother you? Is it time to sell bonds?

A. For now, stocks and bonds are both correcting but they remain bullish.

These and other questions will be answered in more detail in the following pages.

But with the markets so volatile we urge you to stay in touch with our weekly updates.

The markets are swinging, so we'll likely be in touch again soon. Stay tuned.

CHART 1

The low road

SOURCES: Haven Analytics, Eurostat
COURTESY: The Economist

U.S. & WORLD STOCK MARKETS

Bull market turns 6 years old

The stock market was very volatile this month.

First, it broke several records. The Dow Industrials, S&P500 and Russell 2000 all hit new record highs. Nasdaq soared above 5000, almost reaching its record high set during the tech boom in 2000 (see **Chart 2**).

BEST GAINS IN 4 YEARS

These were the biggest monthly gains since 2011, thanks to better economic news, QE in many countries, a temporary debt resolution for Greece, a stable oil price, a peace agreement between Russia and Ukraine, rising world stock markets, positive words from Fed head Yellen and ongoing low interest rates. But then, the market got the rug pulled out from under it.

Many gloom and doomers are spooking stock investors talking about an upcoming crash and the similarities between 2000 and today. They feel the stock market is expensive and risky. Global growth is slowing, deflationary forces are getting stronger and the stock bubble is ready to pop.

But strangely, it was good news that first drove the stock market down sharply on March 6.

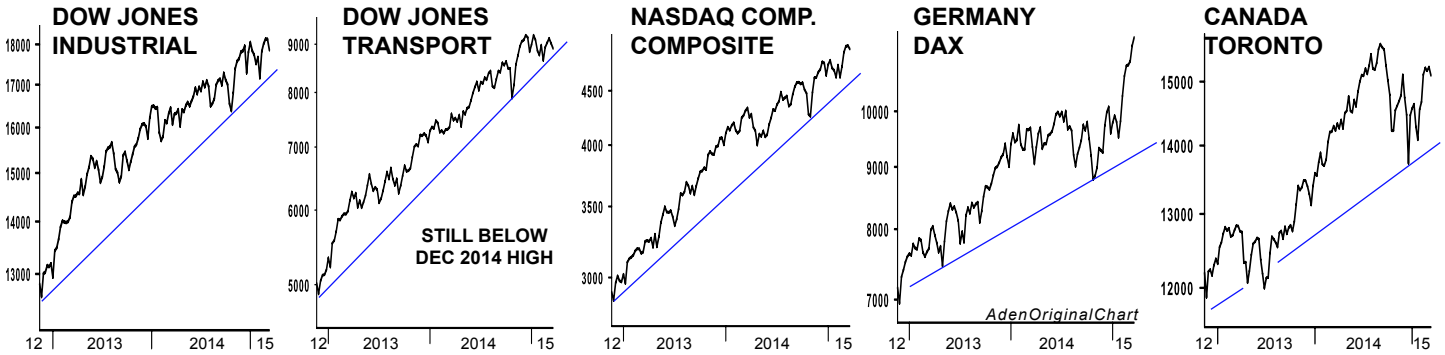
With unemployment falling to a 6½ year low, the jobs report was so positive investors figured interest rates will be rising soon.

As you know, the stock market has been loving low interest rates (see **Chart 3**). That's been the main factor driving stocks higher. So a potential interest rate rise scared investors who were already nervous.

Interestingly, following a period of low interest rates, the first interest rate hike doesn't normally hurt the stock market, historically speaking. And with this bull market being so strong over the years, it'll take more than a mild interest rate hike to bring this market down, assuming it happens.

CHART 2

ALL STILL BULLISH, BUT TRANSPORTS HAVE NOT CONFIRMED



BULLISH, BUT UNCONFIRMED BY DOW THEORY

Stocks remain bullish and they're still poised to rise further. But the strong U.S. dollar is also taking its toll on stocks because it threatens economic growth and profits, so we could see a further downward correction before stocks head higher, which would be normal.

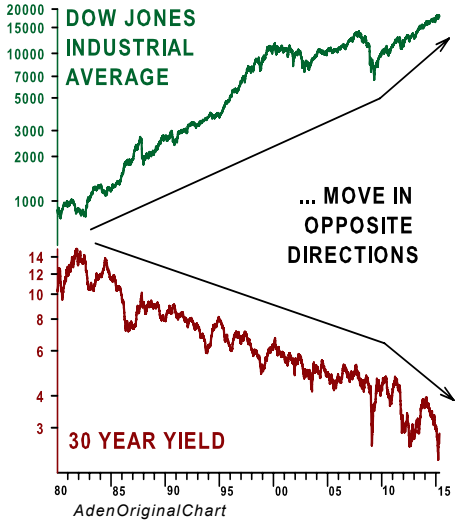
Even though many of the stock indexes recently hit new record highs, it's also noteworthy that the Dow Jones Transportations did not. This means the bull market was not reconfirmed by Dow Theory.

That's not necessarily a bad thing, but it does reinforce the likelihood of softer prices ahead.

The big picture, however, tells another story (see **Chart 4**). Here you'll see the market leader Nasdaq, along with its leading indicator.

CHART 3

STOCKS & INTEREST RATES...



Even though Nasdaq resisted below its old high of 5048 reached in 2000, the leading indicator shows that this level will likely be surpassed... probably in the months ahead.

As you can see, this indicator is starting to rise from a relatively low level. It's telling us Nasdaq has plenty of room to rise further before the indicator reaches the major high area.

But let's first see if the indicator's 2009 downtrend can be surpassed. If so, this would negate the possible growing similarity to the 2003-2007 formation, which confirmed a top when it broke down.

Overall, however, the systems are still go for stocks, and especially tech stocks.

But wait a minute... what about the current similarities to the 2000 peak?

The bottom line is, there are few similarities, if any... In 2000 the stock market was going crazy. For those of you who don't remember, it was a frenzy. People were buying stocks like mad, day trading and quitting their jobs to get rich. That's all everyone talked about, everywhere you went.

Tech stocks were all the rage and prices were so high that the price/earnings (PE) ratios on Cisco and Yahoo were an unbelievable 127 and 418 (the average is normally about 16).

Most of the other tech stocks also had super high PE ratios and for all the Nasdaq, it was about 120. In other words, stocks were more than extremely expensive.

In contrast, the PE ratios for top tech stocks are currently between 11 and 19, which is reasonable. The exception is Facebook at 39. For all the Nasdaq, it's about 23 times earnings. These are not bubble values.

As Matt Kerkhoff points out, the

CHART 4

SURPASSED 5000! FIRST SINCE 2000

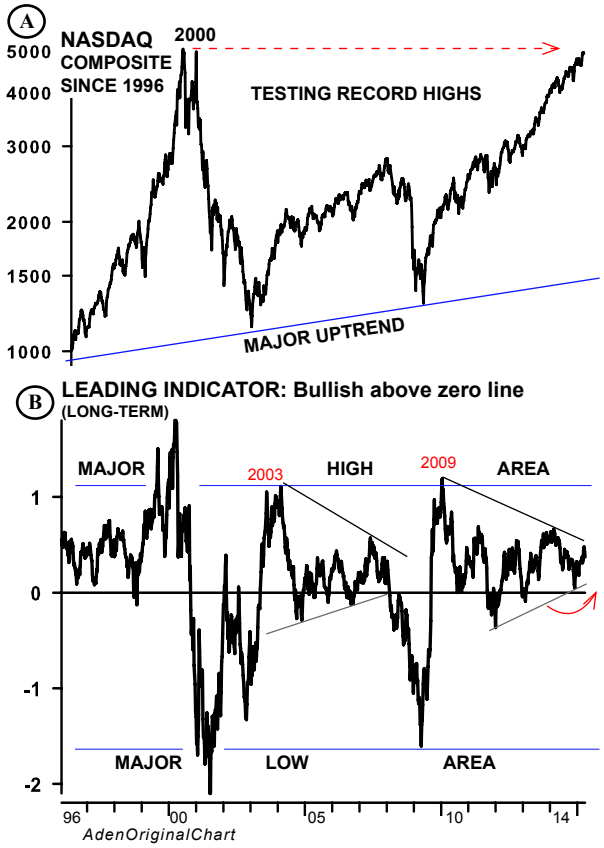
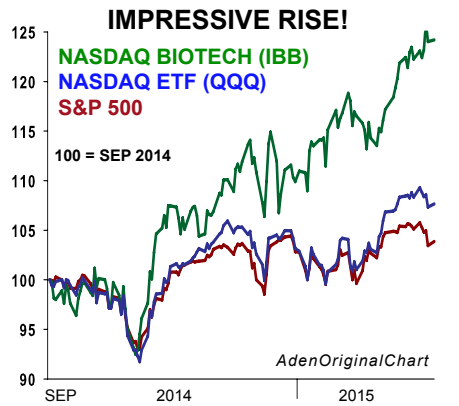


CHART 5



economic backdrop was also a lot different in 2000 than it is today.

At that time, the Fed was raising interest rates and the yield curve was inverted, indicating a recession was on the horizon. The writing was on the wall for both the economy and the stock market, which fell sharply soon thereafter.

Today it's the opposite. Interest rates are at super low levels and the yield curve is suggesting a favorable economic environment for stocks, at least for the time being. This also tells us Nasdaq will likely soon break above the 2000 highs into new record territory.

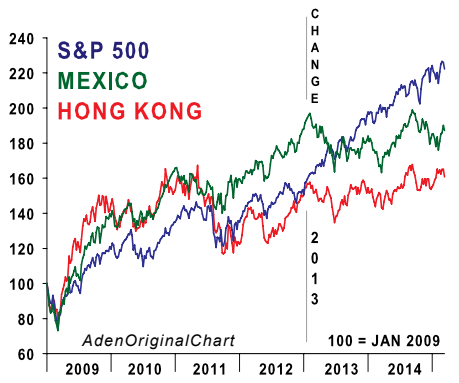
STAY WITH THE TREND

If this changes, you'll be the first to know. But for now, the major trend for stocks is up and the bull market still remains in force.

Currently, Nasdaq remains the strongest stock index, as you can see on **Chart 5**, which compares Nasdaq to the S&P500. But you'll also note that the Biotech index (IBB), which is mainly composed of pharmaceutical companies, is even much stronger than Nasdaq. It's been one of the top performers in this bull market.

On the other hand, the international stock markets have generally been lagging the U.S. market since 2013. Mexico and Hong Kong, for example, which are also two of our recommendations, have been weaker than the S&P500 (see **Chart 6**).

CHART 6



But these markets are now showing renewed signs of strength and they're starting to make up for lost time (see Germany and Canada as another example on **Chart 2**). Once all of the global stock markets are moving in synch it'll be yet another very bullish sign.

For now, keep the stocks you have for as long as this bull market stays in force, but don't buy new positions at this time.

U.S. INTEREST RATES AND BONDS

Bonds: Bull market on last leg?

As you know, the global economy is in uncharted waters. The central banks seem to be improvising as they go along, hoping all goes well.

But no one really knows how this is all going to work out. That's not good or bad, it's just because it's never happened before.

HISTORY IN THE MAKING

Here's an example of what we mean…

Currently, about 10 countries have interest rates below zero. That is, they have negative interest rates, which means you have to pay the bank to keep your money.

As we showed you last month, this is unprecedented going back 800 years. But digging even further, our close friend Chris Weber notes that ever since the Sumerians of Mesopotamia around 3000 BC, which was one of the world's earliest organized civilizations, there has never been a time that has experienced ongoing negative interest rates. So this is a first going back over 5000 years!

In fact, the past 100 years have seen the highest and the lowest interest rates ever recorded in world history. We think this is truly amazing and a little scary. It's something most people don't realize and it's a super wild card.

WHICH WAY RATES?

In the meantime, investors are focused on other things, and here's what they're watching…

The debate rages on. And it's become so heated, it's almost ridiculous, and so is the debate's foundation. Why?

Because it's all based on innuendos and what the Fed may or may not do in the future. More specifically, will they be raising U.S. interest rates sooner or later?

That's the big deal and the *anticipation* it's creating has been one of the key factors moving the markets.

CHART 7

TEAM A: RATES READY TO RISE

On the one hand, we have Team A. They're a large majority who are certain interest rates will be rising by June. They point out the better economic signs as evidence the economy is standing on its own and it's strong enough to endure higher interest rates.

They also interpret the Fed's recent com-

ments as more evidence the Fed's ready to move ahead. For example, Janet Yellen said some indicators are showing "considerable progress," so that must mean she's going to raise rates soon.

The bond bubble is another big reason why interest rates will likely head higher by mid-year, argues Team A. After all, bonds have already been rising for a very long time. Furthermore, how low can interest rates go?

Long-term rates are near 2% and the Fed funds rate has been near zero for over six years. This tells them the bond bubble is going to pop any time.

TEAM B: Rates to stay low

On the other hand, there's Team B. They believe interest rates will not be rising any time soon.

They see that interest rates are below zero in many of the major countries. They're also seeing more signs of deflation and they don't believe the Fed can raise interest rates in the current environment.

That's especially true considering that U.S. inflation turned negative over the past 12 months, for the first time since 2009. Even the core inflation rate, which removes food and energy costs, is on the decline (see **Chart 7**).

That's far below the Fed's 2% inflation target, which doesn't bode well for an interest rate hike any time in the months ahead.

Plus, Yellen said so herself. If you translate her comments, she basically said (courtesy of our dear friend Chuck Butler)…

"Okay, you're all thinking that we'll hike rates in June. But I'm here to tell you that we won't be tied to any particular meeting, and we reserve the right to change when we feel it's necessary."

In other words, she's given the Fed an out, and they won't be pressured to hike rates in June, like many think. This means they can drag low rates out for a long time, especially if inflation remains low. Remember, the Fed wants to see inflation rising, not falling.

Plus, servicing the debt with higher rates would squeeze the economy.

TIME FOR CAUTION

As you know, we've been in the Team B camp for a long time, basically ever since we recommended buying bonds over a year ago. But now we're moving to the middle ground. This is based on the recent upmove in interest rates and what our charts are telling us. As you'll see next, our current bullish position warrants some caution…

Let's start with the bigger picture…

Looking at **Chart 8A**, you can see the bond price has recently

CHART 8

CHART 9

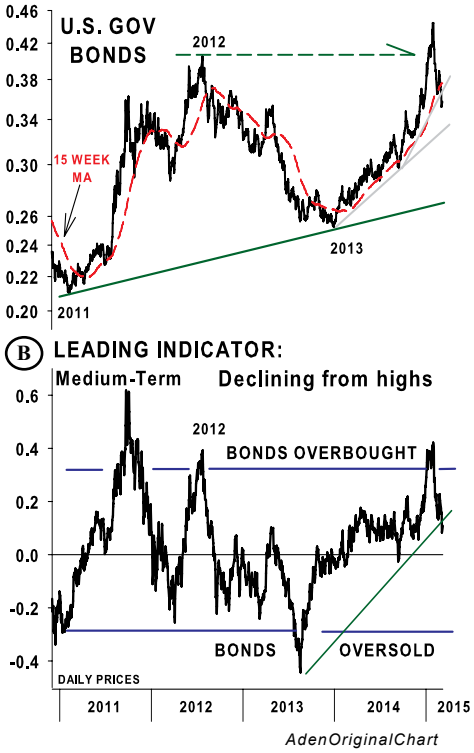
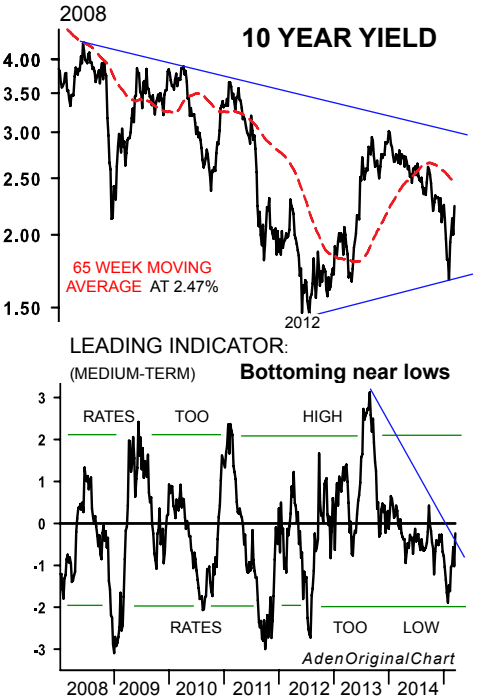


CHART 10



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

been moving down in a correction following its steep rise since early 2014. This is normal and it's not a cause for concern.

The leading (long-term) indicator, however, is also declining from a major high area (see **Chart 8B**). This usually precedes steep declines in the bond price, like in 2009 and 2012.

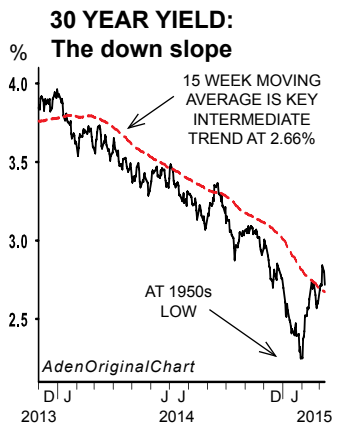
So we're watching this closely. If this indicator keeps falling, it may be time to pull the plug on our bonds. That's not the case yet, but for now we don't recommend buying new bond positions; just keep the ones you have.

Even though we could see higher bond prices in the weeks ahead, taking a closer view, you'll see another reason why some caution is warranted (see **Chart 9A**).

Note that bonds essentially resisted at their 2012 highs. The (medium-term) leading indicator (below) is also on the decline, signaling bond prices will likely fall further in the months ahead.

This also means interest rates are poised to head higher. You can see this on **Chart 10B**, which shows the leading indicator for the 10 year yield. It's telling us rates are bottoming near the lows. But they could also stay low, considering the current deflationary drag on interest rates in general.

CHART 11



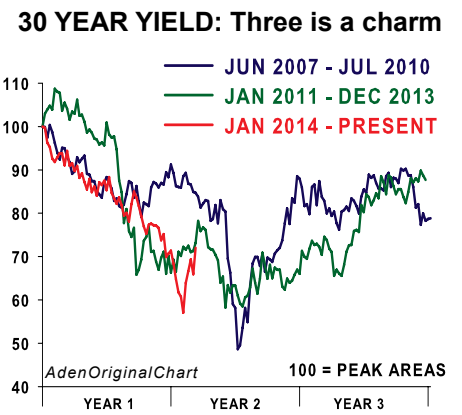
WHAT TO WATCH FOR

The real test will come if the 30 year yield now stays above its moving average shown on **Chart 11**. This average has been very reliable, coinciding with the downtrend in interest rates since early 2014 (the rise in bond prices).

This moving average is now at 2.66%. So an ongoing rise above that level for the 30 year yield would be the first signal that the bull market in bonds may be coming to an end.

This would be reinforced if the 30 year yield rises above 3.25% (its 65-week moving average). For the 10 year yield the equivalent level would be a rise above 2.47%. But as you can see on **Chart 10A**, even if the yield rose that high, it would still be in a clear downtrend since 2008.

CHART 12



That is, interest rate rises to the 65-week moving averages, while dramatic, would not necessarily confirm that this big bull market is over.

In fact, it's more likely that we could see a repeat of the previous two interest rate declines (see **Chart 12**). If so, then interest rates could have one more big drop before they finally hit bottom, like they did in 2011-12 and 2007-2008.

Of course, there are no guaranties. So we'll have to stay tuned and see how things unfold in the weeks ahead.

For now, U.S. government bonds remain strong, bullish and internationally attractive, despite their recent decline. So stay with them.

CURRENCIES

U.S. DOLLAR: Safe haven king, at 12 year high!

The U.S dollar is literally soaring. It just keeps going and there seems to be no stopping it.

U.S. DOLLAR: Favorite safe haven

In this deflationary world, the U.S. dollar continues to be the favorite safe haven. That's mainly because U.S. interest rates are higher than rates in most other countries, making the dollar more attractive, and many believe interest rates will move even higher sooner rather than later.

Plus, the U.S. economy also remains firmer than the other global economies and that too has helped boost the dollar.

Also important, the U.S. dollar is basically the offset currency to the euro, so a lot of the dollar's strength has been the result of the steep drop in the euro. And since the other currencies have followed the euro down, this too has put even more upward pressure on the U.S. dollar (see **Chart 13A**).

TOO STRONG DOLLAR: Not welcome

Meanwhile, the dollar is becoming so strong, it's starting to be a problem. You can bet the Fed is worried and it's one of their big concerns.

As we've often mentioned, everyone wants a weak currency these days. The main reason why is because it makes that countries' exports cheaper and, therefore, more desirable. This in turn benefits their economy because they're selling more products, which means more jobs and so on.

On the other hand, a strong currency makes exports more expensive, and that's what's happening in the U.S. This decreases global demand for U.S. products and it could slow the economy.

In Japan, for example, the yen has collapsed and exports were recently the best they've been in

CHART 13

two years.

The bottom line is that 20 central banks have dropped their interest rates in the past three months. They've done this to help boost their economies via easier borrowing and (hopefully) more consumer spending. They've also done it to weaken their currencies.

SIGN OF STRESSFUL TIMES

The super strong dollar has other global effects as well…

Michael Snyder provides the best explanation we've heard so far… "Over the past decade there has only been one time when the value of the U.S. dollar increased by so much in such a short period of time. That was in 2008, just before the greatest financial crash since the Great Depression.

A surging dollar also greatly contributed to the Latin American debt crisis in the 1980s and the Asian financial crisis of 1997.

Today the globe is more interconnected than ever. Most global trade is conducted in U.S. dollars and much of the borrowing done by emerging markets all over the world is denominated in U.S. dollars.

When the U.S. dollar goes up dramatically, this can put a tremendous financial stress on economies worldwide. It also has the potential to greatly threaten the stability of the $65 trillion in derivatives that are directly tied to the value of the U.S. dollar.

The global financial system is more vulnerable to currency movements than ever before, and history tells us that when the U.S. dollar soars, the global economy tends to experience a contraction. So the fact that the U.S. dollar has been skyrocketing lately is a very bad sign."

DOLLAR UPSIDE LIMITED

But as you'll see, that may not be the case for long.

Note on **Charts 13A** and **C**, the U.S. dollar index has risen so far, so fast, its leading indicator currently remains at a multi-decade major high area. These highs have always preceded or coincided with a top and steep decline in the dollar index. This means the dollar's upside is limited.

Also interesting, the U.S. dollar

CHART 15

COURTESY: http://www.sovereignman.com/

CHART 14

and the 30 year yield have generally moved together (see **Charts 13A** and **B**). But that relationship broke apart last year. Since then, they've been going their separate ways but the dollar has also been boosted by other factors, like tensions in the Middle East, Putin, the Greek drama, ISIS aggression, global deflation, the weak oil price and a slew of other financial concerns.

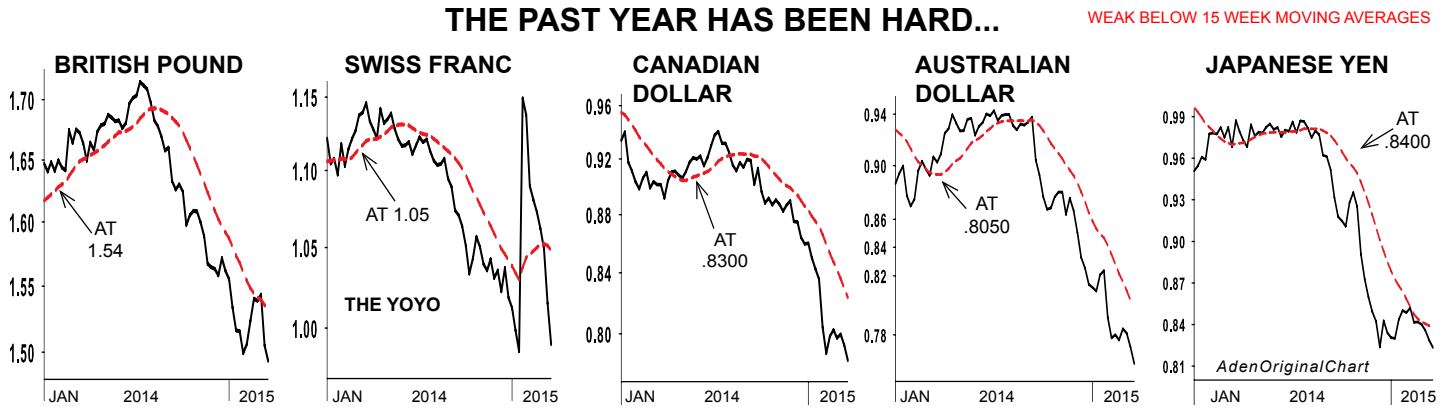
So a shift in any of these factors could sway sentiment and turn it around. It's really anyone's guess what could trigger a dollar decline, but the first sign it's happening would be a sustained drop below 95 on the U.S. dollar index.

EURO: Bombed out

As you'd expect, once the dollar heads lower, the euro will start rising (see **Chart 14A**). This would not be unusual considering its leading indicator is literally bombed out at a very low area.

The Eurozone is embarking on a huge QE program and that's been driving the euro lower. But could this be a case of, "sell on the rumor, buy on the fact?" It might be and the euro may surprise on the upside in the months ahead. Reinforcing this

CHART 16



are some better economic signs and the agreement with Greece. We'll see what happens.

THE CHINA STORY

Meanwhile, China is doing its own thing, taking steps which are becoming ever more obvious, to eventually replace the U.S. dollar as the world's reserve currency.

Aside from making agreements with dozens of countries to trade in their own currencies, avoiding the dollar, and buying tons of gold, China has taken things a step further.

As Simon Black reports, China is putting up billboards advertising its currency overseas as the new choice for the world currency (see **Chart 15**).

Most international traders realize China is positioning itself, not only in global trade but also as the world's dominant economic and financial superpower. This isn't going to happen overnight but the change is happening and this is another sign of it.

For now, however, continue to keep your cash in U.S. dollars and avoid the currency markets.

METALS, NATURAL RESOURCES & ENERGY

Testing lows - the crossroads

Gold prices fell further, hitting an almost four month low, and quickly approaching its November lows. The soaring dollar and expectations of higher U.S. interest rates have pushed gold to the back seat.

The strong stock market and a good jobs report in February also dulled investor interest in the yellow metal. Plus, the Lunar New Year celebration in China slowed demand.

But the ongoing hope that interest rates will rise soon was the key factor moving most markets this month. And the precious metals and gold shares were no exception.

GOLD: 2nd in currency ranking

Low interest rates are bullish for gold because gold is then not competing with the currencies. And with most major countries dealing with low to negative rates, gold moves up in the currency ranking.

And indeed it has. Gold, as the ultimate currency, is only second to the U.S. dollar in terms of major currency strength. But the soaring fast paced dollar rise is now causing turmoil in the currency market. That is, a currency war is heating up.

This is now very interesting.

It almost seems unreal for investors to think the U.S. will raise rates when the dollar is soaring. It already has the highest rates in the major countries.

But anyway, at some point coming up pretty quick, the dollar rise will be stemmed, either by intervention or exhaustion.

And when that happens, a dollar decline will give gold a boost. To think that gold did not hit new lows already during the dollar rise, shows its good strength.

Since November 6, for example, when gold reached its low near $1143, both gold and the dollar rose together. The dollar index rose from 88 at the time to 95 on January 22, when gold peaked at $1300.

Gold then declined from that high, for the last seven weeks, but it wasn't until just recently, in March, when the dollar index began shooting up above 95 and gold broke below $1200.

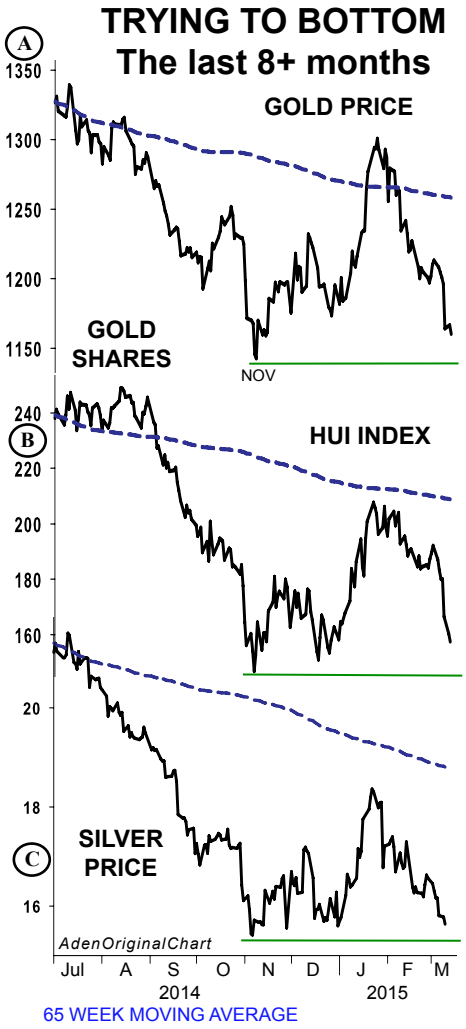
Gold's now down $150 from the highs, or 11.50%, which isn't bad considering the soaring dollar. This means even if gold slips below its lows temporarily, it won't necessarily be that bad. **But the time of truth is now approaching.**

The currency wars we have today are proof that it's just a matter of time before gold moves back to center stage and overtakes the dollar as the ultimate currency.

Many currencies have been falling, which has given the dollar a huge boost. This is a big reason why gold hasn't fallen so much during the dollar's ascent.

The euro is most noticeable as it plunged to a 12 year low at the onset of their historical liquidity program. Plus, the Greek debt drama added to euro weakness. The falling petro currencies have also been adding to this intensity.

CHART 17



The Fed head, Janet Yellen changed her stance on interest rates in February by essentially saying they're in no hurry to raise rates. They can't be locked into a time frame until they see a better environment.

The Eurozone's historical bond buying program by the ECB has also put pressure on gold. But ECB head Mario Draghi said this program will succeed in pushing inflation in the euro area back toward its goal.

This also means it will then eventually be good for gold.

GOLD DEMAND GROWING

Gold demand continues to grow with the central banks. China being one key buyer, as they quietly accumulate massive amounts of gold. Plus Germany continues to repatriate more of its gold. And more countries continue to call in their gold. They want it in their own country.

Apple's new special edition "Apple Watch" will be another source of demand. It'll be made with 18-karat gold.

Greek and Russian investors have also turned to gold as a safe haven. Financial uncertainty has attracted many gold buyers over the years. In fact, who knows better than Australia! They recorded their highest annual rate of gold production in a decade last year.

Plus, when gold is manipulated, it's indirectly saying there's plenty of demand to keep it up.

Rigging the gold price and precious metals is now coming into the spotlight. The Wall Street Journal reported that U.S. officials are investigating over 10 major banks for possibly rigging this market.

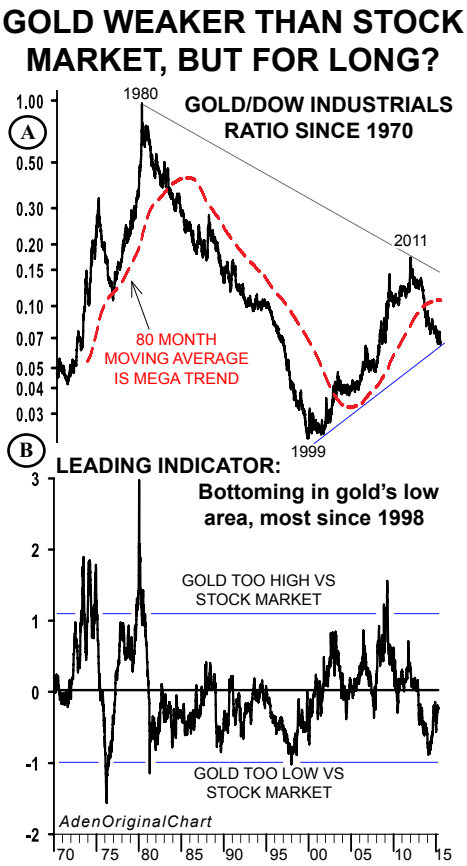
GOLD & STOCKS

With gold, silver and gold shares testing their lows, we're at a crossroads (see **Chart 17**). Will the current B decline fall below the November bear market lows?

Before we go into this, let's first look at gold compared to the stock market. **Chart 18A** shows the gold to Dow Industrials ratio, and the leading indicator, **B**, since 1970... the big picture.

Here you can see that gold has been weaker than the stock market since 2011 because the ratio has been declining since then. It's

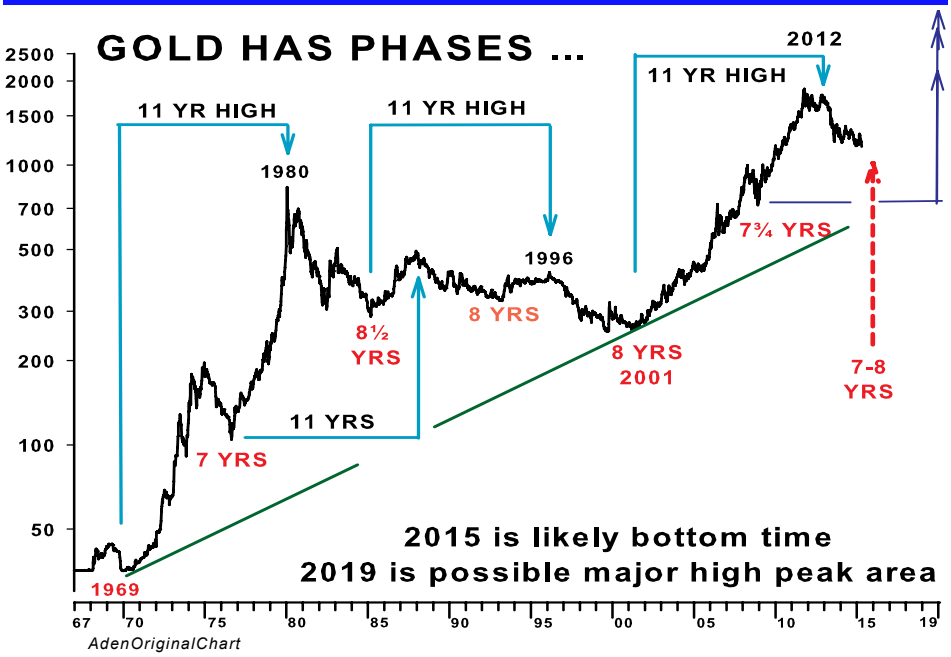
CHART 18



now currently holding at a 1999 uptrend while the leading indicator is bouncing up from lows last seen in 1998.

Since that was the last time gold was clearly bombed out compared to the stock market, it's saying we

CHART 19



could see a change later this year.

While the mega trend still favors the stock market, don't be surprised if gold begins to outperform stocks as the year unfolds.

This is when it's best to look at gold's big picture, and refresh our memory on the possibilities for this year.

GOLD'S BIG PICTURE

It doesn't cease to amaze us to see the ongoing consistency in price moves over the years. Gold has phases and as each one comes up, we watch it closely to see if this time repeats a similar pattern.

The next pattern coming up is a big one.

It's the major bear market low and the start of a new bull market. It's exciting to see how gold will perform this time around.

Chart 19 shows gold's major phases since 1969. That is, this chart shows gold's free market moves since it began moving freely in the early 1970s.

You can see the major low areas in gold, marked in red, have occurred on average every 8 years. The last one happened just shy of the 8 year mark at the lows of the 2008 financial crisis.

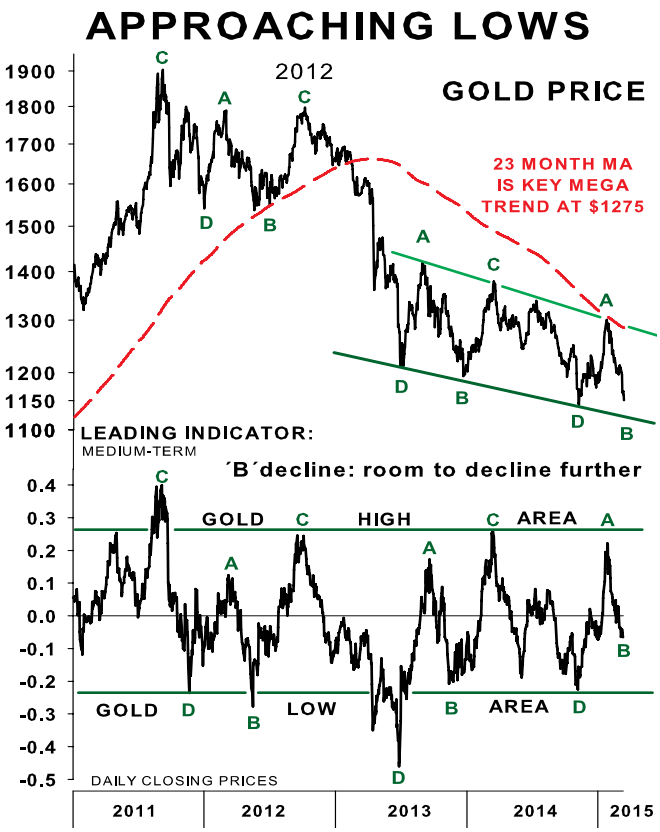
And now, most exciting, is the next 7-8 year low could occur by year end, or into 2016. In other words, by this time next year we'll probably have already seen the lows.

This means, we'll take advantage of weakness this year to buy, more, and plan to keep all of your positions for several years. Once the lows have been established, the next direction will be a big new bull market!

Note the blue lines. A major high area tends to occur every 11 years. The last 11 year high happened in 2012 at the second gold peak of the bull market. This means the next high could occur 11 years after the 2008 low.... which is in 2019.

Now if this major gold phase continues, we could see an exciting gold move develop, and we want to be sure to be onboard!

CHART 20



GOLD TIMING: B decline over?

In order to focus on the next major low timing, **Chart 20** will help.

The intermediate moves in gold also help us identify major trend shifts.

For example, the best moves in a bull market are the rises we call a C rise. This is when gold breaks up to a new high.

When gold failed to rise to a new high in 2012 during its C rise, it was the first telltale sign that the bull market was maturing (see **Chart 20A**).

Gold then broke clearly below its 23 month moving average in 2013 turning clearly bearish. It then went on to form bearish intermediate moves up until today.

We're showing you a daily chart this time in order to better see the moves.

First note the clear downchannel. It started with a very bearish D low. When D declines break down, you know the bear market is real.

The next C rise in 2014 was also a bearish rise because it failed to rise above the prior A peak.

And the D decline low that followed was bearish because it fell to a new low last November.

The difference here is that gold didn't have a waterfall type of decline, in view of a strong dollar. This is a quiet sign of a bottom wanting to form.

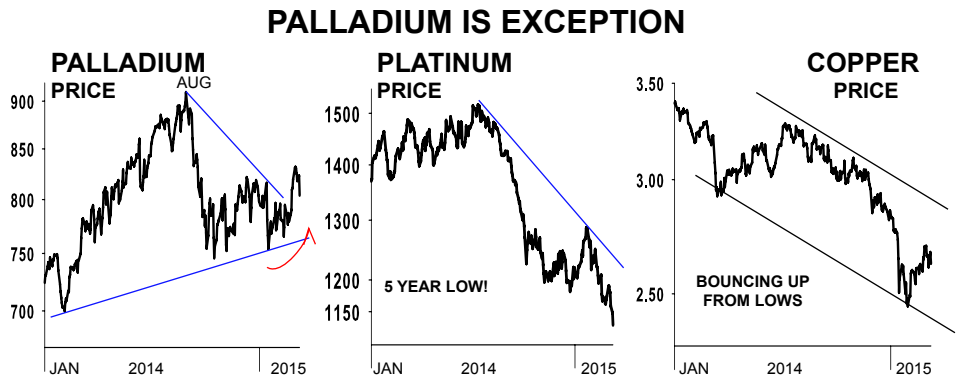
The latest A rise in January ended right at the 23 month moving average, showing that the bear is still in control. But the subtle strength in gold is now ready to show us if it's real, or if gold will have one more downmove.

WHAT TO WATCH FOR

A "B" decline has been underway for 7 weeks now. If gold falls sharply below its November low during this B decline, it'll be a bearish sign.

This is why we're at a crossroads. This B decline will tell us a lot depending on how it ends up. If it slips below $1143 for a short while

CHART 21



to possibly the bottom of the two year downchannel, it won't be so bad, and a bottom could then be forming.

The key is the 23 month moving average at $1275. Once this level is clearly surpassed, gold will turn bullish for the first time since 2012.

OTHER METALS & SHARES

Meanwhile there's a contrast between a strong palladium price and a new 5 year low in platinum (see **Chart 21**). We'll keep our palladium position and continue to avoid platinum for now.

Gold shares and silver are in the same boat as gold. Let's watch their November lows as a clue to better measure this weakness (see **Chart 17**). Once both silver and the HUI index rise and stay above their 65 week moving averages at $18.70 and 209, respectively, the worst will be over.

We're keeping our positions. We raised our position a bit last month, perhaps a bit prematurely, but we believe it'll be a good investment looking out over the next few months.

ENERGY & RESOURCES: Down

The energy sector is one of the largest sectors in the U.S. and the world. The massive price hit from over $100 just seven months ago to the $50 level has wiped out more than 100,000 jobs worldwide. The energy companies have cut back to weather the storm.

We don't have to tell you how much this fall has added to the deflationary wave that intensified.

Nevertheless, the U.S. is pumping oil faster than at any time since 1972, and storage tanks are getting filled to the brim.

At the same time drilling rigs are being idled at an unprecedented rate, according to the U.S. Energy Information Administration (EIA).

The EIA also lowered its 2016 forecast because it expects the slump in oil prices to weigh on the country's shale boom next year.

OPEC is also likely to keep its production policy the same at its meeting in June. This would be a crucial decision that will determine the price of oil for the rest of this year.

Saudi Arabia's oil minister expects oil prices to stabilize, and he's hinting at rising demand despite a spike in supplies.

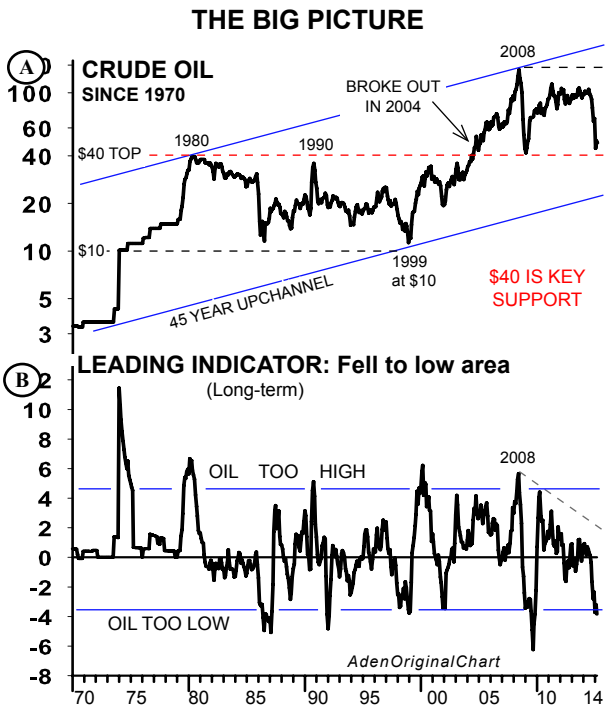
Violence in Libya and concern surrounding Iran's nuclear program raised risks to global oil supplies. And this is yet another factor that could trigger a sharp rise in the oil price.

Exxon Mobil and Royal Dutch Shell, the world's two biggest oil firms, seem set to withstand the oil price collapse better than others.

Exxon had poor fourth quarter earnings, but it's expected to reward investors with dividend hikes of 6% on average through 2017.

Meanwhile, crude is also under pressure with the strong dollar, as it hovers above its $47 lows. **Chart 22** shows what's likely. It shows crude oil since 1970 with its leading (long term) indicator.

CHART 22



First, note that oil has been moving in an uptrending channel since 1970. It went from $3 to $40 in an explosive rise during the 1970s, causing gas wars. It never returned to single digits, however, but it moved sideways to down during the next 24 years reaching a low in 1999 near $10.

Interestingly, crude didn't surpass the $40 level until 2004. To think that oil has been above $40 for only 11 years is madness.

With oil now getting closer to this $40 level for this first time since 2008, while the indicator is at a low area, it's saying the lows will likely occur well above $40. Crude is currently near $47. If it can rise and stay above $55, we could see a bounce up to possibly the $70 level.

The Resource sector is weak but trying to stabilize.

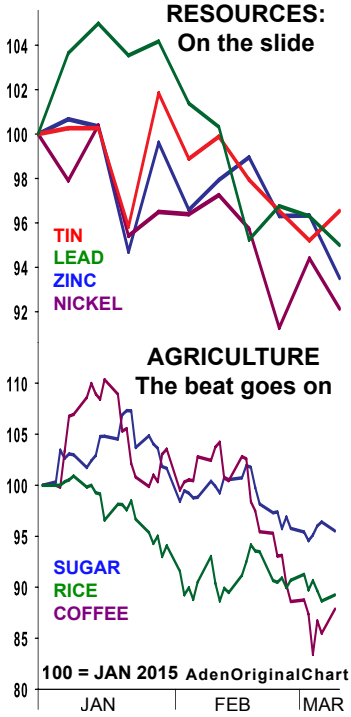
Note on **Chart 23**, 2015 is off to a declining start for the base metals and some soft commodities.

BHP Billiton and Rio Tinto, the world's two largest mining companies, are convinced China's hunger for iron ore isn't going away. Rio Tinto expects some 85 million tonnes of iron ore capacity to be taken out of the world market in 2015 due to the price slump that's made it too costly to produce. This combo could cause more stability.

Some people believe copper is not the economic barometer it used to be, but it still pulls some weight (see **Chart 21**). It'll remain steady above the January lows near $2.45. But once copper rises and stays above $2.70, it'll show good strength, therefore, signaling better news on the global economic scene.

Overall, we're still seeing a deflationary drag on the commodity sector in general.

CHART 23



OVERALL PORTFOLIO RECOMMENDATION

It's been a wild month. The markets continue their volatile action, and some of them have had extreme moves. But despite all the ups and downs, the major trends remain intact. That is, up for stocks, bonds and the U.S. dollar. The metals may still be bottoming but they're at a crossroads. For now, we advise staying with our allocations in the various markets and our recommendations generally remain the same.

PRECIOUS METALS, ENERGY, RESOURCE

The good start to 2015 fizzled. Gold, silver and gold shares fell further, and they're testing their November lows. It's now important to watch this crossroads to see if the lows essentially hold, even if a temporary slip below happens. A bearish sign would be a clear break below the lows. We're keeping our positions because the big picture tells us to have patience and hold for the upcoming months and years. We'll buy more if further weakness develops.

U.S. & GLOBAL STOCK MARKETS

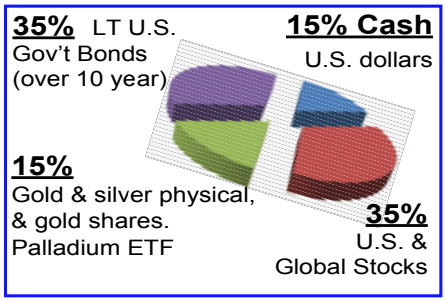
The stock market broke several records this month with some indexes hitting new highs. But then, the market got the rug pulled out from under it. And we could see a further downward correction before they head higher. Stocks remain bullish, and we advise keeping 35% of your total portfolio in our recommended stocks, but don't buy new positions at this time.

CURRENCIES

The U.S. dollar is soaring and a blow off appears to be in the making. There seems to be no stopping it, but the dollar is extremely overbought and it's still overdue for a decline. This means the currencies are bombed out and likely near a bottom. For now, however, keep your cash in U.S. dollars.

INTEREST RATES & BONDS

Bond prices have been declining in a bull market. This is normal but be cautious because they could fall further in the months ahead. An ongoing rise above 2.66% on the 30 year yield would be the first sign to possibly pull the plug on our bonds; that would be reinforced above 3.25%. Keep your positions, but don't buy new ones for now.



OUR OPEN POSITIONS in order of strength per section

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Palladium	PALL	Jan-13	69.71	76.56	9.83	Hold
Silver (physical)		Aug-03	4.93	15.37	211.66	Hold
Central Fund of Canada	CEF	Jan-15	13.36	11.38	-14.82	Hold
Gold Miners ETF	GDX	Jan-15	21.74	18.20	-16.28	Hold
Gold Shares SPDR	GLD	Jan-15	125.23	110.75	-11.56	Hold
iShares Silver Trust	SLV	Jan-15	17.61	14.84	-15.73	Hold
Silver Wheaton	SLW	Jan-15	23.05	18.56	-19.48	Hold
Gold (physical)		Oct-01	277.25	1150.60	315.00	Hold
Royal Gold	RGLD	Mar-14	66.04	61.39	-7.04	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Nasdaq Biotech	IBB	Nov-14	296.31	342.54	15.60	Hold
Consumer Discret Sel	XLY	Feb-15	74.89	74.25	-0.85	Hold
iShares US Med Dv	IHI	Oct-13	86.70	116.91	34.84	Hold
Nasdaq Powershares	QQQ	Jun-14	92.82	105.11	13.24	Hold
Home Construction	ITB	Feb-15	27.51	26.86	-2.36	Hold
Dynamic Software	PSJ	Feb-15	41.58	39.96	-3.90	Hold
S&P Glbl Tech	IXN	May-14	87.75	95.77	9.14	Hold
Dow Diamonds	DIA	Jun-14	169.08	176.35	4.30	Hold
DJ US Telecom	IYZ	Sep-12	25.22	30.06	19.19	Hold
iShares Transports	IYT	Oct-13	118.85	160.14	34.74	Hold
iShares Hong Kong	EWH	Jul-14	21.65	21.08	-2.63	Hold
Global 100	IOO	Oct-13	72.97	75.71	3.75	Hold
Microsoft	MSFT	Feb-13	28.01	41.98	49.88	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	98.32	29.10	Hold
iShares Canada	EWC	Jul-14	32.65	26.60	-18.53	Hold
iShares Mexico	EWW	Jul-14	70.93	56.48	-20.37	Hold
Energy Select SPDR	XLE	Aug-12	72.37	75.39	4.17	Hold
BHP Billiton	BHP	Aug-13	67.68	45.58	-32.65	Hold
Utilities Select	XLU	Apr-14	43.11	43.11	0.00	Hold
Procter & Gamble	PG	Sep-12	68.10	81.39	19.52	Hold
iShares Singapore	EWS	Jul-14	14.04	12.27	-12.61	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	82.31	41.91	Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	136.27	8.38	Hold
SPDR L-T Treasury	TLO	May-14	66.40	73.37	10.50	Hold
20+ year Try Bond	TLT	Feb-14	107.78	127.20	18.02	Hold
Intermediate Muni	MUNI	Feb-14	52.69	53.33	1.21	Hold

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

