THE
ADEN FORECAST
MONEY • METALS • MARKETS

APRIL, 2009 *in our 28th year!*

DAWN OF A NEW ERA

It's as though the drama never stops. Almost daily, it's been one thing after another. This month alone was extraordinary, in more ways than one as this drama continues to unfold at a fast pace.

STOCK MARKET LEADING?

Just a few weeks ago things seemed about as bad as they could get. The Fed's plans weren't working, Obama and his team appeared to be floundering, and the stock market kept falling, day after day. The rescue money was being misused and job losses were soaring.

Unemployment has become a big problem. Increasingly, more people are finding themselves out of work as the global economy collapses (see **Chart 1**).

At 8.1%, the U.S. unemployment rate is one of the highest, but unemployment is more than 14% in Spain, for instance, and it's rising all over the world.

In the U.S. alone over four million jobs have been lost since the recession began 16 months ago. The number of people collecting unemployment benefits is at a record, over $11 trillion in household wealth has been destroyed over the past year and people are angry.

They are angry at the government and they're especially angry at the Wall Street incompetents. Madoff became the poster boy for greed and corruption at a time when the gloom was probably the thickest. And then things started to change.

Stocks worldwide began to soar and they've barely looked back. From its March 9 low, for instance, the Dow Industrials surged 21%. Retail sales unexpectedly bounced up, housing starts rose, so did home sales, consumer spending and durable goods orders.

THE FED AS SAVIOR

This provided some hope that the worst of the banking and housing crises may be near an end. The aggressive actions of the Federal Reserve and other world central banks also tended to reinforce this.

The bottom line is that the Fed has literally pulled out all of the stops. It is not going to let the financial system fall apart, or the country fall into a depression, no matter what.

If that means bailing out nearly everyone and creating whatever amount of money it takes, then that's what it's going to do.

In fact, the Fed is taking measures never seen before. It's beyond unprecedented and the amounts of money involved are simply mind boggling.

To give you some examples… On top of the first $700 billion stimulus package, the second $787 billion stimulus plan and the $287 billion housing initiative, this month there was much more.

Most important, the Fed announced it was buying $300 billion in longer-term Treasury debt to help the economy recover. The Fed also said it would buy about $1.25 trillion in mortgage backed securities, like those backed by Fannie Mae and Freddie Mac. It'll buy around $200 billion of their long-term debt as well, bringing this total to be created and spent close to $1.8 trillion.

The markets immediately reacted as the dollar plunged, gold soared, and stocks and bonds surged.

On the heels of all this came more… Geithner announced a $1 trillion plan to buy toxic assets from banks in order to unlock the credit markets. The stock market liked this too and the Dow soared nearly 500 points.

SO FAR, SO GOOD?

Basically the markets are telling us that they like what they see, at least so far. By taking these dramatic actions, which dwarf anything seen in the past, the market seems to agree that it's going to help the banks get out from under the bad loans, which in turn will help ease credit conditions.

It's also going to lower interest rates. By buying government bonds, the Fed will drive interest rates down, which will also lower mortgage rates making them more attractive

INSIDE

to potential buyers. This in turn will hopefully help stabilize the real estate market.

And finally, by helping others from AIG, to banks and so on, the government's ultimate goal is to turn the economy around. It wants to halt the deflationary spiral that's gripping the economy, get people back to work, normalize credit, end the recession and move forward.

PROTECT YOURSELF

So what does all this mean for our investments? Well, you don't need us to tell you that this vast amount of spending is way bigger than anyone ever imagined and there will be a heavy cost.

As we've told you many times, **all of this spending and money creation is the direct cause of inflation.** But this amount of money is so massive, it's hard to say just how huge the resulting inflation will eventually be. We do know that it'll likely make the inflation of the 1970s look like child's play in comparison.

The stage has been set and for now, two things are certain…

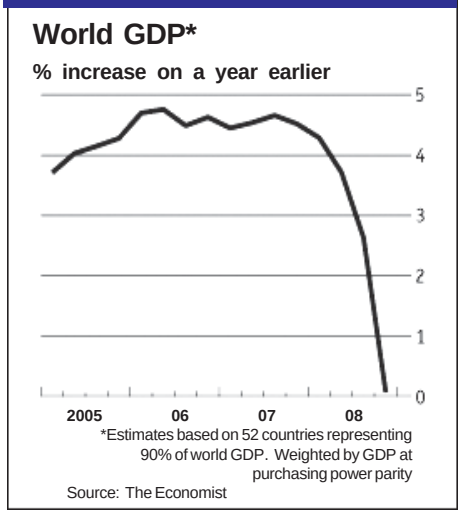
First, the U.S. dollar is going to fall, probably harder and faster than it ever has in the past, and gold is going to soar. How can we be so sure?

Again, as we've said many times before, and want to reemphasize now following the events of this month, this is BIG. It's probably the biggest deal that's happened in most of our lifetimes, yet few people really understand what it means, or how it will ultimately affect them directly. That goes for investments, lifestyle, retirement plans, savings and in other areas.

A NEW ERA

Most important to keep in mind, too many dollars are being created and that's going to cheapen the dollar. It will become worth less.

CHART 1



In other words, it's going to take more dollars to buy things. That is, the $100 of today could quickly become $50 in the not too distant future.

That's what inflation is all about. And as this happens, the cost of bread, milk, a home, a car and anything else you can think of will cost more.

Salaries will adjust to this of course, but they always lag. And not to be alarmists, but if you're retired, you need to plan for this, but know that there will also be some great opportunities.

In the 1980s, for instance, if you had some extra money, you could've locked in a 15% return on long-term Treasuries when they surged, along with inflation. We actually know people who did this and they had a great set up, collecting these super returns throughout the 80s and 90s as interest rates dropped, still collecting their 15%.

We don't agree with those who always paint a worst case scenario. Regardless of what happens, markets will bounce back, opportunities will arise and we'll always do our best to point these out as events unfold.

GOLD WILL SHINE

Gold, for example, will continue to be a great investment as the dollar falls, and especially combined with high inflation.

Gold is the ultimate inflation hedge and there's no telling where it'll end up, at least well into the thousands of dollars in the years ahead, and maybe sooner.

Remember, gold's peak in 1980 at $850 is now the equivalent of about $2200 in today's dollars. Gold has not even approached that level yet.

Once the dollar declines again and inflation kicks in, it'll be another story. In the future, $900 gold which we have today, will truly be seen as a bargain, especially considering the way the printing press has cranked up over the past few months.

No other investment can compete with gold. It has always retained its purchasing power for thousands of years. That's what makes it so special. Gold will protect you and that's why we feel it's so important to own some.

As for stocks and bonds, read on…

UPCOMING CONFERENCES

We'll be speaking at the following conferences in the months ahead. We'd love to see you there and hope you can join us.

♦ Hard Assets Investment Conference on May 11-12 at the Marriott Marquis in New York. For information: www.iiconf.com

♦ 15th Forbes Investment Cruise, June 2-14 aboard the Crystal Serenity from Lisbon to Venice. For information: www.intershow.com

Best regards,
Pam and Mary Anne

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U.S. & WORLD STOCK MARKETS

Is the worst over?

Just when the stock market looked like it would never stop falling, it did. The market abruptly turned up from its bombed out levels, with the Dow rising nearly 400 points on March 10.

Stocks around the world joined in, posting big rallies which remain in force. This has been a huge relief for most investors but the question now is, is this rally for real?

BOMBED OUT MARKET

As we've been pointing out month after month, the stock market was extremely oversold. In fact, it was at the most extreme ever!

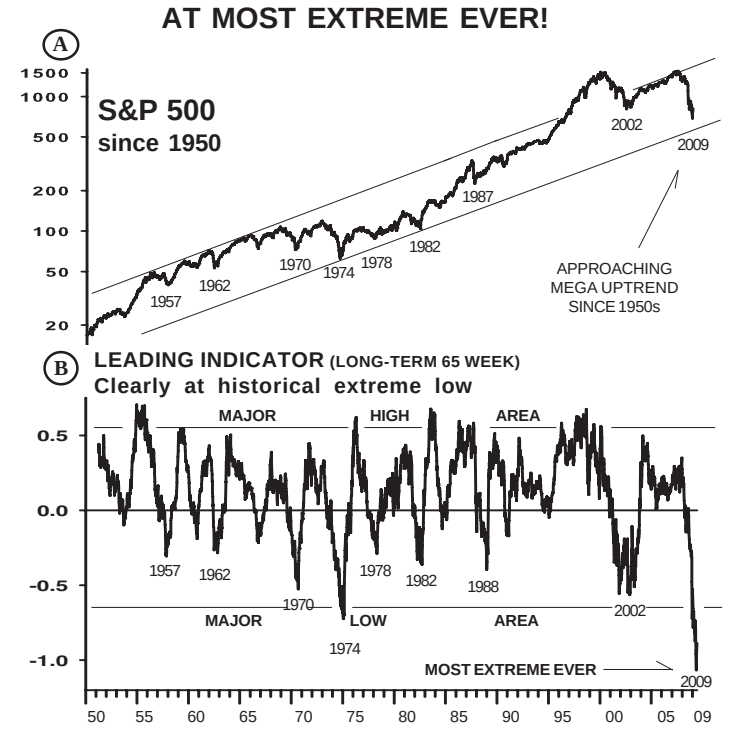
As you can see on **Chart 2B**, the leading indicator for the S&P500 simply collapsed. This was in reaction to the free fall in all of the stock markets and it shows how dramatic these drops have been.

The numbers reinforce this. Over the past 10 years, the stock market has chalked up its worst performance in history. And the drop since 2007 was especially extreme. In the past 19 months, the Dow Industrials declined during 16 of those months or 84% of the time. But things really intensified in the past six months with 90% down days occurring 21 times, which we're fairly sure is unprecedented.

The drop was simply unrelenting. For a while there seemed to be no end in sight. But most shocking, the decline became so intense that the Dow ended up losing more than half of its gains going back to 1932. So it's not surprising that retirement accounts have lost more than $2 trillion over the past year and a half.

Following a wipe out of this magnitude, it was also not surprising to see the stock market rebound. It was long overdue and so far, it's been a strong and powerful upmove. Even though it's still early and it doesn't look like much on the chart, especially compared to the drop since 2008, it has been impressive (see **Chart 3A**).

CHART 2



REBOUND RISE IMPRESSIVE

The two week upward rebound was the steepest in 60 years, and half of the time the market experienced 90% up days, which shows real strength. The Dow Industrials gained 21% in less than a month and the S&P rose 22%.

This, along with our leading indicator which still has room to rise further before it's overbought, strongly suggests that the stock market is headed higher (see **Chart 3B**). How much higher, we'll soon see but as this rebound unfolds, it will tell us if it's for real or not. That is, we'll see signs as to whether or not this rise marks the beginning of a new bull market rise or if it ends up being a bear market rally that'll provide temporary relief before the market again falls further.

So this rebound is vitally important. Since the stock market itself is the best leading indicator, signaling the future direction for the economy, there's a lot riding on the outcome.

If this rally evolves into a renewed bull market rise, for instance, it'll be very positive for the economy and the strongest sign yet that it'll eventually recover. But if the rise poops out prematurely and the market again turns down, it would be bad news across the board, forecasting a prolonged recession and more job losses, among other things.

CHART 3

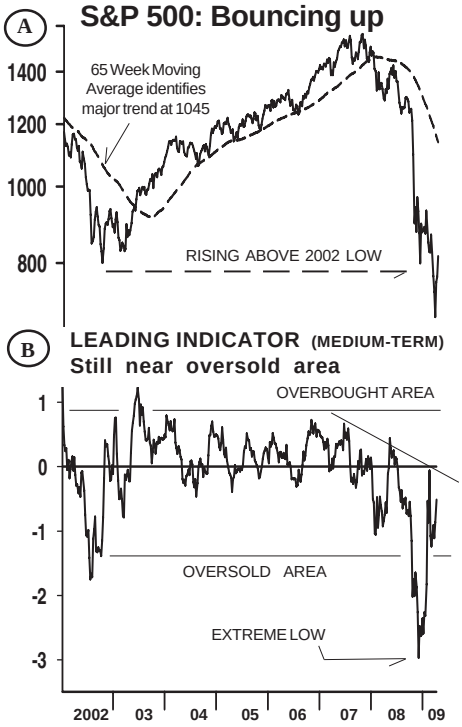
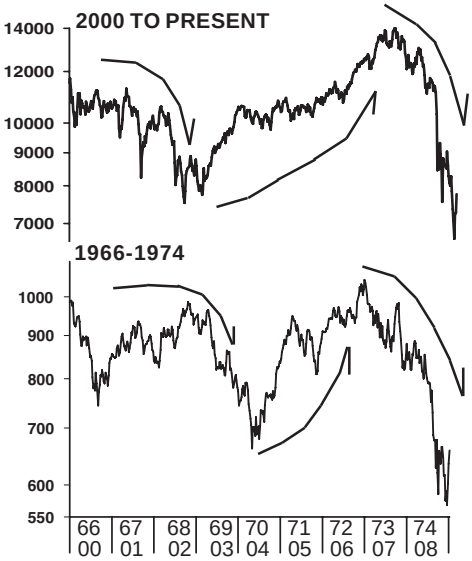


CHART 4

SIMILAR TIMES

DOW JONES INDUSTRIAL AVERAGE



REASONS WHY A MAJOR LOW COULD BE AT HAND

Many of our respected colleagues have given valid reasons why they believe this rise will end up being a bear market rally. But we're not so sure and here are some of the reasons why…

1. As we previously mentioned, the stock market is the most oversold it's ever been. Looking at **Chart 2B** again, you can see that whenever the leading indicator has approached the major low area, the S&P was stretched too far on the downside. A significant bull market rise followed with the Dow gaining between 32% - 574%. With the exception of 1987, these rises lasted between 2-5 years (see **Chart 2A** and the years we've marked, which identify bear market bottoms). And even if we eliminate the bull markets since 1982, which were the bubble years, the other five bull markets since 1957 gained 58% on average.

On a technical basis, this strongly indicates that a significant bull market rise is far more likely than not.

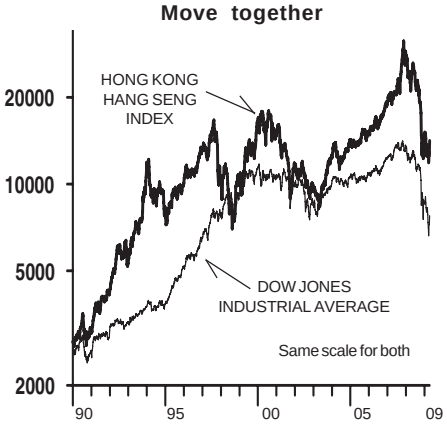
2. We have previously shown you the similarities between this bear market and the 1974 bear market decline, and the action in the years preceding the bears (see **Chart 4**).

In 1974, the Dow lost 45%. In the 2007-09 bear market, the Dow plunged 53%. So this bear has surpassed the 1974 bear in percentage losses, and it's the second worst decline of the past century. Only the collapse during the Great Depression era was more severe. This doesn't necessarily mean it can't get worse but it does tell us that this bear has already been very extreme, more than fitting the bear market profile.

3. Bear market bottoms normally occur when pessimism and gloom are rampant. After seeing the stock market fall for months on end without a break, combined with soaring unemployment, a worsening economy, the global credit crisis, plunging real estate values, soaring foreclosures and the list goes on, we can't remember a more gloomy, overall environment, probably in our adult lives. So this sentiment also reinforces the likelihood that the market has hit bottom.

CHART 5

U.S. & HONG KONG MARKETS: Move together



4. Plus, we've recently seen some first signs that the economy and the banking situation may be starting to stabilize. While it's still too soon to tell, if we continue to see more positive signs, it'll tell us that the stock market was indeed again leading the economy, which in turn would fuel further stock market advances.

5. Most important, we know that the Fed is literally going all out to turn this economy around. As we keep seeing, it's doing whatever it takes. And while it hasn't been easy because this crisis has been so much bigger than previous cases, there's an old saying that goes… **don't fight the Fed**.

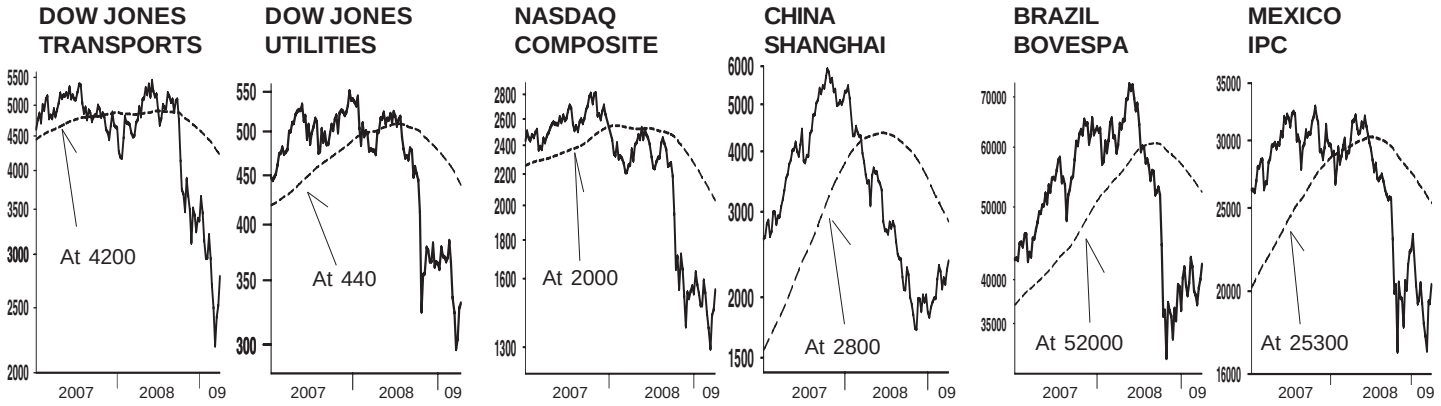
In other words, you want to generally stay on the Fed's side. And now that the Fed is more determined than ever, fighting the Fed could prove to be costly.

6. Another positive is the action

CHART 6

BOUNCING UP FROM MULTI-YEAR LOWS

CHINA AND BRAZIL DID NOT HIT NEW LOWS THIS YEAR



- - - 65 Week Moving Average; bearish below it

in some of the emerging markets (see **Chart 5**). Using Hong Kong as an example, you can see that it's been a lot stronger than the Dow. And even though the world stock markets generally move together, the emerging markets have held up better than the Dow and the other markets in the more developed world.

Note, for instance, that the markets in China and Brazil never broke down to new lows this year, like the U.S. markets did (see **Chart 6**). Mexico tested its lows. This means that these markets are stronger and they'll likely lead the way up. If they're now able to rise and stay above their moving averages, it'll be a super strong sign that they're turning bullish and the rest of the world stock markets will follow. So this too is something we're watching closely.

KEEP AN EYE ON...

For now, we're of course also watching the Dow. So far, it tested but it's resisting near 7900. This is a key level for now. Below it, the Dow is weak; above it means the rise continues. It could then move up to near 10000 as its next target. This would essentially amount to about a 50% rebound of the Dow's decline from its 2007 peak.

This would actually be fairly normal for a bear market rally. Following a sharp decline, these rallies tend to recoup about one-third to two-thirds of the previous drop. So if that ends up being the case and the Dow stops there, then the Dow will likely continue correcting its entire 25 year rise, meaning it's eventually going much lower, taking the market down to real bargain levels. That would obviously have serious economic repercussions, strongly suggesting that the Fed's not going to be able to pull it off, at least not for the time being.

Regardless of what happens, we'll stay with this rebound rise for as long as it lasts. It still has good upside potential and if it proves to be a bear market rally, then we'll sell our stocks at a better price and take advantage of this opportunity to lighten up, or get out of the market completely.

On the other hand, if this ends up being the beginning of a renewed bull market rise, we'll either stay with our positions, maybe switch to stronger stocks if we see signs of superior relative strength in other sectors and/or buy some new positions.

Currently, let's sit tight and watch this very important rebound rise because it's going to tell us a lot about what's happening.

U.S. INTEREST RATES AND BONDS

Rates: Stabilizing near lows

The Fed took the limelight this month. By taking the action it did, it has become the lender of last resort for the U.S. Treasury and this triggered worldwide reactions.

A DRASTIC MEASURE

First, the central banks of the world know what this means. They know that after slashing interest rates to zero and taking all sorts of expensive measures, from rescue plans to stimulus packages, it hasn't worked.

This only reinforces how weak the U.S. economy is, and how desperate the Fed is to turn it around and get it back on track. That'll be good for the global economy too, but the central banks also know the cost of taking these actions.

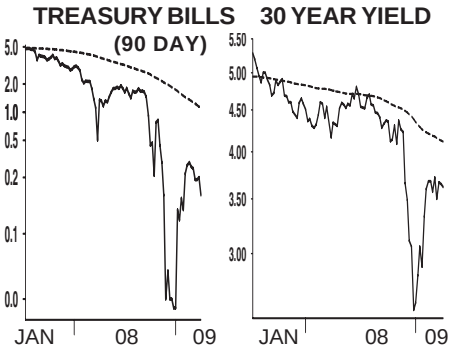
This is going to result in the unprecedented spending of trillions of dollars. More important, by buying Treasury bonds the Fed is embarking on the most inflationary action it can take and it's going to result in massive inflation in the years ahead. The central bankers also know that it's going to mean a much weaker U.S. dollar, and that's where the concerns lie.

The U.S. is already way in hock to foreign investors. It has maintained its high standard of living, thanks to foreign investors who have lent massive amounts of money. Having the world's reserve currency has made this very nice as well.

For now, however, we're seeing the first important signs that the party may be coming to an end, or at least it's certainly winding down.

CHART 7

TREND IS DOWN BELOW THESE MAs



- - - 65 Week Moving Average is key trend at 1.10% and 4.12%, respectively

A NEW TREND STARTING?

The TIC numbers come out each month. They show who's buying U.S. assets and by how much. The latest figures for January showed that investors actually sold their Treasury holdings to the tune of $44 billion compared to buying $35 billion in December. If you also include short-term securities, foreigners sold a net $144 billion.

This is a first in a long time and it reflects the growing uneasiness

among foreign investors who are holding U.S. government paper. They obviously don't like what they see and they're starting to do something about it.

LENDERS TO U.S. ARE UNEASY

China is the largest lender to the U.S., followed by Japan and the oil exporting nations. Together, these three alone hold over $1.5 trillion in U.S. Treasury securities, which is about half of the grand total.

Russia is the seventh largest lender, and both China and Russia have increased these holdings over the past year by 50% and 240%, respectively. So you can understand why they're concerned about the situation.

Chinese Premier Wen, for instance, recently told Hillary Clinton, "We have lent a massive amount of capital to the U.S. and we are concerned about the security of our assets. To speak truthfully, I do indeed have some worries." He then asked for assurances that their investments are safe.

CHART 9

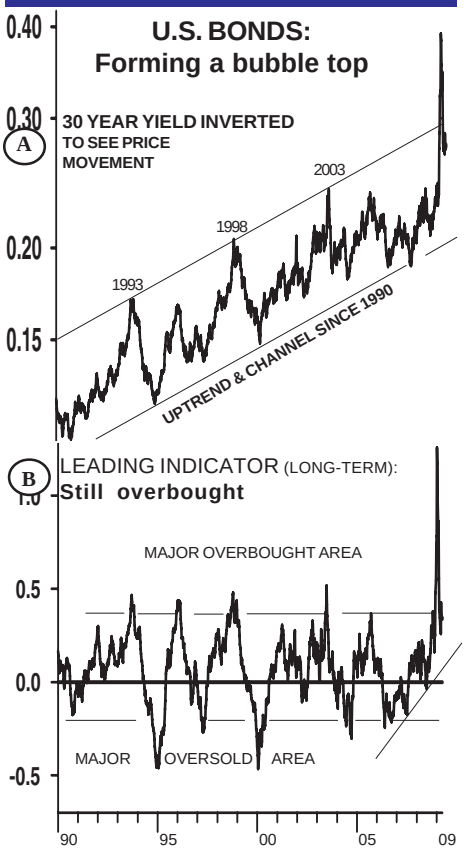
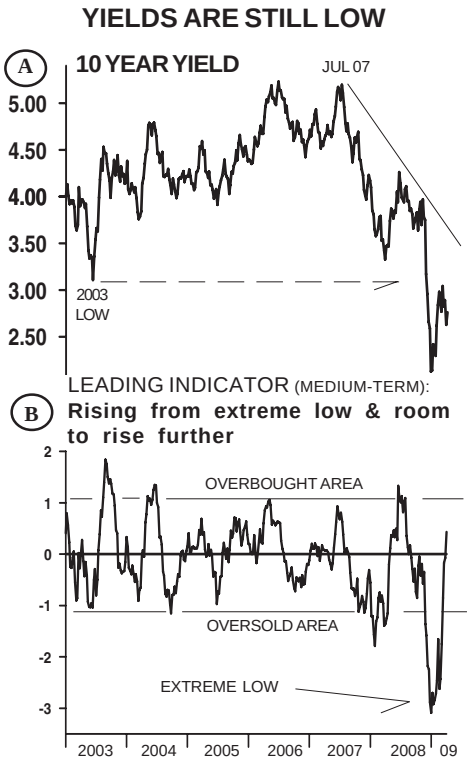


CHART 8



Russia has been voicing concern too and the Middle East sovereign wealth funds are questioning whether they'll continue buying U.S. government debt. This is not good, to say the least because the U.S. depends on foreign money. And with all the new spending, it's going to need foreign money more than ever before.

If foreigners continue cutting back on their Treasury purchases, the Fed would have to pick up the slack, as we're now seeing, and that'll result in even more inflation downstream.

HIGHER RATES ON HORIZON

It would also mean higher interest rates (see **Chart 7**). Even though there's been heavy Fed pressure to keep interest rates low, you can see they've been creeping up. If foreign lenders aren't lending, interest rates will keep moving higher in order to attract investors. What we're essentially seeing here is a tug of war between the Fed and the free market.

Currently, the major trend remains down for interest rates. That'll continue to be the case as long as the 90-day T-Bill rate and the 30 year yield stay below 1.10% and 4.12%, respectively, but that may change.

Note that the 10 year yield's leading indicator still has room to rise further before it's overbought (see **Chart 8B**). This tells us that rates are headed higher and as they rise, bond prices will fall.

PRESSURE ON BONDS

This shouldn't come as a surprise since the fundamentals for bonds have turned very negative. There's an abundance of supply. The Treasury will issue $2.5 trillion in new debt this year. Last month we told you it was $1.8 billion. That's how fast these numbers are going up.

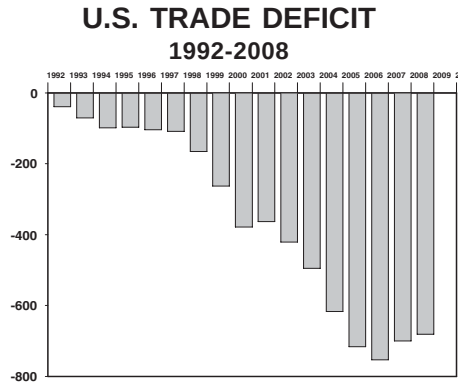
There's also a lot less demand and far stronger signs of future inflation. These factors have always been bearish for bonds.

Plus, bond prices are extremely overbought (see **Chart 9**). They dramatically overshot on the upside and there's now plenty of room for bonds to fall further. That's probably not going to happen from one day to the next, especially in this recessionary environment, but eventually it will. If you have bonds, keep them for the time being.

Aside from bonds, another casualty based on what's now happening will be the U.S. dollar. This is especially true combined with the massive U.S. trade deficit, which is very bearish for the dollar (see **Chart 10**).

As you'll see next, the dollar's in the same boat, but the situation is a bit more complicated.

CHART 10

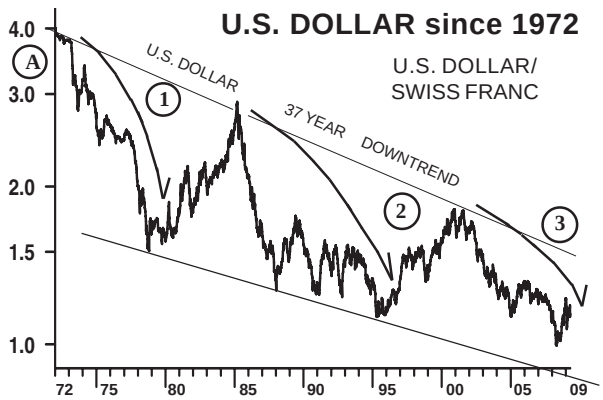


CURRENCIES

U.S. Dollar: Vulnerable

The U.S. dollar fell sharply following the Fed's announcement that it'll be buying Treasuries. In fact, it dropped nearly 3% in its largest one day decline since 1971, and it fell the most in about nine years against the euro. For now, the dollar clearly appears to have topped out.

CHART 11



DEBASING THE DOLLAR

Speculation that the Fed is debasing the dollar by creating excessive amounts of money and the probability of lower interest rates were the main reasons why. These factors rocked the financial world, kicking off international discussions about the credibility of the U.S. dollar, including doubts about maintaining its privileged position as the world's reserve currency.

So aside from not wanting to buy more U.S. bonds, the world's central bankers are now also questioning the dollar's global reserve status. And here too the repercussions of this would be far reaching because the **U.S. would then be unable to create the currency at will that its debt is denominated in**. That would obviously put the dollar in a real bind.

These rumors have been circulating for years, but now the situation has turned more serious. A United Nations advisory committee, for example, recently recommended that a global reserve system be created that would replace the dollar as the main reserve currency.

China also said that a global diversified reserve currency should be a main priority. Other Asian central banks and Russia are supporting this measure saying, "trade transactions using one currency that's dependent on the condition of a single country's economy is dangerous." Basically, these countries are concerned about the U.S. financial system and its unprecedented money creation, which poses a risk to worldwide inflation.

If this movement gains steam and countries continue diversifying out of dollars, the dollar is going to fall sharply (see **Chart 11**). The dollar's 37 year downtrend will intensify and the resulting decline will likely be dramatic.

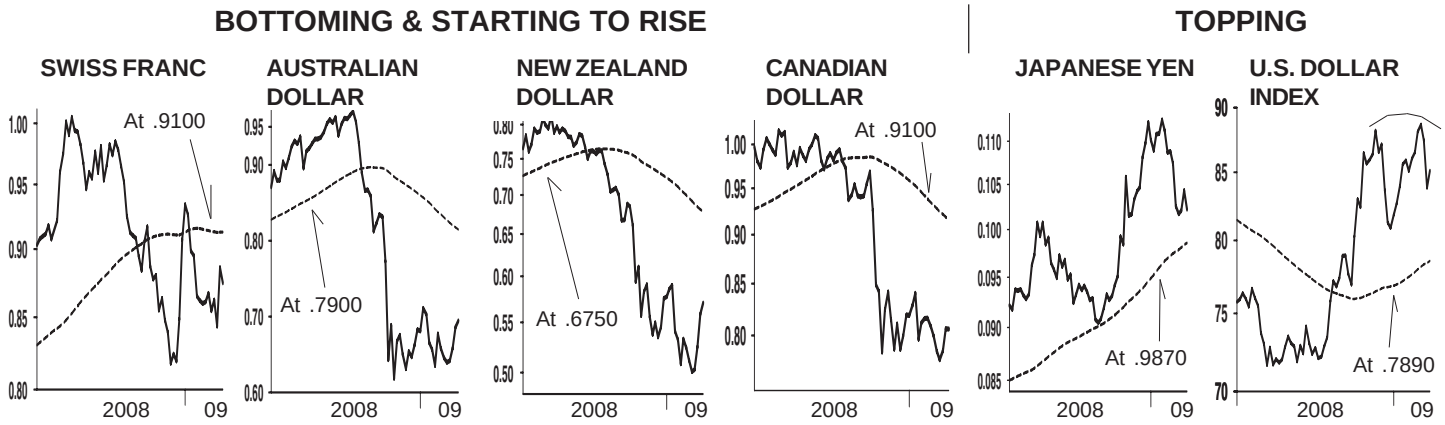
Remember, the true federal deficit is already around $65 trillion in total obligations. That's more than the world's GDP. This year's budget deficit is $765 billion so far, which is much more than all of last year's deficit and it's expected to be nearly $2 trillion at year end. These fundamentals are not good for the dollar's outlook. When you combine this with the fact that 40% of the world's wealth has been destroyed by this financial crisis, it helps to understand why everyone's so nervous. The dollar also fell for other reasons.

FED'S PLAN EASES TENSION

As you've seen, the Fed's actions not only relieved the stock market but it relieved the currency markets too, at least in the near-term.

For instance, it eased concerns about the banking crisis and it raised hopes that the economy will improve. It also reduced demand for the dollar as a safe haven from world economic turmoil and it eased the fear of risk, which again increased the attraction of commodity based and higher yielding

CHART 12



currencies. Rising stock prices helped reinforce this.

As we've previously discussed, regardless of the dollar's negative fundamentals, when the crisis was most intense people flocked to the U.S. dollar (and gold) as a safe haven, driving it higher. Why? Because when push came to shove, the U.S. was still considered the best place to be since it is the world's leader and investors felt safer there. But now that the crisis isn't as intense, that's no longer the case.

CURRENCIES LOOKING BETTER

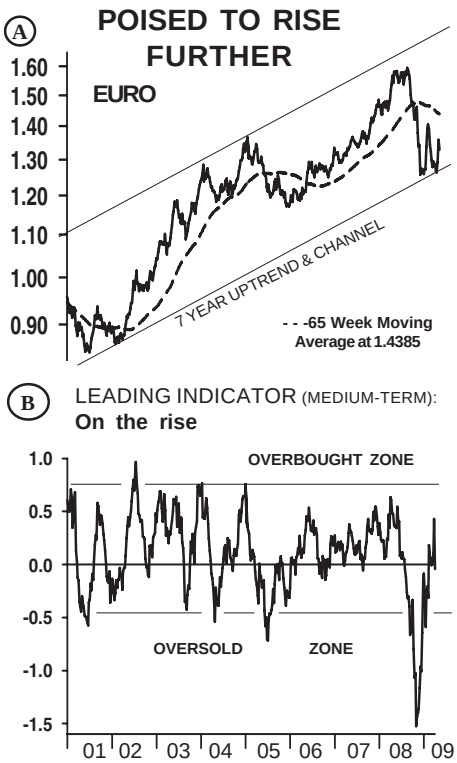
The other currencies began perking up as the dollar fell (see **Chart 12**). So far, the euro has been leading the way up, and its rising leading indicator tells us that the euro is header even higher (see **Chart 13**). If it can now stay above 1.32, its next upside target is near 1.44.

The Swiss Franc is also showing strength and most of the other currencies are beginning to follow. The commodity currencies, like the Australian and New Zealand, are looking better. They're benefiting from the likelihood of higher commodity prices, higher interest rates and more risk tolerance.

For now, keep the currency positions you have. This is a good time to buy new positions as well. If you do, stick to the stronger currencies we've been recommending, which are the euro, Swiss franc and Australian dollar, using part of your U.S. dollar cash holdings.

We'll continue to keep a position in the U.S. dollar for the time being, to balance things out. But if the U.S. dollar index declines and stays below 82 and 80.50, it would be a very bearish sign, confirming that the dollar is headed much lower. At that point, you'd want to be out of dollars for the most part, keeping your cash in the stronger currencies, and of course in gold.

CHART 13



METALS, NATURAL RESOURCES & ENERGY

Gold's mega rise just getting started

The writing is on the wall. It almost seems too clear. The massive spending plan by the Federal Reserve, the government and other major central banks is certain to cause an unprecedented surge in the gold price and in many commodities in the years to come.

The mega commodity rise that began in 2003 has been a demand based rise, but this ongoing chapter of history nearly guarantees that a stronger bolder bull market will end up completing the mega rise. A demand based rise, together with excessive monetary creation will be dynamite under the commodities.

Inflation is the by-product of too much money chasing too few goods. The Fed's and other central banks' monetary abuse will determine inflation's ultimate outcome... will it just be high or hyper inflation?

When the Fed prints too many dollars, for instance, it makes the price of commodities and other products rise. Not all rises are equal, however, as some prices will rise more than others.

GOLD IS THE BEST INVESTMENT

This brings us back to gold. Gold will likely outperform other markets because of its special qualities. You already saw a taste of this strength during the heat of the crisis this past year. **Chart 15** shows gold's performance compared to stocks, currencies, oil and silver since mid-2007, when the subprime mortgage crisis first hit.

Gold has clearly been stronger than stocks and currencies since then, but it wasn't until the second half of last year when the crisis escalated that gold strongly outperformed the commodities too. Silver fell with the world economy but gold held its own.

Bonds were the only exception as they jumped up when the crisis intensified last year. **Chart 14** shows how gold fell versus bonds, but most important is the mega trend as it continues to favor gold. Even though bonds have been a decent investment this decade and especially since last

CHART 14

MEGA TREND STILL FAVORS GOLD

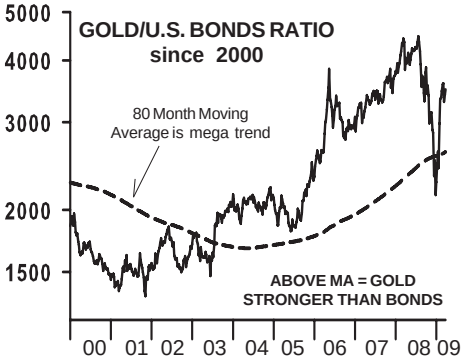
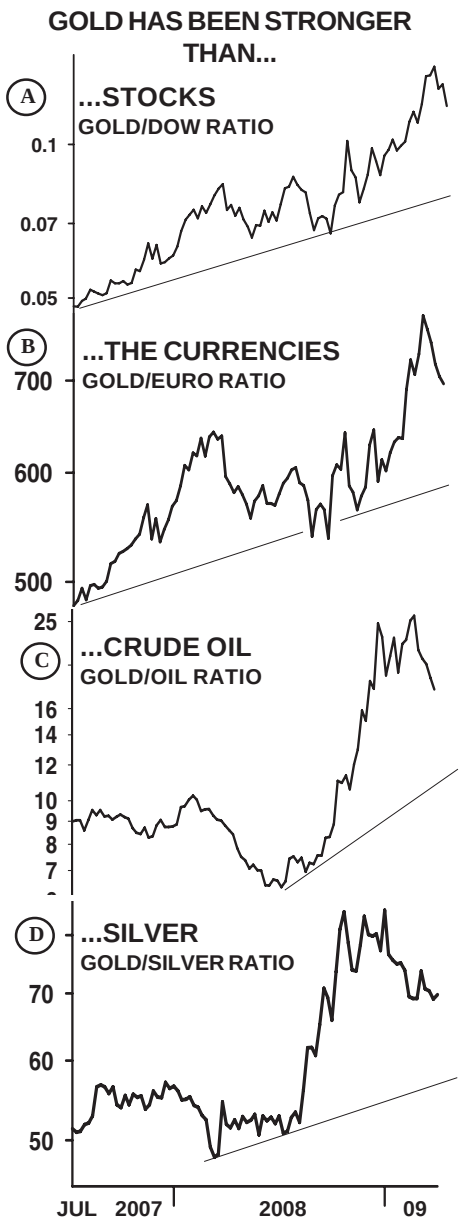


CHART 15



year, this ratio shows that gold has been the better investment since 2003, when the ratio first broke above its mega moving average.

This is not casual because this trend doesn't change often. The ratio has stayed clearly above this moving average since then. It was tested but the ratio has since been bouncing up, reaffirming that gold is still the better investment.

GOLD: Ultimate king

So why is gold so special? Why was it practically the only investment (outside of bonds) to end 2008 with a gain?

The crisis is causing many governments to rethink their role in the monetary world. How best to change the world to make it a more stable, safer place and not be subject to any one country. New rules and regulations are in the works and while this will take time, gold will have a role in this new order.

Gold is a viable alternative to the dollar. It is the ultimate discipline currency. It is real, it's tangible and it holds value over time. People know this when times get tough and the only thing that's certain is uncertainty. That's why gold is bought as a haven; it's the ultimate insurance against disaster.

The dollar also became a haven during the past year as many moved into the reserve currency of the world as a safety precaution. But that is now changing because the enormous spending plan is putting pressure on the dollar.

EXPLOSIVE ENVIRONMENT

Our good friend Brien Lundin said it well... "we are about to live through something never seen in the history of mankind, a massive, global, coordinated reflation of every fiat currency. The resulting bull market in metals will dwarf anything ever experienced before. The 1970s... the bull-run so far this century... all have been preludes to what will happen.

Much more money is chasing a limited amount of gold. Assuming there are 135,000 tonnes of gold in existence today at $1000 an oz, the total dollar value of all gold above ground is a mere $4.34 trillion dollars."

If the government plans to spend over $12 trillion dollars to revive the economy, you can see why gold is an excellent investment in spite of its already eight year old bull market.

Let's take a look at "the best bull run in the past century," gold's run up in the 1970s, along with its key 65-week moving average (you can see on **Chart 16** how well this average worked then, and it still does).

Gold rose 2300% in 10 years, from $35 in 1970 to $850 in 1980. Or if you take the two separate bull markets, from 1970 to the 1974 peak gold rose about 470%, then from 1976 to 1980 gold gained 725%.

In those days, U.S. inflation, the falling dollar, Watergate and Vietnam were the dominant problems. It was a U.S. phenomenon. Today it's a global problem and much more serious. But using the gains in the 1970s as an example to forecast where gold could end up... $5800 would be the equivalent upside target.

So far, gold has gained 300% from 2001 to 2008, which was impressive because inflation was low and times

CHART 16

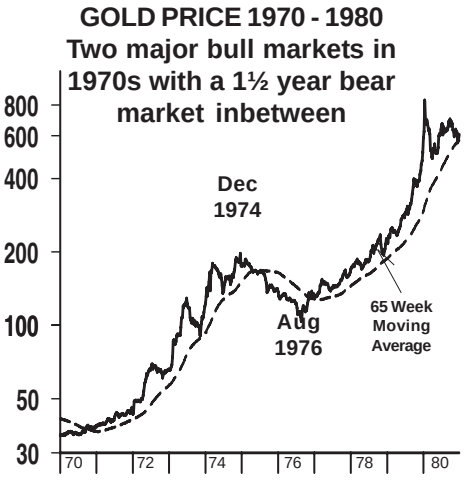


CHART 17

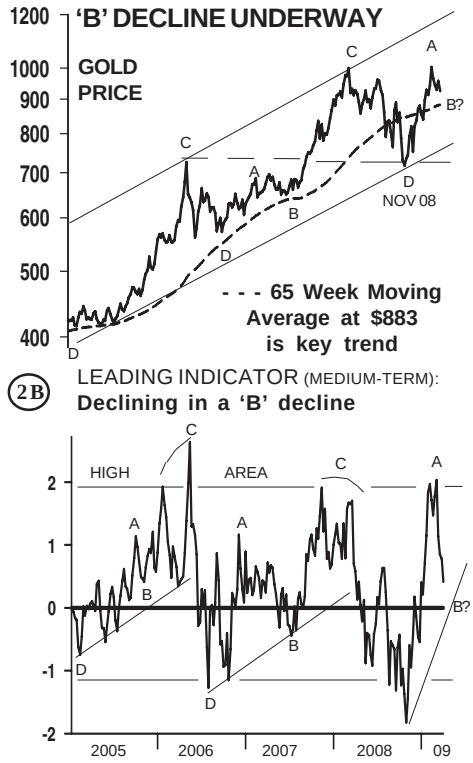
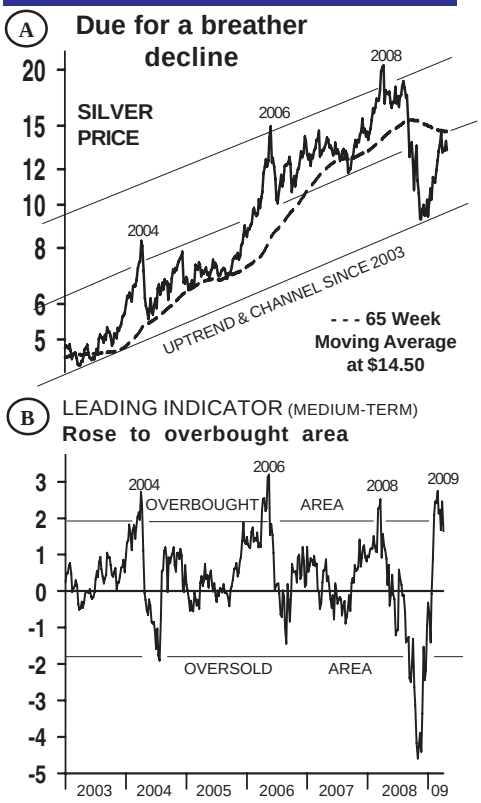


CHART 18



were generally good, especially compared to today. If anything, this potential target is conservative based on the world's current reality. The U.S. budget deficit alone will likely be near $2 trillion this year, which also reflects that the gold price is too low in proportion. The point is, gold is still a bargain.

DEMAND CONTINUES TO GROW

Demand for gold is growing. Physical demand is growing by leaps and in an impressive move, China is now considering increasing its gold reserves by seven fold to spread its foreign exchange risk. This is a growing tendency and it will cause a large further jump in demand.

GLD is the largest gold exchange traded fund and it's big. The World Gold Council recently said it now holds more bullion than all but five countries in the world. It holds roughly 1125 tonnes of gold, which is worth about $33 billion. This is impressive but at the current value, this is about one fifth the size of the AIG bailout. That too helps put the low gold price in perspective.

The emerging world has not been as badly affected by the crisis as the developed world. In other words, the developing world will continue to grow albeit at a slower pace, but demand for commodities needed to build will keep growing which in turn will keep prices firm.

China is planning to boost government spending to revive their economy. It's the largest consumer for copper, as well as other raw materials. Plus, the stimulus plan is good for commodities because these efforts are geared to turning the economy around. This month's better housing numbers, for example, boosted several commodities like copper, platinum and oil, which coincided with extreme or clearly oversold markets.

GOLD TIMING: 'B' decline

Gold's super strength versus stocks, currencies and commodities has been due to normalize. That is, gold has been poised to weaken while the others bounce up. This is still in process. Gold is declining in an intermediate decline, we call B, while oil, currencies and copper are rising.

Gold reached a high (we call "A") six weeks ago on February 20 and it's been declining moderately since then. Granted, gold spiked up when the Fed announced its aggressive plan but otherwise it's been drifting down. Gold is under short-term pressure by staying below $945 (basis June), but if it can stay above its 65-week moving average now at $883 during this weakness gold will remain strong (see **Charts 17A** & **B**).

Gold is firm and so far it's behaving in true bull market fashion. Its rise from November to February was

CHART 20

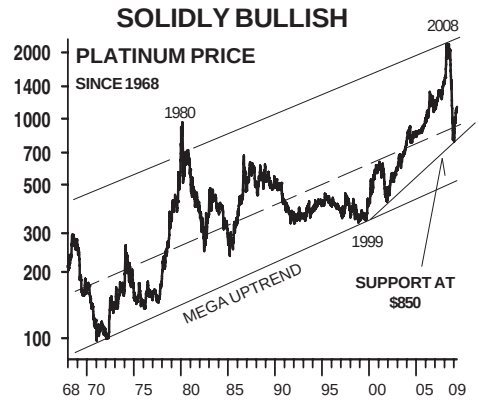
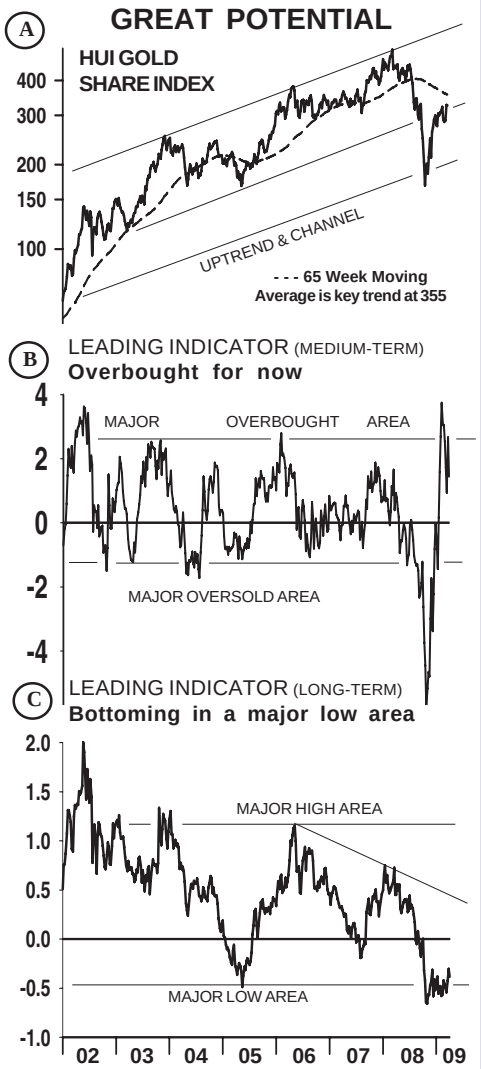


CHART 19



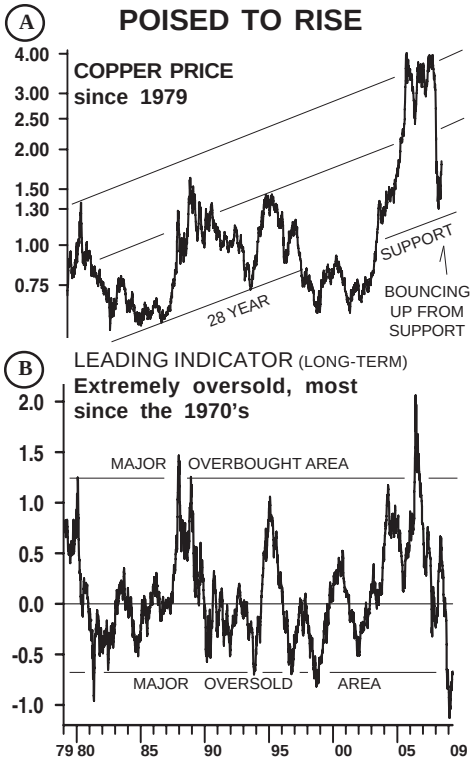
impressive at 42% (A rise), and so far the decline has been moderate, but even if it declines to test last November's low at $705, the bull market would still be fine.

That D low last November is a strong support because it's also near the 2006 gold peak (C peak), which is a solid base (see dashed line on **Chart 17A)**.

Keep in mind, the 8 year cycle low could've already happened last November, or it may be upcoming this year. The point is, we want you to be well positioned in gold. A 'B' decline is still underway and if gold closes below $883 we could see $705 tested. Any weakness like this would provide a wonderful buying time.

On the upside, once gold rises and stays above $945, the B decline will be over and a C rise will

CHART 21



be underway. In bull markets this rise tends to be the best rise, when gold reaches a new bull market high. This means that once gold closes above its year ago March level at $1004, we could see gold jump to possibly $1200 in the upcoming C rise. This would take gold to the top of the four year channel (see **Chart 17A**).

SILVER: More volatile than gold

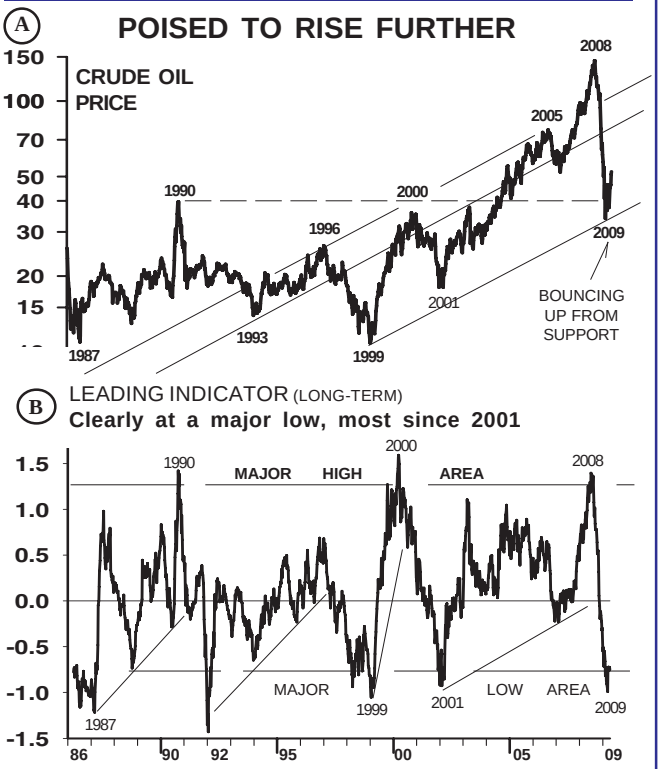
Silver flip-flops between moving with gold as a precious metal, and moving with the base metals and the economy. Last year when silver fell sharply, and much more than gold, it fell with the commodities in general. It also rose more than gold in the recent rebound. But as you can see on **Chart 18A**, it's currently resisting below its 65-week moving average while its leading indicator (B) is topping in an overbought area.

This means that if silver stays below $14,50, it'll be under pressure. This level is key now because it's the February 20 high, as well as the 65-week moving average. Once broken on the upside, silver will move into a stronger phase and it could then test the 2008 high as its next target. On the downside, silver is firm above $12.50, but below $12 it would show weakness and it could then test the 2008 lows.

Silver, like many metals and commodities is overbought for now, but it's a great buy this year for the upcoming years. Gold shares are in a similar situation (see **Chart 19**). Platinum is strong in a solid upchannel since 1968 (see **Chart 20**). **This means that this year is the time to pick up bargains as they occur. We will be guiding you with this as we go along.**

And this goes for most commodities, including resource and energy. Copper and crude are the best barometers for this sector. And their rise this past month was a breath of fresh air for the economy.

CHART 22

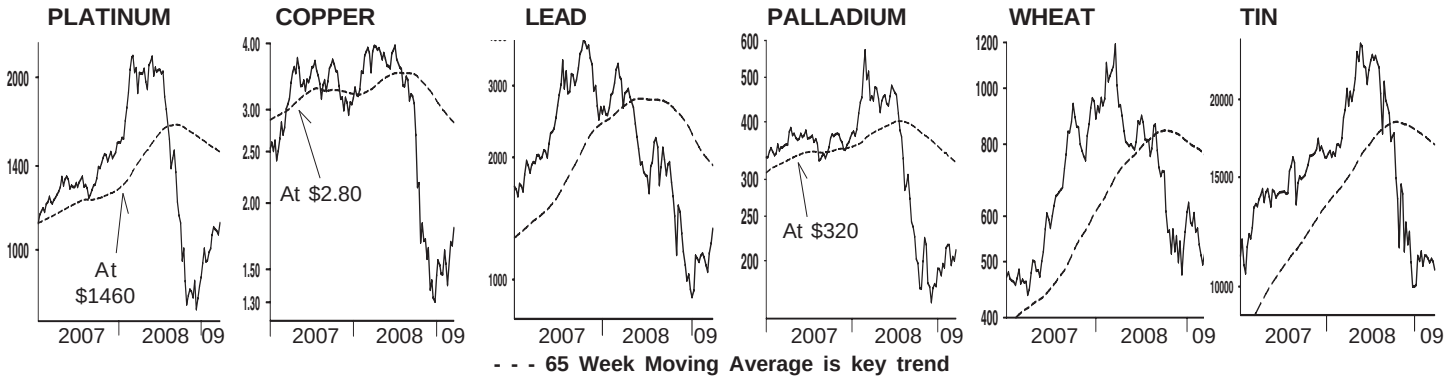


In fact, when looking at the big picture on **Charts 21** and **22**, you can see they are both bouncing up from major support levels (A), while the indicators are rising from major low-oversold areas. This is showing a great buying area.

Interestingly, oil essentially fell to its 1990 peak area and it's bouncing up from there (see dashed line on **Chart 22A**). How times change… in 1990, the $40 price level was shockingly high… now it's a relief.

Overall, as **Chart 23** shows, the commodities are bottoming and this is a good time to keep and/or add to your positions during weakness.

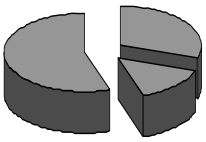
CHART 23



OVERALL PORTFOLIO RECOMMENDATION

This month has been extraordinary. The Fed is taking measures never seen before and the amounts of money involved are mind boggling. This will eventually result in big inflation and that's what the markets are beginning to indicate. The dollar is going to fall and gold is headed higher, probably dramatically. Stocks will likely benefit initially, but bonds won't. Keep the positions you have for now, but we'll be making some changes as events and the dominant market trends unfold.

30% Metals
20% Gold & silver physical & ETFs, & gold shares
10% Gold only



15% Energy, resource & other stocks

55% Cash: 30% in US dollar T-Bills; 25% in euro, Swiss Franc and Australian dollar, or currency funds

STOCK MARKET RECOMMENDATION

Just when the stock market looked like it would never stop falling, it did. The market hit bottom on March 9 and it then moved up in its steepest two week rebound in 60 years with the Dow Industrials gaining 21% in less than a month. Nevertheless, the stock market is still extremely oversold, signaling the market is headed higher. As this rise unfolds, it'll be very important to see if it's just a bear market rally or the start of a new bull market rise. If the Dow can rise and stay above 7900, it could continue up to near 10000 as its next target. Keep the stocks you have but do not buy new stock positions for now. Let's first see how this rebound develops as it'll determine if we lighten up, sell and/or buy some new positions.

PRECIOUS METALS AND THEIR SHARES RECOMMENDATION

The gold price reached a peak we call A on February 20 and it's been declining moderately since then in an intermediate decline we call B. This weakness could last a while longer. If $883 fails to hold, we could see gold test the $705 level. Meanwhile, use gold and silver weakness as an opportunity to buy more gold, silver and gold shares.

The energy and resource sector is bouncing up and giving hope that the recession could end by year end. Oil and copper are rebounding while gold and silver soften. They all have great potential in the years ahead. This is the year to take advantage of weakness and buy low for the bright future ahead. We are making some adjustments. We are replacing DBC with Freeport McMoran Copper & Gold (FCX). This means, sell DB Commodity (DBC) and buy FCX. FCX is a better copper play and a better performer. We also recommend replacing Apache Corp (APA) with Denbury Res (DNR) for the same reason.

INTEREST RATE & BOND RECOMMENDATION

The Fed took the limelight this month. By buying Treasury bonds the Fed is embarking on the most inflationary action it can take. Eventually, this will result in higher interest rates and lower bond prices but for now, a tug of war is taking place. The Fed wants to keep interest rates low and the major trend remains down with T-Bills (90 day) and the 30 year yield below 1.10% and 4.12%, respectively. If you have bonds, keep them for the time being. **This month we sold the Proshares Tr funds (TBT); if you still have it we'd sell.**

CURRENCIES RECOMMENDATION

The U.S. dollar fell sharply this month and it appears to have formed a top. A continuation of the dollar's 37 year downtrend will likely soon begin. That'll be confirmed once the U.S. dollar index declines and stays below 82 and 80.50. We'll continue to keep a large position in the U.S. dollar, but that may not be the case for long. The other currencies are perking up and the euro has been leading the way. If it can stay above 1.32, its next upside target is near 1.44. Keep the currencies we've been recommending. This is a good time to buy new positions. If you do, buy the stronger currencies like the euro, Swiss franc and Australian dollar, using part of your U.S. dollar cash holdings. Overall, we now recommend having 30% in U.S. dollars and 25% divided between these currencies.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Eldorado Gold	EGO-AMEX
SPDR Gold Trust	**GLD-NYSE**
iShares Comex Gold	**IAU-AMEX**
Central Fd of Can	CEF-AMEX
Agnico Eagle	AEM-NYSE
iShares Silver Trust	**SLV-AMEX**
Mkt Vectors ETF	GDX-AMEX
GoldCorp	GG-NYSE

RESOURCE, ENERGY & OTHER SHARES

BHP Billiton	BHP-NYSE
Freeport McMoran	FCX-NYSE
Denbury Res	DNR-NYSE
Rio Tinto	RTP-NYSE
Suncor Energy	SU-NYSE
Transocean	RIG-NYSE
Dow Diamonds	DIA-NYSEArca

CURRENCY ETFs & FUNDS

Euro Currency Tr	FXE-NYSE
Swiss Franc Tr	FXF-NYSE
Merk HD Cur Inv	MERKX-NSDQ
Australian Dl Tr	FXA-NYSE
Franklin Temp Hard	ICPHX-NSDQ

Note:
All of the shares, funds and ETFs are listed in order of strength in each section.
The gold and silver ETFs are listed above in bold.

