THE
ADEN FORECAST
MONEY • METALS • MARKETS

APRIL, 2010 *in our 29th year*

BIG PICTURE FOCUS, MOST IMPORTANT

As we end the first quarter of 2010, we can see it wasn't an easy one.

DOUBTS DOMINATED Q1

Following the surging rises of last year, many of the markets corrected their gains, which led to some confusion. There were doubts about the economic recovery, the health care plan and the future of the European Union as the crisis in Greece took center stage.

But in the end, optimism returned. The economy started looking better, both in the U.S. and globally (see **Chart 1**). The Greek crisis calmed down, health care was resolved and investors regained confidence.

That being the case, the stock market surged and so did many metals and commodities, especially oil and copper prices. This was important because copper is a great barometer for the global economy and so is oil, suggesting growth will continue.

Gold is again on the rise, while the U.S. dollar remains strong. It benefited from a flight to safety during the first quarter when uncertainty intensified. But this too settled down as calm returned.

Most important, interest rates rose strongly, confirming that a mega trend change is taking place. In other words, the era of low or declining rates since the 1980s is coming to an end and interest rates will now likely head higher in the decades ahead.

This is a huge deal with a wide range of repercussions, which you'll hear more about in this month's Interest Rate section. It's the kind of change that doesn't happen often but when it does, it warrants special attention because it's announcing the beginning of a totally new era.

MAJOR SHIFTS TAKING PLACE

Interestingly, this is coinciding with another major shift that also warrants attention, as we've discussed in the past. This far surpasses the monthly or quarterly movements in the markets and here's why…

World power shifts. That's been the story for thousands of years and it's a natural phenomenon. Throughout history the one constant has always been change.

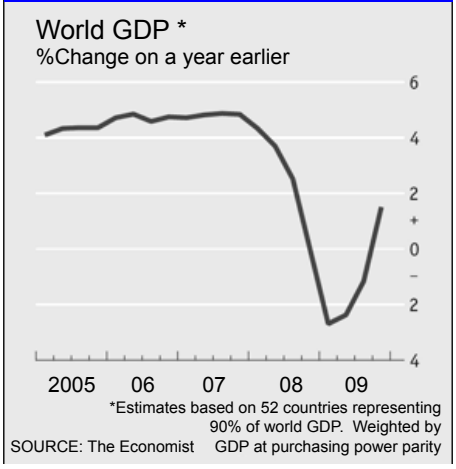
There were the Egyptians, the Greeks, the Roman Empire and so on, and they were all great powers in their day. In more recent centuries, Spain ruled the world. Many other countries also had their time of glory like Portugal, France, Holland and Britain. Over the past 90 years, the U.S. has held the top position.

Interestingly, holding on to the top position has only lasted about 100 years on average. Of course, there have been exceptions but that's been the general rule of thumb, historically speaking.

In most cases, what usually happened was also interestingly similar… each world power initially started from somewhat humble beginnings but the people worked hard and eventually the country or empire became great. They then began to take over other territories, gaining world dominance in one way or another, usually involving wars. As a result, the power country became spread too thin, spending lots of money along the way.

Meanwhile, the power citizens began to enjoy a higher standard of living, but as time passed they became spoiled. The people wanted more,

CHART 1



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INSIDE

but with the power country running low on money, it usually turned to inflation and the debasement of the money to cover the growing costs. That marked the beginning of the end for the super power.

SOUND FAMILIAR?

This process didn't happen from one day to the next. It was always gradual, but the similarities are striking in almost every case. It's a reflection of human behavior and it's happened over and over.

Sound familiar? It does. As we've pointed out before, the U.S. is, unfortunately, following in the footsteps of the former great powers. The similarities are almost spooky but they're happening.

At the same time, China has been rising fast, and it too is beginning to follow the old familiar pattern. The Chinese started from humble beginnings and they've been working very hard for the past 30 years. They've made amazing strides and they've become a rich and powerful country. We also know that Chinese citizens are enjoying a higher standard of living. They now own more cars, for instance, than any other country.

Along with this newfound prosperity we're also seeing a change in attitude. From various sources we're hearing about a new self confidence and growing Chinese nationalism. On the international front, they've become more assertive, their global influence is rapidly growing and they're clearly doing their own thing.

As we've often noted, the current world power's currency is the currency that's commonly used in international transactions and for global reserves. And here too we're seeing a shift. Increasingly, China is making its own deals with other countries, shunning the U.S. dollar and using the yuan instead.

STAY TUNED TO THE BIG PIC

From a historical standpoint, what's happening is really fascinating. The pendulum is swinging from West to East and there's going to be many repercussions during this long-term transition.

Many people won't like it and tensions will likely continue to grow. But this transition has actually been taking place for a few decades now and it's going to continue.

So what's the point? The point is that as an investor you need to be aware of this big picture shift, which is far more important than the everyday ups and downs in the markets. This power shift is going to affect many markets in a big way. It already has and those are the mega trends you want to be invested in for big, long-term gains.

GOLD: Investment of choice

The ultimate winner in this shift, for example, will be gold. China's demand for gold is growing, China is adding gold to its reserves and so are many other emerging countries. As these countries continue to grow and prosper, the gold price will keep heading higher. The ongoing decline in the U.S. dollar will only add fuel to gold's fire.

Other commodities will also do well. Again, as demand from these emerging countries continues to grow, you'll see the base metals, resources, oil and other commodities also rise much further.

Countries that are rich in raw materials will reap the benefits too, along with the new emerging nations. These countries will also be good investment bets looking out over the long-term. And countries that are in slow declines will not do so well.

The bottom line… this is where your primary focus should be. Don't forget… these markets have generally been the top performers over the past decade and there's no reason to believe these mega trends are going to be changing any time soon.

Sure, there will be normal ups and downs along the way, but the mega trends will keep marching forward and you'll want to stay with them.

As Jim Rogers wrote in his book on commodities, bull markets in commodities have lasted between 17 to 22 years going back over the past 400 years. This one started about nine years ago, which means there's still another decade or so to go before it reaches maturity, based on the historical average.

CHINA: Ongoing engine

We feel strongly that in the next decade, the ongoing rises in these markets will continue to coincide with China's growth, as well as the growth in other emerging global markets.

India, Brazil and other Asian nations are all experiencing an amazing transformation. As our friend Bill Bonner points out, these countries are young, dynamic and exciting. In comparison, the developed world is old and it's starting to crumble. This is reflected in the economies of these nations. The emerging nations are understandably more vibrant than the older ones. One simple reason why is because there's a lot more room for growth.

As for the older, more staid economies… a global power shift doesn't necessarily mean gloom and doom. Yes, there will be changes, adjustments and repercussions. But changes are always taking place. Some are bigger than others, but you deal with them, make decisions and move on.

At this point, we don't yet know how this will all play out, but we do know that positioning your investments the right way will be a real plus, providing security and benefits in what's sure to be a most interesting upcoming decade.

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U.S. & WORLD STOCK MARKETS

New highs for the year

The stock market is looking good. It took a bullish turn this month, reconfirming the major trend that started over a year ago remains intact and stocks are headed higher.

Nearly all of the New York stock indices hit new 19 month bull market highs, breaking well above their January highs, which was a strong resistance level (see **Chart 2**). And the major trends will remain up as long as these indices stay above the levels shown on the chart.

Plus, with the Dow Industrials and Dow Transportations both reaching new highs for the move, this triggered another Dow Theory bull market signal, which was yet another big positive. So was the fact that the international stock markets are moving up with several also hitting new bull market highs. That's currently the case for most stocks.

BRIGHTER HORIZON

This is all very good news for the economy. And sure enough, the fourth quarter of 2009 experienced the fastest economic growth in six years. This resulted in a sharp 8% gain in corporate profits, the best year over year gain in 25 years.

The market viewed this as the best news in a long time because it's laying the foundation for jobs, and a more solid and balanced economic recovery. As you'd expect, optimism surged.

On a side note, we wanted to point out that this stock market rise has provided a great example of how markets lead. Remember, back in March, 2009 when the stock market started rising, the economy was looking really bad and in many ways it still does, especially on the job front. Nevertheless, the stock market kept rising, telling us that the economy was going to get better and by the last quarter this improvement was obvious. Now with the stock markets heading even higher, it's signaling continued growth in the economy.

Bullish 50% level

Okay, back to the current action… Also positive was that the Dow Industrials rose and stayed above 10725. This marked the 50% level between the 2002 low and the 2007 high (see **Chart 3A**). And by breaking above that resistance it was yet another bullish shift for the market.

BIG PICTURE OUTLOOK

If we now stand back and look at this big picture of the Dow Industrials going back to 1965, several interesting observations can be made…

First, note that the Dow's been in a mega uptrend since 1974 and it's been trading within a mega upchannel since 1965, moving from the top of the channel to the bottom of it over the years. Currently, the Dow is bouncing up from the bottom of this channel after hitting a major low in 2009.

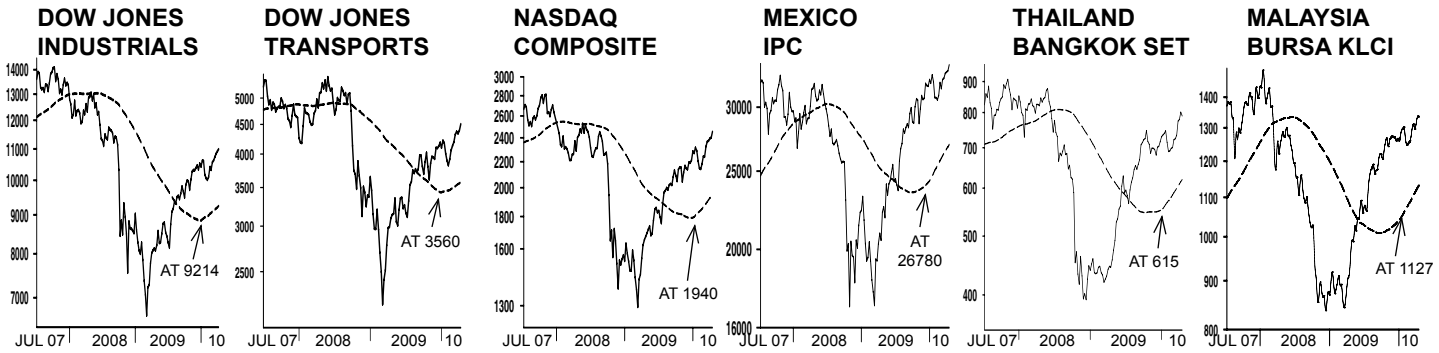
The down side

As you know, the Dow hasn't done much since 2000 and this is clearly illustrated on the chart as well. It looks like the market essentially went sideways but the fact is, the decade from 2000 to 2009 was the worst performing decade in the stock market's history.

Many feel that a massive bear market began in 2000 and that it's going to correct the entire bull market that started in 1974. If so, then the bull market rises like the one from 2002 to 2007 would simply be rebounds within a mega bear market. And while that may end up being the case, these types of rises are still worth taking advantage of. In other words, the current rise could be similar to the one in 2002-2007.

CHART 2

BULL MARKET HIGHS



- - - 65 Week Moving Average is major uptrend

The realistic side

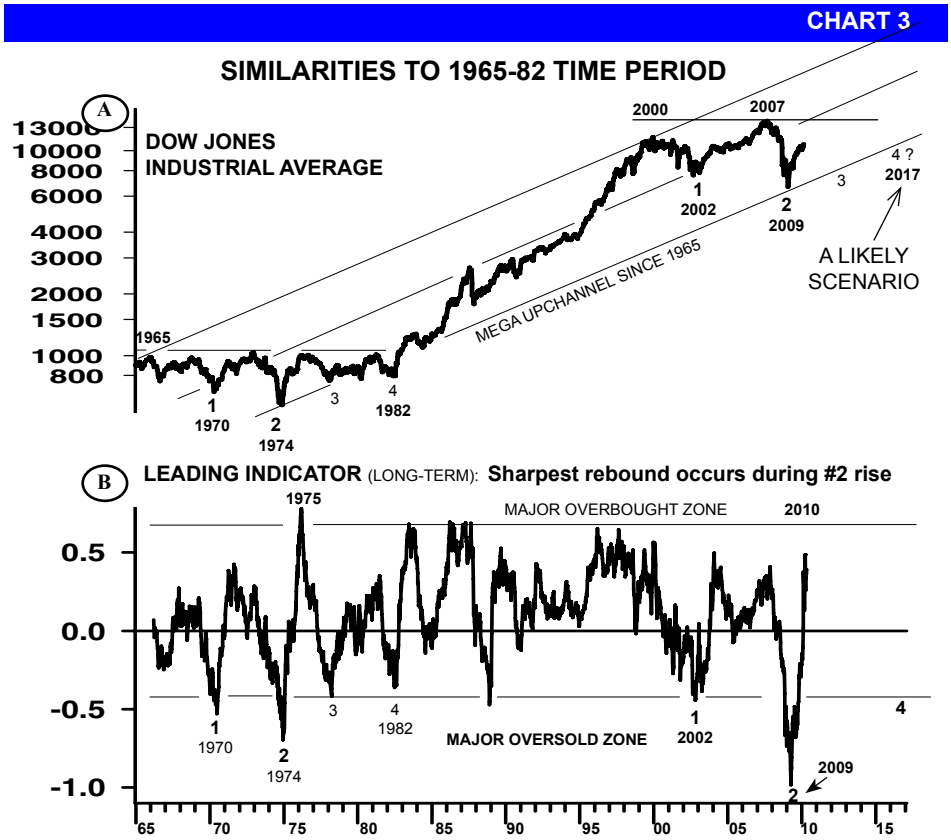
Increasingly, however, it's starting to look like the current action may be more similar to the action in the 1965-1982 time period. In those days, the stock market also went sideways, resisting strongly near the 1000 level for almost 20 years. But within that sideways situation, there were big ups and downs. That's essentially what we've been seeing since 2000… big ups and downs within a sideways market.

We've labeled the bear market lows in the previous period as 1 through 4. The 1982 #4 bottom preceded one of the biggest bull markets in history.

If history is repeating, we're currently emerging from a #2 low. The 1974 low and the 2009 low were indeed similar in intensity. And extrapolating, a likely final bottom might occur in 2017 and it could be higher than the 2009 low, assuming this pattern continues.

We'll see what happens but if it does, that time period also coincides with the probable end of the mega uptrend in commodities and metals. For now, nothing is certain and we need to see more but this does provide some food for thought.

CHART 3



MARKET LOOKS GOOD

Meanwhile, the leading indicators for the various stock indices are starting to perk up, also signaling that stocks are indeed likely headed higher (see the S&P500 as an example on **Chart 4**). If the S&P ends up rising back up to its 2000 and 2007 resistance levels at 1500 (which would be the equivalent of the Dow's 1000 resistance back in the 1965-82 period), then the S&P could still gain 25% from its current levels.

BE SELECTIVE

In this renewed phase of the bull market it will be even more important to be selective. The reason why is because stocks in general are unlikely to be as robust as they were last year. But by investing in the strongest sectors, you can still do very well.

Chart 5 provides a perfect example of what we mean. Here you can see the Brazilian stock market and the Dow Industrials since 2002, indexed at 100, and how very much stronger Brazil has been compared to the Dow. This is what we're aiming to do… find the stronger performers and invest in those markets.

So far, in this global bull market that started at the end of 2008- early 2009, many of the emerging stock markets have been the top performers, including the BRIC markets (Brazil, Russia, India and China). But recently, some of these markets have been losing steam as the U.S. stock market gains momentum.

Our new buy recommendations this month are taking these shifts into account. We've chosen what we feel are some of the strongest stocks and markets to invest in, which should do well and outperform as this renewed bull phase unfolds. These new recommendations are listed on page 12 and they're currently among our favorites for best profit potential.

CHART 4

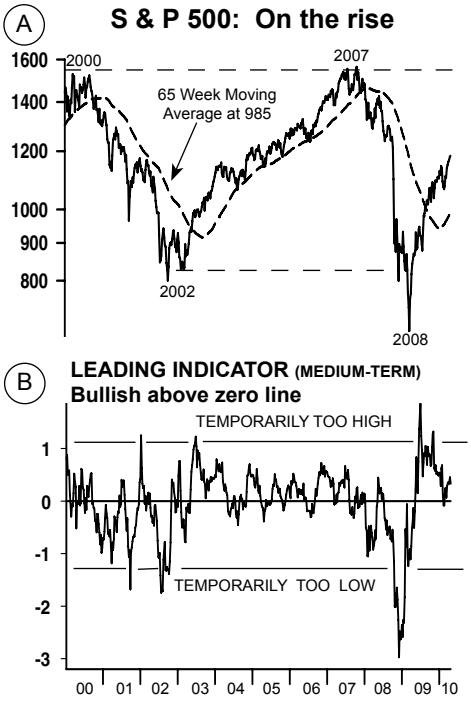
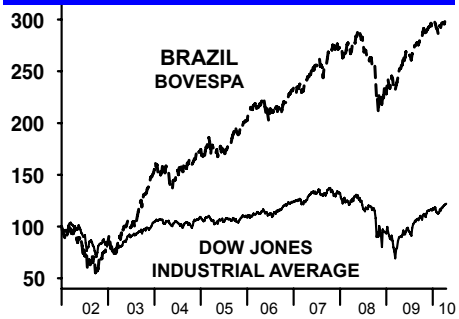


CHART 5



U.S. INTEREST RATES AND BONDS

Mega trend change… rates turning up!

It finally happened. After seeing some subtle but important action in the interest rate markets last month, this month we received the final confirmation that interest rates are going much higher for years to come.

MAJOR EVENT

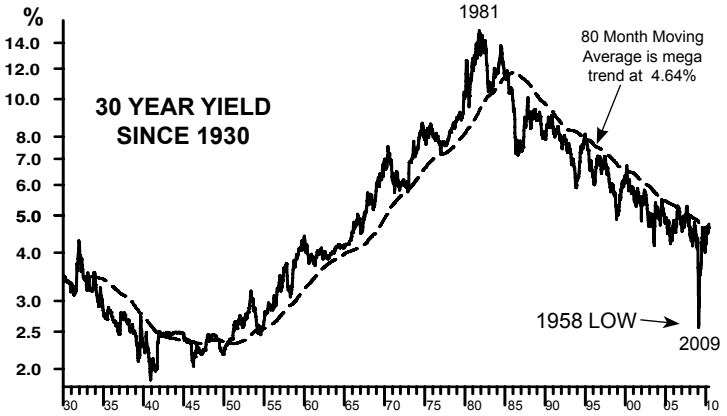
Even though we've long suspected this was coming, it was still amazing to see. Why? Because most people don't realize that a major event is now taking place that's going to directly affect them. Publically, it's been a non-event, but all of the reliable mega signs are telling us otherwise.

As you know, we've been watching the 30 year yield closely and by breaking clearly above the 4.65% - 4.75% level this month, a mega trend change has occurred for the first time in 25 years (see **Chart 6**). The T-Bill rate has been reinforcing this by also rising above its moving average.

As you can see on **Chart 7**, showing the 30 year yield going back to 1930, once the mega trend turns up or down, interest rates keep going in that direction for at least a decade, and usually longer. So for the first time since the early 1980s, the era of low interest rates is over and we'll now likely see interest rates rising for the next 10 years or more.

CHART 7

MEGA TREND CHANGE TO UPSIDE IS AT HAND



HOW WILL THIS AFFECT US?

- First, it's a strong sign that inflation is going to pick up and it'll eventually become a big problem. This will affect the markets in different ways…
- It will be good for the metals markets as it'll provide an ideal environment for higher prices. The same is true of other commodities. Note that using lumber as the example, it generally moves with the 30 year yield (see **Chart 8**). There are several reasons for this…

A growing economy boosts demand for commodities. In lumber's case, it's also a barometer for the housing sector. So this suggests the economy will continue to grow, the housing sector is going to improve and inflation will eventually perk up as a result.

- On the other hand, higher interest rates and inflation will provide a terrible backdrop for the bond market. This mega reversal is telling us that bond prices are going to be falling for a long, long time. So you'll want to sell government bonds if you have them and don't plan on buying bonds any time in the future.

Does this apply to all bonds? The general answer is yes. Bond prices generally move together and as a rule, you'll want to steer clear of this entire sector. A small position in the Treasure Inflation Protected Securities (TIPS), which adjusts for inflation, would be the only exception.

- Rising interest rates will also be bad for the stock market but it could take some time before this happens. Why? Interest rates are rising from historically very low levels (see **Chart 9**). Even if they rise a couple of percentage points in the year ahead, they're still going to be low.

Plus, a mega trend change does not mean that interest rates are going to shoot straight up. There will be ups and downs along the way, and initially it'll probably be a gradual interest rate rise. At some point, however, investors will grow concerned and that's when stocks will feel the heat.

- Since rates are unlikely to be as low as they are now for decades to come, we'd strongly recommend refinancing your home mortgage if

CHART 6

BREAKOUT IN LONG RATE!

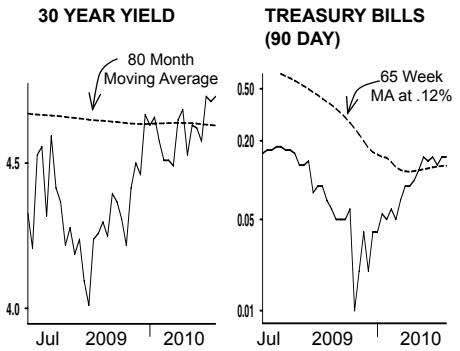
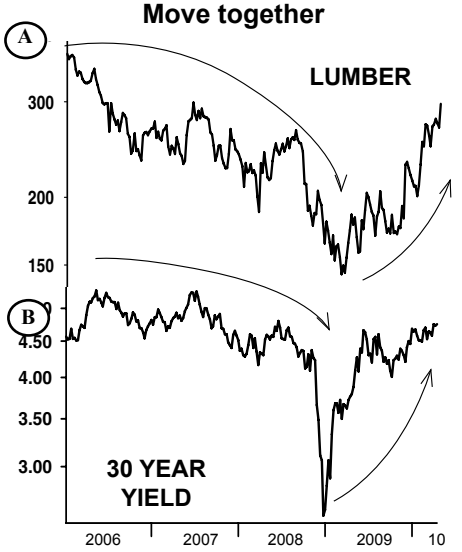


CHART 8

LUMBER & INTEREST RATES:
Move together



you've been thinking about doing this. It would also be important to lock in a fixed mortgage rate.

- As interest rates move higher it's going to be bad news on the fiscal front. This year's budget deficit is already expected to hit $1.5 trillion, an all time high. This will come on top of last year's deficit of $1.4 trillion. But with interest rates so low, the interest payments on the debt haven't been a big problem. That will soon change because the cost of carrying all this debt is going to become way more expensive, ballooning future deficits even more.
- And as the debt keeps growing it's going to turn off future debt buyers (i.e. bond investors). As we've previously mentioned, this is already happening. China and Japan are the two biggest holders of U.S. government bonds and they've either been cutting back on their bond purchases and/or selling bonds.

Since long-term bonds are a free market, investors will simply demand a higher rate to keep lending the government money, which is essentially what they've been doing. This will continue and the situation will basically feed on itself. A worsening financial picture = higher interest rates, and higher interest rates = an even grimmer financial picture.

- Meanwhile, the negative financial outlook will weigh heavily on the U.S. dollar. Even though higher interest rates are normally attractive for a currency, many times they are not. The growing deficits, along with inflation, will overshadow the benefit of higher interest rates. It'll likely keep downward pressure on the dollar, and upward pressure on the global currencies.
- Since interest rates will be rising for years to come, big profits will be made by those investors willing to hold on for the long-term. This month we're recommending a couple of ways to profit from rising rates, which are listed on page 12.

CHART 9

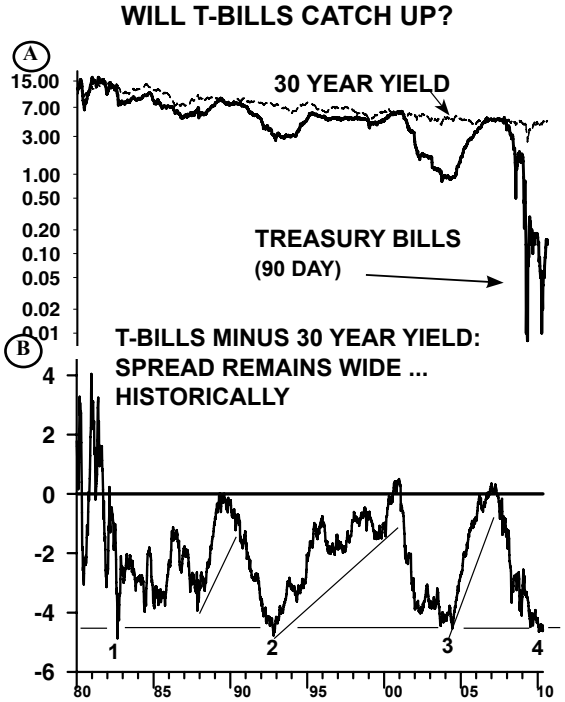
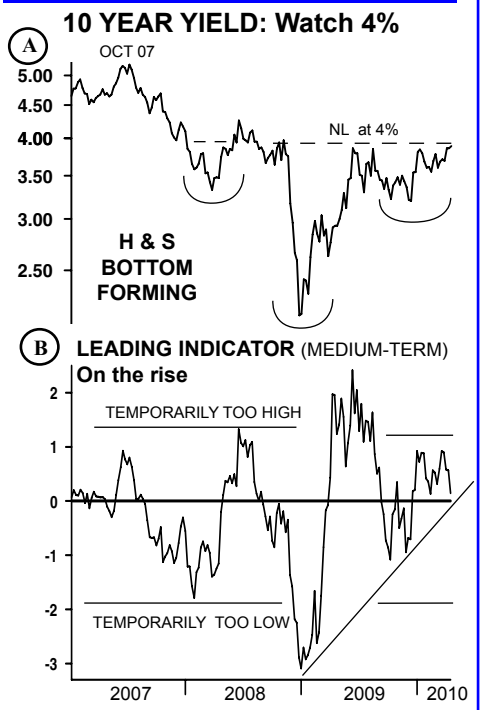


CHART 10



HOW HIGH?

How high could interest rates go? For starters, we think the 30 year yield could rise to near the 7% level and the 10 year yield could approach 6%, based on the huge head and shoulders bottom formation (see **Chart 10A**). This will be reinforced once the 10 year rate rises and stays above 4%. Again, this could take some time but these are our first significant target levels.

Much will depend on how events unfold… remember, this is a very long-term trend. Most important, make sure you're positioned to not get hurt by higher rates, and hopefully profit as they move higher.

CURRENCIES

U.S. dollar: Rebound rise is stalling

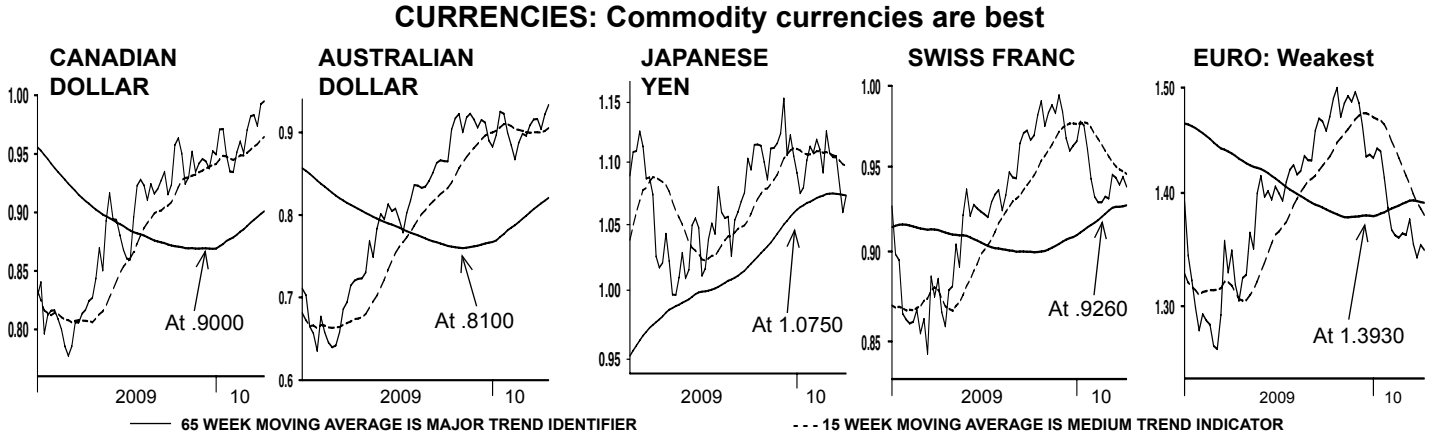
The U.S. dollar moved higher this month, fueled primarily by a stronger economy and troubles in Europe. Greece remained the center of attention, which hurt the euro, driving up prices in other currencies, including the dollar.

In recent weeks, however, this year's dollar rise looks like it's getting tired. The dollar appears to be topping out and it's resisting just below its mega downtrend at 83.70 (see **Chart 11A**). Despite the dollar's negative fundamentals, however, rising interest rates could improve the dollar's prospects, but at this point it's still too soon to tell.

COMMODITY CURRENCIES: Best

On the one hand, the dollar remains very weak against a few of

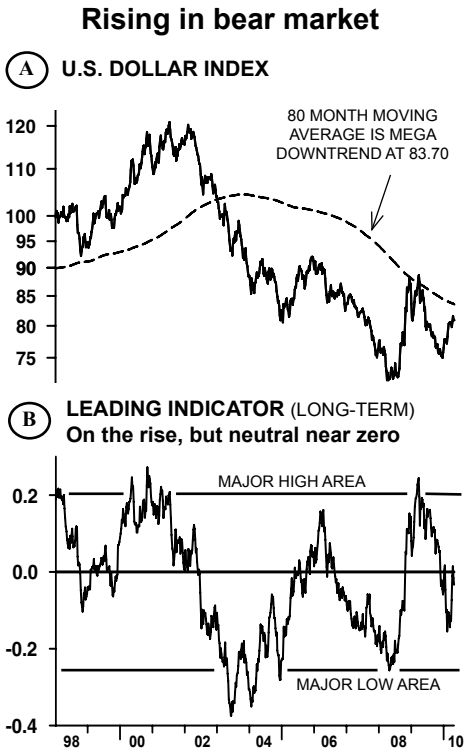
CHART 12



the global currencies. The Canadian and Australian dollars, for instance, are hitting new bull market highs, they're among the strongest and they may be leading the way for the other currencies (see **Chart 12**). But again, time will tell.

So far, these "commodity currencies" have been marching to a different drummer, which is rising commodity prices. That's been the fuel driving these two currencies higher, along with good economic prospects and higher interest rates.

CHART 11



Once again the China influence

China's economy keeps booming and it's been the engine of global growth. Its imports grew 46% last month, the most in three years. The main beneficiary of all this growth is Australia, the country that provides China with all they need to keep on building and growing. As a result, Australia's economy has been doing very well for decades and it avoided the global financial crisis a couple of years ago.

Since their economy has been humming along, there are jobs galore, confidence is high and interest rates have increased five times in recent months in order to keep inflation in check. This has made the Australian dollar a very popular and attractive currency that continues to be in big demand.

CANADIAN DOLLAR: Strongest

The Canadian dollar has recently been even better than the Aussie. The main reason why is the surging oil price. And since Canada is primarily an oil and gas country, it's benefitting big time.

As you can see on **Chart 13**, the Canadian dollar and the oil price have been moving together for years. That's still the case and if the oil price is headed higher as we suspect, then the Canadian dollar is too.

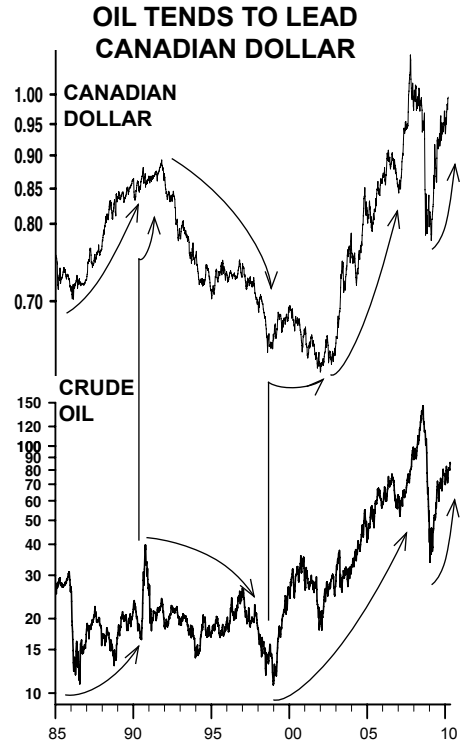
Ongoing demand for gold, copper, wheat and uranium has also boosted Canada's exports, its economy and the Canadian dollar. The gains in the U.S. economy and the world's stock markets have also provided a boost.

Just looking at these two currencies, the outlook is good. But that's not the case any more for all currencies, which is a sign of caution.

BEATEN DOWN EURO

At the other end of the spectrum is the euro. It turned bearish this month by declining and staying below its moving average (see **Chart 12**, right). The problems in Greece, worries about the other high debt Euro countries, a slow economy

CHART 13



and weakening confidence are all been weighing on the euro, and it has lost its former strong currency status.

This could change in the weeks ahead due to the aid package, which lessens the chances of a Greek default. But here too, we'll have to see how it goes. For now, it'll be important for the euro to hold above its strong support at 1.33 and it will again turn bullish if it can rise and stay above 1.3930.

If not, then there's the possibility that the euro could be leading the way down for the other currencies. It's currently a mixed situation and again, that warrants some caution.

WHAT TO DO

For the time being, we remain bullish on the Canadian and Australian dollars and we continue to recommend them. We're not so keen on the euro. Even though, it'll likely rebound in the weeks ahead, we'd use this portion of your cash holdings to buy other investments this month that have better profit potential.

In essence, this would be a weeding out process as we lower our cash position, in order to buy more stock and interest rate positions. These changes are all listed on page 12, in our Overall Portfolio Recommendation.

On the other hand, if you want to keep the euro and see how the rebound rise develops, that's okay too. It's very oversold and at worst, this would enable you to sell it at a better price. At best, it'll regain its former strength and you can continue holding it. We'll keep you posted.

METALS, NATURAL RESOURCES & ENERGY

Many new highs for the year

This month's jump up in precious metals, resources and oil reinforces that the lows in February were likely the lows for the downward correction.

For now, the second quarter is off to a good start. The fact that gold's decline was mild (down 13½%) is saying that the underlying bull market is strong and solid. You should now have your positions bought and in place, waiting for the bull market to further unfold.

Platinum and palladium have been strong, reaching new highs and they seem to be leading gold, silver and the metals shares in another leg up in the bull market. In fact, the new highs in many commodities reinforces this (see **Chart 14**).

BIG PICTURE INVESTING BEST

Our older subscribers know the importance we place on the big picture. The big picture is most important, and knowing where the mega and major trends lie is a key to good investing.

Our main goal has always been to invest in the major trends and to stay with them. We can't stress this enough because over the years we have found that more money can be made this way, rather than trading the intermediate moves.

Sometimes trading works well and when it does, it's great. But unless you're prepared to devote a lot of time to trading, or follow the advice of a good, professional trader, then it's easy to make mistakes. This usually happens when an investor becomes too emotionally involved.

Most frustrating is that a major move can be missed because you're too busy trading a correction. And remember, the major moves are where your focus should be. They're the most profitable.

The latest downward correction in the gold price provides a good example of what we mean. As you know, we called this a 'D' decline and they tend to be steep.

Since 2001, these recurring D declines have ranged from a loss of about 7% to nearly 30%. The November to February correction lost 13½%. This was moderate compared to the last two D declines in 2006 and 2008, which were down 22.16% and 29.80%, respectively, and were the steepest so far (see **Chart 15A**).

We always receive many letters regarding this leading indicator on **Chart 15** and it's one of our fa-

CHART 14

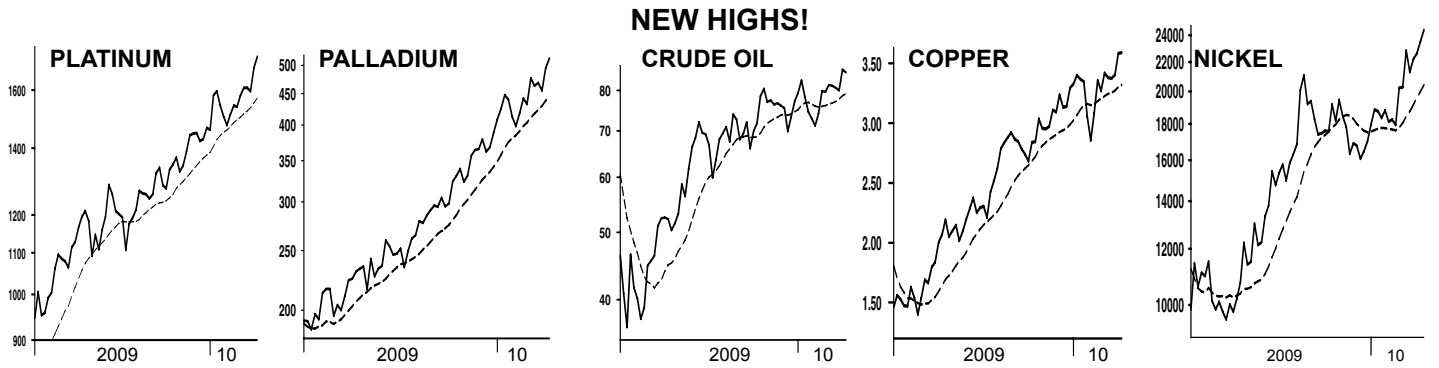
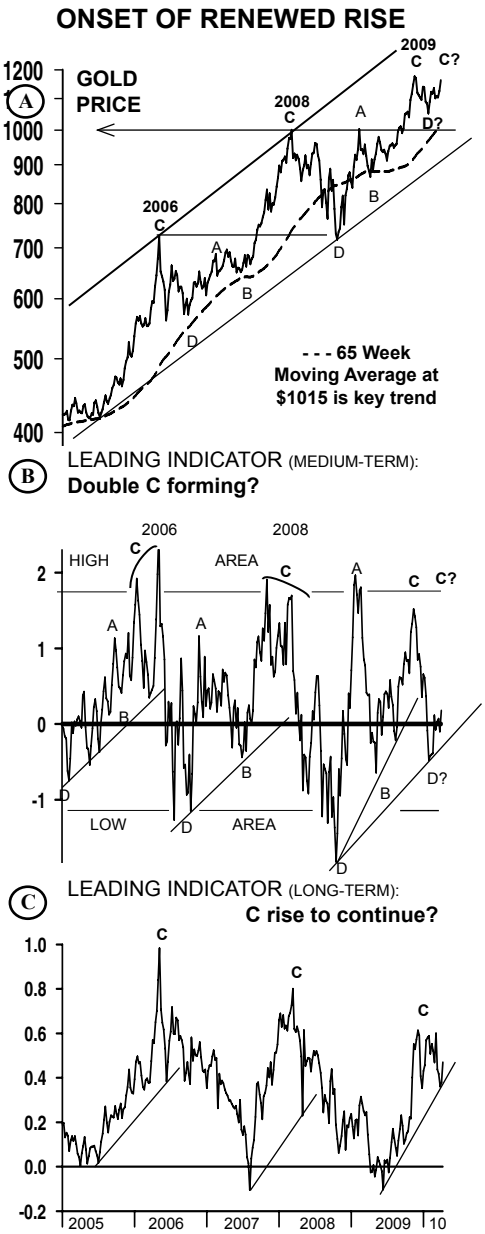


CHART 15



vorites. We know that gold's major trend is up, meaning it's headed higher. But within this uptrend there are intermediate ups and downs, and this indicator works well in identifying these ebbs and flows within gold's bull market.

Currently, for instance, the gold price and the leading indicators are starting to rise. This tells us that a renewed rise is beginning. But if you were waiting for further gold weakness before buying more, then the market is slipping away and you're already missing out on part of the renewed strength.

This is why it's best to buy during weakness when possible, but not to try and get the low. Averaging in during weakness is the ideal way to buy, and a big picture approach makes it easier to just jump in and buy at any time.

Currently, gold looks ready to spring forward. Considering that just six months ago, the $1000 level was a super break out point and today it's a major support level illustrates how gold's slow and steady rise has been gaining momentum (see **Chart 15A**). It really doesn't matter right now if a double C peak is in the making or if the D decline is really over.

The gold price has broken above all resistance and the last remaining one is the November closing high at $1218. Once $1218 is surpassed, gold could jump up to the $1300 level before this intermediate rise is over.

GOLD'S POTENTIAL

This means that the bull market remains very strong, even though gold's already been rising for nine years. **Chart 16** shows gold's big picture since 1967 when it began to move in the free market.

CHART 17

Here you can see an interesting pattern that's been going on since 1969. Note that each major eight year low was followed by a major peak 11 years later. The only exception was the 1993 low, but in that case the low was mild within an essentially quiet market back then (see asterisk).

If this 11 year pattern continues, we could see gold shoot up to the $2000-$3000 level within the next two years. But since today's economic situation is historically extreme, together with Roger's 400 year commodity cycle time frame, we could see much higher prices for a longer period of time… well beyond 2012, and more like 2017-2018.

This is precisely what we mean

CHART 16

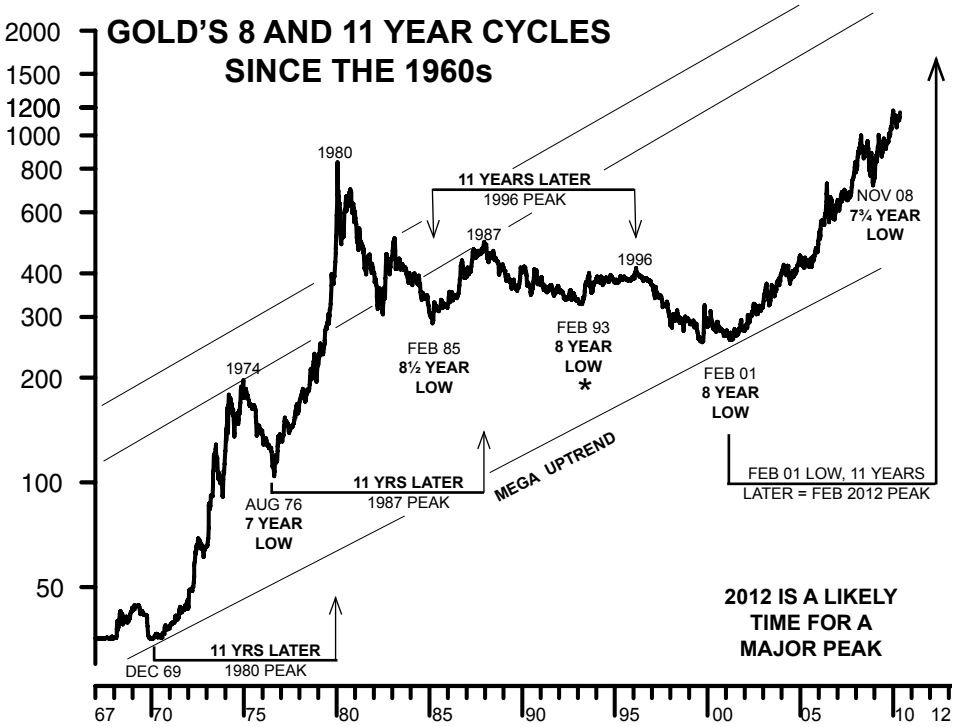


CHART 18

GOLD BETTER THAN STOCKS

by staying with the major trend. It's powerful right now and we'll stay with it for as long as it lasts.

GOLD COMPARED…

With the trend being so powerful, let's now see how gold ranks in strength compared to the other markets. First, it's important to see gold's strength compared to the currencies.

Chart 17 shows an example using the strongest currency, the Canadian dollar, and the weakest currency, the euro, since 2005. Gold is clearly rising in all currencies and the recent separation looks temporary.

Next, it's important to know that gold is also stronger than stocks and bonds. **Chart 18A** shows the mega trend favors gold over stocks, even though stocks have been better this year. But the leading indicator (B) is now approaching an area where gold will likely soon outperform stocks.

Likewise for bonds. **Chart 19** (top) shows that gold has been much stronger than bonds since 2009 after the financial meltdown ended.

Note that during the crisis when Wall Street seemed to be falling apart, bonds were the clear safe haven and gold was second.

But then in 2009 some of the other metals and commodities started outperforming gold. A realignment seemed to be the order of the day. Over the last six months, for instance, platinum, copper and oil have outperformed gold even more. Platinum is at a high versus gold for the first time since Lehmann Brothers closed, and these markets have clearly left the crisis behind.

SILVER AND GOLD SHARES: Most like gold

Silver and gold shares are moving similarly to gold and they both look poised to rise (see **Charts 20** and **21**). Both have been rising or firm above their 65-week moving averages since last year. Their leading indicators are near a low area, which means both are likely headed higher.

If these 2009 closing highs at $19.32 for silver and 510 for the HUI index are surpassed, the only resistance left would be the 2008 bull market highs at $20.78 and 524, respectively. Silver could then eventually jump up to possibly the $30 level.

Silver is gold's little sister and it tends to be quiet at times. But once global growth heats up, silver tends to take off and it clearly outperforms gold. When silver is hot, it's really hot, which is why it's a good strategy to buy and hold it.

Gold shares, on the other hand, are also influenced by the stock market. They tend to move closely with gold but their overall strength can be influenced by several other factors.

RESOURCES: Best

The stronger resource and oil sector is telling us that the global economy is looking better. Demand for raw materials is strong in the current easy environment where interest rates are low and global liquidity is flowing. This is good for real estate and construction, and it's why emerging countries are bouncing up faster. A demand based rise is always the most powerful.

Real interest rates (T-Bills minus

CHART 19

GOLD BETTER THAN BONDS...

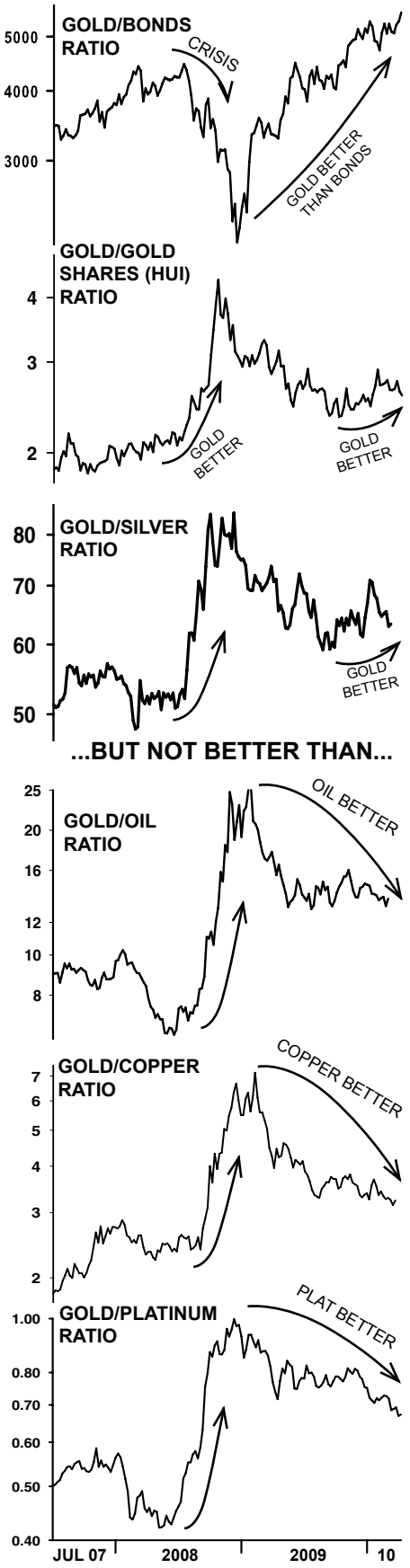
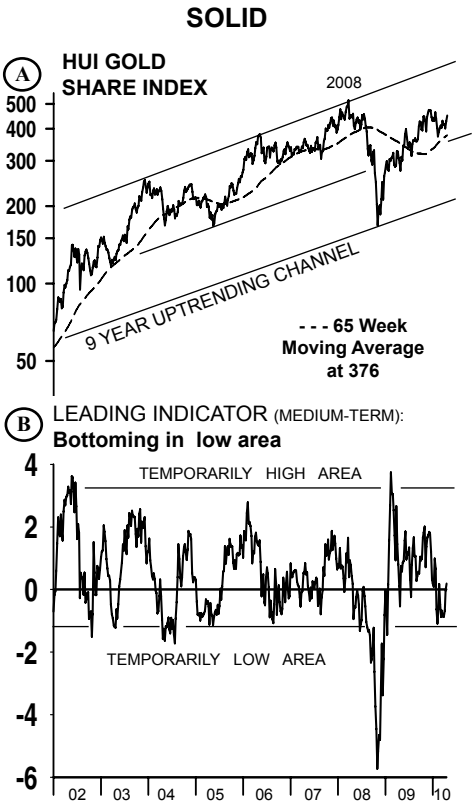


CHART 20



inflation) in the U.S. are currently negative, which are also bullish for gold. It was true in the 1970s and it's been true during the last decade. When rates are negative gold is not competing with lost opportunity income (interest).

Overall, it's best to diversify within the commodity sector. Keep the four precious metals, some of their shares, crude, energy and resources, as well as some of the commodity currencies and emerging markets. This mix should prove to be very profitable for you. It already has been over the past almost decade and we expect this to continue.

DEMAND IS SOLID

Gold is in a league of its own. This means gold should always be a part of your portfolio because it's quietly becoming the world's second reserve currency, better than the euro and the dollar.

Gold's been decoupling from the dollar. It's been steady to up for the last two months while the dollar has been rising.

Central banks have been adding gold to their reserves in recent years. Last year they added the largest amount of reserves since 1964, with Russia, India and China among the top accumulators in 2009. Central banks now possess 18% of all of the gold ever mined, and this percentage is growing.

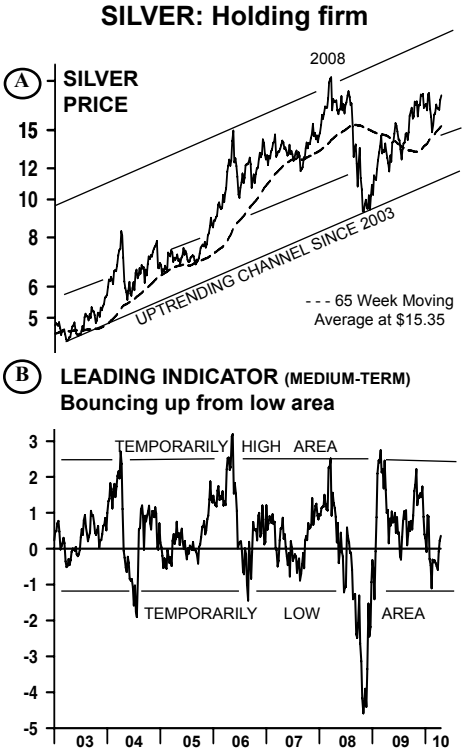
The World Gold Council predicts China's gold consumption will double in the next decade. China is known for its keen interest in gold, and their demand is currently greater than their domestic mine production. Investors worldwide are slowly moving toward gold but it's still early. There's also growing jewelry demand.

The demand for raw materials is growing in general. China's copper demand is expected to grow by 10% this year, and iron ore is also a hot item today. So it's not surprising that copper and nickel are at new highs (see **Chart 14**).

With the world economy recovering and gaining steam, oil is another high demand commodity. U.S. demand for oil is big and with job growth expected to improve and increased manufacturing, you can bet the oil price will continue to rise from its recent highs.

The energy rise is still essentially limited to crude. You can see on **Chart 22**, other energy sources are still at low levels. Many argue that natural gas and uranium are ready to catch up and rise, but so far it's not happening.

CHART 21



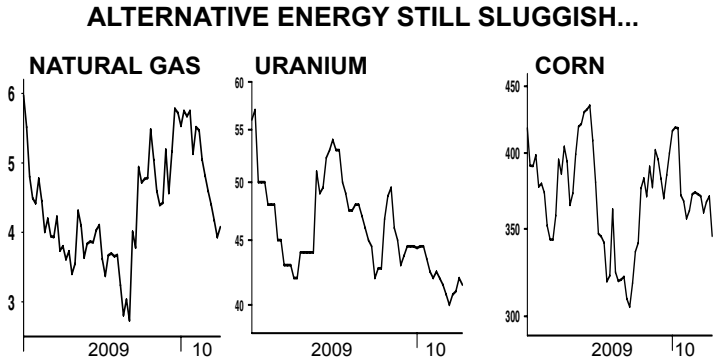
THE GROWING GIANT

It's no secret that China has been buying up resources and energy around the world to satisfy their growing consumption. Considering that they had their first trade deficit in six years because of their large imports of oil, raw materials and cars, simply illustrates that their aggressive buying for energy and resources will continue.

China also just made their largest deal yet to buy a stake in a Canadian oil sands project. This brings their total spending on resources to about $64 billion in just the past five years.

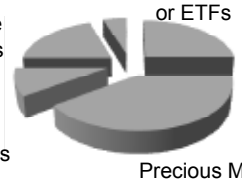
Oil is a primary target for China given its huge appetite for energy. Now that China is the largest market for new cars, and sales of passenger cars are up 63% from a year ago, you can bet that demand will stay high for years to come. We believe this is all part of the big commodity bull market that's currently underway. So stay with it!

CHART 22



OVERALL PORTFOLIO RECOMMENDATION

The economy is improving and optimism has returned. This is being reflected in most of the markets. The stock market surged and so did many metals, commodities and some of the currencies. Interest rates also confirmed that the era of low rates since the 1980s is ending and rates are headed far higher. This is providing some new investment opportunities and/or changes, which follow. We've also adjusted the percentages in several of our recommended investments shown on the right.



PRECIOUS METALS, ENERGY, RESOURCE & THEIR SHARES RECOMMENDATION

A renewed rise has begun as new highs for the year can be seen in platinum, palladium, oil, copper, nickel and some shares. And it looks like the precious metals, resource and energy are poised to rise together. Now is the time to make some changes by weeding out the weaker ones and replacing them with stronger ones. The box to the right lists each share of each sector in order of strength. Buy or make your adjustments now to be ready for the rise.

As for gold shares, we recommend selling Market Vectors ETF (GDX), as well as Iamgold (IAG). Instead, buy Stillwater Mining (SWC) and New Gold, (NGD).

As for energy, Sell Diamond Offshore (DO) and buy the oil price ETF called US.Oil Fund (USO).

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market is looking good. Nearly all of the New York stock indices hit new bull market highs, reconfirming that the major trends are up and stocks are headed higher. The global stock markets are moving up too. In this renewed phase of the bull market it'll be more important to be selective. Continue to keep the stocks you have and buy new positions in the strongest sectors. This month we recommended buying these new stocks: SPDR S&P Bio (XBI), Power Shares Leisure & Entertainment (PEJ), Japan Smaller Capitalization (JOF) and PowerShares Financial (PFI). To buy new positions, raise your U.S. and global stock holdings to 25% of your total portfolio (from 20%).

CURRENCIES RECOMMENDATION

The U.S. dollar moved higher this month but it appears to be topping out. The Canadian and Australian dollars have been very strong and they'll continue to benefit from rising commodity prices. The euro has turned bearish. Even though it's likely set to rise in the weeks ahead, it'll stay bearish below 1.3930. Continue to buy and hold the Canadian and Australian dollars, but sell the euro ideally on strength. Use this portion of your cash holding to buy our other recommended investments listed here, which have better profit potential. For now, only keep 10% of your total portfolio in cash.

INTEREST RATE & BOND RECOMMENDATION

It finally happened. This month we received the final confirmation that interest rates are going much higher for years to come. A mega trend change has occurred for the first time in 25 years and it'll remain intact with the 30 year yield above the 4.65%-4.75% level. This will result in a wide range of repercussions. Most important, it's very bearish for bond prices. If you have government bonds, sell them and don't plan on buying any time in the future. (A small TIPS position would be the only exception.) To profit from rising rates, we recommend buying a 5% position in ProShares Ultra Short 20+ Treasury (TBT) and ProFunds Rising Rates Opp (RRPIX). We'll likely buy more in the weeks ahead as better buying opportunities emerge. Traders may want to short Treasuries.

Note: All of the shares, funds and ETFs are listed in order of strength in each section. Buy new positions in the strongest ones. The gold and silver ETFs are listed in bold.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Physical Palladium	**PALL-NYSEArca**
Physical Platinum	**PPLT-NYSEArca**
Stillwater Mining *	SWC-Nasdaq
NewGold *	NGD-AMEX
Silver Wheaton	SLW-NYSE
Central Fd of Can	CEF-AMEX
iShares Silver Trust	**SLV-AMEX**
Eldorado Gold	EGO-AMEX
Central Gold Trust	GTU-NYSE
SPDR Gold Shares	**GLD-NYSE**
iShares Comex Gold	**IAU-AMEX**

RESOURCE & ENERGY SHARES

US Oil Fund *	**USO-Nasdaq**
BHP Billiton	BHP-NYSE
US Steel	X-NYSE
RioTinto	RTP-NYSE
Freeport McMoran	FCX-NYSE
iShares Tr Glbl En	IXC-NYSEArca
Arcelor Mittal New	MT-NYSE
Suncor Energy	SU-NYSE
Peabody Energy	BTU-NYSE

U.S. & GLOBAL STOCKS

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

CURRENCY ETFs & FUNDS

Canadian DL Tr	FXC-NYSE
Australian Dl Tr	FXA-NYSE
Franklin Temp Hard	ICPHX-NSDQ
Merk HD Cur Inv	MERKX-NSDQ

INTEREST RATES

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

*** New Position**