THE
ADEN FORECAST
MONEY • METALS • MARKETS

APRIL 2012 *our 31st year*

MARKETS MOVE WITH STIMULUS

It was calm for a while, but the markets are swinging again…

This recent action has been mild compared to last year when volatility was really wild. But still, it's making many investors nervous and we certainly understand why.

MARKET FIXATION

Gold fell sharply, then stocks dropped too. The same is true of the oil price. At the same time, interest rates rose and the rest of the markets are volatile (see **Chart 1**).

What's causing this?

The markets have become addicted to the Fed, and that goes for all of them. If it looks like the Fed's going to keep money flowing, the markets rise. If not, they decline.

This is reminiscent of the Greek situation last year. The markets reacted to the news of the day as they waited with baited breath. And here we are again, and the same thing is essentially happening.

Only this time, all eyes are on the Fed and it's in the spotlight. Will they, or won't they?

FED ALWAYS TO THE RESCUE

At this point we'll stick our necks out and say, of course they will. We could be wrong but all of the evidence points in that direction.

The bottom line is, the Fed has to provide. It has no other choice. Plus, that's what the Fed's been doing for years. That's its job, to fix things… it keeps them from getting worse and they'll always do what's needed. Their track record is quite consistent.

Now, looking at the present… Bernanke has said over and over that he'll keep monetary stimulus going as long as it's warranted. This could be due to a sluggish recovery, high long-term unemployment, problems in Europe, bringing the former bubble down easily, fear of deflation or another recession, the slowdown in China, the weak housing market or the falling stock market… you name it. If the Fed is concerned enough, it'll take action to keep it all together.

They've done this consistently, and they've been saying they're going to do more. We don't know when, but we'd bet it'll be sooner rather than later, and probably together with other central banks too.

DEBT: Driving force

As we discussed last month, the debt situation is so out of control, there's no other option. If zero interest rates aren't enough, the Fed will do more. If foreigners aren't buying U.S. debt (bonds) like they used to, the Fed will step in and buy them. If Europe needs help, okay. And if the world needs more monetary stimulation, they'll provide it.

You may not like it, but it's the facts. The markets aren't really free

INSIDE

DID YOU KNOW?

Did you know that each issue of The Aden Forecast is available immediately upon completion right on our website… and that we even email our online subscribers as soon as the issue is ready?

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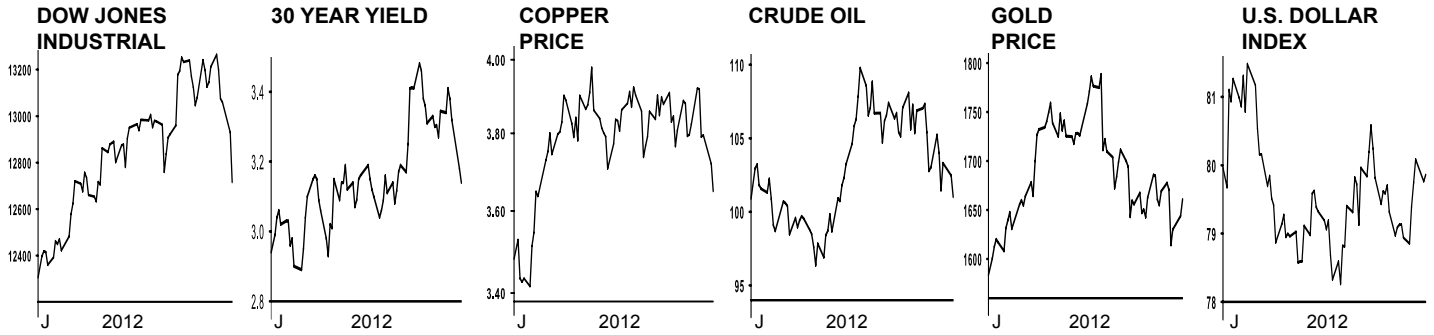
CHART 1

Q1 2012: WINNER... STOCKS



anymore. They've become addicted to the Fed and, like puppets, they'll react based on the way the puppeteer pulls the strings.

That's basically what we're dealing with and, like always, we have to accept it, go with it and do the best we can.

It's also good to recognize what's happening and why, as well as the likely results. In this case, opinions are all over the place. Some are sure the debt, deficit spending and the Fed's actions will result in deflation, a collapse, or ongoing stagflation.

INFLATION IS EVENTUAL OUTCOME

As you know, based on the historical record, we feel strongly that inflation will be the eventual outcome, and it'll probably be a big one.

That's because the debts have been big, the spending has been big and so has the money that's been created. This is the cause of inflation. It always has been, and it always be.

In other words, inflation is already in the pipeline and it has been for quite a while. It's been held back by deflationary pressures but sooner or later these effects will become more obvious and when they do, it could happen quickly, taking many by surprise (see **Chart 2**).

This chart, for instance, shows the three big inflations over the past century. As you can see, inflation was low in 1915, 1945 and 1972. But in each case, inflation had surged much higher only two years later. It also came on strong and fast, and the current situation will likely be similar.

Our friend Jeff Clark at Casey Research made some projections for 2014 based on where we are now, using these historical examples (see striped bars to the right). While we can't be certain if 2014 will be the year big inflation hits, we do know that it's coming. In fact, it's already getting started, slowly but surely.

The inflation index has been rising since 2009, but it now seems to be picking up steam. In February, consumer prices rose the most in 10 months. And as it picks up, it'll likely be a global affair.

Experts note that there have already been over 120 stimulative actions taken over the past seven months by the world's central banks. That's a lot of stimulation. And as far as we know, it's unprecedented, again reinforcing that we're in uncharted territory.

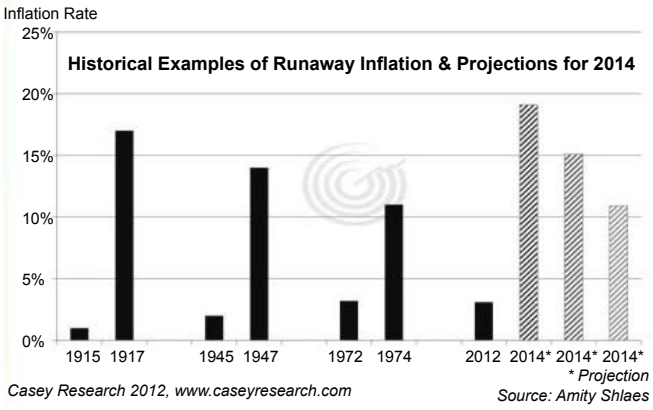
MORE VOLATILITY LIKELY

That being the case, be prepared for more volatility and reaction type swings. Markets that did well in the first quarter may do the opposite as this quarter unfolds, and stocks provide a perfect example of this.

After surging 16.6% in the first quarter, Nasdaq dropped 4% in April. Gold, on the other hand, is rising following its first quarter decline.

The main point is, try not to let these short term up and down swings get to you. Stay with the major trends and you'll do just fine.

CHART 2



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U.S. & WORLD STOCK MARKETS

Best first quarter... will it continue?

Wow! Stocks completed their strongest first quarter in 14 years. And then they fell sharply, but the bull markets are still intact and as long as they are, this weakness was simply a downward correction following a steep rise, and stocks will head higher.

RISING FROM GLOOM

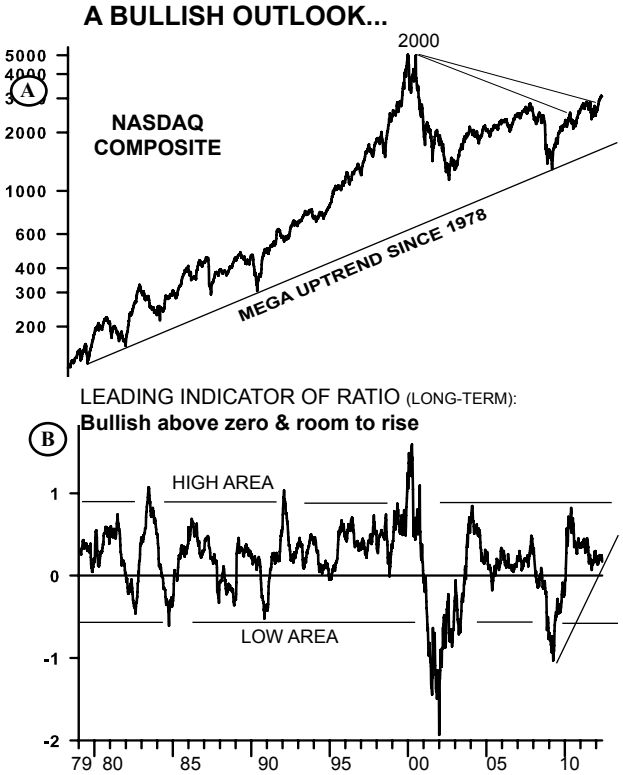
This rise started out when the news was bad and the world again seemed to be teetering, and this is often the case. It started off when sentiment was low, risk was high and disbelief was prevalent. Yet here we are, three months later, and while not a lot has changed, it has.

As usual, the stock market was looking ahead and it led the way (see **Chart 3**). It knew the worst was coming to an end and it saw better times ahead.

Since those nerve-wracking days at the end of 2011, the world economy is indeed looking better, especially in the U.S. Money has been flowing and the stock market has flowed right along with it. **Consumer sentiment recently hit a four year high and folks are feeling more optimistic.**

As you know, that's half the battle. When sentiment is good, investors feel okay about investing. They're not scared or uncertain. So they'll buy stocks because the age old rule has always been… as the stock market goes, so goes the economy.

CHART 4



QUICK FIX FOR ELECTION

But taking it a step further, this raises the more important question, has the Fed really saved the day again? At this point, it would seem like it has, at least for the time being.

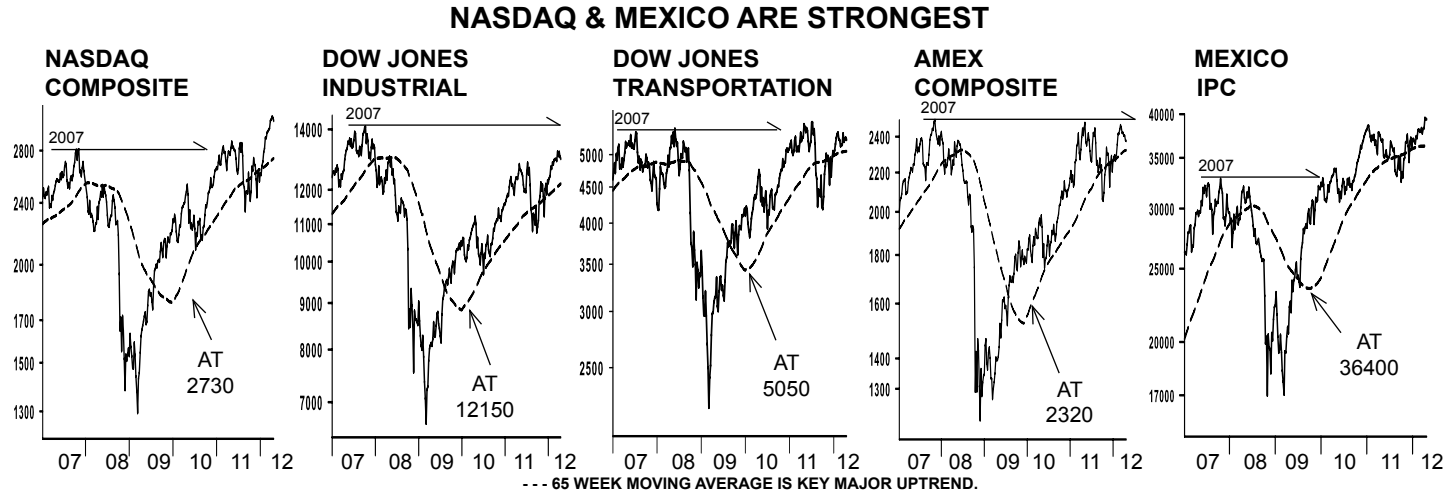
Even though looking at the big scheme of things, this is likely a band aid on a festering terminal wound, we don't want to spoil the party. Since it's getting started, we'll join in and have fun along with everyone else for as long as it lasts.

At some point, however, the music will stop. But the party may not end too early.

Since this is a U.S. election year, our guess is the music could continue for most of this year. In other words, the band aids will keep coming.

Plus, the party goers will be distracted, discussing politics, policies, who's going to do what, what

CHART 3



should, or shouldn't be done and so on. And the fact that the wound is festering won't be discussed much, or even noticed.

GO WITH THE FLOW

Nevertheless, like we've always said, you have to take what comes, accept reality and go with it. Things are rarely ideal or perfect, or the way you'd like them to be, and this is one of those times. Still, that doesn't mean you can't profit. You can.

The Nasdaq, for instance, rose strongly in the first quarter (see **Chart 4A**). It's very bullish, it's been a worldwide stock market leader and it hit a 12 year high.

It's technically looking good, having broken above two downtrends, and its leading indicator also has plenty of room to rise before it reaches the high area.

FOCUS ON GOOD STOCKS

These are all very positive signs. And since Nasdaq has been the leader, we'd stay with it and/or continue to focus on good U.S. tech stocks.

Another positive is that, despite the probability of inflation popping up one of these days, it's unlikely to hurt the stock market until it gets to near the 5% level (see **Chart 5**). That's what the historical record shows, as you can see on this chart.

So regardless of what the naysayers say, inflation may be rising, but it's still a long way from becoming a threat to the stock market. On the contrary, the bigger concern is boosting the economy.

And on that front, the news is also good. Bernanke says that easy money should stay in place and this alone boosted stocks all over the world. Global stocks, for example, have all risen since the year began. But the markets have also grown very dependent on Bernanke's policies, which isn't a healthy situation.

A few days later, stocks fell when it seemed that further economic stimulus may not be forthcoming. This has to weigh heavy on the Fed. They indirectly have the world's future on their shoulders.

The markets still jump based on what the Fed says or does, which greatly increases the pressure for them to do something, whether they like it or not.

Our guess is that they'll continue to comply as they have all along. And that's going to mean higher stock prices (see **Chart 6**).

THE UPSIDE

As you can see, the S&P500 is bullish, on its way to near the 1550 level, which is a strong resistance level, near the 2000 and 2007 highs.

The S&P500 has also been stronger than Hong Kong, which has been one of the stronger global markets (see **Chart 7**). This again suggests that it's best to stick with U.S. stocks, at least for the time being.

As for the Dow Industrials, it broke above its 13000 resistance but it's now below it. If it can again rise and stay above 13000, its next upside target will be near the 14000 level, which is also the major 2007 resistance. But since the leading Nasdaq broke right through its resistance, the others may follow.

For now though, stocks have risen far and fast, and a normal downward correction is taking place. Use it to buy new positions in our recommended stocks, listed on page 12, or to add to your positions.

Stocks are bullish and even if the Dow and Nasdaq were to decline to 12150 and 2730, they'd still be bullish. Regardless of what happens in the near-term, the same is true of the other indices by staying above the levels shown on **Chart 3**.

CHART 5

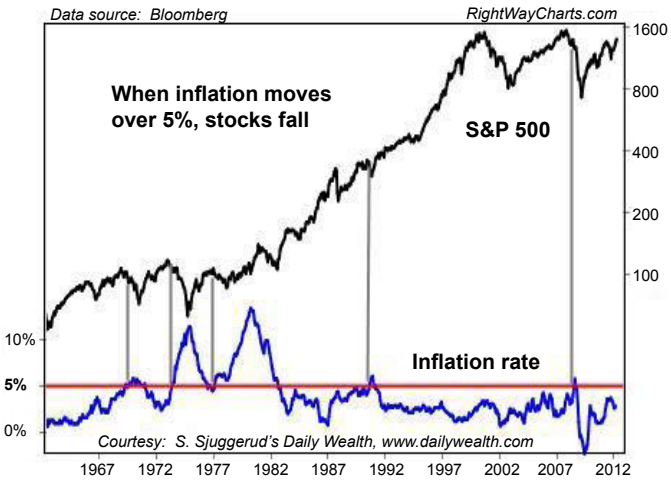


CHART 6

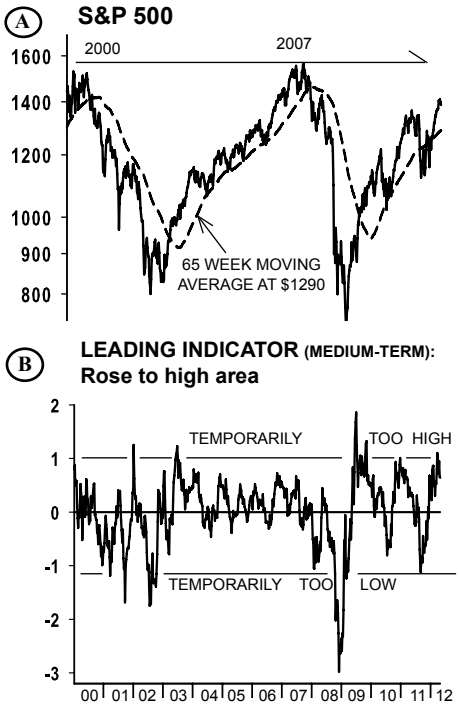


CHART 7

U.S. INTEREST RATES AND BONDS

Long rates rising

The global economy is looking better with each passing month. Inflation is under control. Stocks were going up and all seems to be well, at least it's headed in the right direction.

What a relief. Considering what was happening at the end of last year when the world was on a 2008 type brink due to events in Europe, things certainly are much better.

SOME RELIEF...

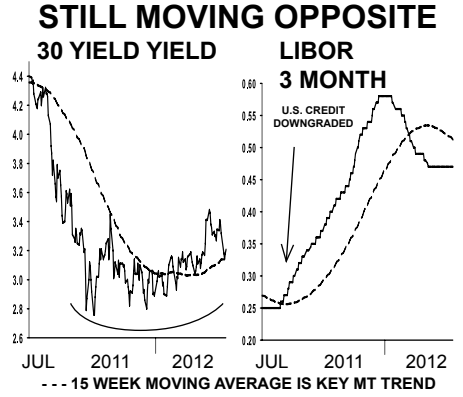
And it truly has brought relief. You can see this in the markets, the world economies and consumer sentiment, and it's happening worldwide.

Europe has settled down somewhat, thanks to the way the Greek crisis was settled, despite new worries about Spain. In the U.S., the economy grew at an annual rate of 3%, the best showing in over a year. Consumers are spending and unemployment is coming down.

All is good, but it's not good enough. That's what Bernanke and other top officials are saying. They're still concerned the economy is not out of the woods and more needs to be done.

The stubborn housing situation, while showing some improvement, is still a big drag. And so is long-term unemployment. Plus, China is slowing and Europe seems headed for a recession, which would affect global growth.

CHART 8



RATES TELL STORY

In addition, interest rates temporarily shot up this month (see the long-term 30 year yield on **Chart 8**, left). This was essentially in reaction to the better economic news... Sure, the situation is not perfect, but rates look ahead and this may be telling us the bond market isn't as nervous as it was before and the need for a safe haven has eased.

This of course doesn't make the Fed happy. Their plan is to keep interest rates low through 2014 to help boost the economy. So even though short-term interest rates are low and/or declining, as you can see looking at the Libor rate, the question is what to do about long-term rates?

The Fed will probably buy more government bonds, adding to the over $2 trillion bond pile they've already bought over the past three years or so. That's especially true now that China is buying fewer bonds. This could push rates down further.

The Fed, however, could also enact another QE easing program to further stimulate the economy and they've suggested they may do this.

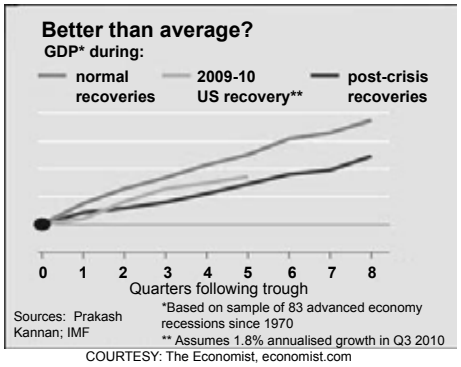
If so, it would likely be seen as inflationary, which would push long-term interest rates up because bonds are very sensitive to inflation. When inflation pressures increase, bond investors demand a higher rate of return to account for inflation, and this is certainly a possibility.

The 30 year yield has formed a big saucer bottom, which could be a springboard for higher rates. But we'll see. At this point, higher rates would harm the delicate recovery and the Fed knows this better than anyone.

"LESS GLOOM, BUT NO BOOM"

Looking at this recovery compared to recoveries of the past, you'll see what we mean and **Chart 9** tells the story. Note that normal recoveries have been much stronger.

CHART 9



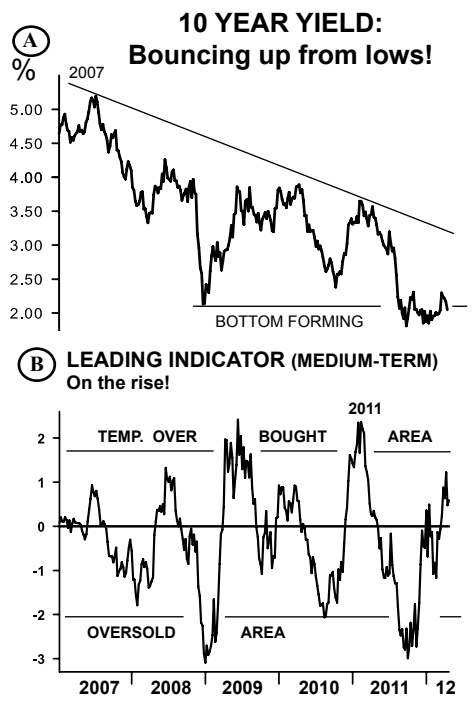
COURTESY: The Economist, economist.com

Recoveries following a crisis, however, have been slower or lackluster. The current one fits in with what you'd expect following the 2008 debacle and it's still chugging along.

As *The Economist* so aptly describes it... less gloom, but no boom.

On the other hand, investment guru Ray Dalio calls this, "the most beautiful deleveraging yet seen."

CHART 10



He feels that policymakers have done a good job mixing debt restructuring with injections of cash to keep demand growing. He says, "the risk of chaos has been reduced" and things are calming down.

INTEREST RATE TREND STILL DOWN

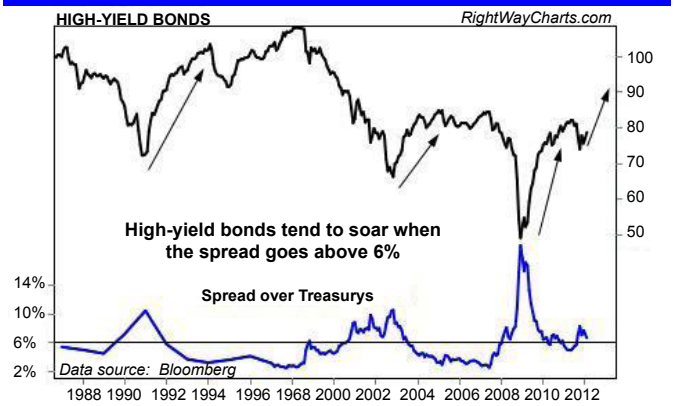
It's been a tough balancing act and considering the big picture circumstances, which we discussed last month, so far so good. But we have to stay cautious and watch the markets.

The 10 year yield, for instance, could still rise further before it's overbought (see **Chart 10B**). But will the rise be enough to turn the trend around? We don't think so, at least not yet.

More likely, interest rates will probably bounce around like they've been doing and remain volatile for a while. For now, the major trend is still up for bond prices and it's down for interest rates. And even though the 30 year yield may be bottoming, if it stays below 3.75%, the major trend will stay down.

As long as that's the case, we recommend keeping the long-term government bonds you have but don't buy new positions at this time.

CHART 11



Courtesy: S. Sjuggerud's Daily Wealth, www.dailywealth.com

HIGHER YIELDS

Many of you have asked us about how to get higher yields. With rates so low and the economy rather uncertain, risk seems high almost everywhere. And as most of you know, for the past few years high yields have been a thing of the past.

Our dear friend and well respected analyst Steve Sjuggerud (www.dailywealth.com) believes high yield (or junk) bonds are now at an ideal buying spot and he provides evidence to back this up. We've known him a long time and value his views. He takes his work very seriously, so we wanted to pass this on…

High yield bonds are rated below BBB and they're considered speculative. But there are times, usually when a recovery gets underway, when they're a good investment and do well (see **Chart 11**).

As Steve points out, junk bonds are currently yielding 8%. That's a huge 6% more than Treasuries. This happened in 1991, 2002 and 2009 and each time, junk bonds surged. Plus, the default rate is now only 1.5%, which is extremely low.

In other words, risk is low and the upside looks good. He likes the iShares High Yield Corporate Bond Fund (HYG) and we agree. It's currently paying 7.26% interest.

As you know, this is an area we don't normally venture into. But after checking it out, we feel this provides a good opportunity to collect a higher yield in the year ahead, using a portion of your bond portfolio. It's especially attractive considering it's one of the few high yield alternatives currently available.

CURRENCIES

U.S. dollar: Rise near maturity

Volatility is back. And the currencies have been one of the most affected markets this year.

It's actually kind of sad… fundamentals don't seem to mean much, or at least not for long. If a country has a top credit rating and decent interest rates, it used to be considered a good bet. But things have changed.

RISK FACTOR RULES

Since last year or so, the only thing that really matters is the "risk on" or "risk off" factor. In fact, that's been the case ever since the Eurozone grabbed the spotlight. Although the area has calmed down in recent months, the problems clearly persist and it's still a driving force.

What's happening in Europe has fueled volatility in all of the mar-

CHART 12

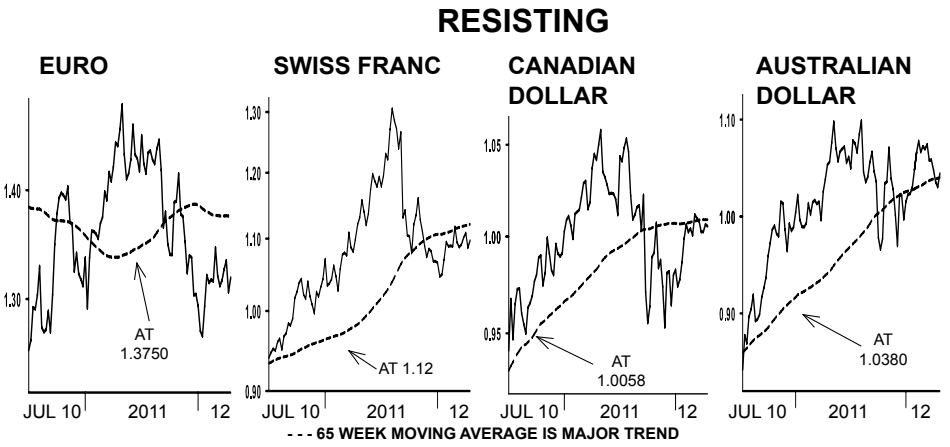
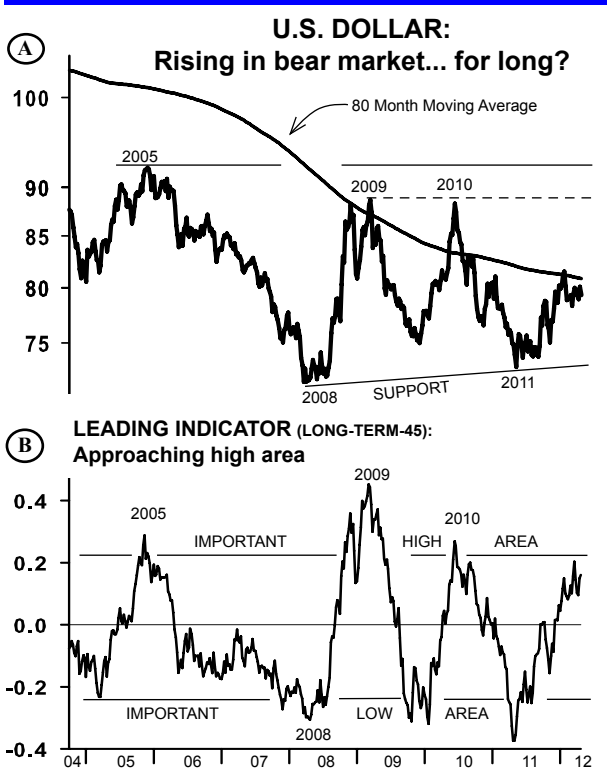


CHART 13



kets. But it's also been enhanced by the news of the day, especially as it relates to the global economy. That's what the markets are primarily focused on these days.

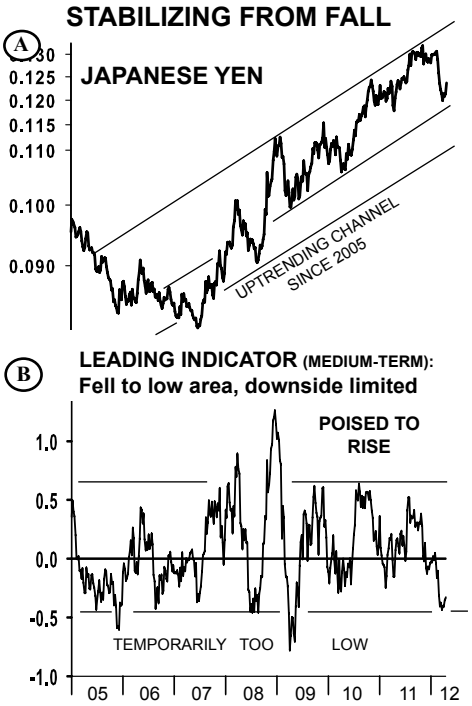
If all appears to be well... with good economic signs and no trouble in Europe, then risk is on. That means the "higher risk" currencies, which generally pay higher interest, tend to rise. These would be the Australian and Canadian dollars because they especially benefit when the world economy is good.

The euro benefits when all is well in Euroland. Investors tend to move in because it's worth the risk. That is, it too becomes a risk on currency.

The opposite is true when risk is off. You'll remember late last year when it was all about Greece. This in turn threatened the global economy. Risk was off and most of the currencies fell sharply (see **Chart 12**).

Instead, investors wanted safe havens and they primarily turned to the U.S. dollar and Japanese yen. This month we again saw a hint of this.

CHART 14



U.S. DOLLAR STILL BEST

Rather than Greece, it was Spain and France that caused concern, creating some doubts about the Eurozone's efforts to control the underlying problem. And here too, investors returned to the U.S. dollar and the currencies declined.

That's why we're keeping our cash in U.S. dollars, for the time being. It's simply the best currency at this time (see **Chart 13**).

As you can see, the U.S. dollar index has been rising since last year and it's strong above 78. It's now coming up against strong resistance at 81, which is the 80-month moving average.

If it can rise and stay above that level, it'll be very strong. It could then rise up to the 2009 and 2010 highs near the 88 level.

The dollar's leading indicator, however, is currently at a high area. This suggests a limited upside for the dollar. But we'll stay with the dollar as long as it's going our way.

JAPAN YEN: Down but not out

The Japanese yen had been a safe haven of choice for many investors. But it fell hard and this year it's been the worst performing currency (see **Chart 14A**).

The U.S. dollar could follow a similar fate and we wouldn't be surprised if it does. The U.S. trade deficit, for example, is currently at the highest level since October 2008, and that's not good news for the dollar.

It also doesn't help that the Fed bought more than half of all the Treasury debt that was issued last year. This is sending a negative signal to foreign investors, especially foreign central banks and the facts reflect this.

FED: Biggest bond buyer

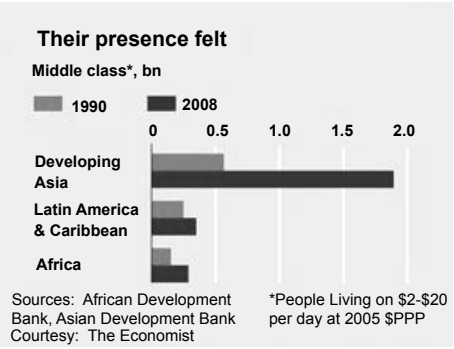
Over the past two years, foreigners have cut back on their U.S. government bond buying by over 50%. So the Fed has obviously picked up the slack. This is not going to bode well for the dollar because it's consistently being cheapened and as this happens, the world is getting to the end of their rope.

As we've often pointed out, dozens of countries are doing their own thing.

China has been at the forefront and almost every month there's more news as this movement gains steam. In each case, these changes are gradually eroding the power the U.S. dollar once had.

This month it was the BRICS nations (that is, Brazil, Russia, India, China and South Africa). They announced they want to form their own World Bank.

CHART 15



In addition, China said they're going to start making loans to the BRICS, in renminbi of course. This will increase the overall acceptance of the Chinese currency in areas which have the world's largest growing middle class (see **Chart 15**). This will also eliminate the U.S. dollar from these transactions, which is what the Chinese and many others have been doing all over the world.

As we said last month, **it's becoming very obvious China plans to take over the U.S. dollar's role as the main reserve currency.** And they're doing it, slowly but surely.

As this becomes ever more apparent, the dollar is going to continue on its long path down, like it's been doing for the past 40 years. We'll want to be well out of dollars at the first signs this is starting, but it's not happening yet.

KEEP DOLLARS FOR NOW

For now, the U.S. dollar is still the world's main safe haven currency, and it has been since last year. So again, we'll stay with it as long as that's the case.

We also like the Canadian dollar, but it's been getting pressured along with the other currencies. We recommend keeping it for now, but this could change in the weeks ahead.

METALS, NATURAL RESOURCES & ENERGY

Gold: Volatile within a bull market

Gold was one of the most volatile markets this month.

Initially, it started to rise breaking above the $1700 level, but that didn't last long. It then fell sharply, dropping about $100 in March, ending at a low during Easter week. It has since rebounded and so far, it's doing fine as April unfolds, but it's not yet out of the woods.

Yes, gold is bullish and the major trend is up in spite of the volatility. In fact, gold held firmly above its $1600 major support level, which has become increasingly important.

Whenever gold sells off, like it did this month, big buyers come in to take advantage of lower prices. This is a pattern we've seen consistently and we expect it will likely continue.

NEGATIVE IMPACTS

Meanwhile, there are several reasons for gold's volatility....

First, it's interesting to see that gold too has become addicted to the Fed's actions. It's been rising like the other markets when the Fed suggests easy money is coming. And gold's been falling sharply when QE hopes dim.

This influence on gold tends to occur during downward corrections or consolidation periods, like we've seen since September. Gold often gets pushed around during weakness.

Gold's strength dominates, however, during bull market rises. Nothing gets in its way. This strength, for example, popped back into gold when it recently bounced up on safe haven buying.

Also important has been the slowing Chinese economy. Since China has become the engine of global growth, its slowdown has hurt all of the commodities and the metals in general, because slowdowns mean less demand (see **Chart 16**). Plus, India's strike against higher gold taxes hurt the global flow.

Here again, gold will move on its own at times when global financial uncertainty prevails.

The higher dollar also had a negative impact, but now sentiment is changing again.

GOLD'S BULLISH FACTORS

As Q2 gets underway, stocks declined. With tensions in the Eurozone resurfacing.... primarily thanks to Spain...uncertainty is coming back. This pushed gold back up and it's again becoming a safe haven.

Since Spain is much larger than Greece, concerns the Eurozone may be unable to handle the brewing potential problem as easily as it did in Greece is weighing on stocks and pushing up gold.

At the same time, demand is

CHART 16

COMMON THREAD... RESISTING BELOW 65 WEEK MOVING AVERAGE...

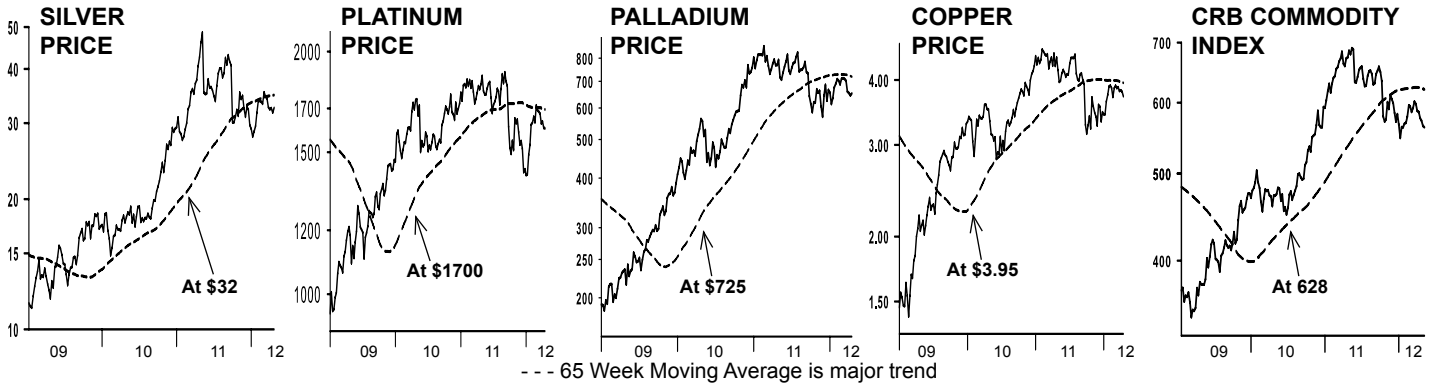
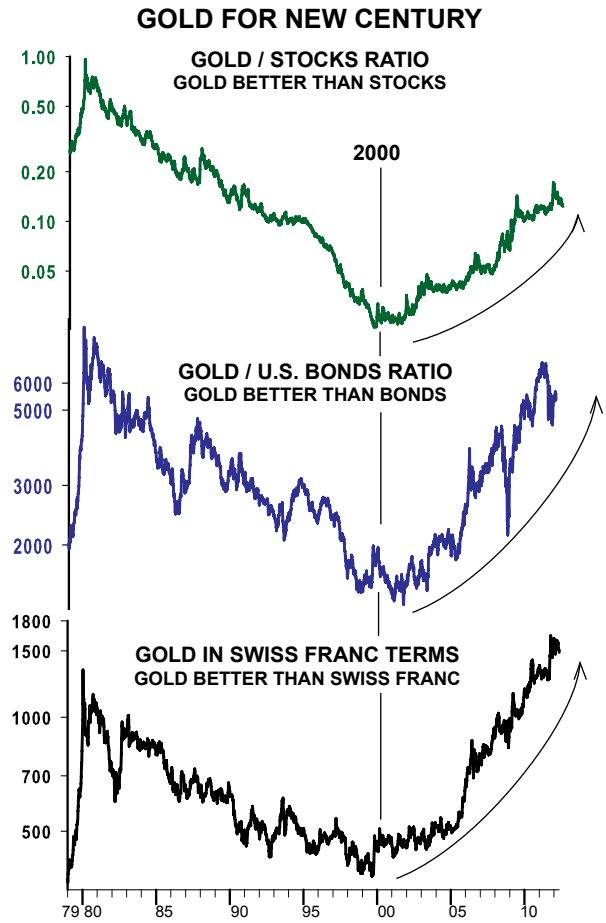


CHART 17



also an ongoing factor that is keeping a solid foundation under the gold price.

Central banks have been steady buyers as they grow weary of the Fed's monetary actions and build their gold reserves, and China remains at the forefront. Not only is China the world's biggest gold producer, it's also the world's biggest gold buyer.

Like the central banks, big successful investors have also been buying all along. This too is a sign that gold is likely near a bottom.

Plus, don't forget that inflation is brewing due to the Fed's policies while real interest rates are below zero. Both are very bullish signs for gold.

These are the main reasons why we believe gold's bull market will continue on its upward path. Should that change due to an unforeseen event, you'll be the first to know.

GOLD'S CALM FOR 7 MONTHS CAUSES MORE BEARS

After a steady consistent rise in gold for 11 years, we can understand why some say that gold in in a bubble.

But don't be fooled, a trend is in motion until it's over. This is a simple yet powerful phrase, and it tells us to stay invested until the move is over.

It's amazing to think that gold has risen 660% since 2001, or even better, it rose 170% from the 2008 low to last September's record high near $1900, without much of a decline along the way.

Yet the decline from its September peak has so far been less than 20%. And even if gold were to decline below $1600 to last December's low near $1540, it would still be a mild decline compared to the rise.

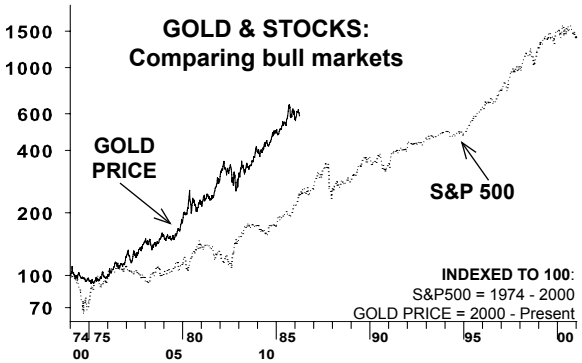
This is where you want to keep your focus during sluggish times because they could last a bit longer (more on this later).

GOLD: Best asset class

The big picture on **Chart 17** provides another example. It shows gold compared to stocks, bonds and a strong currency since 1979.

Note the clear change in the mega trend starting with the new century. Gold has steadily outperformed the stock market, bonds and the Swiss franc since early 2000. And this year's correction, within the major rise, has also been mild.

CHART 18



Another way to look at gold's strength is to compare it to the mega bull market rise in the stock market from 1974 to 2000.

Note on **Chart 18** that with both indexed to 100 in January 2000 for gold and January 1974 for the S&P500, the greater strength is in the gold price.

And most important, you can see that gold could rise for many more years in a mega rise, with sharp corrections along the way.

Note the famous 1987 stock market plunge. In hindsight it was just a blurb within the mega rise, yet at the time it was totally unnerving.

We believe gold is in a mega rise just as the stock market was in

CHART 19

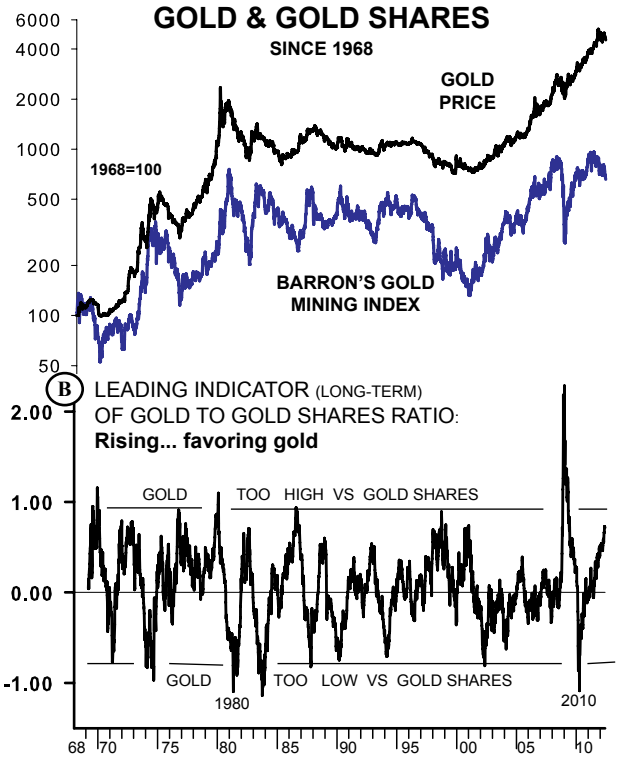
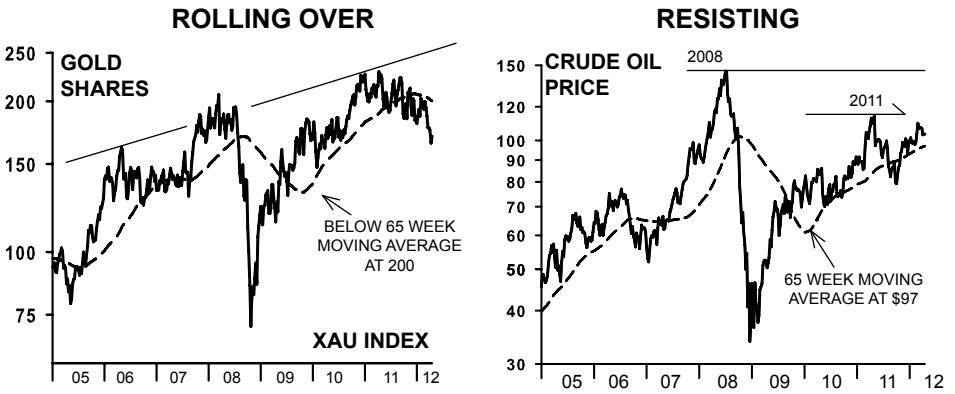


CHART 20



those days.

WHAT HAPPENED TO GOLD SHARES?

Many scratch their heads and wonder about the gold shares. Why are they so weak?

Gold shares lost their super strength following the 2008 plunge. While they rose with all of the markets, and in many cases they did incredibly well, gold shares fell noticeably last year and began to chug.

Chart 19 shows gold and gold shares indexed to 100 starting in 1968. Here you can clearly see gold's ongoing strength compared to the gold shares over the last 40 years.

But when looking at the indicator, B, note the clear times when gold was super cheap versus gold shares. This proved to be true in 2010, because gold has outperformed gold shares since then.

The indicator is now approaching a gold high area, which means gold is getting too high versus gold shares, and their time is coming right up.

Is gold's bull market over? Are gold shares leading?

These have been the questions most asked in recent months, especially during the past month's weakness. This is understandable considering the weakness in gold shares, as you can see on **Chart 20**.

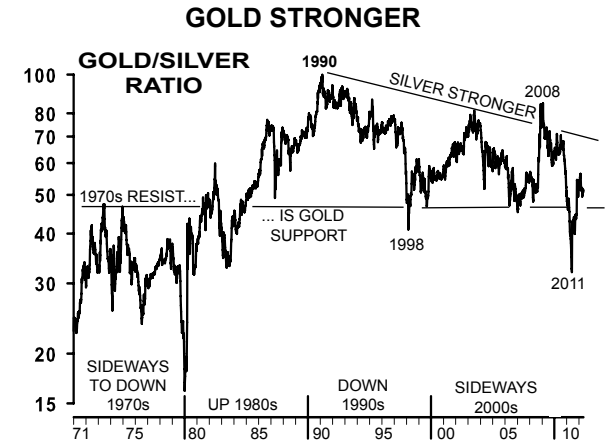
The XAU index is clearly below its 65-week moving average and as long as that's the case, gold shares will remain under pressure. But we're also seeing signs that the lows are nearing. Be it the gold to gold share relationship, the leading indicators and the extreme moves...it all suggests that **the downside for gold shares is limited.**

Overall, we don't think gold shares are leading. We think it's just a matter of time until they catch up to the gold price.

SILVER: Ready to shine

Silver also looks poised to rise. It's been stronger than gold since 2008 and it looks like this could continue going forward.

CHART 21



Note the gold to silver ratio on **Chart 21**. This shows a good history of their relationship going back to 1971 and each decade had its unique moves.

First, you'll see that in the 1970s, while both rose, silver had the upper hand in strength as the ratio moved down. The 1980s saw a clear change and gold was much stronger than silver.

The 1990s and 2000s favored silver and it coincided with a mega silver trend. 1998 and 2011 were the peak strength years of silver over gold. **Silver shot up to almost $50 in 2011 and its fall since then has caused the ratio to rise, favoring gold.**

The 2011 low was an extreme, but if it's marking the path going forward, we could see silver explode upward. Let's keep both metals but also keep an eye on silver's strength.

Silver looks good and it continues to hold near $32, which shows strength. It slipped to the $31 level this past month, and it'll likely continue basing for a rise.

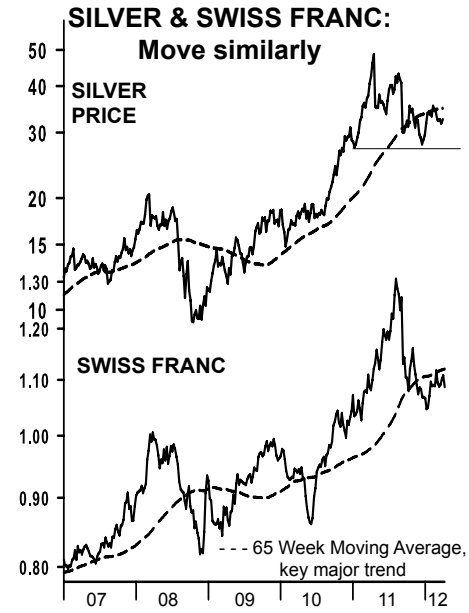
We recommend to continue buying silver on weakness. You should've already bought more this past month.

We know that gold tends to move opposite to the dollar, and we know that silver tends to move with gold, so it's not unusual to then see how similarly silver moves with the Swiss franc (see **Chart 22**).

Both have been holding near their 65-week moving averages this year, and both look like it's just a matter of time until they rise together. $35 for silver and 1.12 for the Swiss franc... a rise above these levels will confirm renewed rises. We could then see silver test its 2011 highs.

What could make silver soar when the global economy is slug-

CHART 22



gish, and gold has been correcting? We believe investment demand will become more prominent. And then when resources rise, it will enhance the rise.

Silver is bought as a more affordable gold investment. And China once again is at the forefront. In a few months, their Pan Asia Gold Exchange (PAGE) is opening their door to retail and corporate citizens alike, using their bank accounts in Renminbi to buy precious metals.

They are also making it easy to buy gold and silver online. This could cause even greater demand for both metals.

GOLD TIMING: Buying time, consolidation time

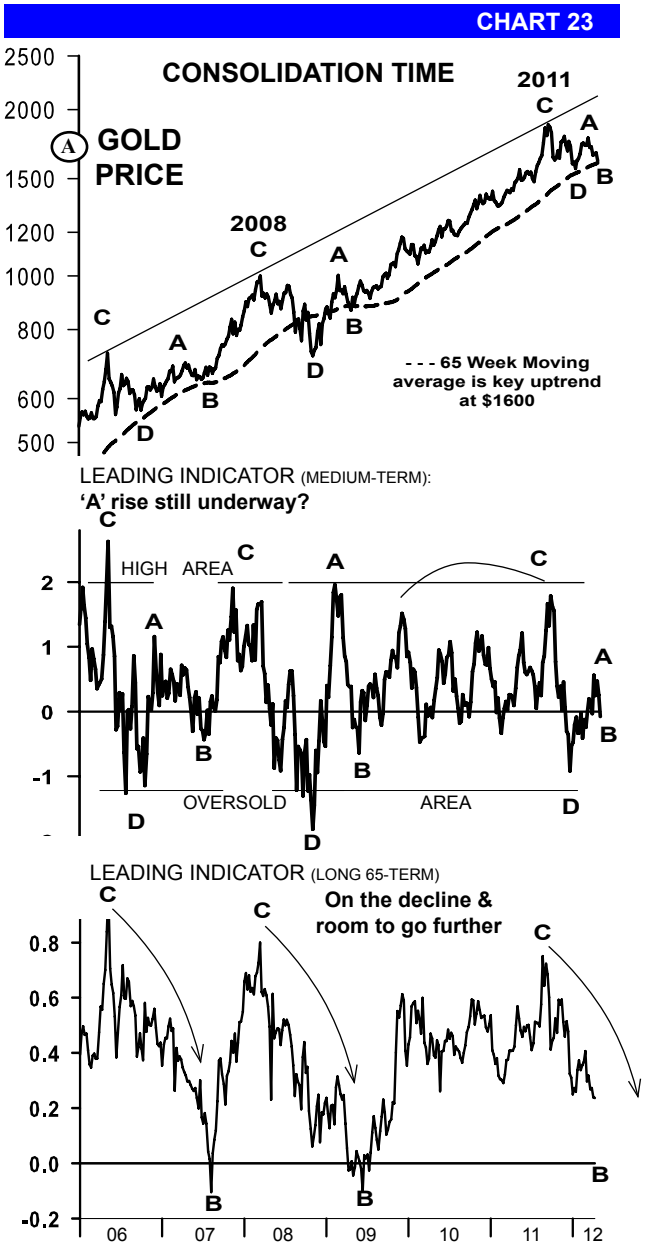
Gold fell this month to the $1600 level. We hope you have been taking advantage of this weakness to add or buy new positions. Gold is giving us an opportunity to buy.

Gold has been moving in what we call a consolidation period since December (since its D low, see **Chart 23A**). That is, this year we've seen gold rise in a moderate rise we call "A", up 16% from December to late February, and then fall in a decline we call "B", from the Feb peak to the March lows.

This A and B combination is best seen as a consolidation time when gold usually moves within the C peak and the D low area. **This means if gold stays within its $1900-$1540 band, it will continue in its consolidation phase. This is a solid bull market movement.**

Once this period is over, we could see gold burst above $1800 to its record high area near $1900. But above this level would mean that another strong leg of the incredible bull market is underway.

C rises are the best intermediate rises in a bull market. This is when you know the bull is in full swing once a record high is hit. This upcoming rise could then take gold up to the $2300 to $2500 level as our next target.



The 65-week moving average is the key bull market trend and it's currently at the $1600 level. If this level is temporarily violated, like it was during the heat of the financial meltdown in 2008, we could see a short-term wash. **This would be an incredible buying time and not necessarily the start of a bear market.**

Gold's leading indicator on the lower **Chart 23**, still has room to decline further before it reaches the correction lows of 2007 and 2009. This suggests that we could still see more weakness before this consolidation phase is over.

RESOURCE SECTOR: Feeling the heat... but

The slowing global economy continues to keep downward pressure on the resource sector. The first quarter ended with an up to sideways market.

Copper fell below its sideways band, below $3.70 this past week. And while it's bouncing back up, this fall was perhaps an early warning about the world economy (see **Chart 16**).

The concerns were primarily focused on China and the U.S. since they account for a large part of copper demand, so it makes sense that copper would fall when slowing signs grow.

But hedge funds are turning the most bullish on copper in eight months. And projections show that copper demand is sufficient to move prices higher later this year.

The third consecutive annual copper shortage, together with accelerating U.S. growth should put upward pressure on the copper price later this year.

With the Fed and the Bank of Japan ready to stimulate growth to overcome deflationary tendencies, it'll keep the global economy moving at a good pace.

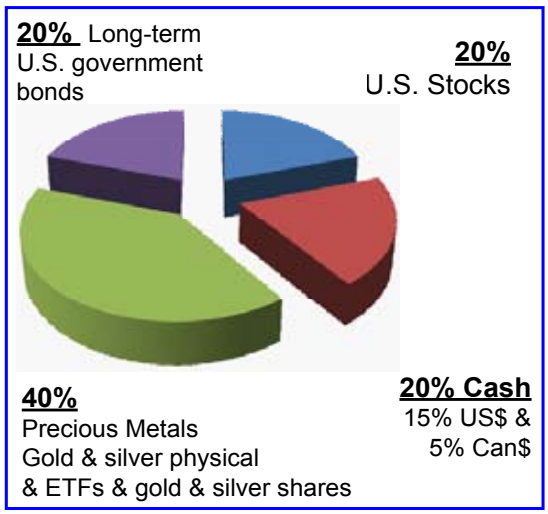
As long as copper stays above $3.00, it will be stable. If copper can eventually surpass the $3.95-$4.00 level, it would be super strong.

Crude oil is also coming down. It closed at an eight week low this week and it's now vulnerable below $106. Major support is near $97 (see **Chart 20**).

Crude oil is in its own league due to the added geopolitical situation, especially because it's the bloodline of the world. If oil closes above the February high near $110, it could rise to last year's high near $114. Above this level, we could see 2008 the record highs tested once again.

OVERALL
PORTFOLIO RECOMMENDATION

It was calm for a while, but the markets are swinging again. Stocks, the metals markets, bonds and currencies... they've all been volatile. For now, all eyes are on the Fed and it'll be important to see what they do next. Nevertheless, the major trends remain intact and we recommend keeping the positions you have. This month, however, we made a few adjustments in our weekly updates. We sold Randgold (due to political instability in Mali). We also sold Caterpillar, and the bond fund TLO because they were vulnerable to further weakness and/or volatile. If you still have them, we'd sell.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Most of this sector was hit this past month. Gold shares were by far the worst affected. A consolidation phase for gold is underway and we could see downward pressure last a while longer. Gold is holding firmly above its $1600 support, but even if it tests its December lows, take advantage of weakness and buy. Gold would start to look good above $1800.

Silver is similar. It's holding near $32, which is a good buying area, but if it slips below $31, buy on weakness. Silver looks poised to rise, and it would look promising above $35.

The downside for gold shares is limited and they look like a basing period wants to develop. We sold Randgold in our weekly update. Keep your other shares, as well as gold and silver. It's best to stand aside in the resource sector until the dust settles.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

Stocks were volatile this month, but the bull markets are still intact. So far, the weakness in stocks has simply been a downward correction following a steep rise, which is normal. For now, stocks will remain bullish by staying above 12150 on the Dow Industrials and 2730 for the Nasdaq. And as long as these levels hold, stocks will likely head higher. Continue to hold our recommended stocks. Use any weakness to buy new positions in the strongest stocks, listed at the top of the stock listing (see box below). Sell Caterpillar (CAT) if you haven't sold yet.

CURRENCIES RECOMMENDATION

The U.S. dollar moved essentially sideways this month. In fact, the dollar index will remain in a three month sideways band by staying between 78 and 81. But if it continues resisting below 81, like it's been doing for several months, it may be saying that the dollar rise is maturing. The currencies are basing, the yen is bouncing up from the lows and the commodity currencies still look good. We continue to recommend keeping the U.S. dollar for now, as well as your 5% position in the Canadian dollar. We'll be quick to make changes when the time comes.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

Central Fd of Can	CEF-AMEX	TSX:CEF-A
Central Gold Trust	GTU-AMEX	
iShares Silver Trust	SLV-NYSE	
iShares Comex Gold	IAU-NYSE	
SPDR Gold Shares	GLD-NYSE	HKE:2840
Royal Gold	RGLD-Nasdaq	TSX:RGL, FSX:RG3
Silver Wheaton	SLW-NYSE	TSX:SLW
New Gold	NGD-AMEX	TSX:NGD

U.S. STOCKS

SPDR Consumer Dis	XLY-NYSE
Nasdaq 100	QQQ-Nasdaq
Dow Diamonds	DIA-NYSE
DJ U.S. Medical Dev	IHI-NYSE
S&P Biotech	XBI-NYSE

INTEREST RATE & BOND RECOMMENDATION

Long-term rates jumped up this past month on better economic news. Relief was felt as the 30 year yield rose to a seven month high. But the economy is still on delicate footing with the Fed watching it closely.

The yields continue to bottom and the 30 year yield is firm in a moderate rise by staying above 3.10%, but the bond market's trend remains up. This means, keep the long term government bonds you have, but don't buy new positions at this time. As we said in our weekly update, sell TLO; it's best to stand aside during this time of volatility.

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

