THE
ADEN FORECAST
MONEY • METALS • MARKETS

APRIL 2014 *our 33rd year*

HOT SPOTS BREWING

The markets have been volatile. And this month we're watching two important hot spots…

RUSSIA: Wild card

As most of you know, Putin moved quickly and took Crimea from Ukraine last month. This followed a vote by Crimea to join Russia. Normally, this wouldn't have been such a big deal, but it is because of the precedent it's setting and possible repercussions.

Most impressive, Russia used thugs, deception, truth twisting and similar tactics to gain control of Crimea, clearly breaking international laws.

Putin claims Russia has an obligation to protect Russian speakers wherever they are and says the 1994 agreement that guaranteed Ukraine's borders wasn't valid. (As the story goes Khrushchev gave Crimea to Ukraine in 1954 when he was drunk.)

Nevertheless, Putin's actions upset the rest of the world. Political analysts are worried that Russia is embarking on a new Cold War. Basically, Putin is doing what he wants and no one seems to know what to do about it.

DREAMS OF A NEW RUSSIAN EMPIRE

Then there's the man himself, which is another concern. A former KGB agent, Putin has often said the fall of the Soviet Union was the greatest catastrophe of the last century.

It's bothered him to see one former Soviet country after another join the European Union and he's putting his foot down, despite what the world thinks.

He views this as Western expansionism and it's very possible he'll intervene in other countries, in his objective to restore the Russian empire.

Despite Putin's claims that he has no intention of taking over Ukraine or any other country, serious trouble is already brewing again in Ukraine.

His statements are contradictory and some have compared his actions to Hitler's as he moved into several countries prior to World War II.

On a personal note, Putin is a macho man, similar to a school yard bully. In case you've missed it, he's proud of the many photos showing off his bare chest and muscles, participating in adventure sports like judo, rafting, hunting and so on.

Anyone that knows anything about machismo can tell you this is symbolic of an ego driven, insecure, know it all individual. George Bush recently revealed that Putin even made comments that, "my dog's bigger than yours."

This would probably be funny if he wasn't in charge of a massive military complex, and obviously not afraid of going to war if need be.

Putin is also smart and popular at home.

He knows the West is worn out after more than a decade of war, and they're financially strapped. Plus, he's already been undermining the West whenever he can, especially the U.S.

PUTIN'S PROBLEM

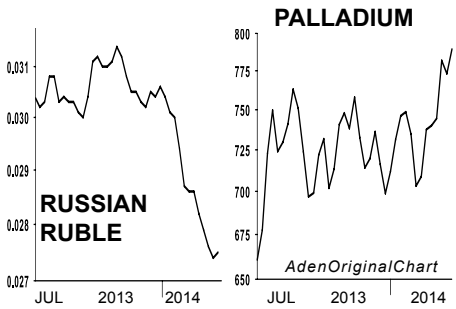
Many times he's said the global economy is in danger because of the U.S. dollar's dominance. And he's made many moves to remove Russia from this sphere, like cozying up to China, dumping U.S. Treasury bonds, buying lots of gold and so on.

Meanwhile, Russia has vast amounts of natural resources. It's a huge producer of oil and natural gas. In fact, many Eastern European countries rely on Russia for

INSIDE

CHART 1

RUSSIA-UKRAINE REACTION



80% - 90% of their gas. As a whole, Europe gets 30% of its gas from Russia.

Russia is also the world's biggest palladium producer. That's why palladium surged on the latest events (see **Chart 1**). On the other hand, the Russian stock market and the Russian ruble dropped, resulting in high inflation, and Russia's credit rating was cut to negative by S&P.

But Putin doesn't seem to care. Even though his ambitions could hurt the Russian economy, anything is possible.

At the very least, he's fueling global uncertainty, which could affect most of the markets. That's why we continue to advise maintaining caution. Should the situation intensify, for instance, stocks will fall further.

Bonds and other safe havens like gold will head higher.

That's why we're making some changes in your portfolio this month. More could follow, so stay in touch.

In the meantime, while all the world remains focused on the missing Malaysian airliner, watch what Russia is doing, rather than what they're saying.

CHINA WATCH

Another important hot spot to keep an eye on is China. It too could affect the markets and the global economy. Here's why…

As you know, China's growth has been phenomenal.

It's been the world's fastest growing economy over the past few decades. And in more recent years, it's been the primary engine for global growth.

Currently, however, we've been seeing several signs the Chinese economy is slowing and this too creates uncertainty.

China's manufacturing, for example, has been declining for the past five months. Exports dropped 18%, the real estate market is softening and there have been some significant defaults.

This is a new development because previously there were no defaults.

The new government, however, is taking a more realistic approach to its debt problems, hoping to let the air out of the debt bubble slowly rather than blowing the bubble up further and/or abruptly allowing it to pop.

It's a delicate balancing act and the outcome is very important, mainly because China's underlying fundamentals are also eroding. As George Soros says, "the major uncertainty facing the world today is the future direction of China."

DANGEROUS BUBBLES

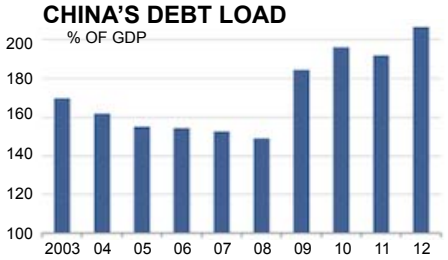
The bottom line is China has grown too far, too fast. In a recent report by our old friend John Mauldin, Mark Hart points out that China's policies have created dangerous bubbles in many sectors… these include raw materials, construction, real estate prices, banking and more.

For example, the average price to rent ratio in China's main cities is 39 times. To give you a comparison, it was only 23 times prior to the housing crisis in the U.S.

But the debt is even more worrisome. China's private sector debt is the highest in the world, as a percentage of GDP. And it's the same story for its corporate debt. China's total debt has soared too (see **Chart 2**).

CHART 2

CHINA'S GREAT LEVERAGING SINCE 2008



SOURCE: BPoC, HKMA, NBS, CEIC, SG Cross Asset Research/Economics COURTESY: Mauldin Economics

History tells us China is likely headed for a hard landing. But others argue that China's massive reserves will provide a buffer, resulting in a soft landing.

In either case, what happens in China also warrants close attention because it could easily affect not only the markets, but the world economy.

And whether we like it or not, the President of the St. Louis Fed summed it up neatly when he recently said, "Americans must adjust to a world dominated by China."

MARKET FLOW IS KEY

Meanwhile, we keep hearing that a crash in the U.S. is coming. These cries are often accompanied with warnings of the end of civilization as we know it. We see them and based on some of your concerns, we know you do too.

We've often talked about the debt bubble in the U.S., the need for the Fed's stimulus to keep things afloat and so on.

Of course that's not the healthiest situation in the world. But all factors considered, including the situation in Europe, the risk of another recession in the near future is low as global growth continues to improve.

Could this change?

Yes, but so far, so good. As we said last month, there's always something for the markets to worry about, and now it's Russia and China.

So again, keep in touch and remember, we'll let the markets tell us when it's time to make more changes, due to these circumstances, or perhaps for some other reason.

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U.S. & WORLD STOCK MARKETS

Lighten up

The stock market finally stalled out. Even though the weakness in the tech sector is getting all the negative publicity, it's now dragging the rest of the stock market down.

MIXED SIGNALS...

Currently, for instance, more than half of the stock indexes have broken below their 15-week moving averages (see **Chart 3**).

As we discussed last month, we're using these averages as our stop loss levels because they've been very consistent in identifying the intermediate price trends.

These levels are now at 16220 for the Dow Industrials, 1838 for the S&P500, 4200 on the Nasdaq and 1160 for the Russell 2000.

In other words, as long as these stock indexes stay below these levels, the market will be vulnerable and it could decline further. That is, these stock indexes have triggered their stop losses, signaling it's time to sell and move to the sidelines.

But this sell signal has not been crystal clear. The Dow Jones Transportations, for instance, is still holding above its moving average at 7390.

The same is true of the Dow Utilities and Amex. They'll stay in the bullish camp by remaining above 509 and 2440, respectively.

So in this case these indexes are telling us to keep our stock positions.

CHART 4

...AND LIGHTEN UP

This means the stock market is mixed and it's signaling caution. It also warrants lightening up on our stock position, so we're now recommending that you lower your stock portion from 50% of your total portfolio to 25%.

The stocks we advise selling are listed on page 12, and keep the proceeds in U.S. dollars for the time being.

This may prove to be a false alarm because all of the stock indexes remain bullish (Nasdaq provides a good example of this on **Chart 4**).

Note that Nasdaq's major trend is clearly up, and the same is true of its leading indicator. So the bottom line is, it's bullish for the long haul, but weak in the near-term.

Normally, this wouldn't be a cause for concern, but it is now for several reasons...

SIGNS OF CAUTION

Renewed tensions in Ukraine and concerns about China could keep downward pressure on stocks.

Plus, the stock market has been rising for two years without even a 10% downward correction, which is unusual.

On the other hand, this shows great strength but at some point, a 10% correction would be normal.

Keep in mind, this bull market has already been one of the longest on record. As our dear friend Richard Russell points out, the average

CHART 3

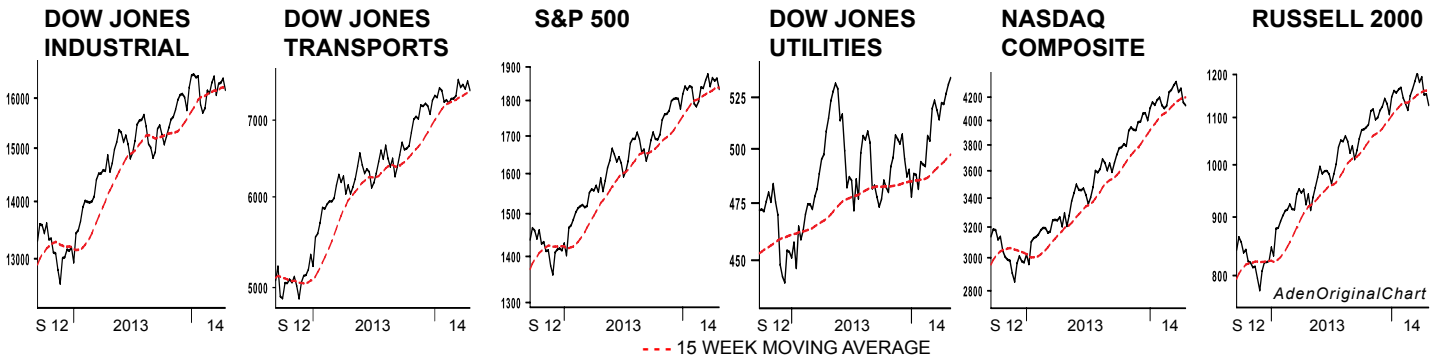
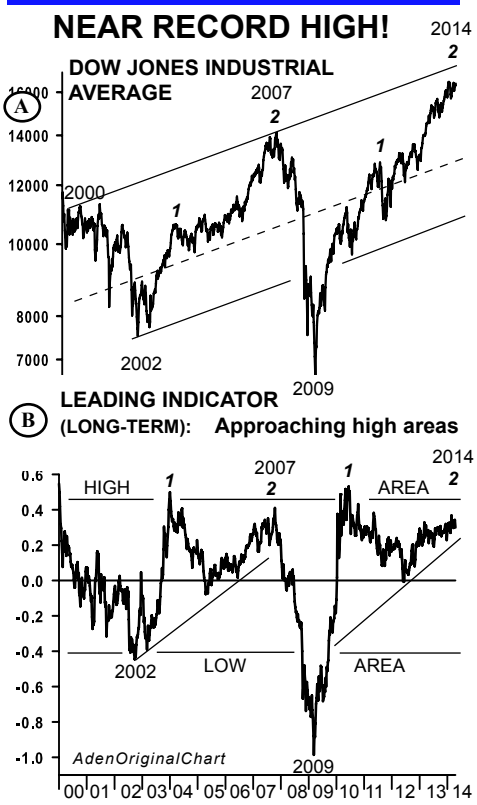


CHART 5



bull market since World War II has lasted 4½ years.

This one just turned five years old, and only three of the previous 11 bull markets reached their sixth birthday. So the bull market is clearly maturing.

It's also been one of the top performing bull markets going back to 1900. Again, this shows strength, and it doesn't mean it has to come to an end, but it's another sign of caution.

Interestingly, one of our technical indicators is also reinforcing this (see **Chart 5A**).

Here you'll see the Dow Industrials and its leading indicator since 2000. Note that starting in 2002, the Dow moved up (1), it stalled and then it went on to hit a new record high in 2007 (2).

The action in the Dow between 2009 and 2014 has been impressively similar. The leading indicator is also similar as it appears to be forming a double top, like it did during the previous bull market.

Does this mean a steep drop, like in 2008 is coming?

Not necessarily. History rarely repeats exactly the same way, but it does rhyme. In other words, a steeper bear market decline is a possibility, rather than just a 10% or less downward correction.

Currently, the markets are not indicating this but we have to stay on the alert, just in case. A tug of war is playing out and it's still to be seen which side gains the upper hand.

PUSH, PULL

On the one side, we have Russia which is a real wild card. As we previously noted, with the way things are evolving, anything is possible. And if this situation continues to intensify, it could send stocks down quickly and sharply all over the world (see **Chart 7**).

On the other side, there's a very powerful force that's been driving stocks higher all along, which is the Fed and its easy monetary policies.

Janet Yellen has made it clear that she'll continue with Fed stimulus to keep the economy on track, and she'll keep interest rates low.

The Fed is still buying $55 billion in U.S. bonds each month and the stock market has thrived in this environment. It should continue to thrive unless a wrench is thrown into the works.

So for now, it really boils down to which side will win this tug of war.

CHART 7

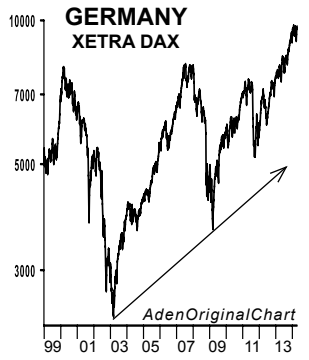
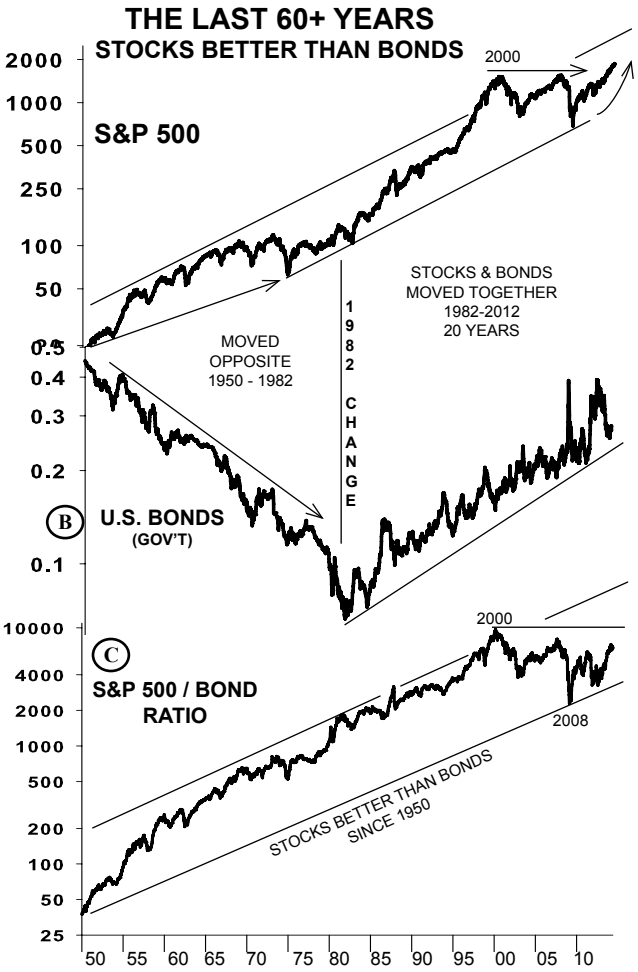


CHART 6



STOCKS BETTER THAN BONDS

Meanwhile, the S&P500 hit a new record high as recently as April 2 (see **Chart 6**). And even though stocks and bonds have been rising together since 1982, stocks have outperformed bonds, and that's still the case. That's why we continue to recommend keeping a larger percentage of your portfolio in stocks rather than bonds.

This could change, however, if stocks head South in a serious way. Then bonds will become the better performers.

Currently, many of our recommended stocks are holding up pretty well and they're generally oversold, meaning they're likely headed higher.

Basically, we're keeping the stronger ones and selling the weaker ones. But please stay in touch. If more stop losses are triggered, we'll then move to the sidelines.

U.S. INTEREST RATES AND BONDS

Bonds: Still poised to rise

Bond prices are headed higher. But the market's been volatile with interest rates swinging up and down, and here's why…

FED OBSESSION

Janet Yellen had her baptism of fire a few weeks ago.

As the new Fed chair, she quickly learned you can't say anything casually. On the contrary, as Fed head, when she speaks the world nearly stands still.

As you know, in recent years everyone has focused on every word, innuendo or hint coming out of the Fed.

It's dissected, analyzed and talked about for days, all in the hope of trying to determine what the Fed might do next, and how it'll affect the markets.

This entire obsession with the Fed is much greater than at any time we can remember over the past 30+ years. And this goes for the media, investors, commentators and the markets themselves. They're all glued to the Fed.

CHART 9

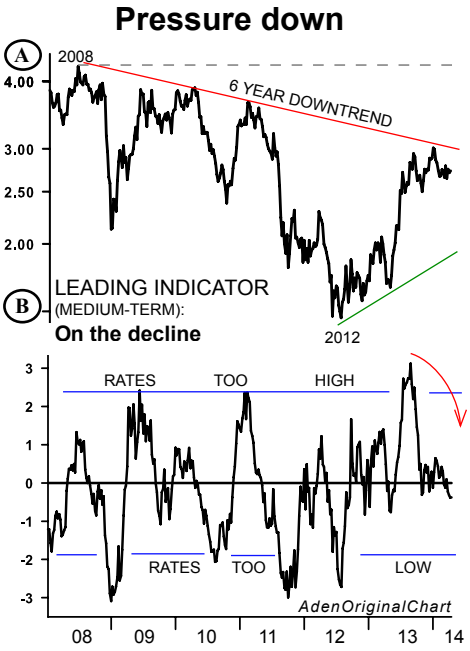
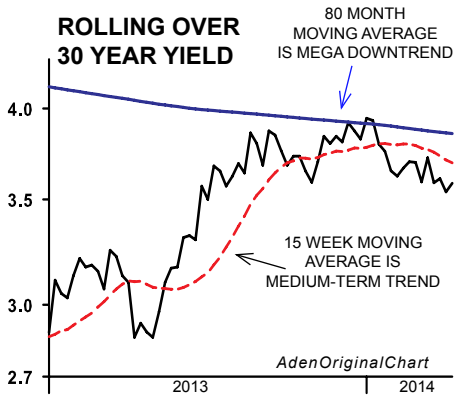


CHART 8



Market grabs rate comment

So even though the Fed's last meeting went as planned, maintaining the moderate monthly tapering steps, which showed continuity with Bernanke's actions, this didn't seem to matter.

Instead, at her first press conference and in response to a question, Yellen said interest rates will stay low for about six months after tapering ends. And that's all anyone needed to hear.

Since this suggested interest rates will be rising sooner rather than later, probably by the middle of next year, the markets grabbed that one tidbit and went with it.

That is, stocks, bonds and metals declined, and interest rates moved up.

FED CALMS MARKETS

This then led to some backpedaling.

In an effort to ease investors' concerns, Yellen later noted the Fed hasn't done enough to fight unemployment. She said reaching their goals will take time and the Fed's stimulus will continue for "some time."

This calmed the markets since it coincided with previous expectations…

Sure, the economy is doing better. Consumer confidence recently hit a six year high, reflecting optimism for the future. This has resulted in more borrowing and spending, which is good for the economy.

But still, the economy needs help.

Five years of zero interest rates and over $4 trillion in bond purchases simply hasn't been enough to really boost the economy, ward off deflation and fuel inflation, like the Fed wants.

RATES POISED TO DECLINE...

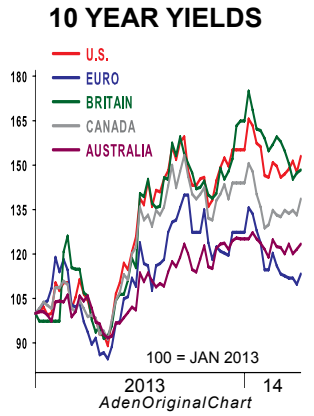
That's one important reason why we believe interest rates are going to fall further at least in the months ahead. In other words, bond prices are headed higher and this will likely continue well into next year.

As you know, we recommended buying bonds earlier this year and we still believe they're a good investment. Our charts and leading indicators are also reinforcing this…

... RATES UNDER PRESSURE

Looking first at the 30 year yield on **Chart 8**, you can see that it clearly resisted at its mega moving average. This means the mega trend for long-term interest rates remains down. The yield is also below its 15-week moving average, signaling long-term interest rates are now headed lower.

CHART 10



The 10 year yield is indicating the same (see **Chart 9**). It too resisted at a six year downtrend and its leading indicator has room to fall further before rates are too low. So it's also telling us that interest rates are poised to fall further.

Plus, this is happening not only in the U.S. but around the world (see **Chart 10**).

As you can see,

rates have been coming down this year in all of the major developed countries.

That's mainly because of the lackluster growth in most countries, along with low inflation. In other words, it fuels concern that deflation is gaining the upper hand, which has indeed been the case.

DEFLATION PRESSURES NEED LOW RATES

The world wants inflation, maybe not rip roaring inflation, but at least some inflation to offset the deflationary pressures. But as long as deflation is in the driver's seat, the world is worried about a Japanese repeat.

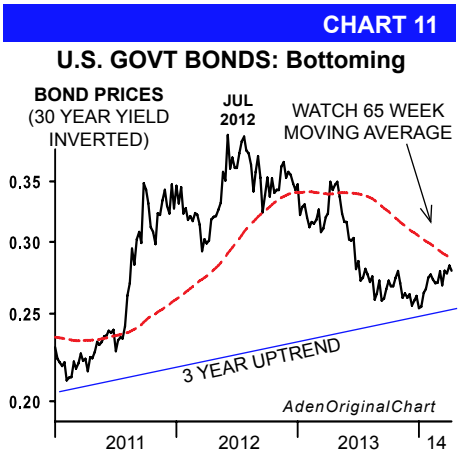
They saw what happens once deflation sets in. It was the dominant force for decades. The Japanese couldn't shake it, despite zero interest rates for nearly 20 years.

The bottom line and the lesson here is that interest rates will stay low if deflation pressures persist.

That's already been happening for the past five years, ever since the 2008 recession, and despite what the Fed and other central bankers say, it looks like low rates will continue for the time being.

FOOD PRICES SURGED

One bright sign is that food prices soared last month. We know this would normally not be good news, but for now it does provide



a flicker of hope that inflation may start moving up.

In previous years we discussed the effects climate change would likely have on the economy and the markets. We've kept a watch on this and we're now beginning to see some of the effects.

Due to the worst droughts in California history, a severe drought in Brazil and dry weather in SE Asia, food prices surged 2.6% in February.

That's huge and it amounts to a 31% annual increase. And since California is a primary source for fruits and vegetables, drought conditions could keep upward pressure on food prices.

If this proves to be the case, inflation could certainly pick up, especially combined with the massive money creation in recent years. We'll soon see.

BOND PRICES: On rise this year

For now though, it's not a concern. Interest rates are under downward pressure and bond prices are headed higher.

As you can see on **Chart 11**, bond prices are bottoming and once they break above their moving average, there's a good chance they'll likely continue up to near their 2012 highs.

Since bonds are a safe haven, this could be in reaction to global tensions (Russia?), or simply because the economy needs more stimulation to keep it on track.

In either case, it'll mean good gains for bond holders and that's why we recommend buying and keeping 15% of your total portfolio in long-term U.S. government bonds. And if stocks keep heading South, we may be increasing our bond position.

As we've previously mentioned, bond ETFs are probably easier to buy for most investors. But you can also buy the individual over 10 year bonds outright.

If you go the ETF route, the ones we recommend are the 20+ year Treasury Bond iShares (TLT), 10-20 year Treasury Bond iShares (TLH), Ultra 20+ year Proshares (UBT) and Intermediate Muni Bond Strategy ETF Pimco (MUNI).

CURRENCIES

U.S. dollar: Holding steady

The currency markets have been calm. They've generally been quiet, mixed and lackluster.

Nevertheless, based on the e-mails we've been receiving, we see that many of you are nervous about holding the U.S. dollar. Here's a sample of some of your questions, which covers the main concerns…

YOUR CONCERNS

Q. Several advisors are warning about protecting your assets from the U.S. government. They say the U.S. dollar will not be the world's reserve currency by July and assets could be confiscated, so send some assets to foreign countries. Are these valid concerns for U.S. citizens who don't plan to leave the U.S., or scare tactics?

A. They are scare tactics. While there is some truth to these statements, they're very exaggerated.

As we've often discussed, the U.S. is slowly losing its global reserve status. But this is something that's been happening slowly. The world's central banks still have 61% of their reserves in U.S. dollars and 24% in the euro.

We believe the Chinese are taking steps to make their currency the future reserve currency of choice, but this could take years.

Meanwhile, the U.S. is still viewed as a safe haven. Yes, it has serious financial problems, but so does everyone else, in one way or another.

In any case, even if the U.S. dollar were to lose its world reserve status, that doesn't mean the government would take your dollars. The dollar would certainly devalue but

that's already been happening for the past 100 years, and especially since 1971 when the U.S. dollar went off the gold standard.

In other words, your dollars would continue to be worth less but they're unlikely to be confiscated.

Foreign bank accounts?

As for sending some assets to foreign countries, it's always good to diversify. But most foreign banks don't want U.S. clients, thanks to new strict U.S. banking regulations involving foreign banks. You could buy foreign real estate, but that's something many wouldn't feel okay with.

While we advise holding foreign currencies to offset against a further decline in the U.S. dollar, there are other ways that would probably make you more comfortable if venturing overseas is not your thing.

Everbank, for instance, offers foreign currency accounts in dozens of currencies. These accounts are FDIC insured and it's a good option if you want to diversify, but not necessarily overseas. We have known these people for years and if you want more info, go to everbank.com.

BEST CURRENCIES

Q. With the world in such a mess, we are hearing about a turn for the worse coming soon. Is this the time to start buying Swiss francs or FXF as a protective measure, or is this overreacting?

A. Yes, we've been recommending the British pound, which has been the strongest (see **Chart 12**). We also like the euro and the Swiss franc.

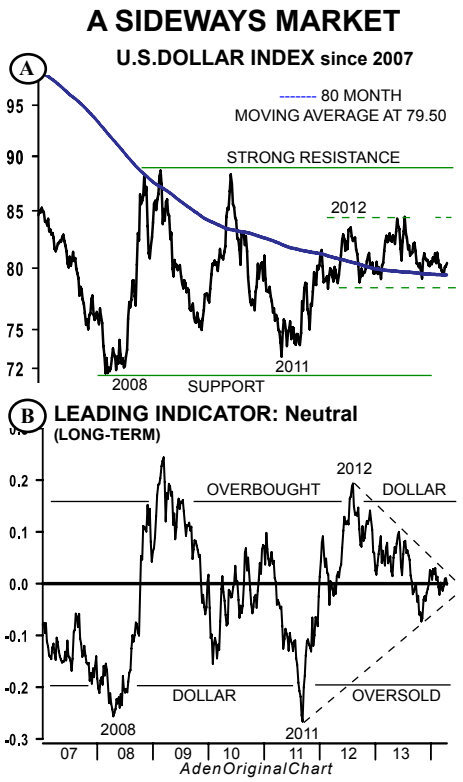
They too have been rising and once the U.S. dollar heads lower, these currencies will rise further, since they move opposite to the U.S. dollar.

But like the other markets, we're also maintaining some caution. Even though the U.S. dollar will likely decline along with falling interest rates, if events in Europe flare up, the European currencies could take a hit.

That's one reason why we're keeping our U.S. government bonds, which are a safe haven denominated in U.S. dollars. With the currency markets currently mixed, this provides some diversification until we see which way the currencies are headed.

As you can see, some are rising but others are weak. This is unusual because normally they tend to move together. But for now, the U.S. dollar index will tell us the story (see **Chart 13**).

CHART 13



THE DOLLAR INDEX: Neutral

Note the dollar index is still trading within a two year sideways band. And we're still watching the 84.50 and 79 levels. Whichever way the dollar index breaks out of this band will determine its next trend direction.

That is, if it breaks above 84.50, then the dollar is headed higher. It could then rise up to near the 90 level, which is a strong six year resistance level.

On the other hand, if it declines and stays below 79, the dollar would be very bearish. This would signal it could keep falling down to near the 2008 lows at about 72.

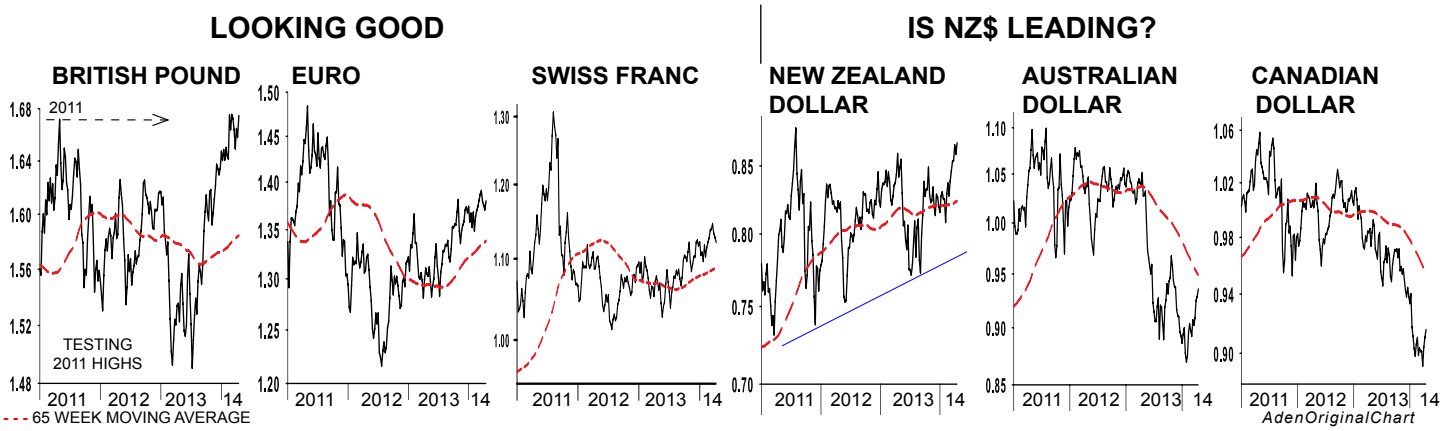
If you're currently holding dollars, you'd then want to move at least some of your assets into a strong currency in order to maintain your purchasing power.

So that's the bottom line and it's what we're watching.

For now, the dollar's still in neutral territory. There's no cause for immediate alarm, which is why we're temporarily keeping our stock proceeds in U.S. dollars.

Meanwhile, keep your currency cash in the British pound. The euro and Swiss franc are also fine. Some of the commodity currencies appear to be headed higher, but we wouldn't buy them yet.

CHART 12



METALS, NATURAL RESOURCES & ENERGY

Gold: Correcting within a one year bottom

Gold reached a six month high last month. This was during the heat of the Russia-Ukraine stalemate when safe haven demand was high.

HOLDING ON

It was a good rise. Gold gained 16% from its December low but then correction time set in.

Gold started tumbling on better U.S. economic news, with the strongest push coming from Yellen...

As our dear friend Chuck Butler said, " Yellen threw the market a curveball and sellers were in control pushing gold and silver down."

Interestingly, gold fell from its $1392 intraday high to its 15 week moving average, and it's now bouncing up from it in its best rise since then. If this moving average now holds, at $1280, it'll mean the low is probably near.

METALS MOVING DIFFERENTLY

Silver's rise was stunted by the plunge in copper this month. Palladium held near a 3½ year high, looking very bullish as Russian tensions intensified.

Platinum got a spillover boost from palladium and from the mining strike in South Africa.

The precious metals clearly have varying strengths, especially compared to the 2008 peak. As you can see on **Chart 14**, gold and palladium are well above their 2008 highs.

On the other hand, silver is holding near this level, but platinum is much lower. Gold and palladium have been the best.

CHART 14

PRECIOUS METALS: DIFFERENT STROKES

GOLD: Mega rise, or big sleep?

With the U.S. economy showing better signs, and with the pledge of ongoing help from the Fed, the metals' arena took a back seat to other markets.

This market action has been sparking ideas that gold may be embarking on a big sleep!

You may remember back in 1980, gold peaked after a rip roaring bull market. It then took many years to shake off the bullish feelings of the 1970s and gold finally fell to a low in 1982. It essentially moved sideways to down for two decades! In other words, gold took a deep sleep.

This time around, if gold indeed formed a major peak in September 2011, like it did in 1980, then gold's outlook could possibly resemble the years following 1980 (see **Chart 15**).

Here you can see the gold price then and now. Note that gold was much weaker after the 1980 peak than it is today.

But following the 1982 low, and once the intermediate rise was over, gold stayed under downward pressure for a long time.

This lifeless type of move is unlikely in today's environment. More likely, gold currently looks similar to the 1974-78 time period (see **Chart 16**, which compares that period to recent years).

The decline in 1974-1976 was a steep one, but it was a decline sandwiched in-between two roaring bull markets.

Nothing says today's gold outcome has to be an "either or situation," but **Charts 15 and 16** show two interesting possibilities.

CHART 15

GOLD: COMPARING 2011 DECLINE TO MAJOR 1980'S BEAR MARKET

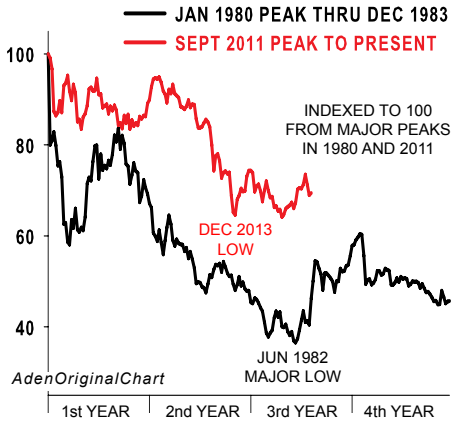
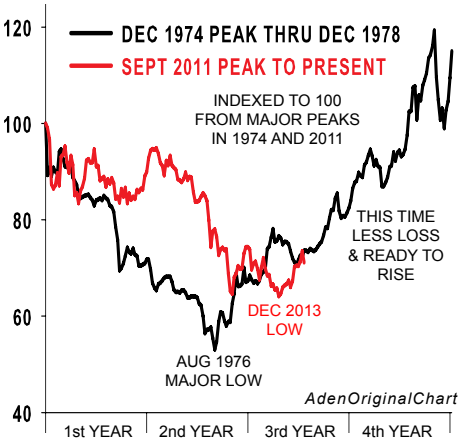


CHART 16

GOLD: COMPARING MAJOR DECLINES



If you are of the camp that today's gold correction since 2011 is similar to the correction gold had in 1974-76, then **Chart 16** shows that gold could start a renewed roaring rise anytime.

You can see that this time around, however, gold didn't fall as much as it did then. But it's fascinating to see that gold's March high several weeks ago was exactly at the same level gold was at in its third year following its December 1974 peak.

The bottom line is, the action is similar and this is saying gold could be at the onset of a great rise.

Interestingly, both scenarios show that a decent rise would be normal at this time. This means the rise since December is unlikely to be over yet.

We'll soon see how this all unfolds...

DEMAND STILL HIGH

For now, reality came back to push gold up with the latest jobs growth being less than expected.

This is the stickler, as well as the slowing growth in China. Plus, Europe continues to need their ongoing crutch. The world remains uncertain.

You can, therefore, understand why gold demand continues to grow around the world.

China has been one of the biggest buyers and their imports from Hong Kong rose again in February as the country is allowing more banks to import gold.

CHART 18

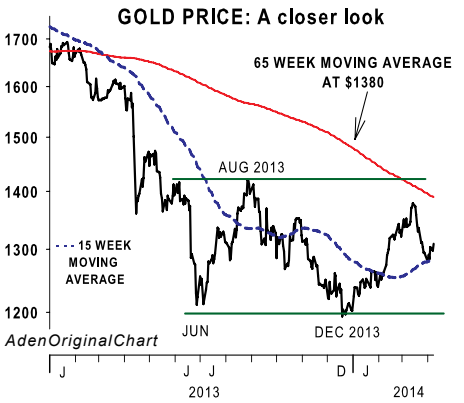
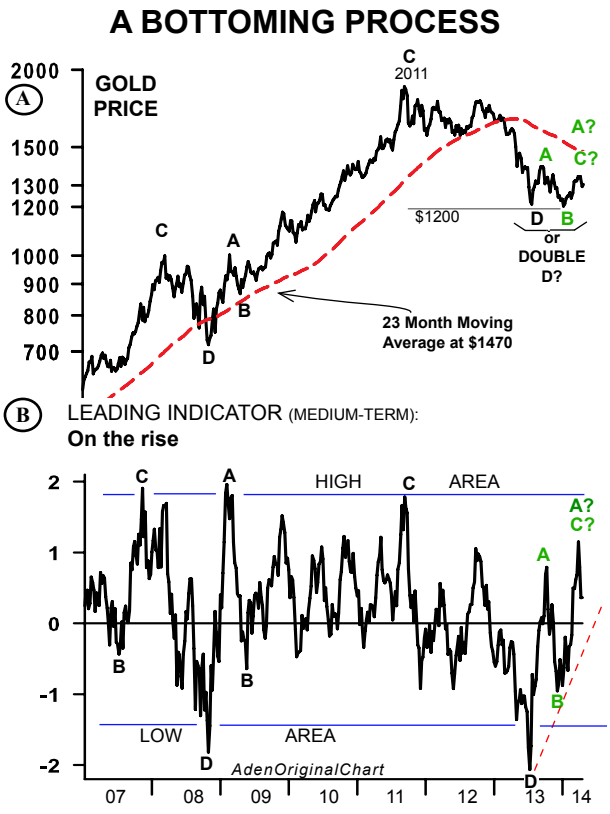


CHART 17



Basically, here are simply too many unknowns in the world to disregard gold in the current environment.

GOLD TIMING: Measuring the rise

Our intermediate A through D timing pattern is in an interesting situation right now.

We've been saying that gold's D decline occurred last June, and this is still the case. You can see this on the leading indicator on **Chart 17B**.

But from that point on it's now become... Uh-oh... We're at one of those times where two scenarios are likely. It's either one or the other, so...

Let's now take a look at the first scenario.

1. Since the next low on the indicator formed much higher, while gold itself tested the June low, we felt it was reasonable to call this low in December a B low. This then meant that the rise since December has been a C rise.

This 16% rise was good but so far, it certainly falls more in line with a typical A rise.

Plus, as you can see on **Chart 17A**, the gold price has been forming a wide bottom over the past year, and the two lows in June and December have clearly been instrumental in forming this bottom.

Our dear subscribers have been giving us their take on these intermediate gold moves. We like and encourage this interaction. And this leads us to the second scenario...

2. One observation was that the June and December lows could be a double D bottom, and not a D-B bottom. This makes sense and interestingly, this will become obvious in the coming months.

Let's take a look at both scenarios and see where we stand...

First if the December low was a B low, like we've been suggesting, this means a C rise is still underway.

Granted we've been thinking that this rise could end up being part of a building block of a solid foundation for another bull market,

CHART 19

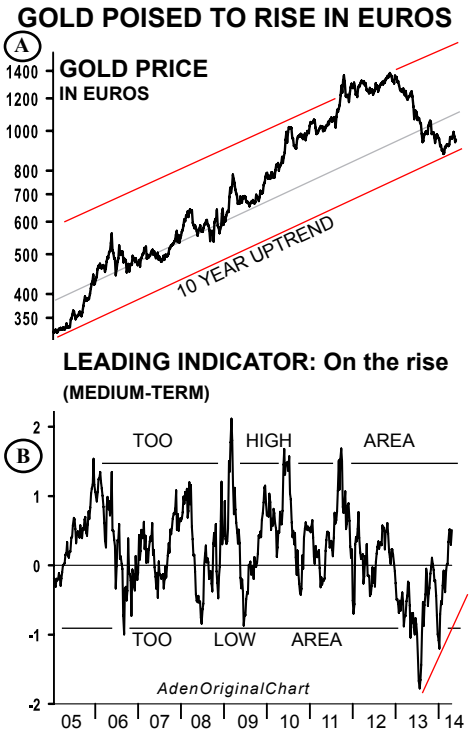
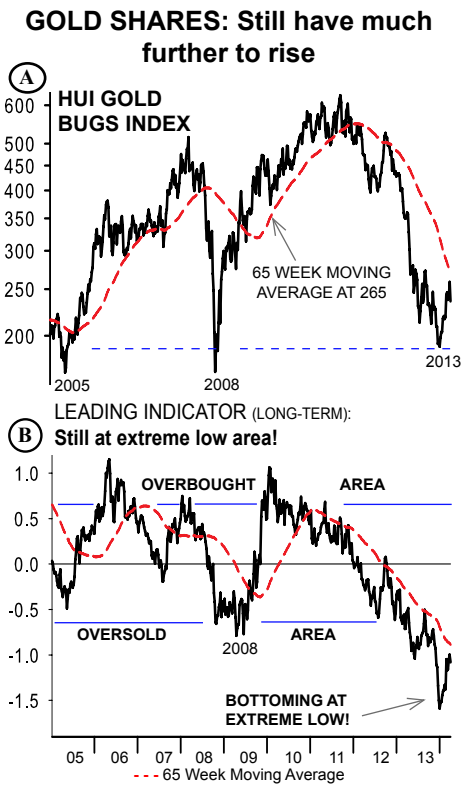


CHART 20



rather than hitting a new high.

And this is really the bottom line. **It still looks like a gold bottom is forming.** In this vein, we think the June and December lows in gold were probably indeed a double D bottom, and not a D-B.

This means the rise since December has been an A rise. And if so, it was a perfect A rise in terms of price gains and time.

A 'B' decline then started at the March high, and again, the moderate decline since then coincides with a typical B decline.

B declines tend to be part of a price consolidation. And if the 15 week moving average now holds near $1280, we may have already seen the end of this decline.

This change would also enhance the upcoming C rise (see **Chart 18**). If gold can now rise above its 65 week moving average and August high at the $1380-$1420 level, it will be in clear break out mode. A good looking C rise could then develop.

Keep in mind, with Summer upcoming, it tends to be a seasonally low time period for gold.

So if gold doesn't get started in a further rise this month or next, we may have to wait until the Fall to see good action.

But for now, gold is looking good. Plus, it's looking better in a strong currency, like the euro, which further reinforces the upside as **Chart 19** shows.

Note that gold fell to nearly a four year low in euro terms last December, but it's been bouncing up since then.

Meanwhile, its leading indicator is soaring from a low area, which is a very bullish sign. Gold's 10 year uptrend is still underway and it's looking good.

GOLD SHARES: Pendulum still swinging to the upside

Gold shares have been bouncing up with gold since last December. It's been an impressive rise, gaining on average over 30%, and they've been outperforming gold.

But this is just the start.

Gold shares are still in a bombed out area, and this year's rise has been the beginning of some good bottom basing, as **Chart 20** shows.

The HUI Index is still below its 65 week moving average, while it now backs and fills. This is helping to form a better bottom area, above the lows of the last few years.

Plus, its leading indicator is also still bottoming at an extreme low area! It too has yet to rise above its red moving average.

Once HUI rises clearly above 265 and stays there, it'll be off to the races for gold shares! The upside will then be wide open for the year ahead.

Gold shares compared to gold is similar. They're also bombed out, like we showed you last month. **Chart 21A** shows a close up view.

CHART 22

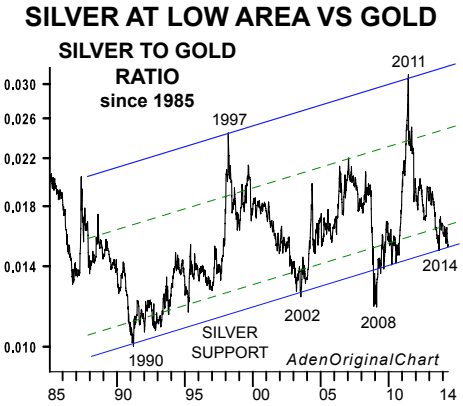


CHART 21

Note how the ratio continues to build a head and shoulders bottom. The right shoulder is currently forming, and once it's complete, we could see a break out above the neckline (NL). This would be super bullish for gold shares.

Gold shares tend to be stronger than gold when both are rising, and they tend to be weaker than gold when both are declining. The stock market also has some influence, especially if it's falling when gold is declining.

It's also important to see that junior gold shares are stronger than seniors when both are rising (see **Chart 21B**, which compares the strength between the junior and senior mines).

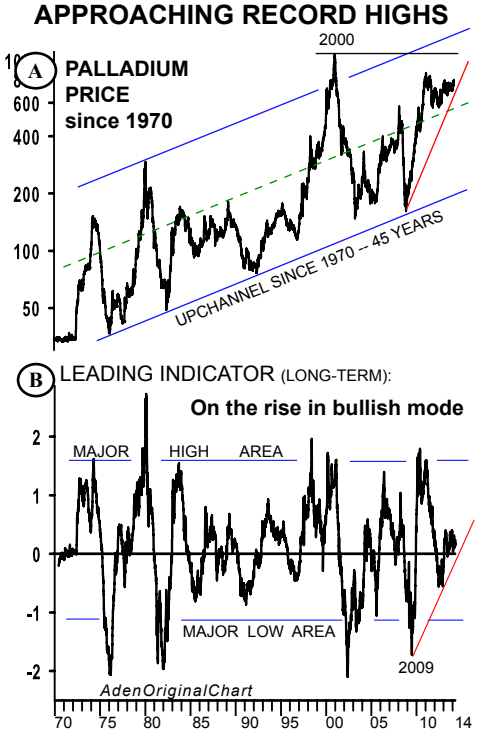
As you'd expect, the juniors are weaker than the seniors when both are declining.

Juniors are a good risk when the market is rising. And when a downward correction happens within a rise, selective juniors are usually a good bargain.

Since gold and gold shares look like they're forming a bottom, we may be buying some soon.

CHART 23

APPROACHING RECORD HIGHS



OTHER METALS: Good looking

Silver is still looking good in a bottoming phase, as it holds near the $20 level. It's not out of the woods just yet, but it's poised to continue outperforming copper, and it's coming into a good buying area versus gold.

Note on **Chart 22** how the ratio has fallen steadily from its 2011 high, signaling silver has been much weaker than gold. But it's now approaching the silver support area, which is the lower side of the rising upchannel.

Silver tends to outperform gold when both are rising, and when the resource sector is also looking good.

There are now signs that both have potential.

Silver is stable above $19.50, and it'll be in take off mode above $20.50, and especially above $22.

Palladium is bullish and we continue to recommend buying and keeping a position. It has a lot going for it.

It's used in auto catalytic converters, and with strong car sales in China and the U.S., this metal has plenty of demand.

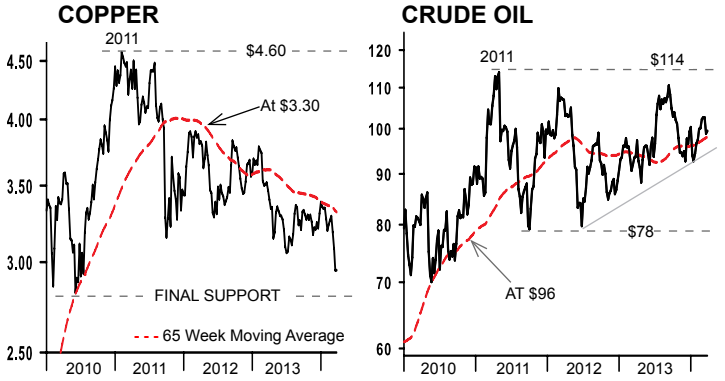
It's also in a delicate supply situation as tensions in Russia grow.

Technically, palladium is in a 45 year upchannel and it's been rising steadily since its 2008 lows (see **Chart 23**). With the leading indicator in bullish mode, it looks like palladium could eventually break into record territory above the 2000 peak.

Overall, continue to buy and/or hold your metals positions.

CHART 24

GLOBAL GROWTH and GLOBAL BLOODLINE



RESOURCES: Trying to bottom

Copper took the brunt of a slowing global economy this past month as it fell sharply.

From France to China, signs of faltering economic growth came to the surface. The Fed's comments on interest rates added to the negativity.

Copper's movement is becoming an indication of China's economic health because it's the world's largest copper consumer. Copper is also used as collateral for many of the loans received by Chinese institutions, so it's also becoming an indicator for the state of the Chinese banking system.

Dr. Copper is still a global economic barometer, but with a bias toward China.

Chart 24 shows copper's decline since 2011, reaching a four year low. It'll remain under pressure by staying below its 65 week moving average at $3.30.

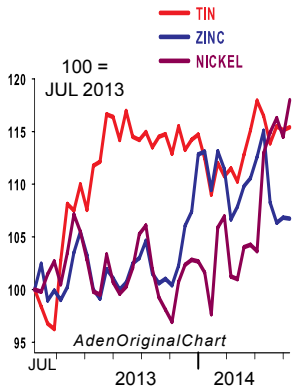
The $2.90 level is the final support level. Let's see if it now holds.

If it does, it'll be reflecting a stabilizing global economy. It's already starting to rise from the recent lows amid better signs in the U.S. economy.

But on the other hand, if it doesn't hold above $2.90, it'll be a bad omen for the world economy.

CHART 25

BASE METALS: Bottoming



The base metals on **Chart 25** show that in spite of this month's weakness, they continue to form a bottom area, similar to gold.

Nickel is turning up on Russian supply concerns, and overall this is a good sign that copper will likely hold above $2.90.

Plus, the resource based currencies, the Australian and Canadian dollars are now starting to rise, which is also a better sign for the resource sector in general.

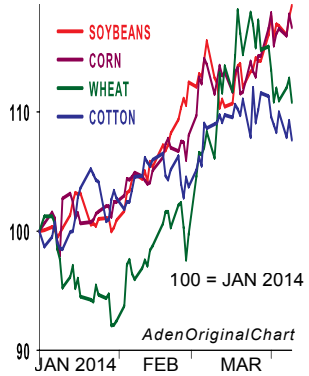
Crude oil is also heading higher amid supply concerns due to tensions in Russia.

Unlike copper, it's been rising for two years now, from the bottom of a sideways band. It could continue rising to the 2011 highs (see **Chart 24**).

The cold Winter gave an additional push to the soft commodities as they continue to head North (see **Chart 26**). It's still to be seen how this year unfolds, but so far they're looking very strong.... and inflationary.

CHART 26

AGRICULTURE:
On the rise



OVERALL PORTFOLIO RECOMMENDATION

The markets have been volatile and it's best to stay cautious. As you'll see below, we're making some changes in our recommendations...

PRECIOUS METALS, ENERGY, RESOURCE

The metals are mixed. Gold and palladium are the strongest, but so far silver is lagging. For now, gold is bottoming and it's poised to head higher, along with the other metals, and gold and silver shares. We recommend buying and/or keeping your gold, silver, palladium, and the shares listed below. If you want to buy new positions, buy the strongest ones at the top of the list.

U.S. & GLOBAL STOCK MARKETS

The stock market is giving mixed signals. More than half of the stock indexes have broken below their stop loss levels, but the others have not. This is signaling caution and it warrants lightening up on our stock position. Even though the major trends remain up, we're now recommending that you lower your stock position from 50% of your total portfolio to 25%. Sell Nasdaq (QQQ), Russell 2000 (IWM), Dow Diamonds (DIA), Retail (RTH), S&P Bank (KBE), US Global Res (PSPFX), Germany (EWG), Vietnam (VNM) and Global Telecom (IXP). Keep the proceeds in U.S. dollars for the time being. Continue to hold the others listed on the right.

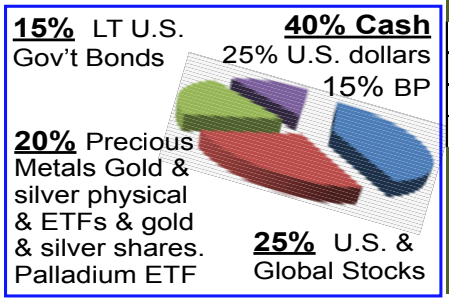
CURRENCIES

The currency markets have been quiet and mixed. The U.S. dollar index is near a five month low and it'll be bearish below 79. Continue to buy and hold the British pound with your 15% currency position. The euro and Swiss franc are okay to hold too.

INTEREST RATES & BONDS

Bond prices are headed higher. That is, interest rates are poised to decline further, at least in the months ahead. We continue to recommend buying and keeping 15% of your total portfolio in long-term U.S. government bonds. You can buy the individual over 10 year bonds outright, but bond ETFs are easier. The ones we recommend are listed on the right.

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



OUR OPEN POSITIONS

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Royal Gold	RGLD	Mar-14		66.94		Buy/Hold
Palladium	PALL	Jan-13	69.71	76.95	10.39	Buy/Hold
Agnico Eagle	AEM	Feb-14	33.68	31.30	-7.07	Buy/Hold
iShares Gold Trust	IAU	May-05	4.17	12.78	206.55	Buy/Hold
Gold (physical)		Oct-01	277.25	1320.50	376.28	Buy/Hold
SPDR Gold Shares	GLD	Nov-04	44.38	127.01	186.19	Buy/Hold
Central Gold Trust	GTU	May-09	36.53	46.21	26.50	Hold
Central Fd of Canada	CEF	Apr-04	6.39	14.04	119.72	Hold
NewGold	NGD	Apr-10	5.13	5.16	0.58	Hold
Silver (physical)		Aug-03	4.93	20.09	307.53	Hold
Silver Wheaton	SLW	Sep-09	11.66	22.66	94.34	Hold
iShares Silver Trust	SLV	May-06	14.50	19.27	32.90	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Johnson & Johnson	JNJ	Feb-13	76.16	96.54	26.76	Hold
BHP Billiton	BHP	Aug-13	67.68	70.53	4.21	Hold
Global 100	IOO	Oct-13	72.97	77.68	6.45	Hold
Energy Select SPDR	XLE	Aug-12	72.37	88.70	22.56	Hold
Microsoft	MSFT	Feb-13	28.01	39.36	40.52	Hold
DJ US Telecom	IYZ	Sep-12	25.22	29.32	16.26	Hold
iShares Transports	IYT	Oct-13	118.85	132.81	11.75	Hold
iShares US Med Dv	IHI	Oct-13	86.70	96.06	10.80	Hold
Procter & Gamble	PG	Sep-12	68.10	81.09	19.07	Hold

BONDS

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Ultra 20+ Treasury	UBT	Feb-14	58.00	59.90	3.28	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	126.83	0.87	Buy/Hold
20+ year Try Bond	TLT	Feb-14	107.78	109.84	1.91	Buy/Hold
Intermediate Muni	MUNI	Feb-14	52.69	52.90	0.40	Buy/Hold

CURRENCIES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
British Pound ETF	FXB	Sep-13	161.11	165.20	2.54	Buy/Hold

