THE
ADEN FORECAST
MONEY • METALS • MARKETS

APRIL 2015 *our 34th year*

... AND WHAT ABOUT REAL ESTATE?

Real Estate! This is a market most of us are invested in, whether it be in our homes or a second property.

A NOW REGULAR FEATURE

Many of you have asked us about real estate over the years and we see it's been a flaw not to provide more info on this important sector.

So starting this month we'll include our real estate outlook on an ongoing basis.

This month, however, our real estate review will be heavier than normal in order to focus on the big picture and bring things up to speed.

What also triggered this was an international real estate conference held here in Costa Rica, where we were invited to speak. While preparing our presentation, we realized that you, our dear subscribers, would also appreciate a lot of this info.

Most impressive, this was a sophisticated group. But like most busy people, they were experts in their own profession and generally unaware of how the global markets affect the real estate market.

As you know, all of the markets tend to link together in one way or another. Some lead and some lag, and real estate is not an exception. So we'll start by looking at the U.S. home price index, going back to the late 1800s (see **Chart 1**).

REAL ESTATE: Big Picture

As you can see, real estate prices have been in a long-term uptrend since the 1940s. During the real estate frenzy of 2007-08, prices rose too far, too fast.

Remember, this was when everyone was flipping properties, which was reminiscent of the dot.com bubble in 2000. And indeed the real estate bubble burst soon after.

When the subprime real estate loan crisis hit, prices dropped in the worst housing bust in generations.

But prices are again rising. They're now up 29% from the lows and it looks like real estate prices are headed a lot higher.

This also applies to real estate prices worldwide because they all generally move together (see **Chart 2**, which shows Ireland, the UK and South Africa leading this global uptrend).

MARKETS ARE INTERTWINED

As you'll see in this month's issue, the bullish stock market and super low interest rates are both very bullish for real estate prices. Low interest rates are the most important factor. And even though the economy is sluggish, it's another big positive, and so are the Fed's actions.

Real estate and economy

As the economy grows, for instance, so does international real estate demand. Many investors are looking for second homes they can enjoy, along with other benefits.

We're sure you've all heard about the FACTA law in the U.S. that went into effect last year. If you haven't, it briefly states that nearly every financial institution in the world has to report information about their U.S. clients to the U.S. government.

As a result, and as *The International Man* points out, **foreign real estate has become the new Swiss bank**. Why?

The main reason is because it's private and not reported. It also allows investors to diversify some of their funds abroad and it's a good long-term store of value.

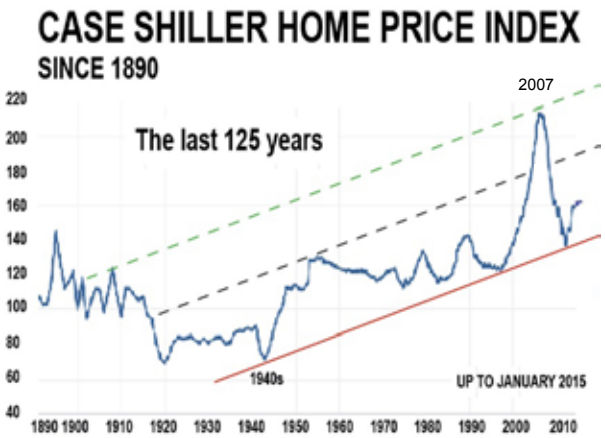
But even if you're not concerned about geographical diversification, everyone is looking for income in this era of super low interest rates. **And one of the few areas currently providing income is rental property.**

In other words, by investing in a second home, you'll not only be able to borrow mortgage funds at the cheapest rate in history, but you'll also receive rent payments. This too makes real estate a very attractive option.

And on a final positive note, Nationwide Insurance recently released a new gauge that shows the

INSIDE

CHART 1



U.S. real estate market in the best shape since 2001. In other words, there's no reason to fear a downturn or a bursting bubble.

It's also worth mentioning that they forecast the real estate decline in 2007-08 well before the market peaked. And with prices currently rising gradually, things are looking good.

ECONOMY PLUGGING ALONG

Meanwhile, the economy is still plodding along. Even though this is the weakest postwar recovery on record, consumer confidence is surging, recently hitting its second highest level since 2007.

But consumers are saving more and spending less. That's normally a good thing, but it's currently not so great because the economy thrives on consumer spending. This tells us economic growth will probably remain lackluster as long as that's the case.

Nevertheless, the financial news still loves to focus on the bad news. The same is true of the gloom and doomers who are out in full force. And while there could be some surprises, things are basically moving along okay.

The Middle East, however, always seems to be a wild card and this month the war heated up in Yemen. The Saudi air force has been bombing Yemen and tensions are growing between Saudi Arabia and Iran.

As Middle East expert Byron King sums it up… We're in the midst of an historic breakdown of nation states across the Middle East. Tribalism is triumphant and nothing makes sense. In a nutshell, this has been going on for centuries and it's unlikely to end soon.

POSITIVE THOUGHTS

But putting it all together, we want to add some very thoughtful insight from our old friend, Alex Green.

He notes that, despite all the bad news we're bombarded with, it's also important to keep in mind that if we look at the really big picture, we're currently living in the best era of prosperity human society has ever enjoyed.

That alone is pretty amazing, but there's more. To give you a few examples…

- Poverty is declining worldwide. It's dropped 50% since 1990.
- Human rights are more widespread than ever.
- The number of democracies is rising.
- There's more access to leisure time and cheaper food.
- Violent crime is falling.
- And believe it or not, there is more peace than at any time in human history.

A lot of this is because the world has also become more intertwined. Global trade has increased and the more countries trade with each other, the less likely they are to fight. You know, you don't normally kill your customers.

So on that bright note, the outlook is indeed positive.

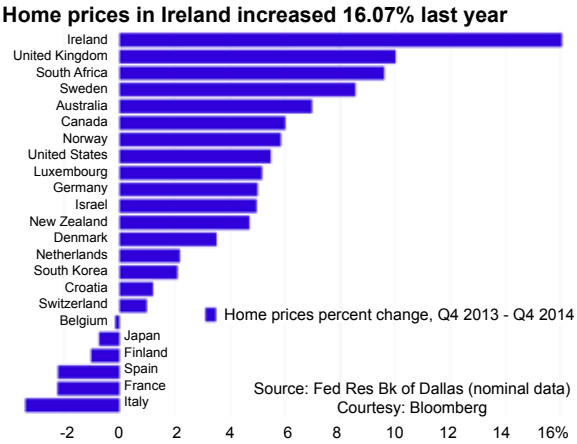
Sure, we could see some rough times or bumps along the way. But keep in mind, there have been 15 global financial crises since the mid-1600s, not including wars. These were all huge deals in their day, and for the most part, they were either bubbles or panics.

Some of the more well known included the Tulip Mania, South Sea Bubble, Railroad Mania, Money Panic, The Great Crash, Black Monday, the Tech Wreck and so on. But despite these crises, somehow, some way we've always come out on the other side, hopefully wiser and in better shape.

That's the human spirit. It's consistently dealt with whatever comes and moved forward. So if we're hit with a surprise, we're sure it'll be the same this time around as well.

As you'll see next, the markets settled down some this month and for now, they're looking pretty good.

CHART 2



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U.S. & WORLD STOCK MARKETS

A chugging bull market

The stock market has been stalling for the past month.

It's volatile and it's basically still reacting to the news of the day. At times it seems insecure, reflecting the emotions of investors worldwide.

MAJOR TREND STILL UP

Nevertheless, despite the ups and downs, the major trend for stocks remains up. The bull market is in the driver's seat and it's being led by the Russell 2000 (the small cap index), which reached new record highs and Nasdaq (see **Chart 3**).

As you know, the U.S. stock market has been doing its own thing for quite a while. It's been outperforming nearly all of the major world stock markets, but that's now changing.

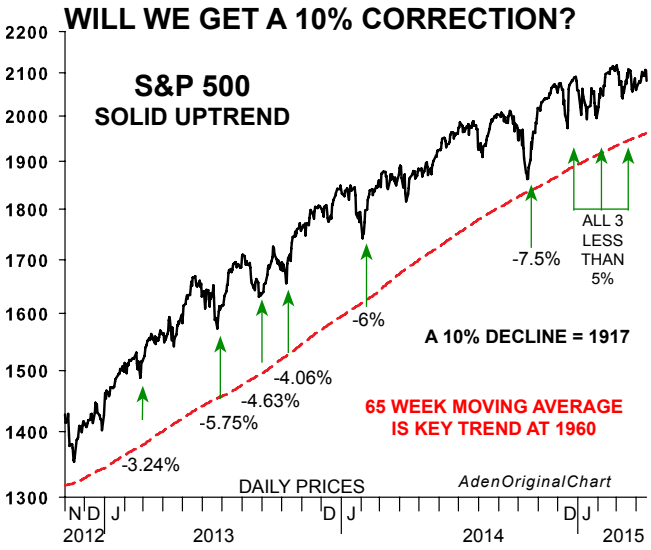
Increasingly, more of the global stock markets are joining the bullish camp. They're moving up strongly and this is reinforcing the overall global bull market in stocks.

And as we've often mentioned, when most of the world stock markets are moving up in synch, it's a very positive sign for stocks in general and the overall global economy.

LAST 2½ YEARS: Solid rise

Looking at the S&P500, you can see that this has been a solid bull market all along (see **Chart 4**). Even though it's been volatile, it hasn't really made a big difference.

CHART 4



Note, for instance, that the S&P500 has not had a 10% downward correction going back to 2012.

The steepest decline was last Fall at 7.5%. Since then, we've had three more downward corrections but they've all been less than 5%.

For now, the S&P will remain bullish by staying above its 65-week moving average at 1960. It identifies the major trend and if all of the stock indexes stay above these levels shown on **Chart 3**, stocks will be poised to head higher.

A 10% downward would take the S&P500 down to 1917, but this seems unlikely.

LOW INTEREST RATES

The most important reason why is super low interest rates. This has been the driving force pushing stocks higher and there's no sign it's going to change any time soon.

Low interest rates have also been a big boost for rising real estate prices (see **Chart 5**).

As you can see, the stock market and the real estate markets move together and that'll continue as long as interest rates stay at or near these low levels.

And with the economy recently showing signs of slowing down, it still looks like interest rates will not be rising soon.

You know, it's the syndrome of bad news is good news. Bad news means the Fed will not be quick to raise interest rates. That in turn keeps upward pressure on stocks and real estate.

And as crazy as this sounds that's exactly what's been happening. But good news has been helpful too.

U.S. DOLLAR INFLUENCE

The strong U.S. dollar has been one factor that's been keeping a lid on some of the stock indexes. That's been the case for internationally

CHART 3

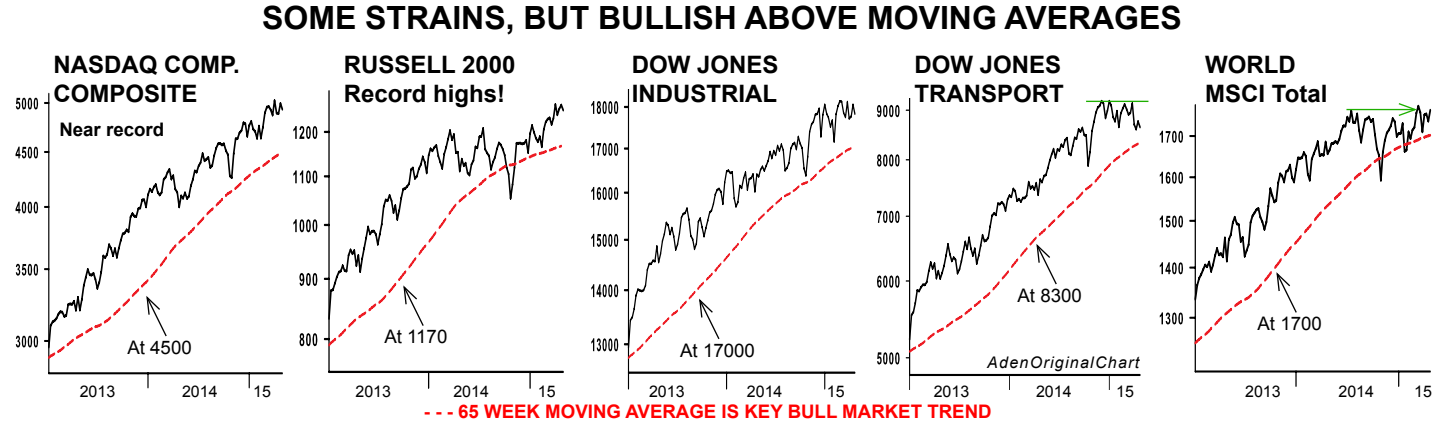
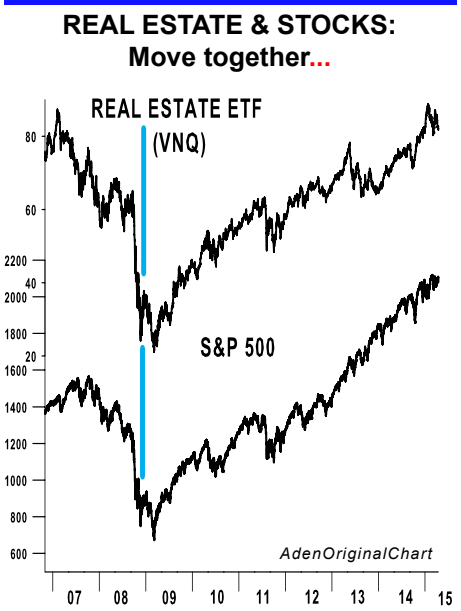


CHART 5

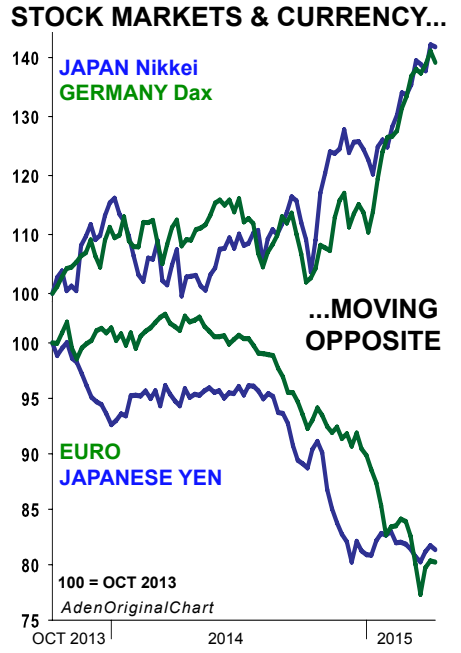


exposed companies because it hurts their profits.

Interestingly, however, the strong dollar hasn't had that much of an impact. As you can see on **Chart 6**, the strong dollar and stocks have been moving up together.

Normally, this would be unusual in today's world. Everyone wants a weak currency and one good reason why is because it boosts not only their economy but their stock market too (see Japan and Germany as examples on **Chart 7**).

CHART 7



In both cases, these countries have embarked on super QE stimulus type programs.

This has driven their currencies sharply lower, which makes their exports cheaper, and it's driven their stock markets sharply higher.

That's been the norm in the current deflationary environment. That's why it's interesting to see the U.S. dollar and the S&P500 doing the opposite.

But investors worldwide like the U.S. economy, they like U.S. bonds, they like U.S. stocks and the U.S. dollar.

But even if the U.S. dollar were to decline, which could happen soon, it'll unlikely hurt U.S. stocks.

On the contrary, it'll probably make U.S. stocks even more attractive. The lid will be removed, making way for all stocks to head higher.

BULLISH FACTORS

As you know, this bull market is already six years old. That makes it one of the longer ones, historically speaking.

But here too it looks like the rules are again being broken, thanks to low interest rates, which are keeping a solid foundation under this stock market.

One very bullish factor, for example, can be seen on **Chart 8**.

CHART 8

This chart is very important. It shows the percentage of families holding stocks. Note that it's been on the decline since the 2000 peak, and it's currently reaching new lows.

So contrary to what we've heard in the past, Main Street investors have not joined in on this bull market, at least not in a big way.

Normally, at the end of most major bull markets, regular investors tend to jump in as opposed to professional investors. This usually sends the stock market up to frenzied levels.

CHART 9

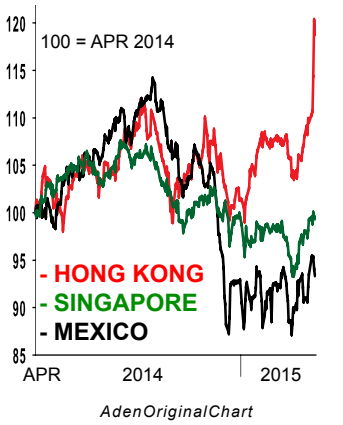
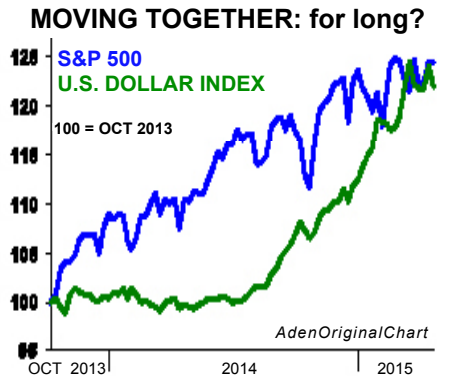


CHART 6



That was certainly the case at the end of tech stock boom in 2000 and considering that this bull market is already at or near record highs, we suspect it's going to happen again.

MORE BULLISH PHASE TO COME?

If so, it'll drive stocks sharply higher from current levels as this bull market eventually enters the frenzied stage.

Now there's no guaranty this has to happen, but it usually does. Why?

Because rising prices attract attention. And as the market heads higher and higher, no one wants to be left behind so they jump onboard, usually late in the game.

We'll see if it happens again. But in the meantime, the Dow Theory bull market signal remains in force and the global stock markets are joining in (see **Chart 9**). And even though we could still see another downward correction, we continue to recommend keeping the stocks you have for as long as this bull market continues.

If you want to buy new positions, the stocks we like best are Russell 2000 (IWM), IHI, IBB, QQQ and DIA (see page 12).

U.S. INTEREST RATES AND BONDS

Bonds: Major trend is up

Interest rates declined further this month. And bond prices headed higher. This was mainly in reaction to slower economic signs.

By now, you know the story… When the economy appears to be slowing, investors figure the Fed will delay raising interest rates, so interest rates drift lower.

INFLATION DANGEROUSLY LOW

Most concerning was the inflation decline for January. The CPI (Consumer Price Index) was the lowest since 2008-09. While the CPi was up .2% in February and March, it was below expectations, and with this coming on the heels of negative inflation over the past 12 months, it's essentially deflation.

Now, we know the Fed members like to use the PCE (Personal Consumption Expenditures) as their guide for inflation instead of the CPI (see **Chart 10**). It too is clearly on the decline and it's approaching zero, on an annual percent basis. That's a far cry from the Fed's 2% target level.

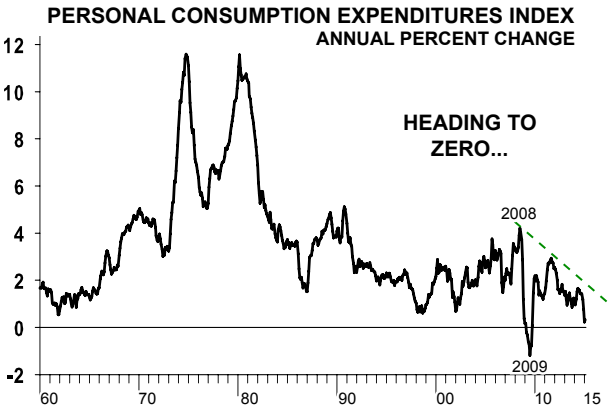
As you know, the Fed is also watching jobs closely and they too generally came in weaker.

And even though the Fed members are split on whether to raise interest rates in June, or wait until later, we doubt it will happen in June.

Yellen has made it very clear that she needs to see a stronger labor market and stronger inflation to increase her confidence.

The bottom line is, the Fed is being more cautious. And despite what you hear, it'll be hard for them to raise interest rates in today's global environment. It could hurt the economy. So increasingly, it again looks like they'll hold off for as long as they can.

CHART 10

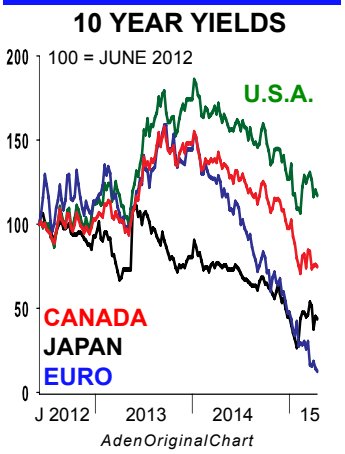


LOW RATES TO STAY...

As you'd expect, ongoing low interest rates continue to be a real drag for savers, and especially for retirees.

Low interest rates have already cost U.S. savers about $470 billion in lost interest income over the past few years. And the story is similar in countries around the world where interest rates are even lower (see **Chart 11**).

CHART 11



As a result, savers have had to take risks in markets they'd normally not invest in if it weren't for low interest rates. Savers are desperate for income.

Still, as our dear friend Steve Sjuggerud says, governments all over the world will likely keep interest rates lower than you can imagine, for longer than you can imagine. And based on what we've already seen, we agree.

..GREAT FOR REAL ESTATE

Meanwhile, this has been great for the real estate market (see **Chart 12**). This shows U.S. real estate prices together with the 30 year yield since the late 1970s. Note that they clearly move in opposite directions.

So, based on these super low interest rates, which will likely continue, and the ongoing search for income, there has never been a better time to buy real estate.

That is, home prices are still recovering from the shock of the 2008 recession. But this uptrend is set to intensify, probably surpassing the 2007 high sometime this year or next.

Plus, real estate investors have the Fed and the other world's central banks on their side.

Low interest rates are indeed the key for ongoing higher real

CHART 12

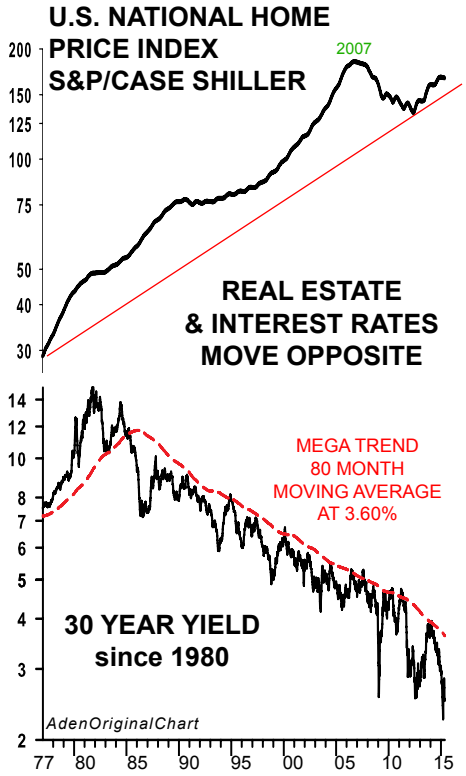
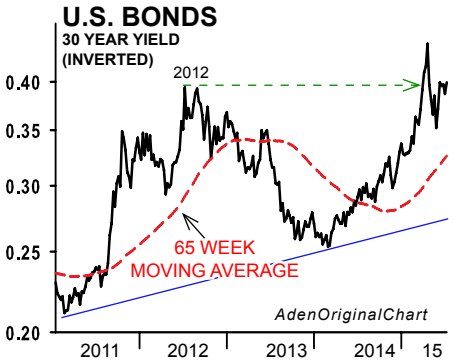


CHART 13

BULLISH ABOVE MOVING AVERAGE



estate prices. In other words, as long as the Fed keeps doing what they've been doing, the underlying environment will remain bullish for real estate going forward.

For now, here's what we're watching...

KEEP AN EYE ON...

As we've previously mentioned, we wouldn't be surprised if the 30 year yield eventually drops down to near the 2% level. If it does, that would mean another 25% rise in bond prices from their current levels. But this is not a given...

At some point, we know interest rates are going to rise. And when they do, the rise will likely start off gradually. If so, this will continue to boost real estate prices.

That'll especially be true if the 30 year yield stays below its mega moving average because it'll reinforce the mega trend remains down.

This means that the positive real estate outlook won't change until the 30 year yield rises and stays above 3.60%. **In fact, that's the most important number to be watching in the interest rate world today.**

Below 3.60% on the 30 year yield indicates that the interest rate trend stays down, which will continue to be great for real estate. And since the yield is currently near 2.50% and on the decline, it has a long way to go until it tells us otherwise.

Plus, with the U.S. considered to be a primary safe haven, U.S. real estate will remain an attraction for foreign investors. That's also true because global investment options have been diminishing.

ALSO WATCH...

We're also watching the bond price and our leading indicators (see **Chart 13**).

Looking at the bond price first, you can see it's still stalling at the 2012 high. And even though we're still maintaining some caution, the market remains strong and bullish above its moving average. It would be super strong if it clearly breaks above the January high.

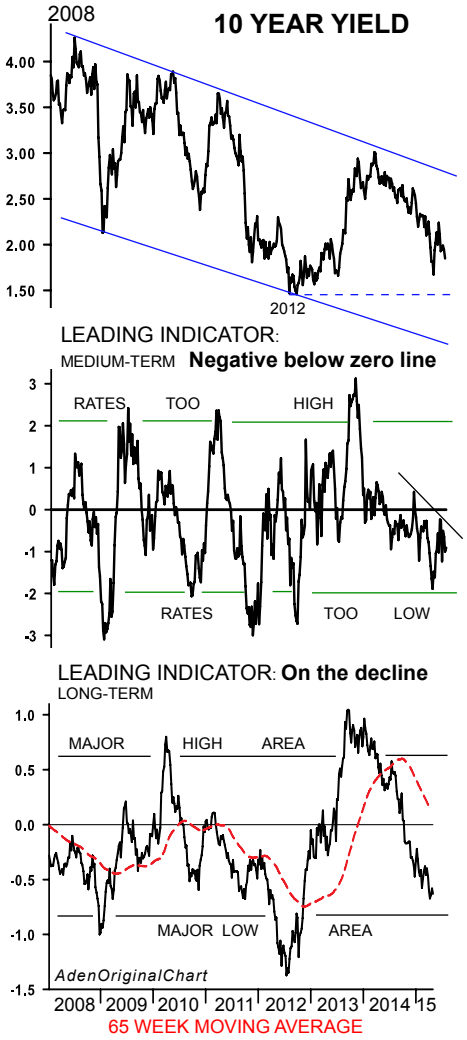
Meanwhile, the 10 year yield is on the decline (see **Chart 14**). Plus, its leading indicators are also declining and both have room to fall further before they reach the low areas. This tells us interest rates will likely fall further.

This will be reinforced if the 10 and 30 year yields now stay below 2.24% and 2.85%, respectively.

Currently, we continue to recommend buying and holding U.S. government bonds and/or the bond ETFs listed on page 12. If you want to buy new positions, buy UBT and TLT.

CHART 14

PRESSURE IS STILL DOWN



CURRENCIES

U.S. DOLLAR: Taking a breather

The U.S dollar has been super strong. In recent months it's literally soared, and with good reason.

The dollar basically hasn't had any competition. It's been the best of the bunch, thanks to being more attractive than other currencies.

U.S. interest rates, for example, remain higher than interest rates in other countries and they'll probably be the first to move up, at least that's what most people think. Plus, the U.S. economy is stronger than most of the others.

STRONG DOLLAR CONCERNS

In fact, the dollar has been so strong, it's created some real concerns...

The strong U.S. dollar is hurting some corporations, specifically multinational companies who deal in overseas markets. This goes for exports, which are now more expensive, and profits too.

This in turn is starting to affect the employment picture and it puts downward pressure on the economy.

It's also straining emerging coun-

tries with debt in dollars.

Most important, the strong U.S. dollar indirectly tightens monetary policy, and this is something no one wants. It's also keeping inflation down, and all these factors reinforce that interest rates will unlikely be rising any time soon.

On the contrary, rising interest rates would make the U.S. dollar stronger. And again, no one wants that either. It would only make things more complicated for the Fed.

DOLLAR CLEARLY OVERBOUGHT

Meanwhile, and as we've shown you before, the U.S. dollar index has risen so far, so fast it's become extremely overbought (see **Chart 15**).

And since overbought levels have always preceded or coincided with a top in the dollar, and then a sharp fall, this means it could happen again at any time.

This month, the dollar's been volatile since reaching a high in mid-March and it's looking toppy.

The U.S. dollar index has been resisting near the 100 level and considering how overbought it is, we wouldn't be surprised if it heads down in the near future.

This could happen in reaction to slower economic signs, comments by the Fed or improving signs abroad.

Basically, it could be anything at this point. And the first sign a dollar drop is indeed getting started would be a sustained decline below 97 on the U.S. dollar index.

Once that happens, the dollar could fall sharply, or at least move down in a normal downward correction following its steep rise.

CHART 15

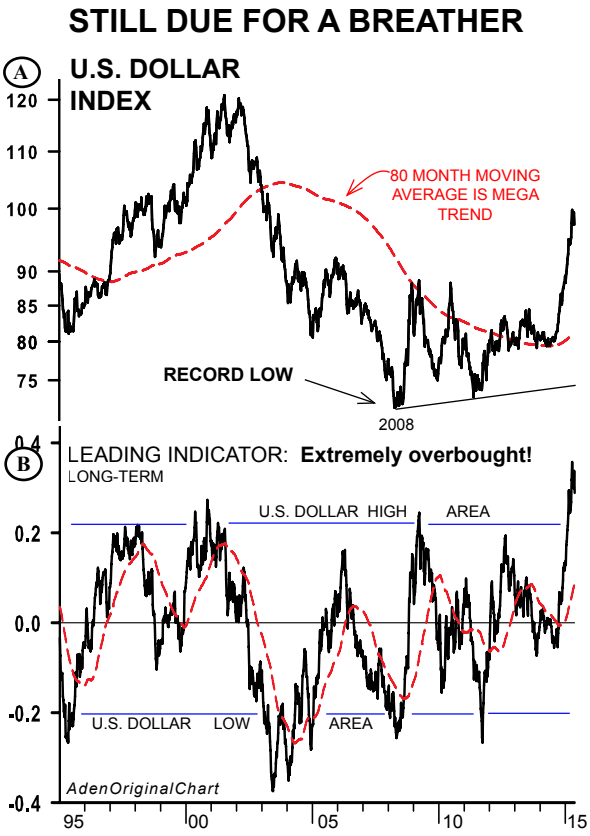
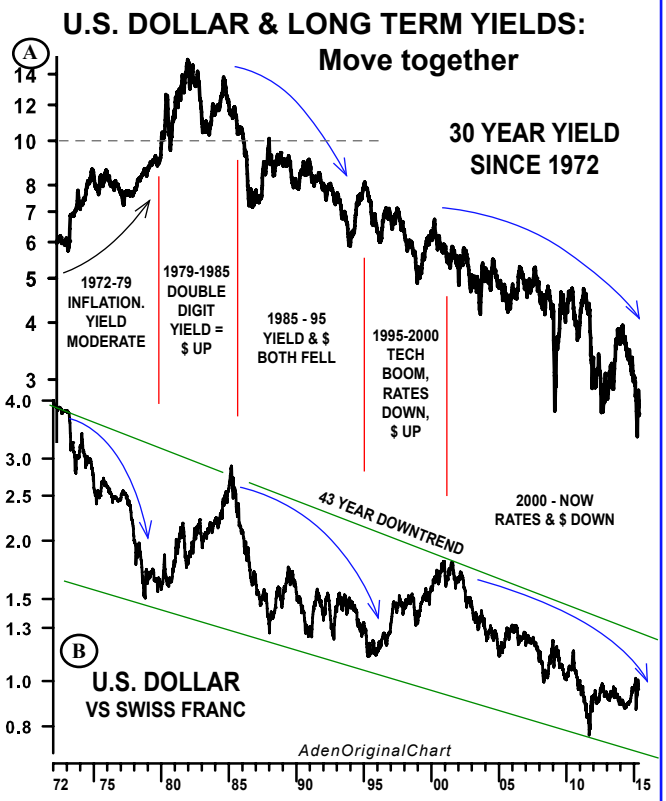


CHART 16



In either case, it'll be a positive for the economy, and the Fed's monetary plans. Many corporations will also breathe a sigh of relief.

WEAK CURRENCIES WANTED

Like we've seen many times in the current environment, all countries want a weak currency to help boost their economy, and the U.S. is not an exception.

Once the dollar heads lower, it'll be back in synch with the long-term drop in the 30 year yield (see **Chart 16**). And it'll be resuming its own 43 year downtrend.

As you can see, long-term interest rates and the U.S. dollar have generally moved together over the years. And while there have been some exceptions, like in the early 1970s and last year, this relationship will likely soon be resuming again as well.

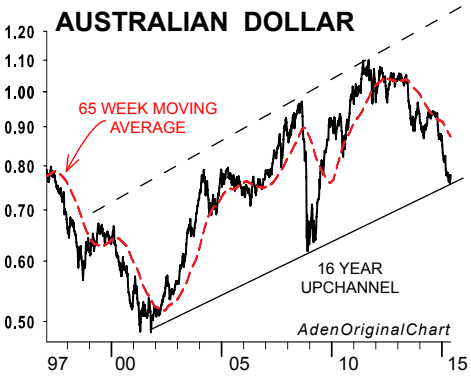
A weaker U.S. dollar will then boost the bombed out currencies.

They've all declined sharply as the dollar's surged higher, but it looks like they'll be trading places in the not-too-distant future.

CURRENCIES: Bottoming

The Australian dollar, for example, has now declined to a solid uptrend that's been in force for 16 years (see **Chart 17**). We believe it's

CHART 17



going to hold.

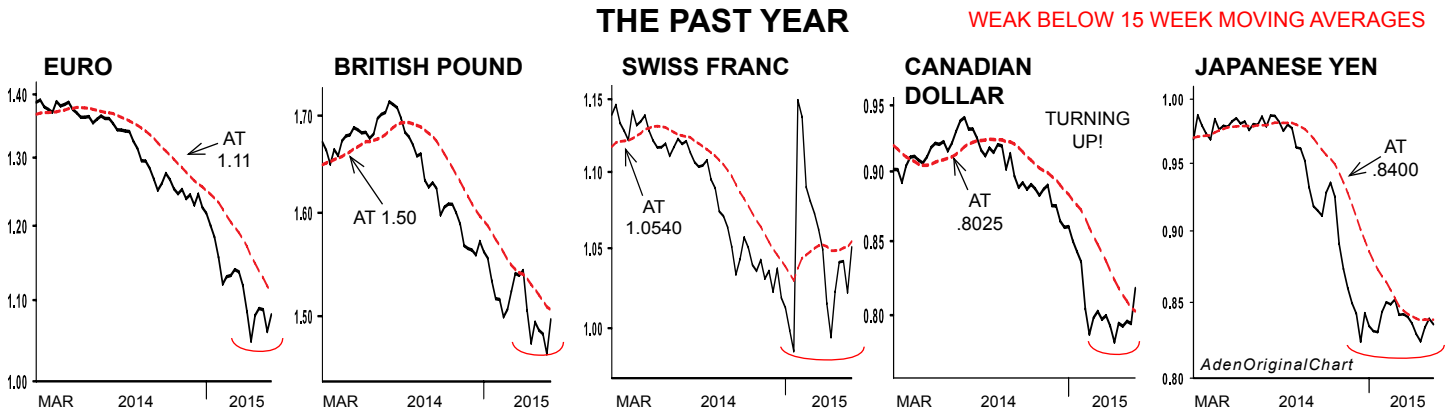
One reason why is because most of the other currencies appear to be bottoming, following their steep declines (see **Chart18**).

Plus, many of these economies are starting to show improvement, thanks to their QE type programs.

The rise in the oil price has also been a positive for the oil producing nations, like Canada. But Greece continues to weigh on the euro and none of these currencies are out of the woods yet.

The first signs they are on the upmove, however, would be if they can rise and stay above their moving averages, which are listed on the chart. In the meantime, continue to keep your cash in U.S. dollars. It's still the best.

CHART 18



METALS, NATURAL RESOURCES & ENERGY

2015: A solid bottoming year

Gold and gold shares have been bouncing up from their mid-March lows, reaching 6-7 week highs. Most important, they held at their November lows and they look poised to rise further.

It's not a coincidence that the U.S. dollar reached a peak in mid-March as well, right at a key level for both the dollar and gold.

Clearly, gold and the dollar tend to move in opposite directions, but other factors influence the gold price too. Gold also got a boost from an overheated stock market, the sluggish economy, and the turmoil in Yemen helped spur safe haven demand.

Plus, the downbeat jobs report gave a boost to gold because it means interest rates will stay low. That is, the Fed could postpone the anticipated interest rate increase.

It's been all about interest rates. And for now, gold interprets bad or slow economic news as good news for a rise. This focus will change going forward, and much depends on inflation and the dollar.

Gold had been under pressure during the strong rise in the dollar and the rising stock market. Along with expectations that U.S. interest rates will increase this year, it's kept a lid on the gold price.

GOLD AROUND THE WORLD: Looking good

The currency movements and interactions are giving a good reading for gold. **Chart 19** shows gold in several currencies since the financial crisis in 2008. It shows a general flow turning up for gold.

First, note that gold rose strongly leading up to the record highs posted in 2011. Then, after the 2013 plunge, gold started forming a wide base in these currencies, and only in recent months are you seeing a break up from this base.

When zeroing in on the close up moves you get a better insight.

Chart 20 provides a close up daily look since July 2014. First, you can see the dollar rose from July to November 2014, while gold fell in dollar terms. It was sluggish in euro terms and that was pretty normal.

But since November 2014, a subtle underlying strength in gold has been growing. First, note how gold rose more than the dollar index from the November lows to the January highs. **Gold was strong in both dollar and euro terms.** This

CHART 19

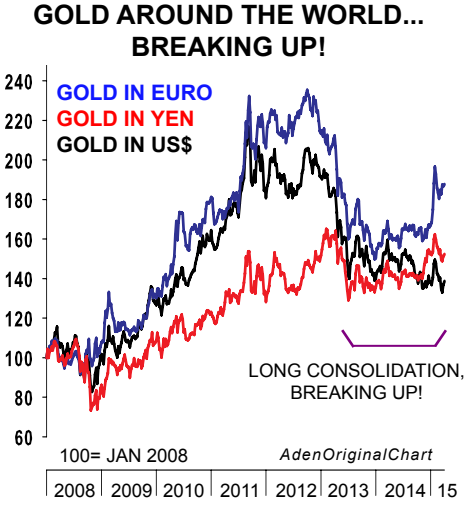
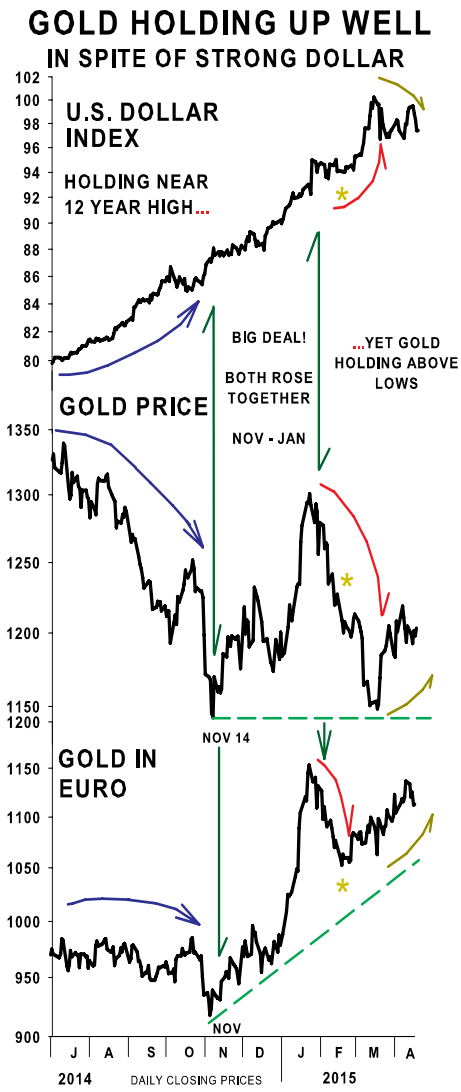


CHART 20



showed impressive gold strength.

Gold in euro terms then gave us a good sign. While gold declined to the mid-March 2015 lows, and the dollar jumped up to a 12 year high, gold's decline was mild in euro terms. It continued to rise while the dollar index had its final upthrust from 95 to over 100 (see asterisks).

That was saying this final upthrust was more about the weak euro, than a strong dollar.

Interestingly, gold in dollars held at the November lows while gold in euros continues to rise in a crisp uptrend. Plus, with the dollar index overextended and due for a further decline, it shows gold's solid strength near the $1150 level.

This is great for the big picture too because as you'll remember, 2015 is a good time to be buying more gold, and it'll possibly be the last year to get the best value.

The point here is that it doesn't really matter why gold is bouncing up from the base. More important are the currency wars taking place and the competitive devaluations.

You've seen how the strong dollar is hurting business and emerging countries. A strong dollar is not good for the global economy. Plus, gold has been a good second.

This is saying it's just a matter of time before gold embarks on a new bull market rise.

We're not there just yet, but buying on weakness continues to be a good strategy. Note on **Chart 21** how gold's bear market today compares to the big bear of the 1980s. Gold fell more then, but both found some stability in the third year. While it took more time before a turnaround came, these lows marked a key general low area.

Demand growing at these lows

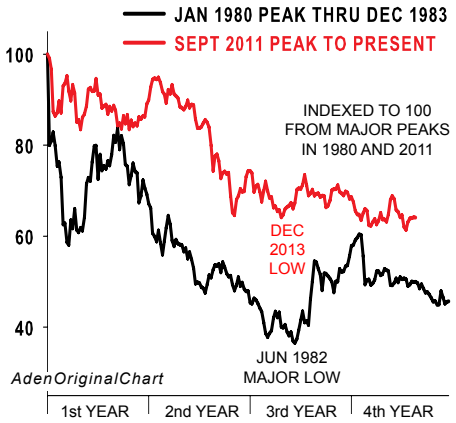
Looking at demand it also says there are savvy investors looking for value in this market today.

China continues to take advantage of these low prices. According to Koos Jansen, China's physical gold accumulation has reached a staggering amount year to date and it's up 33% from 2013.

This is impressive because China is the largest miner of gold, yet it still requires more gold to be imported. India is also importing large amounts, 230 tonnes just this year so far.

Central banks went on a gold shopping spree in 2014, in the second highest year of central bank net purchases in 50 years, according to the World Gold Council. This is only second to the record amount added to global gold reserves in 2012.

CHART 21



Russia was clearly the biggest buyer last year taking 36% of total central bank demand. And with Ukraine being the largest seller, Russia essentially bought their gold.

GOLD'S 'C' RISE UNDERWAY

Most interesting is the crossroads gold is at right now. The bounce up in gold is saying the intermediate decline we call B is over, and a C rise has begun.

C rises are the strongest leg up in a bull market when it reaches new

CHART 22

CHART 23

highs. This means the strength of this current rise will be important to see how strong, or weak, the gold price really is.

Here's the deal.... once the dollar declines further and the currencies bounce up, it'll be super interesting to see how well gold's C rise performs. If these charts are any guide, we could see a good sized rise develop.

Chart 22 will guide us. First, note how clean the 23 month moving average is. Once gold fell below it in 2013, it confirmed a bear market, and it continues bearish today.

This moving average is now lower than the January high. This means if this high is surpassed at $1300.70, gold's C rise will be a bullish C rise! Of course, a break above the blue A-C downtrend would be the ultimate bullish sign.

Once this happens, the gold steps will be back in business. This would be the best outcome.

On the downside, gold is firm above $1185 and the final support level is the low at $1143. If this is clearly broken, then the bear market is alive and well.

GOLD SHARES: Bottoming

Gold shares have been much weaker than gold. You can see this clearly since 2012 on **Chart 23** when the disparity heated up. Gold shares tend to rise more than gold when gold is rising. Gold shares tend to follow gold but the stock market also has an influence.

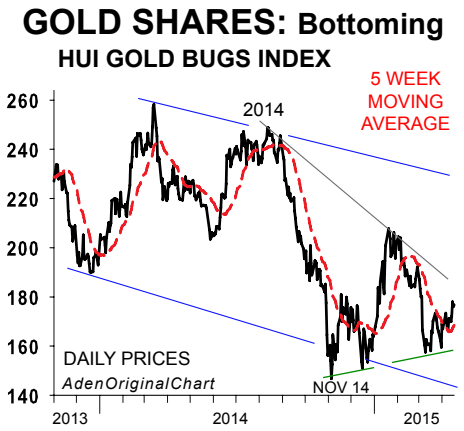
The ratio below is starting to form a downside wedge while gold shares perked up recently. HUI rose to a six week high and it's looking better.

You can see on **Chart 24** how well the 5 week moving average works with the HUI index. When it's above the MA, an intermediate rise is underway, and conversely when it's below the MA, a decline is in process.

HUI rose above this MA in recent weeks and it's now firm above it at 170. HUI is bottoming in an oversold area, and once it rises and stays above 181, it could shoot up to the 205 level. This is the final resistance at the 65 week MA. And once surpassed, gold shares will turn bullish, and HUI will also be clearly breaking above the 2014 downtrend.

We recommend keeping your gold shares and if you aren't in, buy on weakness. We have two royalty companies, one in gold, RGLD, and one in silver, SLW. And we have the gold miners ETF, GDX. This is fine for now until we see more of a turnaround.

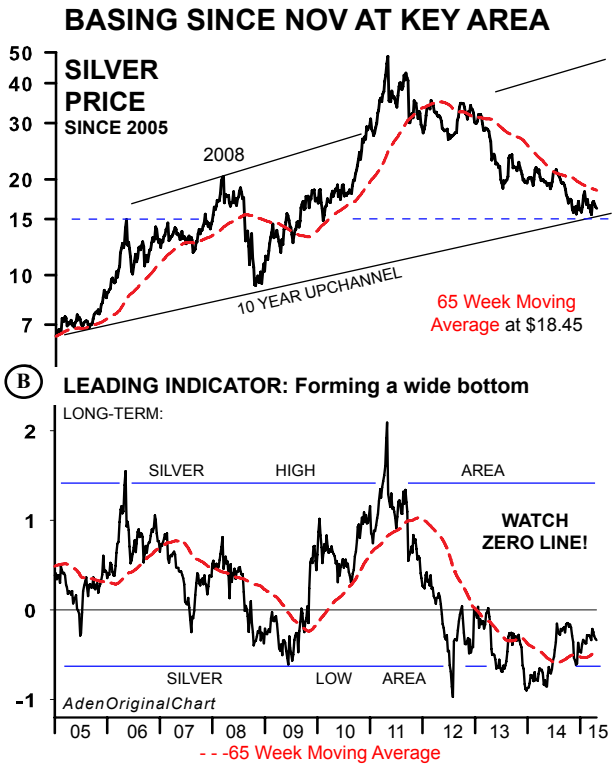
CHART 24



SILVER: Basing

Silver popped up from the March low, but it's dragging behind gold and gold shares. It has a strong base above $15, and it looks like this level will hold (see **Chart 25A**). It was a resistance level now turned into a solid support. And it's coinciding with strong basing over the past year on the leading indicator (**B**).

CHART 25



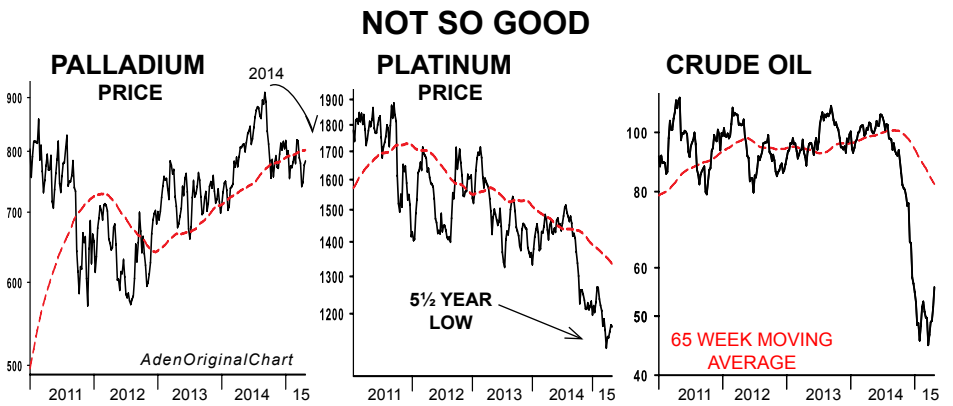
Silver would be poised to rise further once it crosses above the $17.20 hurdle. It could then shoot up to the $18.40-$18.50 level, the 65 week moving average and the January highs.

This is the key turnaround point. A clear close above $18.50 would turn silver bullish.

We'll keep our positions in both physical silver and the ETF, SLV. The ETF, CEF is also a mix of gold and silver in Canada.

Palladium was hit in March. Palladium's ETF recorded its biggest weekly outflow since August when it fell to an over one year low (see **Chart 26**). It has since been bouncing up and it's now firm again by staying above $760. It seems to be rolling over and looking more vulnerable.

CHART 26



Keep an eye on $800, its 65 week moving average. If it fails to rise back above this level, it'll remain vulnerable, and we may want to sell our position. We're still ahead, and we're watching it closely.

Platinum fell to a 5+ year low in March and it's since been bouncing up with the other precious metals. It's stable above $1100, and it would look promising once it rises and stays above $1200. We'll stay clear of this metal.

ENERGY AND RESOURCES: It's complicated

The strong dollar has also hurt the resouce sector, but low interest rates and the plunge in crude oil, are also adding to the pressure.

We're now seeing the outlook for oil production becoming an influencing factor in the financial world today. This is a rare occurrence, like many things in the world.

But it's not surprising when the spigots remain open and in full force, while the price holds near the lows. OPEC's top official says their decision to keep pumping crude in face of collapsing prices is hurting the shale oil industry, which has been one of their goals.

U.S. oil imports from OPEC have plunged to a 28 year low. And since the U.S. is pumping more of its own oil and relying less on OPEC imports, you can see why they want to hurt the shale oil companies.

Meanwhile, oil in storage is at the highest since the EIA data started in 1982, and inventories have been at a record high for 12 straight weeks.

When oil hit a 6 year low in mid-March, OPEC said oil output could start to take a hit by late 2015.

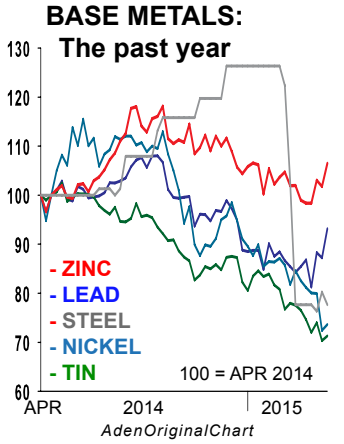
But then the turmoil in Yemen and Iran, together with signs of rising demand in the U.S and Asia kept prices firm. Oil bounced up to the $56 level in its best close for the year (see **Chart 26**).

This is a breakout from the bottom area with $50 being a solid support area. Oil could now bounce up to the $70 level, but since it's almost impossible for oil companies to produce oil profitably at these low prices, it's unlikely to see a sustained rise.

Energy companies are hurting. And massive layoffs continue in the oil industry. PetroChina, Asia's largest oil and gas producer, also vowed to slash spending.

U.S. shale oil production is set to flatten this quarter, and they're out to protect themselves. Shale companies are now hedging their production, which is similar to what the gold mines did in the 1990s-early 2000s. This could keep a lid on prices going forward because they'll be hedging when the oil price rises to lock in a decent price.

CHART 28



Resource & Rates

Low interest rates are also causing housing and construction commodities to move in opposite directions.

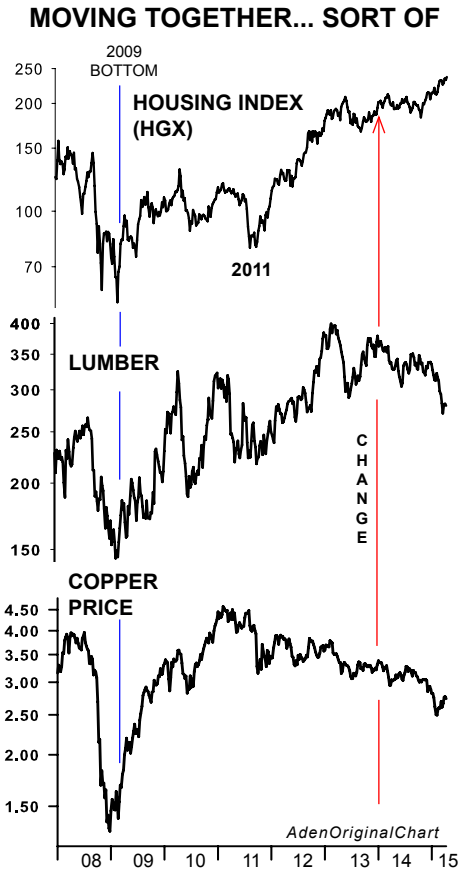
Chart 27 shows that housing, lumber and copper rose together from the depths of the 2008 financial crisis. They tend to move together, which makes sense since lumber and copper are used to build houses.

Lumber has kept up with housing the most, until a year ago, see red vertical line. They parted ways when bonds began to rise sharply and interest rates fell. Housing thrives on low interest rates, but these commodities came under downward pressure due to the slowing global economy.

And while this drag continues today, we may be seeing some brighter signs in some base metals. Zinc and lead, for example, are jumping up while steel, nickel and tin hit new lows (see **Chart 28**). Iron ore is in crisis as the price reached record lows. With weaker Chinese demand and increased mine output, concerns about a glut prevail.

We'll be keeping a close eye on the resource and energy sector for signs of a real change. But it's not there yet.

CHART 27



OVERALL PORTFOLIO RECOMMENDATION

The markets settled down some and they've generally been quiet. The major trends are still intact. That is, up for stocks, bonds and real estate. The U.S. dollar, however, looks like it's topping and the metals are likely bottoming. For now, keep the positions you have and see our new recommendation, listed below...

PRECIOUS METALS, ENERGY, RESOURCE

It was close. But the November lows held, and gold, gold shares and silver bounced up from their mid-March lows in an intermediate rise that looks to have legs. Once again, a test is coming. How strong will the current rise be? With the U.S. dollar poised to decline while the currencies bounce up, gold could have a decent rise, we call a C rise. And this C rise is key to see how strong gold is, in this bottoming process. Gold shares are looking perky, while silver is holding well above the lows. Keep your positions. We have a good selection for now until we see a clear turnaround sign. If you don't have all your positions yet, buy on weakness.

U.S. & GLOBAL STOCK MARKETS

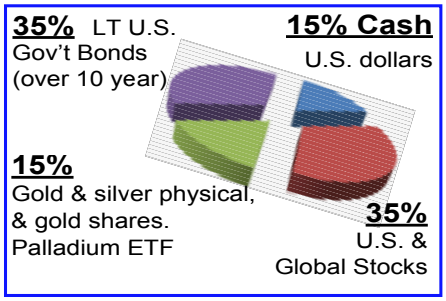
The stock market is volatile, but the bull market remains in the driver's seat. Plus, more of the global stock markets are joining the bullish camp, reinforcing the overall global uptrend in stocks. Keep the stocks you have. To buy new positions, the stocks we like best are Russell 2000 (IWM), IHI, IBB, QQQ and DIA.

CURRENCIES

The U.S. dollar has been super strong. But the dollar is now looking toppy and the first sign it's heading lower would be a sustained decline below 97 on the U.S. dollar index. A weaker dollar will then boost the bombed out currencies, which appear to be bottoming. Continue to keep your cash in U.S. dollars for now, but this may be changing soon. The Canadian dollar is looking better.

INTEREST RATES & BONDS

Interest rates declined further this month. Increasingly, it looks like the Fed is being more cautious and they'll probably hold off on raising interest rates for as long as they can. This will continue to be very bullish for bond prices. So keep the bonds and/or the bond ETFs you have. If you want to buy new positions, buy UBT and TLT.



OUR OPEN POSITIONS in order of strength per section

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Palladium	PALL	Jan-13	69.71	74.91	7.46	Hold
Gold Miners ETF	GDX	Jan-15	21.74	19.83	-8.79	Hold
Gold (physical)		Oct-01	277.25	1193.70	330.55	Hold
Gold Shares SPDR	GLD	Jan-15	125.23	114.72	-8.39	Hold
Silver Wheaton	SLW	Jan-15	23.05	19.49	-15.44	Hold
Central Fund of Canada	CEF	Jan-15	13.36	11.76	-11.98	Hold
Silver (physical)		Aug-03	4.93	15.89	222.29	Hold
iShares Silver Trust	SLV	Jan-15	17.61	15.29	-13.17	Hold
Royal Gold	RGLD	Mar-14	66.04	62.97	-4.65	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Russell 2000 *	IWM	Apr-15	125.65			Buy
iShares US Med Dv	IHI	Oct-13	86.70	121.43	40.06	Buy/Hold
Nasdaq Biotech	IBB	Nov-14	296.31	357.95	20.80	Buy/Hold
Dynamic Software	PSJ	Feb-15	41.58	42.64	2.54	Hold
iShares Hong Kong	EWH	Jul-14	21.65	23.36	7.90	Hold
Nasdaq Powershares	QQQ	Jun-14	92.82	107.60	15.92	Buy/Hold
Dow Diamonds	DIA	Jun-14	169.08	180.03	6.48	Buy/Hold
S&P Glbl Tech	IXN	May-14	87.75	98.11	11.81	Hold
Consumer Discret Sel	XLY	Feb-15	74.89	76.06	1.56	Hold
Home Construction	ITB	Feb-15	27.51	27.48	-0.11	Hold
iShares Singapore	EWS	Jul-14	14.04	13.42	-4.42	Hold
Global 100	IOO	Oct-13	72.97	78.72	7.88	Hold
DJ US Telecom	IYZ	Sep-12	25.22	31.21	23.75	Hold
iShares Transports	IYT	Oct-13	118.85	157.45	32.48	Hold
iShares Canada	EWC	Jul-14	32.65	29.12	-10.81	Hold
Energy Select SPDR	XLE	Aug-12	72.37	82.22	13.61	Hold
iShares Mexico	EWW	Jul-14	70.93	59.18	-16.57	Hold
Utilities Select	XLU	Apr-14	43.11	44.76	3.83	Hold
Microsoft	MSFT	Feb-13	28.01	42.91	53.18	Hold
Johnson & Johnson	JNJ	Feb-13	76.16	100.21	31.58	Hold
Procter & Gamble	PG	Sep-12	68.10	82.87	21.69	Hold
BHP Billiton	BHP	Aug-13	67.68	46.94	-30.64	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	86.29	48.78	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	138.80	10.40	Hold
20+ year Try Bond	TLT	Feb-14	107.78	130.29	20.89	Buy/Hold
SPDR L-T Treasury	TLO	May-14	66.40	75.04	13.01	Hold
Intermediate Muni	MUNI	Feb-14	52.69	53.75	2.00	Hold

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

