THE
ADEN FORECAST
MONEY • METALS • MARKETS

MAY, 2009

in our 28th year!

SOME LIGHT SHINES...

It's been a fairly calm and hopeful month, at least compared to recent standards. There was some good news, but it was mostly more of the same, showing that the economy continues to be weak as consumers cut back. Nevertheless, the markets perked up and that alone was one important good sign.

The highlight for us was attending the tribute dinner for our dear friend Richard Russell. Richard consistently encouraged us in this business from the start, more than 30 years ago. We've always appreciated his friendship and we have the greatest respect for him and his work. It was an honor to be there and see hundreds turn out to honor him as well.

WILD SPENDING

Meanwhile, Obama has been a big hit on the world stage while the situation at home continues to dog him. Probably the most shocking revelation was how much this economic bailout is going to cost and how fast the numbers keep growing.

At last count, the Federal Reserve and the government have either lent, guaranteed or spent $12.8 trillion in their efforts to get the economy back on track. We know that these numbers lose their significance after a while and it's hard to relate to them but we'll try…

You may remember a couple of years ago when a study was done by two respected economists estimating that the total cost of the Iraq war would eventually reach $2 trillion. At the time, people were shocked. But compared to the nearly $13 trillion for the economy, the Iraq war expenses now seem small in comparison.

Looking at it another way, you'll remember that the value of all the gold in existence since the time of Christ is currently worth about $2 trillion. In other words, just the costs to bail out the economy and nothing else, like Social Security, military, infrastructure, is so far going to be more than six times all of the gold that's been produced over the past 2000 years. (Just last December the cost was three times, which illustrates how quickly the costs have multiplied over the past four months.)

MORE THAN HISTORY IN THE MAKING

This is beyond shocking and it's difficult to know what the full extent of the repercussions will be in the years ahead. Obviously, the dollar will fall sharply and gold will soar. Interest rates will eventually move much higher and bonds will plunge. Beyond that, we're entering uncharted territory so no one really knows because there's never been a crisis of this magnitude, in the history of mankind. Ultimately, the spending will probably make things better for now, but there's a high price to pay to get from here to there.

This has raised many questions and we apologize for not being able to personally answer each of your e-mails. If we did, we wouldn't get much else done. But we do read every e-mail and letter, and we try to answer your questions in these issues. Considering the crisis, however, here's what else is on your mind…

FREQUENTLY ASKED QUESTIONS

Q. Are years of deflation ahead a good possibility?

A. Yes, this is indeed a possibility. Even though the world's central banks are doing everything they can to avoid this, deflation is already taking hold and there are reasons to believe that the economy could fall into a depression or a Japanese style long-term deflation, accompanied by falling prices, high unemployment and a collapse in the stock market. Real estate prices, for instance, continue to drop at a record pace, 10% of the U.S. population is now receiving food stamps, unemployment is at a 25 year high and consumer prices posted its first year-over-year decline in 54 years.

So even though we still think inflation has the upper hand and it'll eventually emerge as a result of the massive spending and other government actions, it's important to keep an open mind and recognize that anything is possible. As we've often said, this is a time to be flexible, alert and open.

INSIDE

Q. Is it possible to see gold rising in a recession or disinflationary environment?

A. Yes it is. That's essentially what it's been doing for the past eight years. Gold rose steadily during the tech boom collapse and throughout the current crisis. As the economy worsened, gold benefitted as a safe haven during times of uncertainty, as it has throughout history, including the Great Depression. At that time, the gold price was fixed but the two largest gold companies gained five and six times their money in those four years. Over the past eight years, gold has gained nearly 300%. That's a lot better than most other investments and this will continue whether we see more recession, deflation or inflation.

Q. Is gold a good buy now or should I wait, or buy in increments over one year?

A. Gold is a good buy now. If you don't own any, buy. Currently, there is more availability and the premium on popular one ounce gold coins, like Gold Eagles, Maple Leafs, Krugerrands and Philharmonics have come down and they're almost normal again. This too shows that fear is easing, and in this month's Metals section you'll see the best places to buy physical gold.

Q. Do you think Obama, central banks or others can push the gold price down?

A. Temporarily yes but the major trend will always prevail, despite short-term setbacks. The IMF, for example, may soon be selling their gold but as you'll see in this month's Metals section, that may not affect the market because there's so much demand out there.

Q. When the Dow Industrials broke below the 50% level at 7470, you said that the entire bull market since 1982 could be corrected. Is that still the case?

A. Not necessarily. The Dow temporarily dropped below 7470 for about a month but it's well above that level. If it stays above 7470 it will be a good sign for stocks and the economy, signaling that the worst case scenario is not going to unfold. But if the Dow again heads down below this area, then the possibility increases that the Dow could eventually fall back down to its 1982 levels, near 1000, which is where the bull market began.

Q. When you say you may be selling shares during the rebound rise in stocks, does that include gold shares?

A. No. Gold shares move with gold. Even though they can temporarily be affected by stock market movements, gold is the driving force and as long as it's headed higher, gold shares will rise too.

Q. Is this a time for bargain hunting?

A. Yes. Many stocks are good buys now, even if it's just to take advantage of this rebound rise. And with commodities and metals bottoming and/or starting to rise, the energy, resource and metals shares are looking a lot better too. Generally, this year and next will likely be good for bargains.

Q. Mining stocks are at a point where they were when gold was $450. Why?

A. There's no question that gold shares have been weaker than gold since early 2008. This year gold shares have been stronger than gold and that's primarily a rebound from extremes. As fear gripped the markets, investors fled to gold as a safe haven. But now that fear is easing, gold shares are again becoming more attractive.

Q. Why do foreign countries keep lending to the U.S. when they know they can't pay them back?

A. Great question, but as you'll see in this month's Interest Rate section, foreigners are not lending like they used to.

Q. Why do you use weekly charts instead of daily ones?

A. Weekly charts provide more perspective. They eliminate short-term volatility and help identify investment buying opportunities that will last at least a few months, if not longer, as well as selling opportunities, major moves, major reversals and so on.

Q. I am a new subscriber. Are your recommendations all okay to buy now?

A. No. If you're buying new positions, we would buy the best performers in each sector we list, which are always listed at the top of each sector category. The rest of the stocks would be okay to hold if you have them. Our allocations, however, apply to everyone. Currently, for instance, we feel it's most important to have the majority of your portfolio in metals and cash. Metals, primarily gold, because it's the best in this environment and cash, which should be held in the U.S. dollar (temporarily) and the strongest currencies, to take advantage of bargains as they come up.

Q. I am down on X stock, which you said to sell and replace with Y stock. Should I sell, or is it okay to keep holding?

A. Normally, when we sell X and replace it with Y it's because Y is performing much better within that sector and X is underperforming. So by replacing an underperformer there's a better chance of recouping lost ground and that's especially important in this difficult environment.

Hopefully, this has helped answer some of your questions during what's been a pretty tough year. The situation is still evolving and while we don't yet know how it's all going to turn out, we'll continue to do our best to keep you out of harm's way and focused on the best ways to get through this historical time with your assets intact and profitable. If in doubt, keep those questions coming and we'll get through this together, popping out on the other side in good shape.

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U.S. & WORLD STOCK MARKETS

Bear market rally or… start of new bull market?

The stock market has been on a roll. It's looking a lot better than it did before. It just had its best month since 2000 and the S&P500 has already soared nearly 34% since its low on March 9, less than two months ago.

The Dow Industrials has risen nearly 30%, it's near a three month high and the Dow is now above its April high (see **Chart 1**). The Dow Transportations also rose above its April high. In other words, these two important stock indices have now confirmed each other, triggering a Dow Theory bull signal which means stocks are going higher. And it's not only in the U.S. market… stocks are rising around the world.

GLOBAL MARKET BOUNCE

Even though the World stock market index doesn't look that great, when we look at 40 of the individual global stock markets another story emerges. Nearly 70% of these markets have risen more than 20%. China and Brazil continue to be among the strongest markets and they still appear to be leading the way up for the other world stock markets (see **Chart 1**).

A couple of you have asked why we haven't recommended China or Brazil considering that they're the market leaders for the recovery in equities.

At this point, we can only say that it's still too early. We may recommend them in the near future but first we want to see if this rebound rise in stocks remains strong and long lasting.

Remember, stocks are still risky. While they're looking better, the world stock markets are not out of the woods yet. So far, this is just a rebound rise and we don't yet know if it's going to continue or be cut short.

For now, we're watching China and Brazil closely. If they can rise and stay above their moving averages, that'll be the first solid sign that they're turning bullish and going significantly higher, suggesting the rest of the world likely will too. If that happens, then we probably will recommend them, depending on other factors and what our leading indicators are doing.

MARKETS STILL AT EXTREME LOWS

Currently, for instance, the leading indicator for the world index is extremely oversold, the most ever (see **Chart 2**). It's starting to move up, which is a good sign, but we need to see how things evolve before having more confidence that this rally is for real. Currently, we'll keep the stock positions we have for as long as this rally lasts. On the other

CHART 2

BEAR MARKET BOUNCE... SO FAR

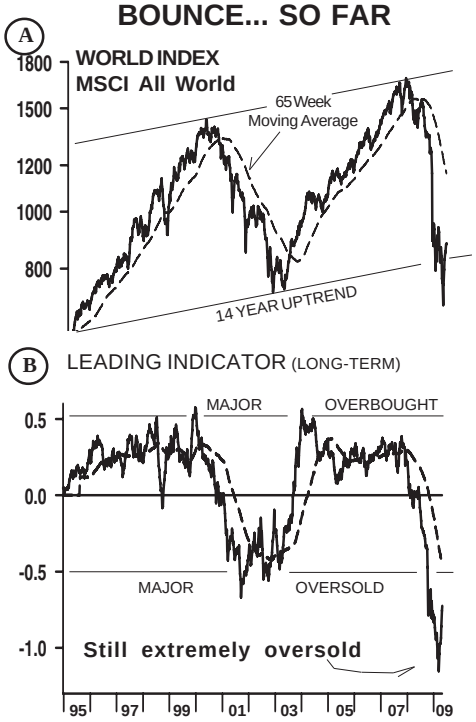
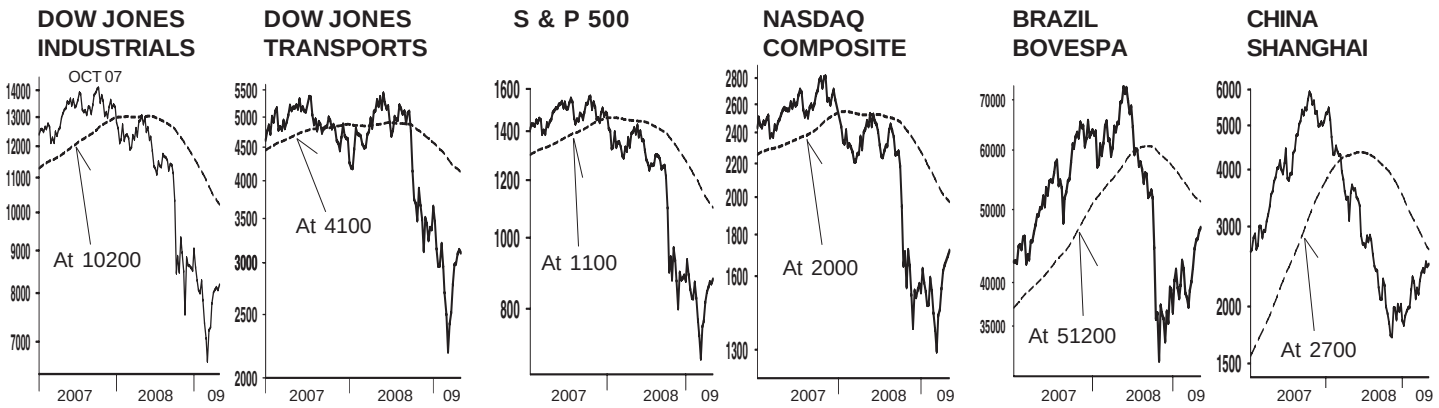


CHART 1

BOUNCING UP & LOOKING BETTER



- - - 65 Week Moving Average; bearish below it

hand, if this rally turns into a new bull market rise, we'll buy some new positions and/or switch into some stronger stocks.

A GLIMMER OF CALM

On the bright side, the pace of the economic decline has been slowing. Consumer confidence surged the most since 2005 and sales of new homes also rose. Real estate markets are looking a little better and the same goes for manufacturing.

This is starting to reinforce the old rule, don't fight the Fed. Also, commodities have been rising and bonds are declining, which are early inflation signs.

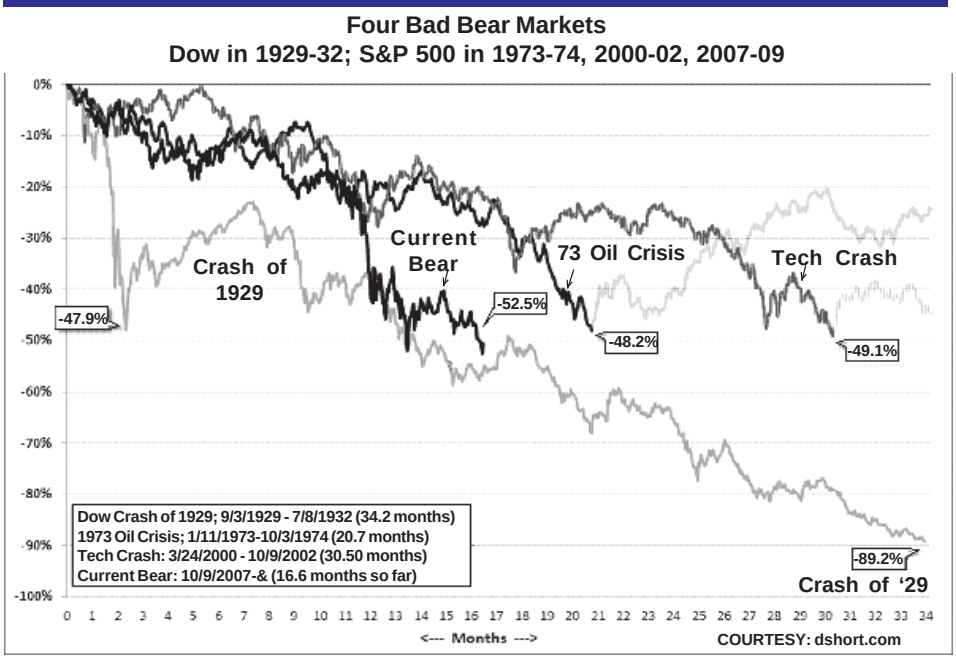
In addition, if we compare the current bear market to bear markets of the past, you can see that this one has already dropped more than the 1973-74 and 2001-02 bear markets (see **Chart 3**). Only the crash of 1929-32 was more severe.

Also important, in recent years the Dow lost more than half of its gains going all the way back to 1932. Historically, this clearly fits into the severe bear market category. The same is true of all the bad news we've been bombarded with.

1 ½ YEAR BEAR MARKET: Short in comparison

But as you know, the markets are rarely crystal clear. One factor that remains a concern is the short duration of the current bear market. A 25 year bull market is unlikely to be corrected by a bear market that only lasted about 1½ year. So based on timing alone, this bear market should run further.

CHART 3



The economy is still very weak and the swine flu outbreak is adding to the strain. It could nip a recovery in the bud, which of course would be bearish for the stock market. Plus, the market never reached a level where stocks were great bargains, like previous bear market did, with P/E ratios falling below 8 and dividend yields rising to between 5-8%.

Nevertheless, even if this proves to be just a bear market rally, there's a good chance the Dow will rise to near the 10000 level, which would be a normal 50% correction of the drop since 2007.

We'll soon see what happens but whatever the outcome, it'll be extremely important for the economy since the stock market is an economic leader. A new bull market would be positive for the economy while a continuation of the bear market decline would be very negative.

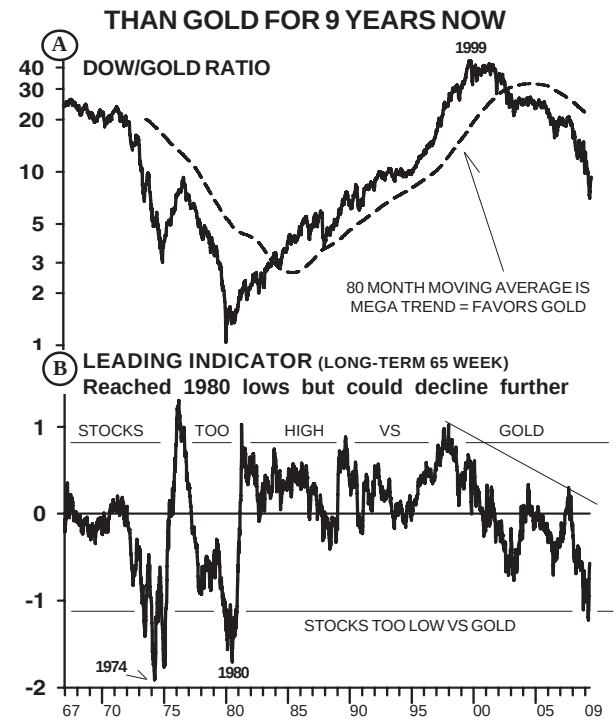
STOCKS WEAKER THAN GOLD

In either case, if we compare the Dow to gold, the mega trend strongly favors gold (see **Chart 4A**). Very simply, gold has been the better investment since 2001 and that'll likely continue.

Even though stocks are now too low versus gold, the leading indicator is still higher than it was in 1974 and 1980. And in the current spending, money creating environment, we're nearly certain it'll get down to those bombed out levels again as gold surges upward, outperforming stocks over the long haul.

Stocks, however, are now poised for a good rise in the months ahead and they have to outperform gold in the short-term. Overall, this rise is going to tell us a lot. So again, let's sit tight with the positions we have until we see how this rally unfolds. Once we see more evidence that it's for real, we'll take action. but hold off until then because the market remains risky.

CHART 4



U.S. INTEREST RATES AND BONDS

Tug of war

Interest rates have been volatile. This is mainly due to the tug of war between the free market and the Fed. The Fed wants to keep interest rates low to help boost the economy. The free market, however, is looking at the fundamentals for bonds, which continue to deteriorate.

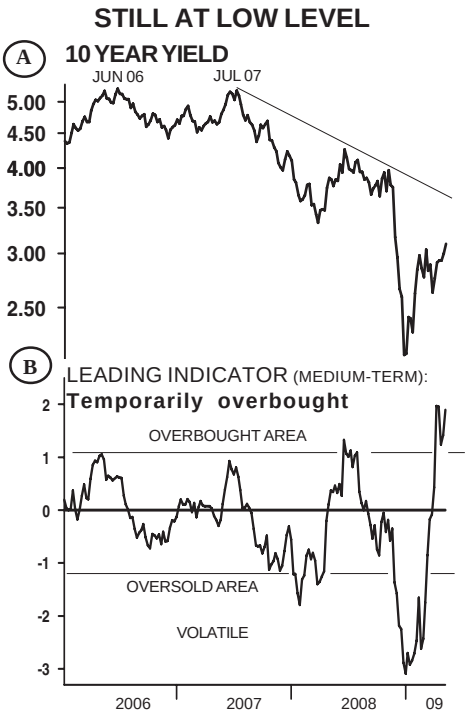
FED KEEPS PRESSURE ON RATES

The bottom line is that there are too many bonds at a time when there are fewer buyers. This supply and demand gap means that bond prices will eventually fall as interest rates rise. But the Fed's going to do its best to keep rates low for the time being, especially with the economy on such thin ice.

That's basically why we sold the ProShares TR fund (TBT) last month. Since then, it has risen some but it'll likely decline in the months ahead, along with interest rates, at least if the Fed has its way. And based on what our leading indicators are signaling, it looks like it will.

As you can see on **Chart 5**, the leading indicator for the 10 year yield is now overbought. This means the upside is limited on the 10 year interest rate and it'll soon be declining. As it does, other rates will decline too. Interest rates will probably then bottom prior to heading higher later this year. At that point, we'll probably buy TBT again as it'll do well in a rising interest rate environment.

CHART 5



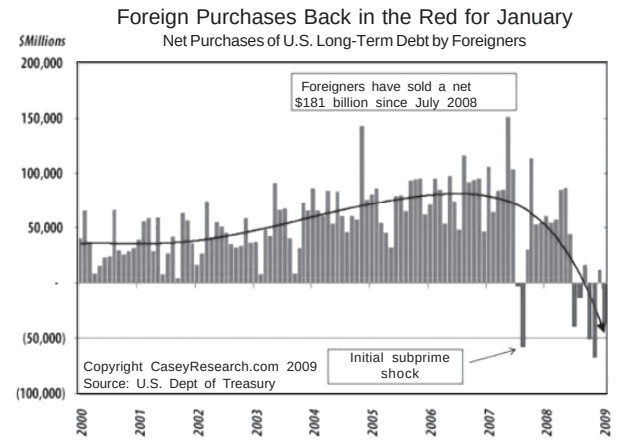
FOREIGNERS BUY LESS U.S. DEBT

How do we know that interest rates will eventually go higher? Looking at the big picture, it's pretty clear (see **Chart 6** from the Casey Report). This excellent chart shows whether foreigners are buying or selling U.S. long-term debt (bonds).

Note that foreigners have been buying U.S. debt for years. In fact, their purchases have been fairly steady... so much so that the U.S. grew dependent on foreign money to maintain its high standard of living. But then the crisis hit and things changed.

In the second half of 2008 foreigners started selling U.S. debt and as the crisis worsened, they kept selling. This illustrates a change in sentiment, obviously due to concern, massive spending, the crisis itself, caution, you name it but it's dangerous for the U.S. because this is the first strong sign that foreigners are actually taking action and putting their money where their mouth is.

CHART 6



These are no longer academic concerns, this is real. If this trend continues, and we believe it will, the Fed will be forced to raise interest rates, simply to make the debt more attractive. That's especially true considering that more and more bonds are coming to market to finance all of the spending to help boost the economy, and boost they must.

IMF'S GLOOMY FORECAST

The latest forecasts from the IMF likely spooked officials as their conclusions were about as dire as they could be. Here's just some of what they had to say...

The IMF expects the global economy to contract this year for the first time since World War II. Trillions of dollars will be lost in business, millions of people will be unemployed, possibly resulting in political unrest. They also anticipate millions being forced into homelessness and poverty, which will result in rising crime too.

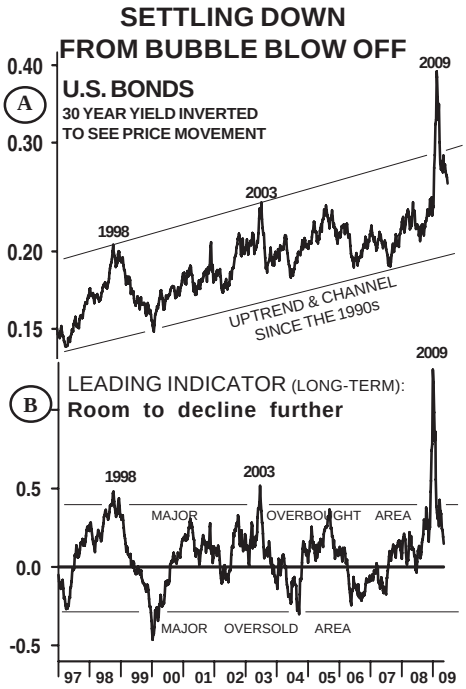
More specifically, the IMF predicts that the U.S. economy will shrink by nearly 3%, Japan and Russia by about 6%, and Germany and Britain by around 5½% and 4%, respectively. They believe China will maintain growth at more than 6%. India is expected to grow as well.

LONG RATES RISING

This is pretty grim stuff. Whether it happens or not remains to be seen, but even if it partially does the Fed will remain in a tight spot. Despite this outlook, the Fed has only been able to keep the T-Bill rate near zero. Long-term rates, which are free market rates, have been another story.

The 30 year yield, for instance, has been moving up and it's cur-

CHART 7



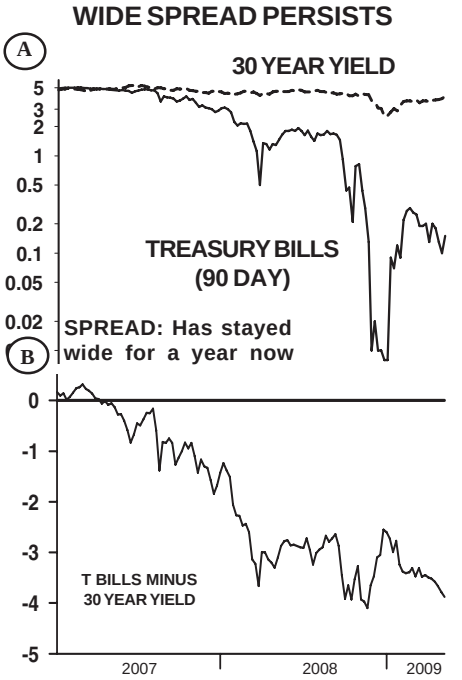
rently near a six month high. In fact, the 30 year yield is now near a major reversal level. If it stays above 4.07% it will confirm that a major reversal has taken place and interest rates are headed much higher. This could happen in the upcoming months. Reinforcing this, bond prices have been declining and they have plenty of room to fall further (see **Chart 7**).

Remember, the bond market looks ahead and it keeps telling us that all of this spending to revive the economy is going to fuel inflation. So even though interest rates will likely decline in the near term, eventually the free market will win out and rates will rise. When that happens, it'll provide a good opportunity to profit and we'll be keeping you posted.

One signal that will confirm our timing is right is the spread between short-term (Treasury Bills) and long-term (30-year yield) interest rates (see **Chart 8**). Once this spread narrows and these two rates start coming closer together, we'll know the risks of deflation/recession are easing, the economy is recovering and inflation will then be more likely.

Meanwhile, many of you have asked where to obtain income in this awful low interest rate environment. That's a tough one, especially because so many of the "higher" yield instruments are currently more risky than they were before. All things considered, long-term safe U.S. Treasury bonds are probably your best bet.

CHART 8



They're now yielding more than 4%, which is a lot better than around 2½%, which is what the 30 year yield was yielding last December and as rates head higher, you can average up on the interest rate you're collecting. The U.S. Dollar has been steady but the risk here will be when it starts to decline.

CURRENCIES

U.S. Dollar: Steady as it forms a top

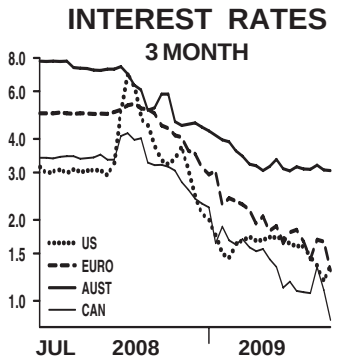
The U.S. dollar has been taking its time. It's been volatile, moving up or down on the news of the day. Overall, the U.S. dollar is still forming a top and it's just a matter of time until it heads lower.

DOLLAR'S POOR FUNDAMENTALS

As you know and we've often discussed, the dollar's fundamentals are very negative. These poor fundamentals will continue due to the excessive amounts of money that are being created and spent to turn the economy around. The fundamentals alone are pointing to a much weaker dollar in the months and years ahead. It's the only way the debt can be repaid and our technical indicators are also reinforcing this (see **Chart 10**).

Note that the dollar's leading indicator is still in a dollar high area. As you can see, these levels precede large declines in the dollar. Our best guess is that the dollar will embark on this upcoming renewed decline once gold starts moving up in its next intermediate rise, which could happen at any time. And as gold rises further, the dollar's decline will intensify.

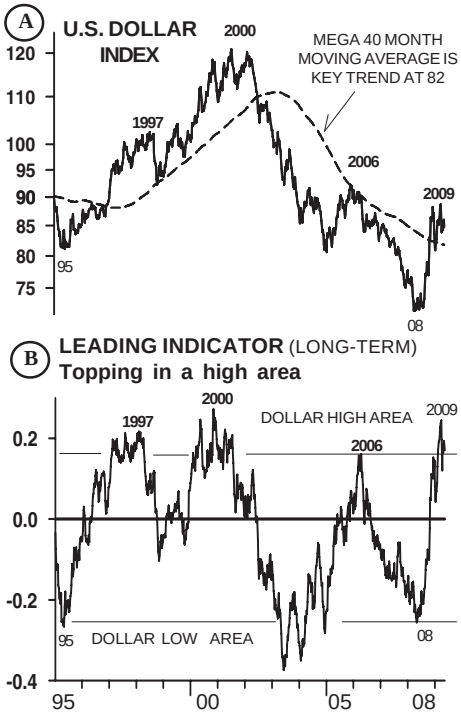
CHART 9



For now, keep an eye on 82 on the U.S. dollar index as a sustained decline below that level would be very bearish. It would confirm that the anticipated dollar decline is indeed getting started. You'd then want to

CHART 10

U.S. DOLLAR: Upside limited... downside is calling



lighten up on your dollars and keep a larger portion of your cash in the stronger foreign currencies and gold. Until that happens, we'll continue to diversify by keeping our current position in the U.S. dollar.

DOLLAR STILL KING, FOR NOW

Lately, there's been a lot of talk about replacing the dollar as the world's reserve currency, but so far it's just talk. The fact that there even is talk has created some concern because this would mean a wide range of repercussions which would hurt the U.S. But despite what some say, based on the historical record this change would not mean curtains for the U.S.

As our dear friend Sir Harry Schultz points out, "The history of reserve currencies reveals that the position of a country as a super power (whose currency acts as a reserve currency) tends to rotate in a natural cycle of around 100 years. Will history repeat?

From 1450 to 1530 it was Portuguese (80 years). From 1530 to 1640 (110 years) it was Spanish. From 1640 to 1720 (80 years) it was Dutch. From 1720 to 1815 (95 years) it was French. From 1815 to 1920 (105 years) it was British. And then the U.S. dollar dominated the scene until 2009, a period of 89 years."

This is extremely interesting to see in perspective and if we had to guess who's next, we'd say China. Their economy continues to grow and they'll likely lead the way up for the rest of the world. But not so fast... this is a slow process.

When the going gets tough, the U.S. is still a safe haven. This has kept the dollar firm, but now that stocks are rising and the worst seems to be ending, the dollar's safe haven status is diminishing and that too is going to put downward pressure on the dollar.

CURRENCIES: Looking better

On the other hand, it's going to be very positive for the international currencies and in fact, they're already starting to benefit.

The growing anticipation that the world economy is going to recover has affected most of the currencies, especially the commodity based currencies, which will do well because a recovery will boost commodity prices. The rising oil price has already provided a good boost and so has the renewed appetite for risk.

Countries like Australia, Canada and New Zealand have seen their currencies rise firmly in recent weeks and for the time being they're leading the pack in a renewed upsurge (see **Charts 11** and **12**). High interest rates have been another attraction for some of the commodity currencies.

CHART 12

BOUNCING UP

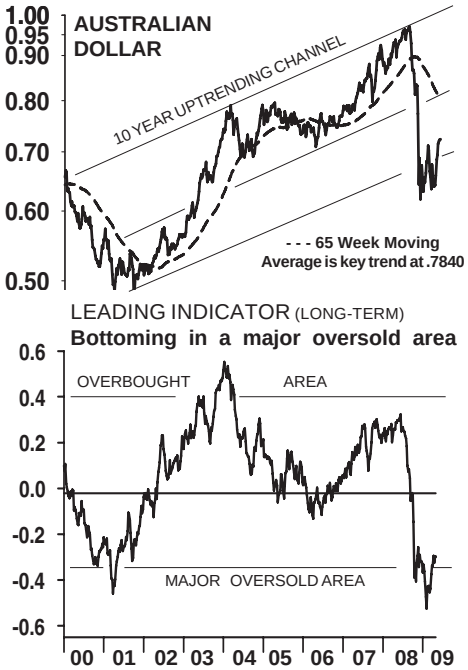
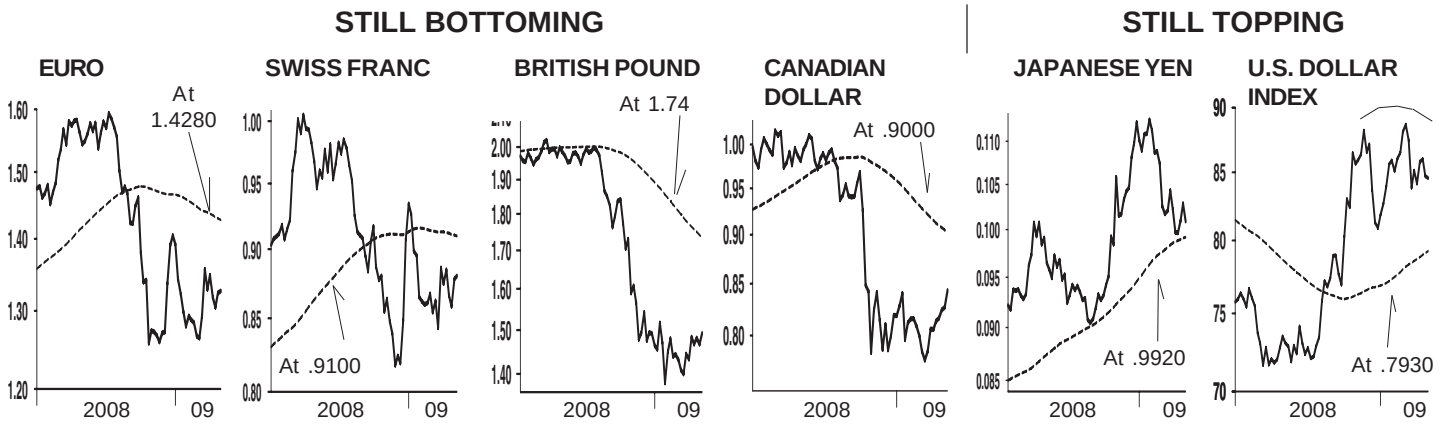


CHART 11



Most countries are keeping their interest rates low because no one wants a strong currency, but U.S. interest rates are among the lowest (see **Chart 9**). That makes the higher yielding currencies more desirable and it looks like that'll continue to be the case.

In addition, as China's infrastructure keeps growing, so does its demand for raw materials. Most of those come from Australia, which is bullish for Australia as it's closely linked to China. As you can see on **Chart 12**, the Australian dollar is now starting to rise from the bottom of a long-term upchannel and it's at a seven month high. The leading indicator is also bottoming in a major oversold area. These are positive technical signs that the Aussie dollar is going much higher. And as it does, the other currencies will head higher too.

As for the euro, it's looking good as well. Yes, the Eurozone's economy has been contracting but not nearly as much as the U.S. Plus, investor confidence recently hit a two year high.

Overall, the Australian dollar, Canadian dollar and the euro are our top currency picks for buying new positions and we continue to believe that this is a good time to be buying.

METALS, NATURAL RESOURCES & ENERGY

All commodities move together in a general wave...

Gold and silver remained under pressure this month while the resource sector bounced up further. This bounce has been adding to the hope that the worst is over because this sector rises when the world economy grows. Copper, being the best barometer, shot up 57% in eight weeks. That is, it rose exactly during gold's weakness of the last few months.

It's important to understand that gold and commodities move in the same major-mega trend, but commodities rose much more than gold during this bull market when global infrastructure building was rampant. The whole resource sector was hot. Copper, lead and zinc soared from over 500% to over 800%, while silver and platinum also gained 400% and 550%. During the same time, gold rose 300% which was moderate in comparison.

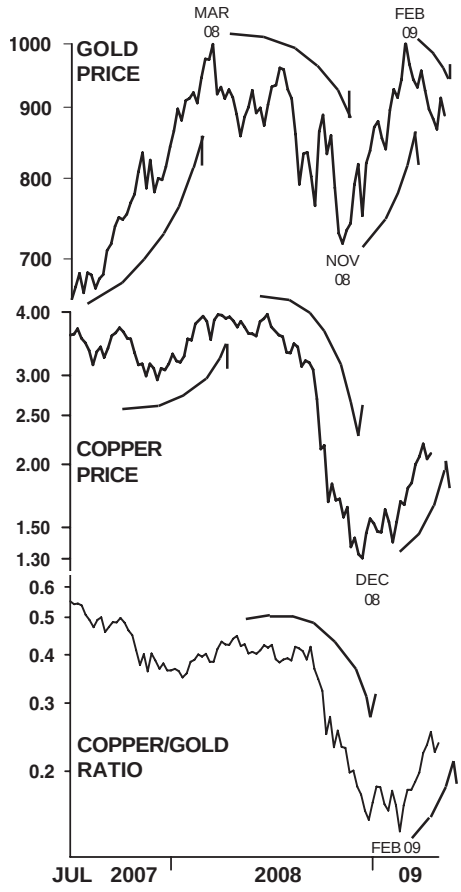
GOLD LESS VOLATILE THAN COMMODITIES, BUT FOR LONG?

The point is, gold's decline was also moderate compared to the plunge in resource and base metals because gold has been less volatile. **Chart 13** shows this clearly, using gold and copper as the example. The jump in copper since February, while promising, is still adjusting to the sharp fall last year.

If the global infrastructure build up continues in the years ahead, as we suspect, we'll continue to see the resource sector outperform gold. But considering the cost and uncertainty in dealing with this unprecedented global financial crisis, we could see gold much stronger. The bottom line is that all of the commodities are poised to rise in an ongoing major bull market rise in the years to come, and we'll continue to adjust our portfolio into the strongest sectors.

CHART 13

GOLD:
Not as volatile as copper



COMMODITIES: Big picture bullish

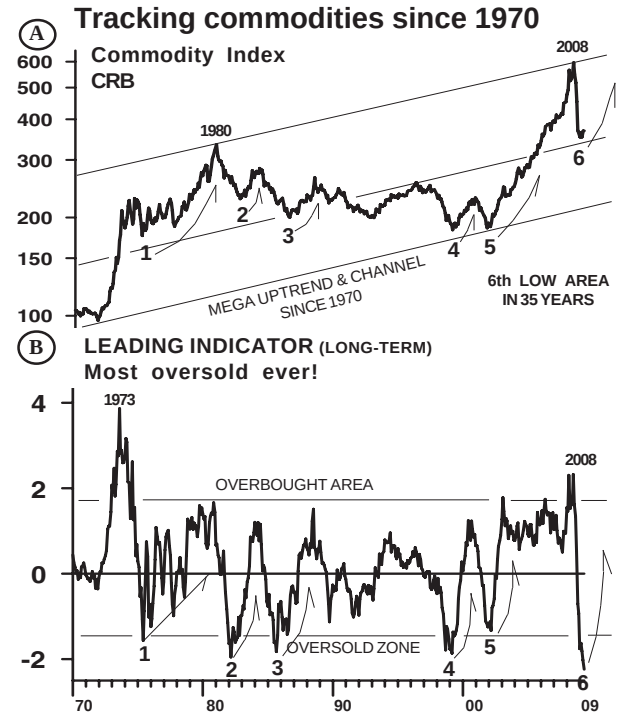
In fact, when looking at commodities on a big picture basis you can see that they're now likely headed higher. **Chart 14** shows the CRB index (A) in a solid mega upchannel since 1970. Most revealing is the leading indicator (B) because it's fallen to the most oversold level since the 1970s. It's truly bombed out and this is only the sixth time since the 1970s that it's been so oversold.

This means that commodities are poised to rise, similar to the rises following each oversold case (see 1-5). And it's saying that the fall in commodities last year was the worst part of the fall. The downside is now limited.

That's the case with oil too. It's at a major low area, the downside is limited and the December lows were likely the lows for the move (see **Chart 15**). The alternative energy sector is still depressed too (see **Chart 16**). But uranium stocks are starting to rise and we think it's just a matter of time until they all follow the oil price up.

Of course, the key question is, how long will the economic slump last? This is important for energy and resources but this sector, in turn, will continue to give us an insight into the global economy. For now, the rise of the past few months is showing some promise that the

CHART 14



worst is behind us.

After the longest losing streak since 2001 when demand for raw materials shrank, from oil to nickel, producers failed to cut output fast enough. But now prices are cheap again and demand is rising. China is buying raw materials. They imported a record amount of copper during the first two months of this year and other countries are also buying, like India, Brazil and Mexico, to name a few.

And rightly so, buying commodities and specific stocks is a good strategy even if the base metals are softening. Take copper, for example, its 57% jump since February is overdone; it's overbought on a medium-term basis. This means we could see some consolidation.

If you are looking for the largest, most solid overall resource company to buy and hold, we recommend BHP Billiton (see **Chart 17**). Oil stocks are still bottoming but we continue to recommend buying and keeping the strongest ones.

GOLD'S ONGOING DEMAND

Yes, China is buying up resources and businesses around the world, and it's also buying gold. China's gold holdings are small compared to their world power today. But they're also now the world's leading producer of gold, which stands to reason that it's been quietly buying its own gold.

China has increased its gold holdings by 76% since 2003, making it now the seventh biggest gold holder in the world. It's estimated that China holds 1054 tonnes.

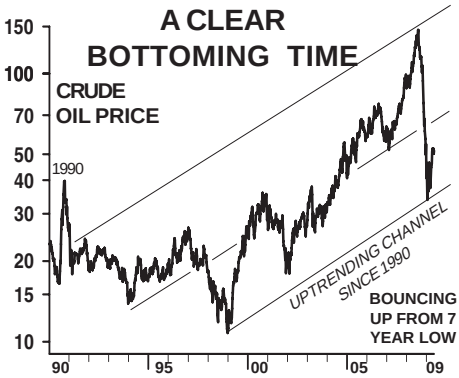
The U.S. is still ranked first with 8133 tonnes, followed by Germany, the IMF, France, Italy and GLD, the largest gold ETF. China would have to more than double their tonnes of gold to catch up to Italy, for example. Central bank buying, despite the possible IMF gold sales, will become a key force behind higher gold prices in the years ahead.

But even aside from Central banks, demand has been hot with the investing public. You can see this best with gold's largest exchange traded fund, SPDR Gold shares (GLD). It now has 1104 tonnes of gold, making it the sixth largest gold holder in the world, just ahead of China.

Interestingly, China's gold reserves captured the news this month but actually, as *Gold Newsletter* put it, "China's 454 tonnes of gold purchased since 2003 is roughly equivalent to the gold GLD added to its holdings over the past six months!" And it's not just GLD, the other gold ETFs, like IAU and London's Gold Bullion Securities (GBS.L), have all added more gold.

Demand is robust. People have been scared during the crisis and they've been turning to gold as a safe haven. GLD began trading in November 2004 with only 260,000 ounces of gold. So it has served its purpose well, by making it easy for the average investor to buy gold.

CHART 15



Coin sales are also way up and this has continued into 2009. Be it the Philharmonic, the Eagle, the Maple Leaf or the Krugerrand, gold coins are in demand.

This is all helping to keep the gold price firm and it's an important reason why it was the only investment, outside of bonds, to end 2008 with a gain.

GOLD: Best asset class

Chart 18 provides a good example of gold's strength. Last February, gold reached a record high in euro terms while it tested its record high in U.S dollar terms. When gold is strong in all currencies, you know the rise is real and not based on just a currency fluctuation. This is a key factor for a solid bull market to con-

CHART 16

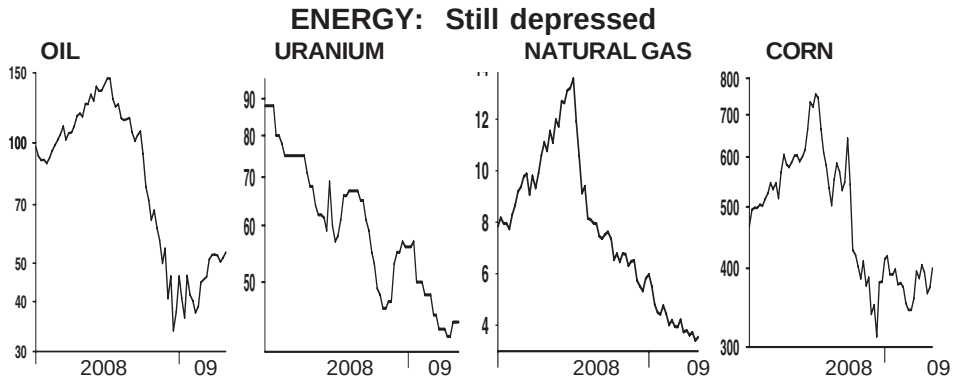


CHART 17

tinue growing.

And gold is not only strong versus all currencies, it also remains stronger than stocks and bonds (you can see stocks compared to gold on **Chart 4**, and gold compared to bonds last month). The mega trend favors gold over all major asset classes. If we had to guess, gold will probably outperform the commodities too.

GOLD'S BIG PICTURE

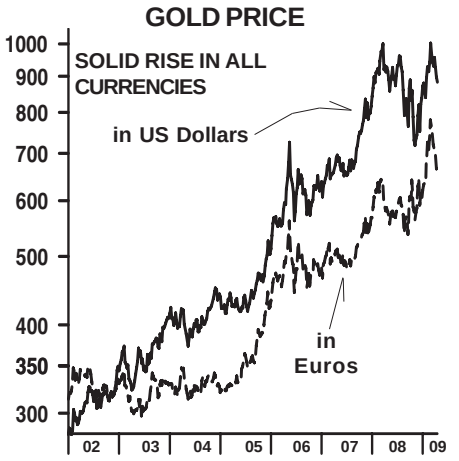
Gold's big picture further backs up the ongoing mega rise in commodities. Gold's current bull market rise started in 2001 and it turned eight years old in February. The eight year mark has been a consistent low time for gold going back to the late 1960s when gold began trading in the free market.

Chart 19 shows this pattern best. It has repeated four times since 1969 and, as we showed you several months ago, the fifth one is probably happening now. By 'now' we mean that an eight year low can vary from 7 to 8½ years following the previous low, with the average being 8 years.

In other words, the low could've been last November's low, three month's shy of eight years, or it could still be upcoming. The long side would be this Summer.

The point is, gold's at or near an important low time. We've been wanting you to buy gold during weakness because we believe this to be a key low

CHART 18



time, enabling you to buy gold at a good price. The $2000 level will eventually be a likely target, near the top of the mega channel on **Chart 19**.

That is, if the eight year low pattern repeats, current weakness (we call the B decline) is providing an ideal time to buy new positions. We should have all of our positions bought by the Fall time period.

Chart 20 gives you a closer look at gold's intermediate moves. Our older subscribers know these A through D movements in the gold price well. Gold reached a high last February, which we call the 'A' rise. It was the strongest A rise since 1999, rising 42% from the November low. This showed solid underlying strength.

The ongoing weakness since February is what we call a 'B' decline. It's now 2½ months old and gold has fallen 13½%. This is a normal moderate B decline, but it's not over yet (see **Chart 20**).

The key now is to see if the April 17 low was 'the' low for this move or if gold has more downside work to do before B is over. Here are the guidelines: Gold will remain in a B decline by staying below $918. If gold breaks and stays below $867.90 (June), the April low, a steeper decline could take gold down to possibly test its November low near $705 in a worst case. This is an important support level for gold and if this occurs, buy with both hands.

Meanwhile, a major low is close, but once gold rises and stays above $918, a C rise will begin and the strength of this rise will then be important for the overall bull

CHART 19

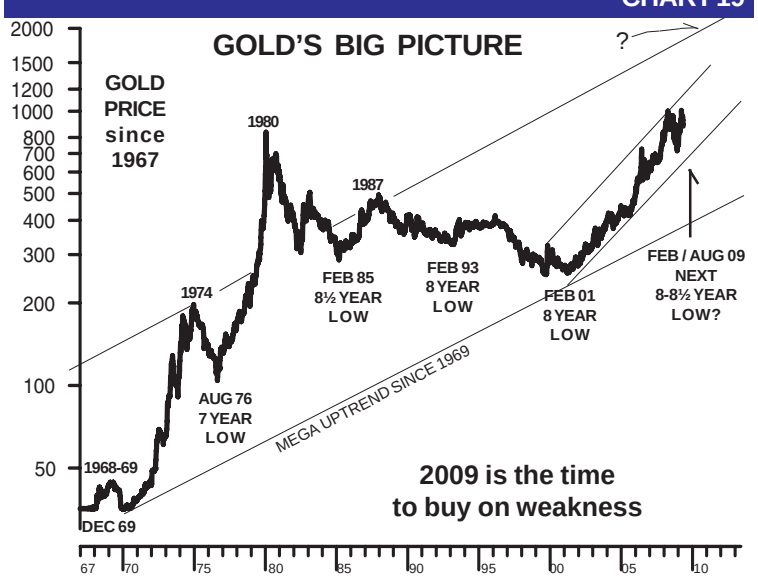
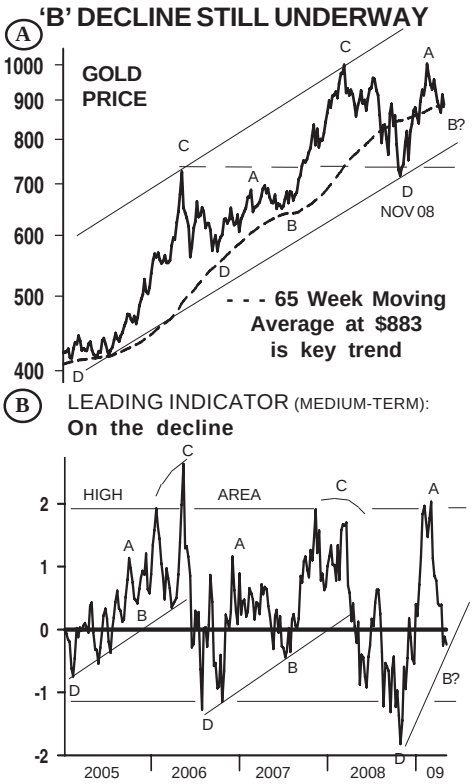


CHART 20



market. Normally, in bull markets, C rises are the best rises when gold reaches a new bull market high. This has been the case in every C rise since 2001. So once gold begins a renewed bull market rise, it will continue this pattern of strength if gold closes above $1004, the record high. Gold could then possibly reach $1200 by year end.

Silver, platinum & gold shares: A link

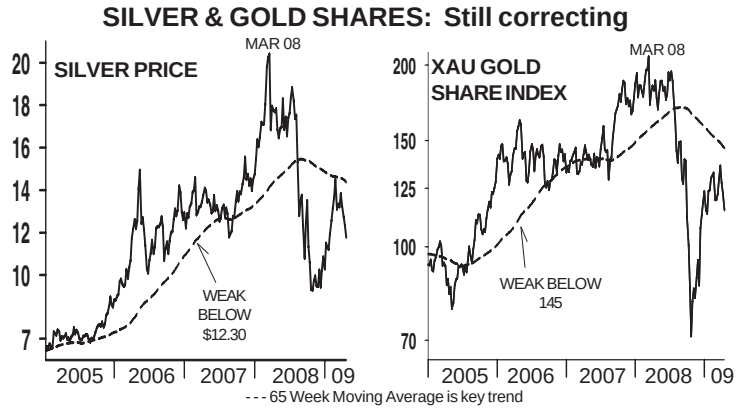
Silver and gold shares are moving with gold, and **Chart 21** shows that both will remain under pressure by staying below their 65-week moving averages. The precious metals are moving differently. Silver and platinum, for example, both outperformed gold in the years leading up to the 2008 peak. And while both fell more than gold last year, they fell less than the base metals.

Plus, platinum broke paths with gold and silver last February as it continued to rise reaching a seven month high in April. Platinum has been rising all along since November. It would turn bullish above $1440.

Platinum is getting a push from the base metals while silver, by falling less than the base metals, was saved by its store of value demand, like gold. Both metals' sectors will continue to influence these precious metals as time goes on.

Gold shares are also a good investment because, like silver, they move more closely to gold on a major trend basis. And they too are in a good buying area. As we mentioned on page 2, gold shares were very strong during the Depression. They were a proxy for gold in the 1930's and they showed how well gold and related gold stocks do during times of economic uncertainty and monetary problems.

CHART 21



HOW TO BUY GOLD (AND SILVER)

Subscribers continually ask us how and what is the best way to buy gold. This section will assist you in deciding what is best for you…

1) Buying one ounce gold coins, be it American Eagles, Maple Leafs, Krugerrands or Philharmonics, is the best way to buy gold and, in today's world the safest way to buy and keep gold. Likewise for silver, but with silver it's best to buy more in the bars, 10 or 100 ounce bars. Most reputable dealers will ship bars or coins across the U.S.

Premiums and availability are the main considerations when picking a coin dealer. We recommend shopping around. If you don't have a dealer, we recommend American Gold Exchange in Texas; Dana Samuelson promised us to give you the best price possible. Phone 800-613-9323.

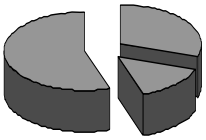
2) Physical gold can also be bought on the internet, on sites like Kitco.com. It's important to buy from a reputable website and we know Kitco is one of these sites. They have several options and ways to buy gold. They also offer Perth Certificates guaranteed by the Australian government. This way you don't have to take delivery and your gold is held in Australia.

3) Most major banks in Canada, Europe and other countries also provide gold coins. Keep in mind, there are many companies who offer the same. We're merely giving you a sample of companies we've known for many years. We do not receive anything for this, we just like and trust them.

4) Since 2004, a Gold Exchange Traded fund now called SPDR Gold Shares (GLD) began and since then others have blossomed, from iShares Comex Gold (IAU) to a silver ETF, iShares Silver Trust (SLV), to London's Gold Bullion Securities (GBS.L). This new demand gave a huge boost to gold investing and this provides an easy way to buy gold, silver and gold shares (GDX). With GLD alone turning into a powerful gold source, many are concerned about confiscation and safety. A good way to diversify is by buying the Canadian funds, Central Fund of Canada (CEF) and Central Gold Trust (GTU). Both of these are top-notch audited funds. CEF is a physical gold and silver holding while GTU owns gold only. They are closed end funds so it's important to check their premium over their net asset value. This month GTU is a new addition to our gold collection.

OVERALL PORTFOLIO RECOMMENDATION

It's been a fairly calm and hopeful month. The markets perked up and that alone was an important good sign. Stocks rose and they're likely headed higher, bond prices are declining as interest rates rise, commodities are rising, along with the metals and oil, gold is holding steady, and the U.S. dollar is topping as currencies firm up. These are early inflation signs but it's way too soon to know if the worst of the crisis is near an end. It could be and we're starting to see some potentially good upcoming opportunities.



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

15% Energy, resource & other stocks

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

STOCK MARKET RECOMMENDATION

The stock market is looking a lot better than it did before. Our leading indicators show that stocks will likely rise further. Plus, the market just triggered a Dow Theory bull signal. Stocks worldwide are rising too but it's still to be seen if the rebound ends up being just a bear market rally or the beginning of a longer lasting bull market rise. In either case, if the Dow Industrials now stays above 7700, there's a good chance it'll rise to near the 10,000 level. Nevertheless, we need to see more before buying new positions. For now, keep the stocks you have for as long as this rally lasts. If we see signs that a new bull market is emerging, we'll buy new positions and/or switch into some stronger stocks. If not, then we'll sell our stocks at a better price, or at least lighten up on our holdings when the rebound ends.

PRECIOUS METALS AND THEIR SHARES RECOMMENDATION

Gold and silver have been declining for 2½ months now in an intermediate decline we call B. So far, the down move has been moderate with gold losing 13½% from its February peak. This shows strength because gold rose 42% from its November low to that peak. The point is, gold is in a good buying area. Whether or not it weakens in the Summer months, all signs point to higher prices in the years ahead. This is the ideal year to buy at a good price, and it's best to have all your positions bought by the Fall. That goes for silver and gold shares as well. We are adding Central Gold Trust (GTU) to our list (see page 11 for more information).

The energy and resource sector continues to move up, and our positions are doing well. Oil, copper and the CRB index are reaching several month highs, and the raw materials, energy and grains are following. We continue to recommend keeping your shares. We now also recommend buying Cameco (CCJ). For new positions, buy the ones at the top of the list.

INTEREST RATE & BOND RECOMMENDATION

The tug of war continues in the world of interest rates. The Fed wants low interest rates but the free market is another story. Long-term rates have been rising and if the 30 year yield now stays above 4.07% it will confirm that interest rates are going much higher. But for now long rates are overbought, which means the upside is limited and they'll likely decline first before heading higher. At that point, we'll probably buy TBT again.

CURRENCIES RECOMMENDATION

The U.S. dollar has been volatile. It's still forming a top, however, and it's just a matter of time until a renewed decline begins. That will be confirmed once the US. dollar index declines and stays below 82. Until that happens, we'll continue to diversify by keeping our current position in the U.S. dollar. The other currencies are looking good and they're poised to head higher. Keep the currencies you have. The Australian dollar, Canadian dollar and the euro are our top currency picks for buying new positions and we continue to believe that this is a good time to be buying. If you do, use part of your U.S. dollar cash holdings.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

RESOURCE, ENERGY & OTHER SHARES

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

CURRENCY ETFs & FUNDS

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

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

