THE
ADEN FORECAST
MONEY • METALS • MARKETS

MAY 2011 *our 30th year*

RECORD HIGHS TURN VOLATILE... STAY FOCUSED

As we've seen month after month, it's been an amazing year so far… and this month was another one for the record books. It was one of the most volatile months in years and it took many investors by surprise.

RECORD VOLATILITY

That was especially true for silver. Once it approached its old record high, it dropped about 27% in just one week. This was extremely fast and steep. But considering silver has soared over 1,000% in the past eight years, and 450% over the past 2½ years, it wasn't that extreme when put into perspective.

What was surprising was that it happened so fast. But remember, prior to its recent decline, silver was soaring just as quickly, every day. And as we've often noted, during bull markets silver tends to overshoot on the upside and downside. It's far more volatile than gold and the shares, and it always has been.

This was again clearly illustrated this month. Gold fell along with silver, but its decline was mild at less than 5%.

Again, putting this into perspective, our dear friend Richard Russell noted… "suppose you owned a stock that had climbed from 2.5 to 16. Now the stock is correcting and it's close to 15. Would you be worried? Well, that's about what gold has done so far."

Most important at times like this, is to keep things in perspective. Don't panic and do something you'll regret later.

Nevertheless, we know that some of you are concerned or disappointed. But we do our best to prepare you for the ebbs and flows of the market, and we always tell it like we see it.

Sometimes the markets will throw us a surprise, but that's all part of it. It's what investing is all about and in this case, despite all the volatility, nothing has really changed.

STRATEGY IS KEY

This brings up an important point, which is strategy. And this is a great time to review this…

Okay, but where do we currently stand?

First, silver and gold are still very strong, despite their declines. The major trends remain up and we recommend keeping your positions and riding through this weakness, which could last for a few months.

This has been our primary strategy ever since we first recommended buying gold and silver in 2002, and it has served us well. Sure, there have been ups and downs, and boring times along the way, and some of the declines were sharp sell-offs. But if you're a long-term subscriber and you've followed our advice, then you know what we mean.

The major trends are the most profitable, simply because they're far more powerful and long lasting. The trick is to stay with them. If you have, then your investments have been extremely profitable.

But let's say you bought recently and your investments are down. What to do? Here too, hold on. Remember, downward corrections are normal and they're temporary. The major trend will prevail but for now, it's taking a breather.

That's why we generally recommend averaging in for new buyers. If you bought high, then buy more if you can, when the price declines in the weeks and months ahead. This will bring your average buying price down and you'll be better positioned for the long haul.

This rule applies to any market and **Chart 1** (page 3) provides a good and simple example of what we mean. Here you'll see several of the major stock indices, along with their 65-week moving averages.

This average identifies the major trends. In this case, you can see that the major trends turned up by rising above these averages in 2009. Despite what the commentators said, these markets have been telling the story. They held up because they were looking ahead.

Yes, they've had steep downward corrections, like in 2010, but they stayed above these averages, indicating the major trends were still up

INSIDE

and, therefore, prices were headed higher. Other indicators also reinforced this.

Basically, the markets will always tell you what's coming. They don't care about emotions or what anyone says.

The key is, you must listen to what the markets are saying.

Of course, the markets will often, rise or fall based on news events, but the beauty is the major trends. They will stay in force for the fundamental reasons why they're rising or falling to begin with.

In gold and silver's case, their highs coincided with the death of bin Laden and higher silver margins. But this has not changed the major trends.

They're being driven by the worsening fundamentals, which we've discussed in almost each of our monthly issues, including this one. That'll keep gold and silver rising.

If this should change, you'll know. That would happen if a major trend change takes place. But as you'll see in this month's Metals section, we're currently far from that point. So far, these are just downward corrections within the major uptrends.

STRATEGY RULE #2

This brings us to our #2 key strategy rule, which is avoid taking big losses.

If a major trend turns against you, many investors will stubbornly hold on because they're right due to the fundamentals, or whatever. That's where your ego takes over and it can lead to big losses.

Maybe you're right, but your timing could be off. Things often don't happen as quickly as you think they will. We can tell you, we've learned this lesson the hard way, a couple of times.

In 1981, we felt bond prices were bottoming and ready to soar. Inflation was surging and interest rates were about 15% - 20%. But we were premature and our old boss bought heavily leveraged bond positions while the market was bottoming, which resulted in big losses. It would've been another story had he waited.

We were also slow to identify gold's major trend reversal in 1982. Everything pointed to higher gold prices, but here again, the market was telling us that things were changing and they did. Inflation dropped and so did gold.

As we've seen time and time again, the reasons why may not make sense when they're happening. But they always become clear with time. The big mistake is waiting for the reasons to unveil themselves while holding on because you could lose a bundle in the meantime. Also important, don't put all of your eggs in one basket, no matter how good the basket looks. Diversify. That way if a market goes against you, you won't take a big overall loss.

TAKING PROFITS ALONG THE WAY

But what if you want to take some profits and avoid downward corrections? That's okay too, and this is one of those times. But it's really a personal choice. If you do, we would definitely keep a core metals position, especially since the major trend is up.

The downside in doing this is deciding when to get back in. Again, we've seen many investors miss the big move when it came because they got out and were left behind, waiting for the "right" time to get back in. The gold price provided a good example of this during the last two years.

That's the risk, but if you're willing to take that risk, then go ahead and sell some of your metals position if you want to. Personally, we're not going to.

TRADING SERVICE

We also know that some of you like to trade the markets especially during intermediate highs. In this newsletter, we take a long-term view, which has worked well. But for you traders, we now have a weekly trading service called *Gold Charts R Us*.

We took over this service earlier this year from our dear friend and investment legend, Harry Schultz. With the metals markets now more volatile than before, this may be of interest since the goal of this service is to profit on the upside and the downside. We are working together with a very sharp trader and so far, so good.

This service is obviously geared to the short to medium term and it's not for everyone, but it's very thorough, providing lots of charts and analysis. If you're interested, you can go to our website (www.adenforecast.com).

We've had the pleasure of knowing Harry Schultz for many years and it was an honor for us to take over his newsletter earlier this year.

Uncle Harry, as he's fondly known, continues to write a two page "Big Picture" letter. This is now available to all of you and it's filled with his valuable insights. Please view it online, along with our monthly letter.

If you need a password, please call our customer service center to set it up.

In the meantime, several of the other markets are also correcting and bonds may be nearing a crossroad. There's a lot to watch this month, reinforcing that this is a time to keep a watch on all of the markets.

Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com

info@adenforecast.com

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The Aden Forecast
P.O. Box 790260
St. Louis, MO 63179-9927

1-305-395-6141
In Costa Rica:
Ph: 506-2271-2293
Fax: 506-2272-6261
from the U.S. dial 011 first, otherwise dial 00

U.S. & WORLD STOCK MARKETS

New highs for the bull market

Stocks moved up nicely this month. All of the U.S. stock indices hit new bull market highs, and several surpassed the 2008 highs, reinforcing renewed market strength.

TREND IS UP

Despite the recent volatility and stock decline, the stock market remains bullish and the major trend is up. Better earnings and the Fed's low interest rate policy are keeping a strong foundation under the market.

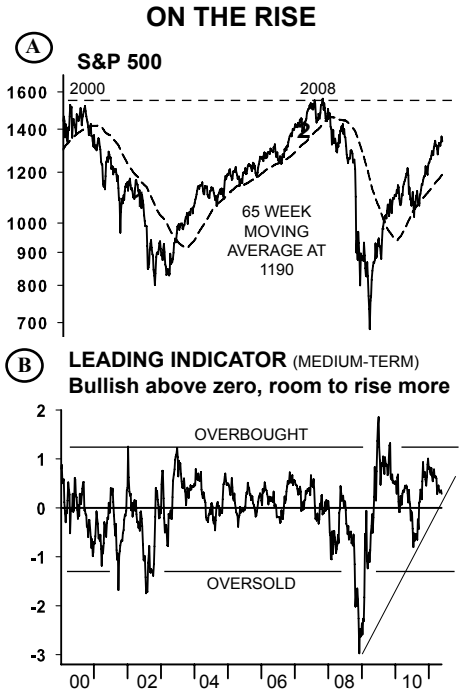
The same is true of the Fed's QE programs. These have created a sea of liquidity, which has lifted the stock market higher, and this is clearly evident looking at **Chart 1**.

Here you'll see the Dow Industrials and the Dow Transports, along with the Nasdaq. Three of the global stock markets are also shown. If you follow along, you'll see how interesting and closely the Fed's actions have coincided with the stock market.

FED'S QE: Bullish for stocks

For starters, following the financial crisis and the huge stock market drop in 2008, the world was on the brink. Panic and uncertainty hung overhead and the Fed decided it had to take action to save the financial system. So it decided to embark on QE1 in the Spring of 2009.

CHART 2



As you can see, this marked the exact low in stocks and they started a bull market rise in March that's still in force today. In other words, all the money the Fed provided has clearly driven stocks higher. But there's more…

QE1 came to an end one year later, in the Spring of 2010. Note that stocks then fell in the steepest downward correction yet for this bull market. (This is similar to what happened in Japan when they ended their QE program.) The Fed saw what was happening and felt it had to take more action.

In the Fall of 2010, it embarked on QE2, which added even more money to the system. The stock market liked this and it's been surging ever since. But QE2 is going to end on June 30. This raises a huge question… will the stock market be able to make it on its own?

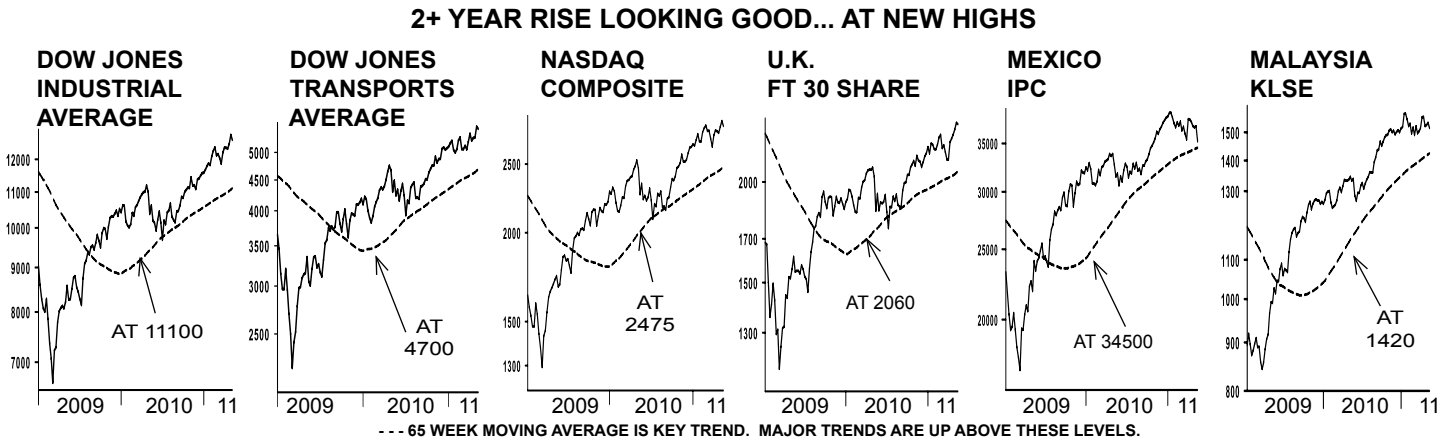
If it can't, it'll be a bad sign for the economy, signaling economic weakness lies ahead. This, together with the lack of liquidity and the negative outlook from the S&P rating service would not be good for stocks, in spite of low interest rates. That is, the volatility we're starting to see could be a preview of what's to come.

QE3 - What next?

It's going to be interesting to see what happens in the months ahead. But our guess is, if push comes to shove, the Fed will again step in with a new QE3 program, probably sooner rather than later to keep the stock market and the economy going.

As you'll see in this month's Interest Rates section, there are other valid reasons to believe this as well.

CHART 1



ROOM TO RISE MORE

From a technical viewpoint, you can see that the leading indicator for the S&P500 is not yet at the overbought level (see **Chart 2B**). This tells us that stocks still have room to rise further and the 2000 and 2008 highs on the S&P near 1500 are still viable upside target levels. In fact, Nasdaq and the Transports have already reached their 2007-08 highs.

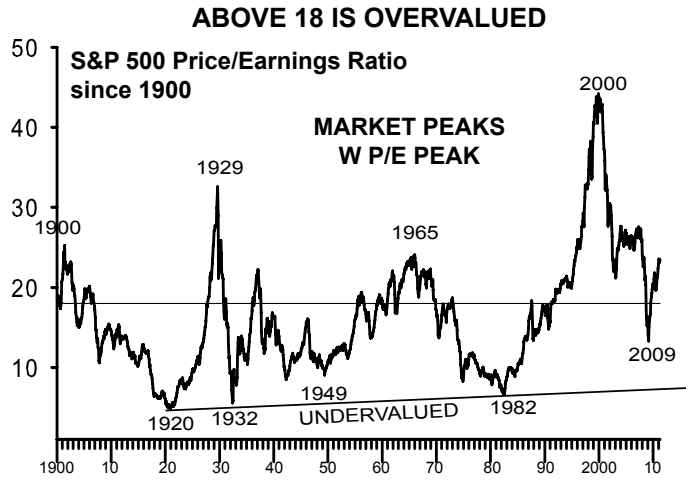
Also bullish, by both breaking into new high territory this month, the Dow Industrials and the Dow Transports again triggered a Dow Theory bull market signal.

This tells us stocks are likely headed higher and the major trends also reinforce this.

Chart 1 shows these trends and as long as the individual stock indices stay above the levels shown, the major trends will remain up, indicating stocks have further to rise.

If we next look at the S&P's Price/Earnings ratio going back to 1900, stocks are somewhat overvalued, based on the historical norm, which has been about 18 (see **Chart 3**). But they're not extremely overvalued, so here too there's still some room for stocks to head higher.

CHART 3



CAUTIOUS BULL GOING FORWARD

The overall point is, the market still looks good. But with QE2 nearing an end, combined with the traditional, 'sell in May and go away,' while volatility is starting to increase, caution is warranted. Even though some of our recommended stocks have declined, they're generally holding up well and there's currently no reason to sell. On the contrary, this month we added to some of our stock positions, buying some of the strongest ones we like best (see our Stock Recommendation on page 12).

But again, keep an eye on the markets and please stay updated via our weekly updates. If we see signs of a change, we'll alert you and we may then have to lighten up on our stock holdings.

Currently, this is not the case because the markets remain strong. As you know, this is not only a good sign for stocks but for the economy too. But as you'll see next, that may not be the case for bonds.

U.S. INTEREST RATES AND BONDS

Rates fell this month

Interest rates fell further this month as bond prices rose. Despite the weak dollar, ongoing spending, money creation, and growing inflation pressures, it didn't seem to matter. Both short and long-term interest rates declined, which seemed strange (see **Chart 4**).

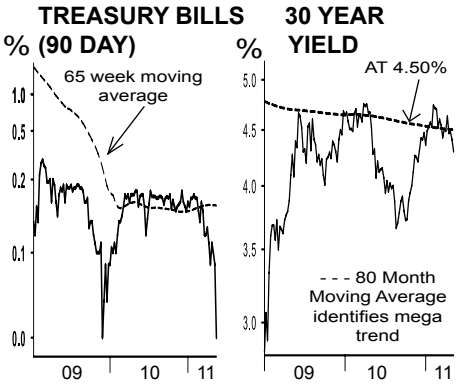
As you know, many times the markets do their own thing and it doesn't seem to make sense for a while. But sooner or later, the reasons why become more obvious.

FED WANTS RATES LOW

For now, the Fed again said it's going to keep interest rates low for as long as it has to. That is, until job growth is doing well and the economy is strong enough to handle tighter credit.

But the economy is creeping along and employment issues persist. This combined with still declining housing prices, it could be some time before we see the changes the Fed is waiting for.

CHART 4



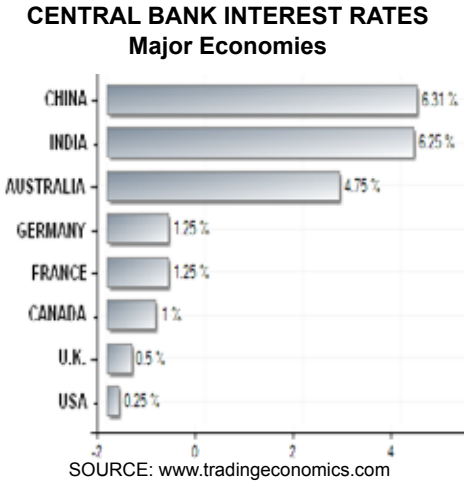
Plus, interest rates are now rising in most countries. In several cases, they're much higher than U.S. rates (see **Chart 5**). That being the case, you'd think bonds would be declining, but they're not.

Since long-term interest rates are not controlled by the Fed, and they tend to look ahead, bonds seem to be focusing on something else. Remember, bond investors are generally more savvy than other investors and they're sensitive to what's coming. What do they see that others don't?

SLOWING ECONOMY TO COME?

Perhaps the U.S. economy is going to slow more than expected. Maybe inflation won't be as strong

CHART 5



as we're expecting and a double dip recession is coming after all.

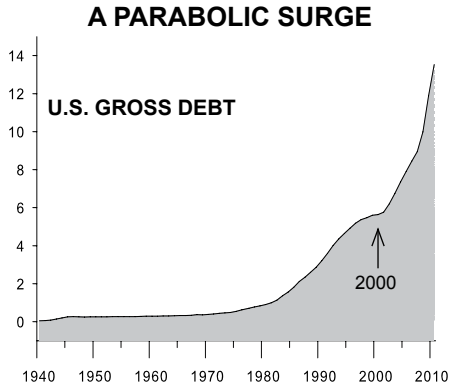
It's very possible it was simply postponed, thanks to the Fed's QE1 and 2 programs. And once this ends on June 30, the economy will resume the course it was on following the 2008 financial crisis.

As you know, copper is the global economic barometer. When the economy is doing well, copper rises because it's in big demand for infrastructure, building and so (see lower **Chart 6**).

Note that the copper price has been stalling. You'll also see that **the 30 year yield and copper tend to move together**. In other words, if copper is headed lower, interest rates will decline further too, which would reinforce an upcoming slowdown in the economy, and we'll be watching this closely.

Another different but very likely possibility why bond prices are rising is because the Fed has been buying so many bonds, it's temporarily propping up the market. At this point, you may be thinking… but the bond market is so huge, how can this be? Well, it's not as crazy as it sounds when you consider the following…

CHART 7



DEBT SKYROCKETING

We know the debt is out of sight. It's at unprecedented levels and it's growing by leaps and bounds (see **Chart 7**). To finance this, the government sells U.S. bonds and the Fed has been buying 70% of these bonds with money it creates out of thin air.

As we showed you last month, this is ballooning the monetary base. At last count, it was growing at an annualized rate of about 100%, which is very inflationary. Let's look at the facts…

As Eric Fry pointed out, so far this year the Fed provided all of the new net cash the Treasury has needed, buying $330 billion in Treasury notes and bonds. This is extraordinary.

The end result… **the Fed has become the biggest buyer of U.S. bonds in the world, even passing up China and Japan, which have been in #1 and 2 positions for a long time.**

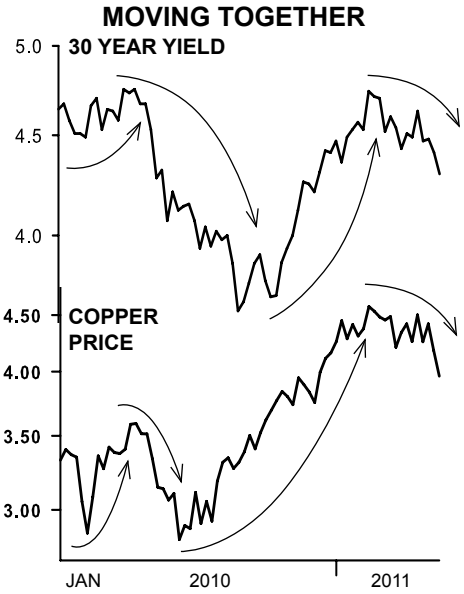
But as we've previously discussed, China is now diversifying its massive wealth and Japan has problems at home it'll be focusing on.

This raises the big question… Who will fill the debt financing void if the Fed really ends QE2 on June 30 and stops buying bonds?

It won't be Bill Gross, head of the world's largest bond fund, who not only sold all of their bonds but are now actually shorting the market. Plus it's going to be tougher to sell bonds to foreign countries due to the S&P's warning.

As you probably know, the S&P changed its outlook for the U.S. to negative this month. It also stated that its triple A rating is at risk of being downgraded because the debt

CHART 6



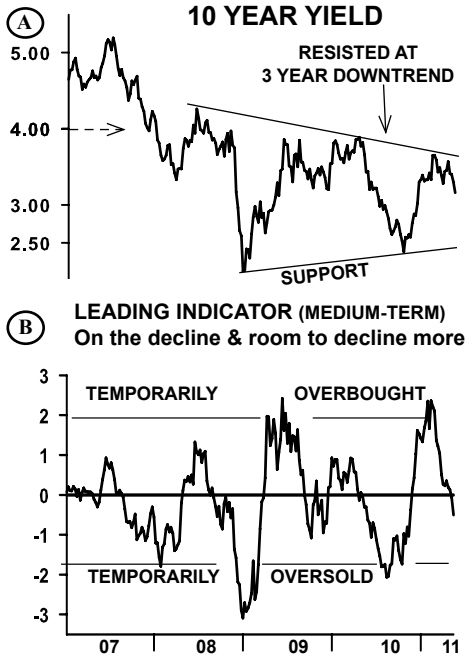
trend remains unclear.

This was a powerful warning, especially coming from a U.S. based agency, whose credibility was hurt in 2008 by keeping its AAA rating on several companies that failed. They're obviously now being more cautious.

FED EASING: Not easy

All things considered, this leads us to believe that the Fed won't be able to stop QE. Or it may do so temporarily, but if it stops com-

CHART 8



pletely then interest rates will have to rise in order to make U.S. bonds more attractive. It's basically that simple.

If the Fed holds off for a while, at some point they'll have to start buying bonds again if it really wants to keep interest rates low to keep the economy on track.

We'll soon see, but we're open to all possibilities. Currently, the yields are not yet oversold (see **Chart 8B** as an example). This tells us that interest rates could fall further in the near-term.

But whatever happens, the months ahead are sure to be revealing. Due to the overwhelming fundamentals and the fact that the major trends remain up, we're fairly sure this interest rate weakness will prove to be a temporary pause, which would not be unusual.

As we've often pointed out, the stage is set but things often take longer than you think. If this changes, you'll be the first to know.

Currently, we're closely watching the 4.30% level on the 30 year yield. The major trend will remain up above 4.30% and we'll keep our small interest rate related investments as long as that's the case. If the 30 year yield declines and stays below that level, the trend will be turning down and we'll sell.

For now, the yield is not yet confirming that a big inflationary change is coming in the near future because it again resisted at 4.50%, its mega trend. But stay tuned as the months ahead will tell us a lot.

CURRENCIES

U.S. dollar: At 3 year low

The U. S. dollar index fell even further this month, hitting a three year low. It's rapidly approaching its all time record low, reached in 2008, and if the dollar index breaks below this level, it'll be extremely weak.

But even if it doesn't, the action is already very bearish as the outlook for the dollar grows dimmer with each passing month.

In other words, the news keeps getting worse and this month was not an exception. Here's what happened…

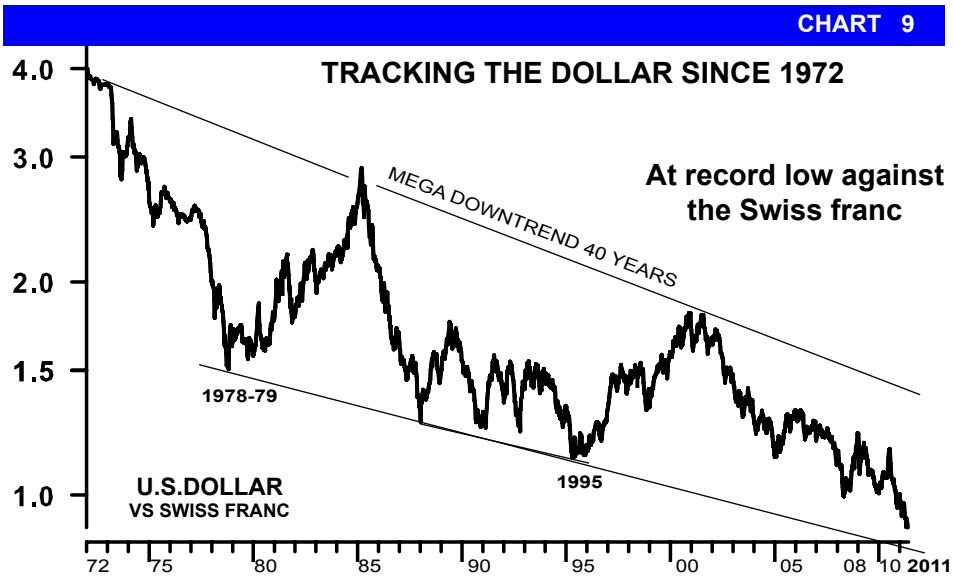
DOLLAR WORTH LESS

We all know the U.S. has been spending money on a massive, unprecedented scale. This is something we've often discussed, as well as the fact that the Fed has been financing the spending by buying U.S. bonds, which fuels inflation.

This procedure has gone largely unnoticed by large segments within the U.S., but not by the rest of the world.

Increasingly, global investors and central banks are shunning the dollar, primarily because of the U.S.'s fiscal policies.

On top of the bad PR from the S&P, news out of China added some fuel to the fire…



For a while now, China has been taking action to diversify its huge reserves, which are now $3 trillion with about half of that in U.S. dollars. So they've been buying gold, resources, and investing in other countries and currencies.

This month, however, a Chinese monetary official stated that China doesn't need so many reserves. It wants to lower its reserves to $1 trillion, which essentially means they'll have $2 trillion available to diversify even more. If this proves to be the case, it'll keep downward pressure on the U.S. dollar.

DIM OUTLOOK

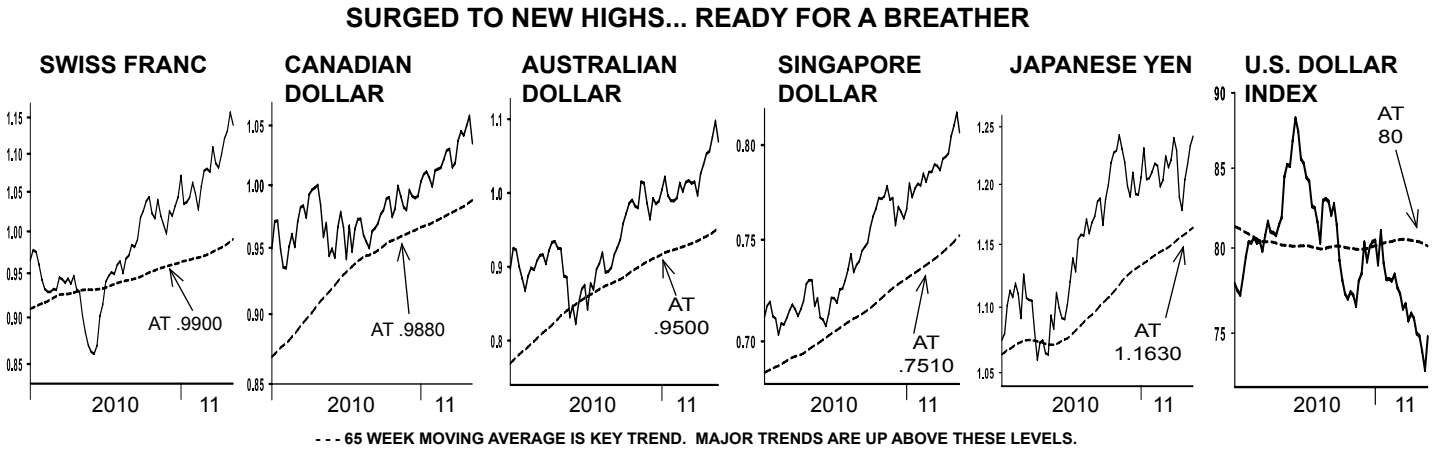
As the dollar continues on its long road down, it's basically pointing the way (see **Chart 9**)…

The bottom line is, based on just these factors, the dollar's 40 year mega downtrend is not going to change. The fundamentals driving the dollar lower continue to deteriorate.

The rest of the world sees this and that's why dozens of other countries are diversifying out of dollars too.

The BRIC countries alone, for

CHART 10

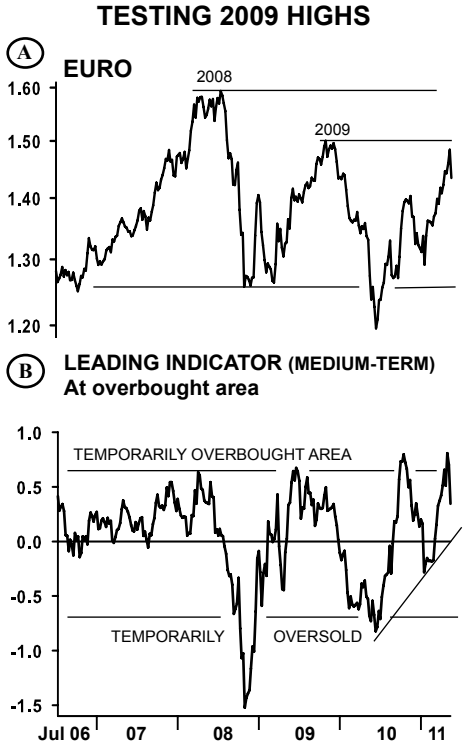


example, have accounted for nearly half of global economic growth since the financial crisis hit and they hold 40% of the world's global reserves, mainly in U.S. dollars.

Here too, they're talking about alternatives, more than ever before. Low U.S. interest rates and slow U.S. growth are additional reasons for this.

But like always, no market goes straight up or straight down and this, of course, also applies to the U.S. dollar.

CHART 11



Even though the dollar could fall further, it's now getting oversold. This means the dollar has declined too far, too fast for the time being.

Bounce up likely, for now

That is, an upward rebound rise in the dollar would not be unusual in months ahead and it'll likely coincide with a downward correction in the metals markets.

For now, we're still watching the 71.50 level on the U.S. dollar index. It's the last support and it may hold near that level. But since the dollar is already at new record lows against the Swiss franc and several other currencies, anything is possible.

Eventually, however, this low will be broken. The only question is, will this happen sooner or later?

Once this happens the dollar's fall will likely intensify. Keep a watch but continue diversifying your cash holdings.

CURRENCIES: Up & up

As you can see on **Chart 10**, the currencies have been soaring. Several are near new record all time highs and the reasons why essentially remain the same.

The surging rise in the commodity markets, and the oil and gold prices have been the main factors driving the commodity currencies higher, like the Australian and Canadian dollars.

Geopolitical problems and its traditional safe haven status has kept the Swiss franc strong and it's been the top performer over the past year. Plus, better global growth prospects have been underlying the rise in most of the currencies.

Also important are rising interest rates. Inflation pressures are brewing worldwide. In Australia and Canada, for instance, prices are rising the most in five and 2½ years, respectively.

It's the same story in other countries, so they're raising their interest rates. At the same time, the Fed has fallen behind. It's keeping interest rates low, which makes the U.S. dollar even more unattractive.

EURO: Time for rest

Despite its ongoing debt woes, the euro has been very strong too (see **Chart 11A**). In some part, this is thanks to China since they've been buying up the debt (bonds) of the Eurozone's weaker countries, like Portugal, Greece and Spain. This has provided a boost to financial stability in the area.

Nevertheless, you can see that the euro is now overbought for the near-term (see **Chart 11B**). Some of the other currencies are similar, but others are not.

Still, this is a sign that the currencies have risen too far and we'll likely see more downward pressure in the weeks and/or months ahead. If so, it'll provide a good buying opportunity for new investors, or those who want to add to their positions.

METALS, NATURAL RESOURCES & ENERGY

Frothy at record highs

It finally happened. After rising in a seemingly endless rise, day after day, silver seemed to be looking for a reason to fall.

Raising the Comex margin requirements was the straw that broke the parabolic rise as cold water was thrown on speculation at the end of April. Silver's fall snowballed, and its characteristic style of "up like a rocket, down like a stick" again came to life.

HISTORIC RISE

Silver's rise was truly historic. Its 81% rise in the last three months, from the late January lows, was the biggest surge in silver's current bull market.

April's rise alone reflected silver's volatility at its finest, with a 28% rise, followed by a 27% decline in one week. This was the most volatility since January 1983, which included the largest monthly gain, as well as the biggest three day drop.

Silver's closing high on April 29 was a case of too much, too fast. Silver was seen as more affordable than gold, within a growing global economy, which gave it the extra super boost. As you know, silver is normally stronger than gold when gold and the economy rise together. And that was the case this time around as well.

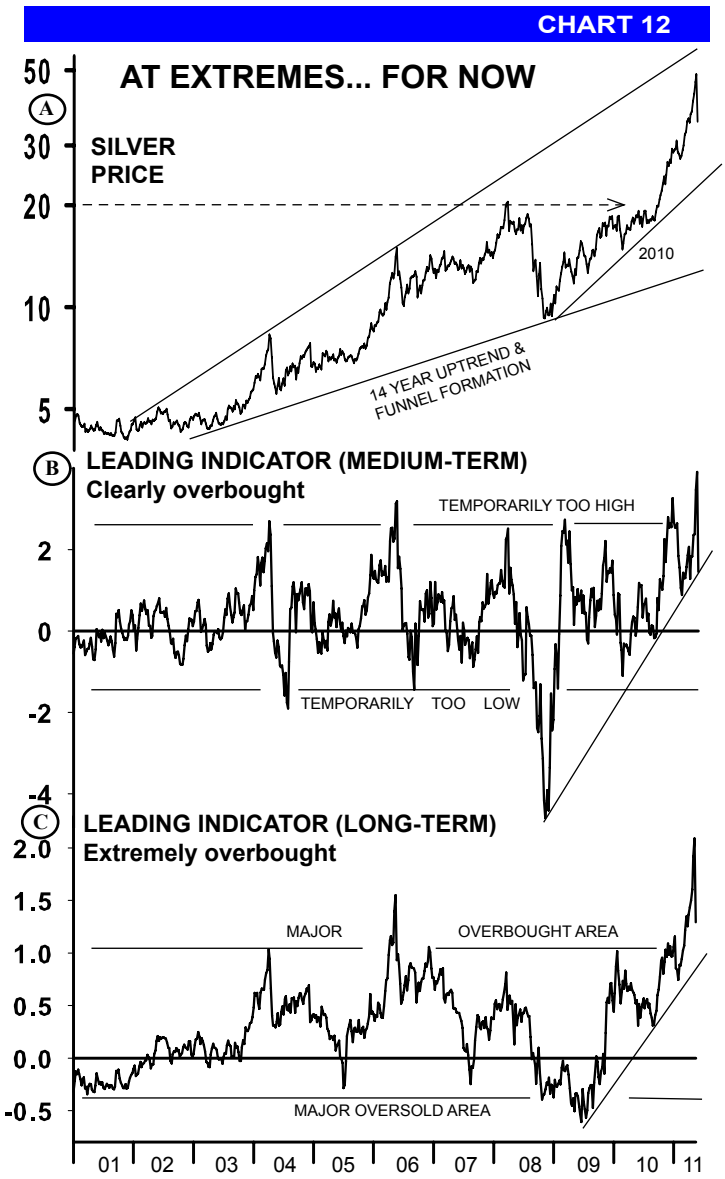
Looking back, silver had been resisting at the $19-$20 level for several years (see **Chart 12A**). But once $20 was clearly surpassed last September, silver simply soared and it never looked back (except for a several week dip in January) until it reached its 1980 record highs. This resulted in a 230% rise since February, 2010, which was extraordinary.

GOLD HIT RECORD HIGH

Gold hasn't been too shabby either. Even though silver has been the shining star, gold has been glittering too, reaching a record closing high on May 2nd at $1557.10.

Gold reached our target level, which was our first target area within the stronger phase of the bull market and this was a milestone. But as we also mentioned there was room for volatility, and some downtime was justified at these levels.

You'll remember that gold completed its 10 year anniversary rise last February... it completed 10 years of consecutive gains. And considering that gold rose from April 2009 to February, 2011 without more than a 14% decline, a healthy downward correction would not have been unusual (see **Chart 13A**).



Instead though, gold jumped up to its May record close in an impressive 18% rise since February.

This milestone is now being met with resistance because silver is extremely overbought. This means the metals will likely continue to be volatile. But we'll see because gold has not yet confirmed the action in silver. In fact, they're both still holding above strong support levels.

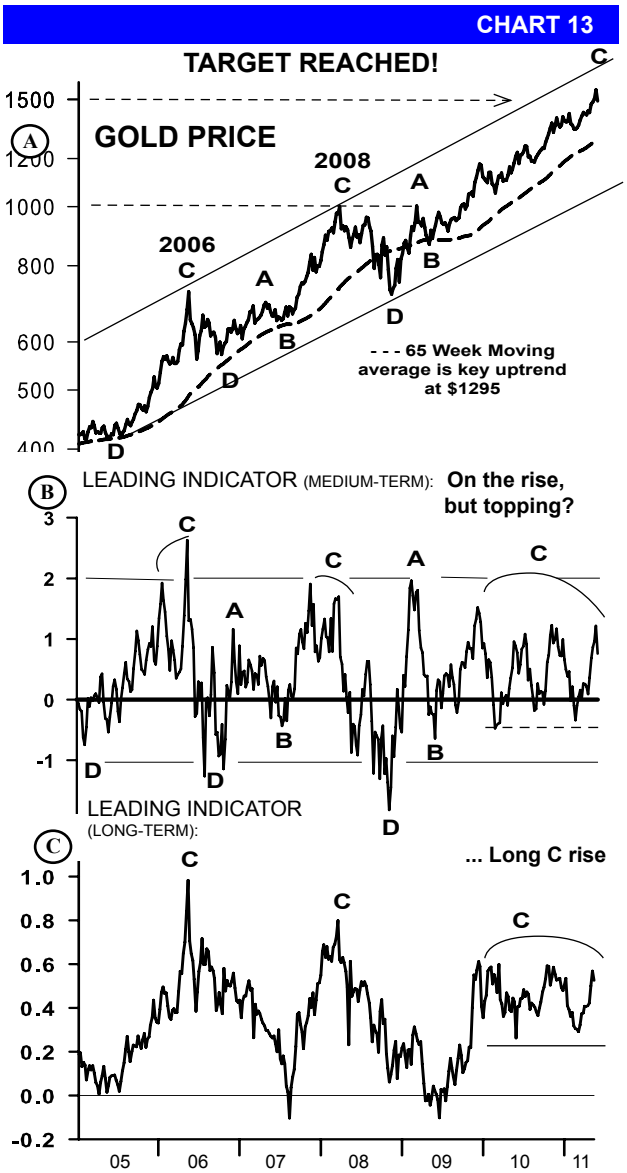
Gold's rise is orderly

Gold's rise has been orderly. It's been less volatile. More important, it's been consistent.

Gold more than doubled since its 2008 crisis low and it's had the best and longest intermediate rise we call "C" in the current 10 year bull market. It's risen almost 80% in the last two years... a solid C rise indeed.

Milestones

Our last two target levels were milestones,



as you can see on the chart.

The $1000 level was our first one when gold first closed at record high territory in 2008. But it wasn't until September 2009 when gold clearly broke above $1000, which started a stronger phase of the bull market.

The $1500 level then became our next target level for the stronger phase of the bull market and this has now been met!

Overall, our indicators suggest that gold's "D" decline has not yet started but it could begin at any time. If gold declines and stays below $1500, it will then likely begin; below $1430 the D decline would be confirmed.

D declines tend to be the steepest downward corrections in the bull market, which follow the best C rises. The 2008 decline was the worst D decline and the last one. The 2006 decline was the second worst.

In all D declines, except for 2008, gold tends to fall to its 65-week moving average, the major support. This means that if the $1430 level is clearly broken, then gold could test the $1300 level.

If this should happen, don't think too much about it and just buy. In a worst case decline, gold might overshoot the moving average, which would be unlikely, but if so, it could take it to the $1200 level.

Remember, we are entering a seasonally slow time for gold when lows tend to occur during the Summer months. This means we could see weakness going into the June-August time period.

We recommend buying on weakness during June through August, and have your positions ready by September.

BIG PICTURE: Most important

It's always good to stay focused on the big picture. **Chart 14** shows gold's mega uptrending channel since 1967.

This picture reinforces the reason why you should always keep a core position, regardless of the intermediate trend. We believe taking profits along the way is fine if you want to, but always keep a core position as long as the bull market lasts.

Note the middle broken line on the gold chart. It met up with gold when gold broke-out into the stronger phase of the bull market. This suggests that once upcoming weakness is over and a new record high is reached, our next upside target area will be the $2000 area.

Guidelines to watch for

Chart 15 provides a good example of what we mean by intermediate versus major trends. The 15-week moving average has been great in identifying the medium-term trends, while the 65-week moving average shows the major support areas, which keep us invested in the major trends.

Looking at this run down, you can see that palladium, then platinum and gold shares led gold and silver into the recent decline. Palladium, for instance, has been below its 15-week moving average since February.

This is saying that once silver stays below $36.50, it could decline to possibly as low as its 65-week moving average at $25 before its weakness is over. More likely,

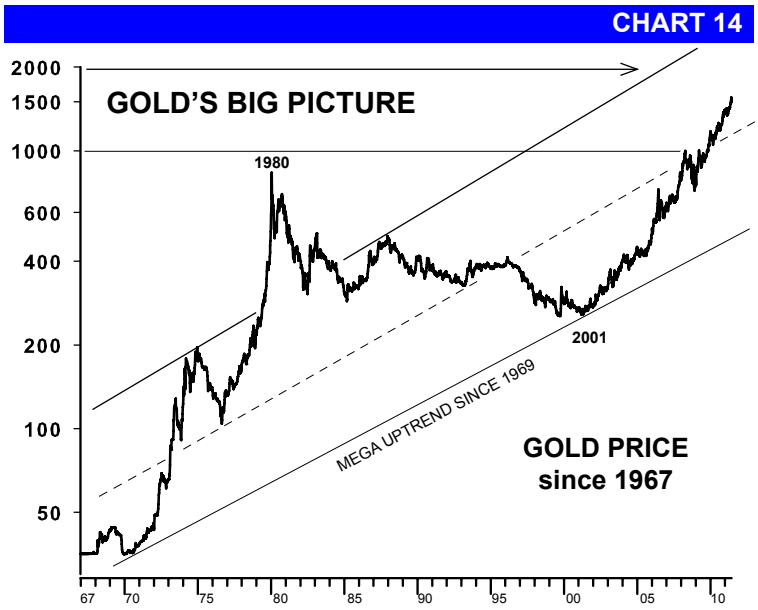
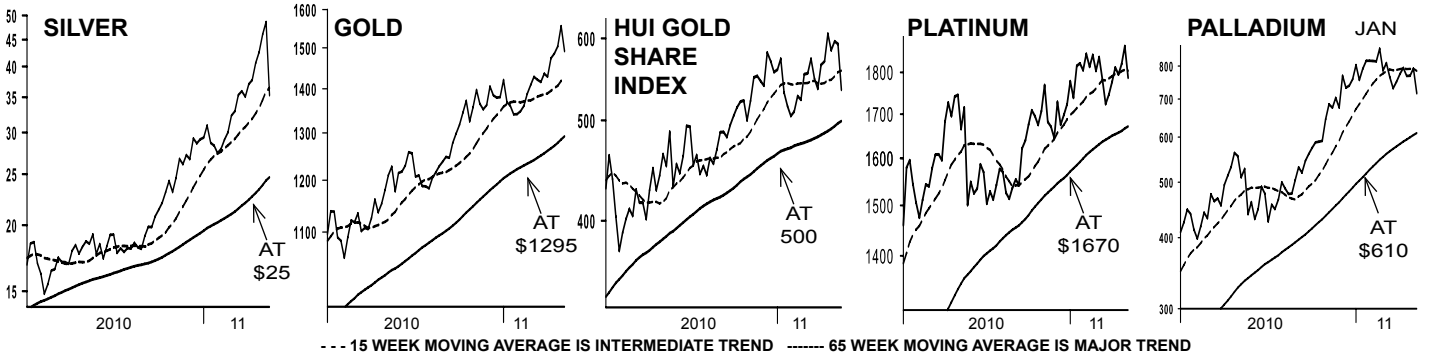


CHART 15

TAKING A BREATHER... FINALLY



however, we could see silver hold at the $28-$32 area, which has been the average type of decline for silver. **The point is**, sell some if you wish, as we said in our May 4 update, but definitely buy during weakness.

For now, gold is sending a mixed signal. As you can see, it's still very strong above $1430, its 15-week moving average.

GOLD & SILVER SHARES

In hindsight, the shares were most telling as they stopped rising in April, several weeks before the metals peaked. This was a sign that they may be leading and indeed they did. It was frustrating for many to see gold and silver continue to tear upward while gold and silver shares gave way.

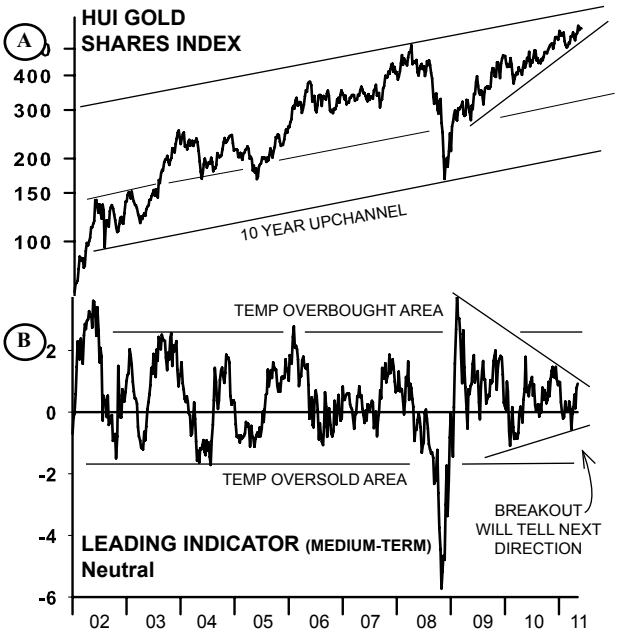
Interesting, however, gold shares are also giving mixed signals. They still have room to rise further. Some are now oversold or neutral, as you can see on **Chart 16**.

Note the HUI index (**A**) is still in a solid rise above its two year uptrend, within the major upchannel, but its leading indicator (**B**) is neutral to bullish.

This is the key for now... whichever way it breaks out of the triangle will determine the next direction. Meanwhile, our shares are either oversold like SLW and NGD, or they're holding at support areas like GRS and GTU are, and we recommend holding on to them.

CHART 16

UNLIKE SILVER, NOT OVERBOUGHT



ENERGY, RESOURCE, FOOD...

Commodity assets under management rose to a record in March at $142 billion. This is not a surprise since commodities have beat stocks, bonds and the dollar for five straight months, in the largest winning stretch in 14 years, while oil is capping an unprecedented eight months of gains. Many commodities are at highs or record highs.

Record gold prices mean something is wrong, be it uncertainty, a weak dollar, low interest rates, inflation concerns or geopolitical tensions.

Yet, record highs in raw materials, energy and food are another story. While they both tend to move together and demand is the basic common ground, the source of the demand is different.

A demand based rise is the most powerful, and with the world economy continuing to grow, we don't see demand coming down. Granted, some demand is speculative and that excess will be erased from time to time, but the underlying strength is there and it's getting stronger.

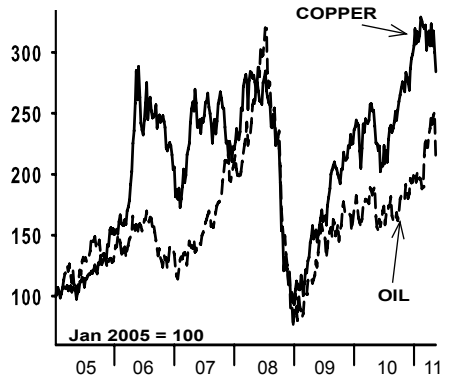
Oil and copper move together. This is really no surprise because they represent energy and raw materials, which have been in great demand over the past decade.

In 2005, all commodities really began to heat up and this was a key time period. **Chart 17** shows how copper led the super rise in 2006, while oil caught up in 2008. And it's happening again.

Oil jumped up to a three year

CHART 17

COPPER LEADS OIL

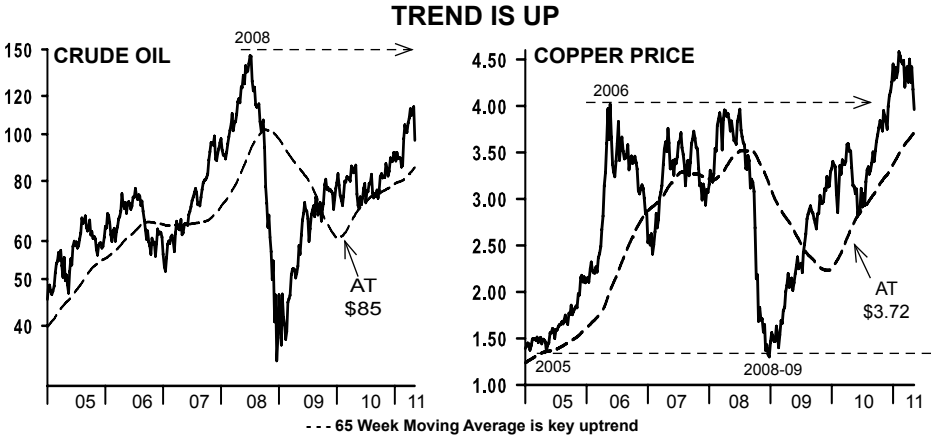


high this past month, catching up to copper's rise. Copper itself has been drifting down since February.

In other words, we could possibly see oil test its 2008 high, while copper continues to consolidate. For now, both oil and copper will remain in solid rises above their 65-week moving averages (see **Chart 18**). These moving averages are currently at $85 and $3.72, respectively, and the major trends will remain up above these levels.

Chart 19 shows a selective commodity related run down, along with the intermediate trend. Here you can see that food prices are high. In fact, world food prices rose to near a record in April, adding pressure to inflation, which is accelerating around the world. This in turn is causing many central banks to raise their interest rates, with India being the latest country to do so.

CHART 18



CENTRAL BANKS: Buying gold

Central banks have been busy on a balancing act. As they measure inflation and interest rates, they're on their biggest gold buying spree in 40 years.

You'll remember, they became net gold buyers last year, for the first time in decades. India continues buying gold by leaps and bounds. Emerging countries are moving cash reserves into gold, while China has been on a massive gold accumulation program for several years now, as they strive to diversify their cash reserves.

In recent months, Mexico, Russia and Thailand added gold to their reserves as the price jumped to a record. They bought $6 billion of gold according to the IMF. Mexico alone has quietly purchased almost 100 tonnes of gold bullion, according to *The Financial Times*.

Most important, gold is now being purchased by the mainstream powerful sectors and individuals. The University of Texas in Austin, for instance, bought almost one billion dollars worth of physical gold in April and they took delivery of the bullion.

Richard Russell recently made an interesting point noting that, "the great gold rush of 1849 opened the American West. This gold rush of the early 2000's will open up the eyes of Americans to the danger of the Federal Reserve and fiat money."

CONFISCATION POSSIBLE?

The next question on the minds of many is, could the U.S. government confiscate gold held by individuals like they did in the 1930s?

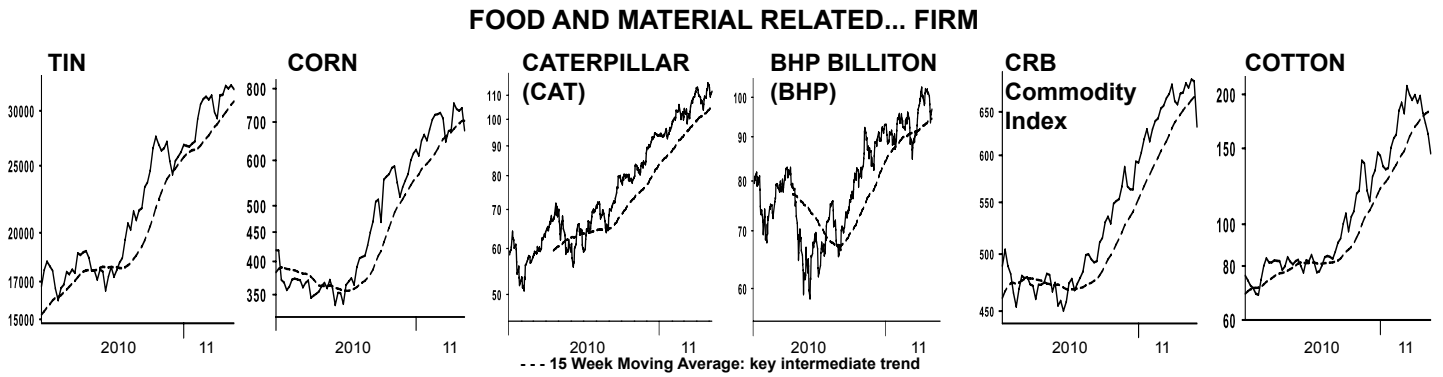
As you know, anything is possible, but it's doubtful. Certainly the ETFs would look tempting to take over. GLD, for example, now holds more gold than many governments. It's the sixth in line.

But as our good friend Chuck Butler notes... In the 1930's, gold was part of the money tied to the dollar. If the U.S. wanted to increase their debt spending, they had to have the gold to back it up, so they confiscated everyone's gold. Today it's different because gold is not part of the monetary system, so why would they need to take everyone's gold again?

Plus, the gold world is far more global today. It's diverse and too many people own gold. So it's not as simple as it was then.

Overall, we think the gold market has great upside potential and strength continues to grow. We recommend a buy and hold strategy for several more years. But buying during weakness during the normally weak Summer months, would be ideal for new positions.

CHART 19



OVERALL PORTFOLIO RECOMMENDATION

It's been a volatile month... one of the most volatile in decades. Despite all the excitement, however, nothing has really changed. The major trends are clearly intact, but further downward pressure in several of the markets is likely in the months ahead. At times like these, it's always good to review your strategy and maintain a diversified portfolio. The breakdown to the right is one we recommend, which provides a good mix. Also, please review our latest below...

PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Silver continued to soar to its record highs in an 81% ascent in three months. April proved to be the most volatile since 1983! Gold also surged to record highs, reaching its target area in the grand bull market. Oil also shot up, capping eight months of unprecedented gains, while gold and silver shares took a back seat.

The frothy rise has turned volatile in overbought areas and volatility will most likely continue, especially in silver. Gold has been more moderate and so has its intermediate decline. The metals markets are mixed but a downward correction is likely getting started. We recommend holding on and riding through weakness. But if you want to take some intermediate profits go ahead. If you do, keep a core position because the major trend is solidly up.

The Summer months tend to be seasonally slow months for gold, which means we'll likely see a 'D' decline finally develop in the upcoming months. Use weakness to buy new positions and average in. For now, silver and gold will remain strong above $36.50 and $1430, respectively.

Gold and silver shares are looking good as some are now oversold. We don't recommend buying new positions yet but buy gradually over the coming months.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

Stocks continued on their upward path this month. All of the U.S. stock indices hit new bull market highs, reinforcing renewed market strength. Stocks are likely headed higher and we recommend keeping the stocks you have. Buy new positions in the strongest ones like Dow Diamond (DIA) and SPDR Consumer Dis (XLY). We also like the S&P Global 100 (IOO) and recommend buying it. Also, continue to hold your resource and energy stocks because the major trends are up. But if you want to sell some, it's okay to lighten up some now, or in the months ahead.

CURRENCIES RECOMMENDATION

The U.S. dollar index fell even further this month, hitting a three year low. It's rapidly approaching its last support at 71.50, the 2008 low. If it breaks below this level, it'll be extremely weak. For now, the dollar is getting oversold and an upward rebound rise would not be unusual, which would likely coincide with a downward correction in the metals. Nevertheless, the currencies remain super strong and we still recommend holding the Canadian dollar and Swiss franc. Other currencies are okay to keep too, but since these markets are overbought, don't buy new positions for the time being. Instead, add to your positions on weakness.

INTEREST RATE & BOND RECOMMENDATION

Interest rates fell further this month as bond prices rose and we're watching this important market closely. The Fed is keeping interest rates low. Nevertheless, the fundamentals for bonds remain very bearish, but the market seems to be focusing on something else. Currently, interest rates could still decline further but the major trend will remain up with the 30 year yield above 4.30%. As long as that's the case, keep your small interest rate related investments, but don't buy new positions. Below that level, however, we'd advise selling.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

SPDR Gold Shares	GLD-NYSE
iShares Comex Gold	IAU-AMEX
Gammon Gold	GRS-NYSE
New Gold	NGD-AMEX
Central Gold Trust	GTU-NYSE
Central Fd of Can	CEF-AMEX
Silver Wheaton	SLW-NYSE
iShares Silver Trust	SLV-AMEX

RESOURCE & ENERGY SHARES

Caterpillar Inc.	CAT-NYSE
BHP Billiton	BHP-NYSE
Apache	APA-NYSE
iShares Tr Glbl En	IXC-NYSEArca
Ultra Oil & Gas	DIG-AMEX
Peabody Energy	BTU-NYSE
Suncor Energy	SU-NYSE
US Oil Fund	USO-Nasdaq

U.S. & GLOBAL STOCKS

SPDR S&P Bio	XBI-NYSEArca
SPDR Consumer Dis	XLY-NYSEArca
Dow Diamonds	DIA-NYSEArca
iShares S&P Glbl 100 *	IOO-NYSE
S&P Glbl Telecom	IXP-AMEX
Prshrs Dynamic Soft	PSJ-NYSEArca
iShares Malaysia	EWM-NYSEArca
Templeton Emg Mkts	EMF-NYSE
iShares Mexico	EWW-NYSEArca

CURRENCY ETFs & FUNDS

Swiss Franc	FXF-NYSE
Canadian DL Tr	FXC-NYSE

INTEREST RATES

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

*** New Position**

Note: All of the shares, funds and ETFs are listed in the box above in order of strength per each section. Keep the ones you have on the list and buy new positions in the strongest ones.

Big Picture

By Uncle Harry Schultz May 7, 2011 Dear Reader,
Zap! Thus ends "the week that was." *Nervous breakdowns R Us*. ☺ Crashes in silver, oil, commods, amidst shorterm **reversals** in US$ & euro caught most investors off guard. Many overstayed recent parabolic rises; they chose to ignore overbought indicators. No one wanted to leave the party. Lessons learned? My recommendation in *HSL* over the years has been to live on hamburgers—meaning the *Schultz-burger*, ie, a portfolio with several layers. The central meat: gold, plus **big** (30%) cheesy layers of various currencies via 2-yr (max) govt (non-US$) **bonds** (eg, A-$ & C-$). Then, a small (10%) onion layer of strong growth stocks (eg, oil services, comods). No silver was listed, due to volatility. How would the burger have done this week? Bond layer up. Gold: down, but not much. Stocks: barely off new highs. Bond gains offset losses. Net: no indigestion ☺.
What now, my love? Markets need time to rebase. Shorterm, US$ index will likely rally (to 77-79-80) before resuming downtrend. I'm long. Let charts guide U. Aden's charts work.

Over 75,000 people applied for 2,000 jobs at McDonald's in Chicago. That tells U where the US economy is. •••••• *"During the first few months of **1923,** German prices climbed astronomically, with no end in sight**…** The nation was effectively shut down by a **currency collapse**. Mailing a letter in late 1923 cost 21,500,000,000 marks."* --John Williams. This is the point Jim Sinclair & I have been trying to make for years. This is the cliff on which the US now sits. Watch key currencies, like a Sherlock Holmes, for clues.

•••••• John Williams' Shadow Stats chart shows US inflation at nearly 10%, while the Bureau of Labor Statistics is reporting 2.1%. But even Williams' statistics don't report real inflation; they just report what it would be if govt reported inflation the way it used to, before it started "improving" its reporting in 1980s. It's still an incomplete view, as the govt's original reporting was flawed to begin with. Casey Research says *"retracement of housing prices, as a component of official CPI, pulls the official inflation figures down, even though those figures don't sync with the actual cost of living. Of course, a low CPI gives govt cover for continuing to monetize its debt."*

Democratic (?) Revolution in Arab World: Although Western govts are keen to see greater democracy in the Mideast, the eventual consequence of the collapse of its authoritarian regimes could be something worse – the coming to power of worse ones based on popular support for fundamentalist Islamic dictatorships unable to address the serious problems of unemployment & high food prices. In a microcosm of the future, we've already seen how democracy in Gaza brought to power the radical Hamas. Now we see the results of the democratic revolution in Tunisia. Mideast author John Bradley: "For decades Tunisia was most secular & progressive country the Islamic world has known. Regime was least brutal, its people the wealthiest & best educated," & "poverty level was only 4%, among world's lowest. 80% of the population was middle class & education system got more funding than the army – ranked 17th globally in terms of quality. The veil was banned in public institutions, polygamy was outlawed, mosques were shuttered outside prayer times, & men needed police permission to grow a beard.

"It was the only Muslim country where abortion was legal, where frank sex education was compulsory in schools, & children had it drummed into their heads that religion & politics were distinct & separate. Now? With the collapse of the old order following violence led by radical Islamists, their leaders who were either exiled or imprisoned for their opposition to this strict secular order have been freed & are starting to come back –with a vengeance." Bradley asks: If such fundamentalists "can hijack such a modern, sophisticated & secular Arab country in a matter of days, what could await the wider region, where secularism is already an anathema & Wahhabi-inspired Islam has in many places a firm foothold?"

There is now "every chance they will also fill the power vacuum being created from Cairo to Tripoli." Only one month before the fall of president Hosni Mubarak in Egypt, a public opinion poll conducted by a reputable organization "revealed that a majority of Egyptians support **stoning** as a punishment for adultery, hand amputation for theft, & death for those who convert from Islam to another religion."

Richard Russell says *"it's no wonder Wall Street & the Fed hate gold. **Gold exists outside the system**. The Fed can't manipulate or create gold the way they do Federal Reserve Notes. When gold rises, it hoists a red flag over Wall Street, the Fed, & the economy. Surging gold tells the world something is terribly wrong. The lies, corruption, & secrets of the Fed & politicians can't erase the dire message of gold. Gold is the protector & refuge of the common man. No wonder the recent record highs in gold remain largely unreported in mass media."*

•• *"The ruling class has the schools & press under its thumb. This enables it to sway the emotions of the masses."* -Albert Einstein

••• *"Life without God is like an unsharpened pencil - it has no point."* -Billy Graham

Rising stock mkts reflect expectations of ever-rising (probably sharply) inflation. It's an historic way to escape excessive fiat money printing. It's been done in many nations, eg, Argentina & famously in Weimar-Germany when Krupp iron works stock rocketed as a place to hide out from the collapsing Reich mark. Weimar-USA next?

My friend Marc Faber gave a fascinating interview on *CNBC* on 4/8/11. Here are key points: Demographics, unchecked immigration {heavily illegal} & especially various **entitlement** programs means the low income, non-taxpaying, low education, % of the population vastly outnumbers the hard working middle class & entrepreneurs. We know Group A will never vote for lowering their entitlements or raising retirement age levels for the good of the economy/country. So, the minority Group B has to counter this huge disadvantage at the polls—where B can only lose. How? By allowing govt to increase money supply *"Is this a conspiracy?"* snapped the NY lefty *CNBC* anchor lady. No, replied Marc, "Group B are not organized {as left wing unions are & who help create, expand & preserve entitlements—through violence & bribery if nec} but, Group B are in a position to at least partly protect themselves by buying the things that may go up as a result of QE's & other money pumping, ie, property, asset heavy or comod stocks, art, gold, silver, comods, & can switch currencies to protect capital. The only way the wealthy & middle class have to protect their assets against the transfer payments from the wealthy to the poor is to undermine the purchasing power of the dollar {a global truth}." --So, though all us conservative types hate govts bashing the economy, & the US$, & amassing debt thru blatant money creation, we can feel a bit sympathetic about it, seen in the light of Marc's interpretation. We can **fight fiat** & fight our way out by selective buying of those assets hopefully benefiting from govt money flood

Premier Wen Jiabao says, in regard to China, but in fact applies to the world, says economist Martin Wolf (of *FT*): the world economy is ***"unsteady, unbalanced, uncoordinated & unsustainable."*** MW writes, *"Nothing that's now happening suggests any of this will be managed competently, let alone smoothly. Those who think we're now looking at sunlit uplands are fooling themselves. Much disruption lies ahead."* Correct.

Walter J. Williams profoundly writes in *TheGoldReport* (read it on *Gold-Eagle.com*): Hyperinflation **&** Double-Dip Recession Ahead. It's fact-packed & warns against biased/invalid govt/economists reports. This roughly fits with 4/30 lead *FT* editorial that stagflation is where we are & promises *"discomfort."* I agree. I see a currency-triggered Weimar inflation amidst deepening recession cum depression. It will take skill for U&I to weather this hurricane, but being forewarned & armed with our charts should see U&I through successfully. Sharpen your chart skills & transform your portfolio %'s in the burger. But charts are your first priority.

Off the cuff: My shorterm gold target remains: $1,650. ••• Big bank losses have effectively been 'nationalized' while their profits remain private. ••• Sweden set for more growth via tax cuts. That's right path! ••• 3cheers to BritAir for attacking airport security, which make all suffer 1-size-fits-all checks. ••• Libya*: "Vietnam began with sending military advisers."* Sir M.Campbell. It's a tar pit. ••• *"Being good in business is the most fascinating kind of art."* -Andy Warhol. ••• Look hard at GlennBeck critics. He's emotional but fundamentally correct. His sacking is a blot on press freedom. Shame on Rupert Murdoch. *Fox News* castrated. ••• Beware of those to whom the corp. bottom line is all that matters. ••• CRB (comod) index shows fall to big support, so 4% rally to 350 due now. But wkly chart shows pos 14% fall to 300 after rally.

Bin Laden death is fitting time to end the "war on terror". The title was always the wrong approach, by Bush. Award-winning *FT* columnist Gideon Rachman agrees (5/3). Says: "Declare victory & end the global war on terror. The declaration of a 'Global War on Terror' distorted US foreign policy & led directly to two wars, Iraq & Afghan. The war on terror has guzzled billions of $'s in wasteful spending & spawned a huge, secretive bureaucracy in Washington. Bin Laden's death gives Pres.Obama the cover he needs to start quietly unwinding some of these mistakes. Look at the numbers, & it is clear the terrorism threat has been **seriously hyped**. In his book, John Mueller pointed out the number of Americans killed by terrorists since 1960 is "about the same as the number killed over the same period by accident-causing deer". In a report for the Rand Corp, Brian Jenkins made a similar point: "The average American has a one in 9,000 chance of dying in an automobile accident & a one in 18,000 chance of being murdered." But, in the five years after 9/11, & including the people killed there, "an average American had only a one in 500,000 chance of being killed in a terrorist attack".

My PS: The *war on terror* title gave govt excessive power, smashed citizen freedoms, ended privacy, inflamed most Muslims, created a them&us barrier. US readers should urge BO to drop that title which actually increases their danger. • See orig. *FT* article at: http://www.ft.com/cms/s/0/3eff5db6-74ed-11e0-a4b7-00144feabdc0.html - ixzz1LfYWpHsH

Potpourri A miracle is not the suspension of natural law, but the operation of a higher law. ••• An angel says, *"Never borrow from the future. If U worry about what may happen tomorrow & it doesn't happen, U have worried in vain. Even if it does happen, U have to worry twice."* ☺ ••• Let them eat iPods. ••• Remember Yogi: *"When U come to a fork in the road, take it."* ••• Thanks for your letters. U can still write to me at POBox 622, CH-1001, Lausanne, Switzerland. My portable address. ••• *Don't steal; govts hate competition.* •• Subscribe to www.deepcaster.com; get May 6 forecast issue. Everyone should subscribe to at least 5 newsletters! •• You'll never get rid of a bad temper by losing it! •• Honesty is the best policy, but insanity is a better defense. •••• *Most good judgement comes from experience. Most experience comes from bad judgement.* •• Too bad all the people who know how to run the country are busy driving taxicabs & cutting hair. •• *Consciousness: That annoying time between naps.* •• **Be** the change U want to see in the world. Drop soft love bombs. LOL, dear reader.
• Bye from your Uncle Harry D (for dodging derivatives) Schultz, KM, KCSA, KHC @ 87.8 and counting.