THE
ADEN FORECAST
MONEY • METALS • MARKETS

MAY 2012 *our 31st year*

MARKETS UNDER PRESSURE

In what seems to be a never ending drama, the world has taken yet another sharp turn. And it's a turn that warrants close attention.

BACK TO EUROPE

As this latest scene unfolds, the spotlight is on Europe. And if there were any doubts before, this week's events reinforced the Eurozone crisis is not going to end soon.

On the contrary, regardless of what the leaders say, this drama is destined to last for a long time, and it's going to keep affecting all of the markets.

This became increasingly obvious over the past year or so, as one crisis after another took center stage. This time it was Greece's inability to agree on leadership, and France.

In an upset election, Sarkozy was voted out, replaced by a socialist who didn't stand much of a chance a few months ago. Coming on the heels of similar upsets in Spain, Italy, the U.K. and Greece, it's clearly setting a trend.

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In all of these cases, the voters opted for the easiest way out of a situation that is getting worse. Whether it's the right or the left, they're tired of austerity measures, no growth and high unemployment.

They're tired of the way the Eurozone has handled the situation. They've had enough and the message is clear… No more short-term pain for long-term gain.

What happens from here and how it all works out is still to be seen.

EUROZONE FUTURE AT STAKE

For a while it looked like things were getting better. The Eurozone had settled down, at least on the surface. Merkel and Sarkozy seemed to be a good team, working hard to plug the leaks in the Eurozone.

Plus, the U.S. economy was picking up, stocks were rising and the currencies appeared to be bottoming.

But things have changed. Merkel is essentially on her own and a big part of Europe isn't paying attention. They're protesting, looking to heavily tax the rich and taking another route.

This raises major concerns about the Eurozone's future, increasing the risk of a break up.

This in turn is making the world nervous because of the effects it'll have on the global economy, the markets and financial conditions in general.

The latest warning came from IMF chief Lagarde who said that, "dark clouds have gathered over the global economic outlook".

Meanwhile, the U.S. economy is starting to show some signs of weakness and the markets are reflecting this too…

MARKETS GET WHIPPED

Many of the markets have dropped sharply, and they're under pressure. At the same time, the old safe havens are picking up. This too is causing concern and it warrants attention.

We've taken a hard look at all of the markets and they've changed this month. Whether this proves to be a temporary situation or not, in almost all cases, most of the markets have room to fall further in the weeks ahead. This isn't promising for the time being, but it doesn't mean they're going to collapse. It's a warning.

For now, stocks are still bullish but a downward correction is in process. U.S. bonds and the U.S. dollar are looking good. The currencies are weak and so are the metals.

Gold shares have been particularly hard hit and gold itself has broken below its 65 week moving average. This is something that hasn't happened since the 2008 crisis. It's important and you'll want to read this month's Metal's section to see what's next and what to do.

These are also deflationary signs

and for the moment, deflationary forces seem to be winning the tug-of-war that's been ongoing... So is the U.S. following in Japan's footsteps? It sure seems like it...

In Japan's case, it's had extremely low interest rates for over 15 years, yet real estate and stock prices have kept falling. That is, the outcome has not been good and it could end up being similar in the U.S.

TIME TO BE CAUTIOUS

You know that over the past few months, or more, we felt the Fed would be quick to step in and again save the day if need be, especially since this is an election year. We also felt the Fed's actions would eventually be inflationary. But now we have doubts.

The markets are telling us, this may not be the case, or the Fed could be slow to react. In other words, because of events in Europe and the behavior of the markets, we're now suggesting a lot more caution.

Okay, but what about the upcoming election? Won't the Fed keep the money flowing to boost the economy and the markets?

Yes, the election is important and yes, that would be the obvious thing to do. But don't forget 2008.

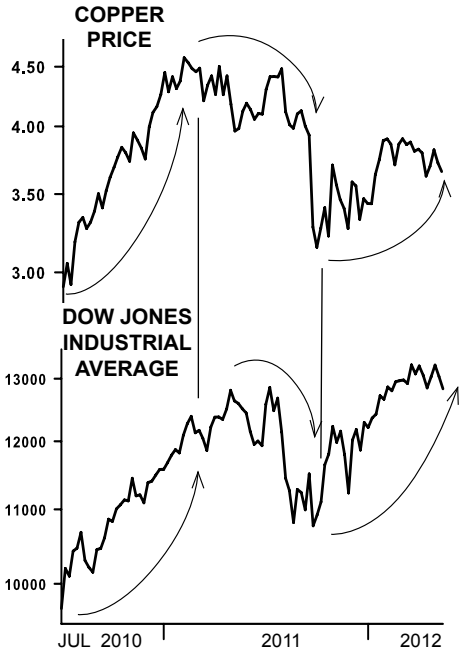
That too was an election year. Nevertheless, the Fed and all of the other countries were unable to stop the snowball once it started rolling, election or not.

FEELS LIKE 2008... AGAIN

The crisis hit and no one could stop it. It had to play itself out and governments, banks and central banks were unable to act fast enough.

CHART 1

MOVE TOGETHER



At that time, few even knew what the subprime crisis was about, yet the markets fell sharply. They knew it meant big trouble and it was.

The world economy was literally brought to the brink. At that point, global action was taken, which included spending tons of money to bring the world back from the brink.

We're not saying it's going to happen that way again, but it could.

The world is in bad shape, debt is off the charts, many banks are very vulnerable, the derivatives market is massive and a real wild card. Really, anything is possible.

We don't mean to paint a totally negative picture here. We just want you to be aware. Europe continues to be an eye opener and it points out all of the vulnerabilities currently lurking under the surface.

The world is still on thin ice and so are the markets, and that's the way it is.

COPPER AND STOCKS: Barometers

As you can see on **Chart 1**, copper and the Dow Industrials, however, are still moving up together. That's a good sign.

Since copper is the global growth barometer, it's saying so far, so good. The same is true of the Dow Industrials because it's a reflection of the U.S. economy and, despite its recent fall, it remains bullish.

But we need to watch both of these barometers carefully, along with all of the other markets. They'll tell the story, or give us a good idea of the story that's unfolding.

As usual, we'll be going over all of the markets in depth this month, especially focusing on the key areas to be watching.

WHAT TO DO

In general, we feel our positions are okay. We're making some changes, as well as providing levels to follow in case we need to take further action.

If we're headed for another 2008 type meltdown situation, for instance, we'll primarily want to be in bonds, and U.S. dollars, which are the safe havens of the moment.

We would also keep our precious metals, like we did in 2008, but not necessarily the few gold shares we have left.

We'd also likely sell our stocks, assuming the market starts heading down like it did then.

As you'll see next, however, there are actually few signs of this. But again, in the current environment, things can change quickly.

So stay tuned and read on...

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Published monthly by Aden Research. Also includes access to a weekly update $250 per year. Send all customer service or market related questions to Aden Research, Dept. SJO 874, P.O. Box 025331, Miami, Florida 33102-5331 or E-mail info@adenforecast.com Questions will be answered in future issues. The Editors may have a position in the securities recommended and may change such positions without notice. This publication's sole intended purpose is to provide investment-related information and opinions to subscribers. FREE WEEKLY UPDATE, Thursdays at 8 P.M. (Eastern time). You can access it through our website, http://www.adenforecast.com. To receive the market update by fax every week $160 per year for U.S. subscribers and $260 for subscribers outside the U.S. FASTER NEWSLETTER DELIVERY OPTIONS: Downloading from the website, no extra charge. Fax only, $65 more per year for U.S. subscribers and $170 more outside the U.S. Air Mail and Fax, $90 more per year for U.S. subscribers and $220 more outside the U.S. Make checks payable to Aden Research, S.A.

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U.S. & WORLD STOCK MARKETS

Is it,'sell in May and go away?"

The stock market turned more volatile this month. And while it's looking toppy, the major trend is still up, signaling stocks are headed higher.

The Dow Industrials, for instance, recently hit a new bull market high and then it fell steeply. The other stock indices did not confirm the high in the Dow, which was a signal meaning one of two things…

WHICH WAY NEXT?

Either the Dow Industrials is leading the way up for the others, and the other stock indices will eventually follow. Or, the lagging stock indices will pull the Dow Industrials down further.

Time will soon tell, but regardless of what happens in the near-term, it's more important to stay with the major trends and they're still up (see **Chart 2**).

As you know, Nasdaq has been the U.S. market leader in recent months. And although it remains strong, it has come under pressure, which could mean it's consolidating its first quarter rise.

This would be normal, but again we'll want to keep an eye on it. One good reason why is because if Nasdaq is leading, then the others will decline further as well. This could be what Amex and the Dow Transportations are trying to tell us as they continue to resist near the highs.

GLOBAL ECONOMY DICTATES

As you know, stocks are very sensitive. If the news is good, they rise. If it isn't, they fall.

Currently, Europe is the focus and it's had a huge influence on the stock market, especially over the past year or so. The current emerging problems are again taking their toll. But since the market is still bullish, this may not be the case for long.

Another huge powerful force is the state of the U.S. economy. When signs show the economy and earnings are improving, stocks surge. But it's also very sensitive when signs reflect a slowing or disappointing sector of the economy, like jobs. Then, stocks decline.

MARKET NERVOUS

In a nutshell, the market is nervous. It sees overall improvement, but it's not convinced. And it looks like this concern will be with us for a while.

As we discussed last month, this is where the Fed's policies have become increasingly important in the overall stock market picture.

If the market as a whole feels the Fed is on top of things, and quick to act at the first signs of a slowdown, it's viewed as a real positive. That is, stocks will rise on any signs the Fed is ready to take action to stimulate the economy.

We agree, it's a narrow short-term view. But that's what the market is watching and reacting to these days and we simply have to go with it.

STIMULUS AND ELECTION

Sure, more stimulation and money would be worse over the long haul. Eventually, the piper will have to be paid, but unfortunately that is not the concern at the moment.

Plus, with each passing month, we're becoming more convinced that it's all about the election.

And while we can't be sure, as the election approaches, pressure will likely increase to keep the economy on an upward path, which would include the stock market.

In other words, a big stock market drop at this point would hurt overall sentiment and it's unlikely to happen, unless of course there's an accident, similar to 2008.

GLOBAL MARKETS MOVE SIMILARLY

Meanwhile, the global stock markets have basically been reacting to these same primary factors.

The big difference, however, is that many of the international stock markets are technically bearish (see **Chart 3**). Of course, there are some exceptions like Thailand and Mexico.

CHART 2

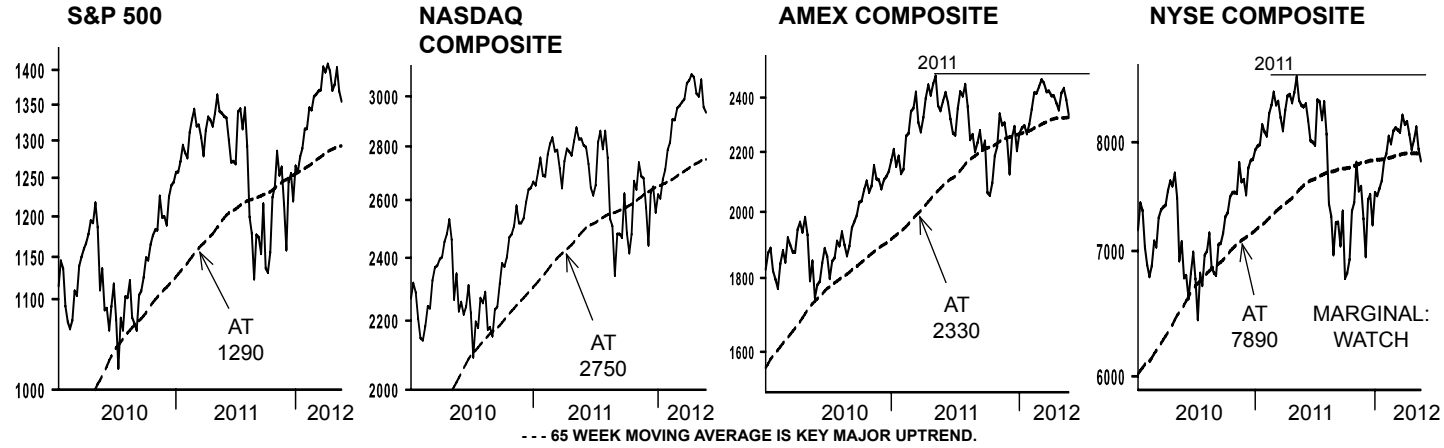
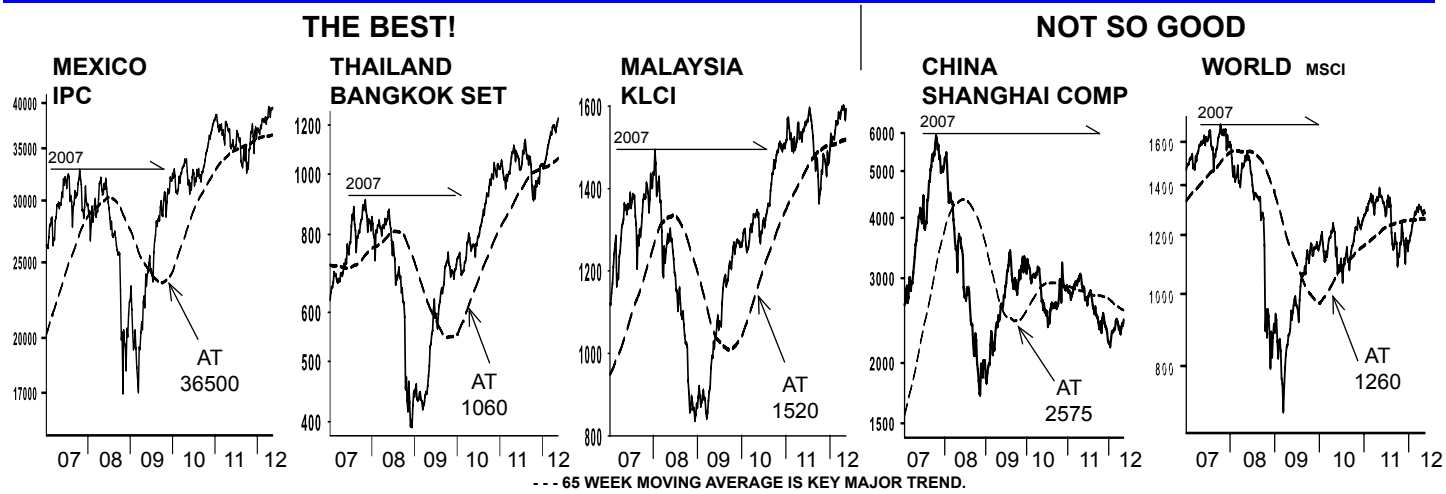


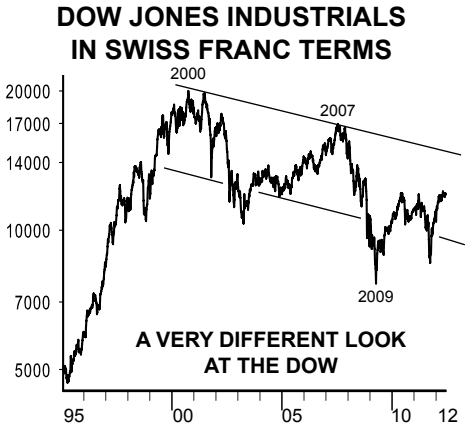
CHART 3



But as a whole, the global markets are lagging and it's best to keep investments centered in the U.S. stock market, at least for now.

We know the U.S. market may not look so great if you're a foreign investor (see the Dow Industrials, for example, in terms of Swiss francs on **Chart 4**). But it's the best that's available if you're a stock investor in a world of uncertainty, and it currently has the best upside potential.

CHART 4



INDUSTRIALS & TRANS: Key

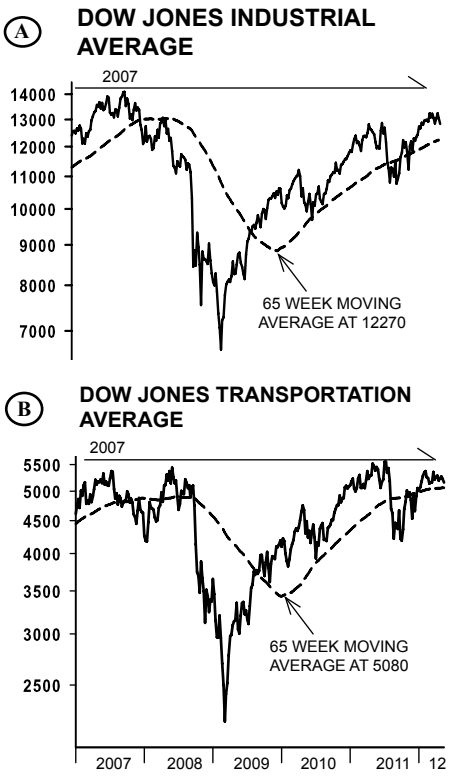
Looking at the Dow Industrials and the Dow Transportations, you can see on **Chart 5** that they're still holding firm but they're hesitant.

The Dow Industrials resisted near its bull market high at 13250. But if it can rise and stay above this level, a renewed rise would be underway, which could take the Dow up to its old high near 14000, which has been our target area.

Our recommended stocks are holding up and they're fine, for now. That being the case, **we recommend holding the stocks listed on page 12, but at this point, don't buy new positions.**

Also, keep the big picture in perspective. Remember, the Dow Industrials, the Transports and Nasdaq will all remain bullish by staying above 12270, 5080, and 2750. That's what's most important and as long as they do, the market will be pointing upward, in spite of probable weakness in the weeks ahead.

CHART 5



U.S. INTEREST RATES AND BONDS

Bonds still good investment

As you'd expect, bonds moved higher this month. They remain bullish and we continue to recommend holding on to the bonds you have.

In other words, the primary trend for interest rates is still down and it doesn't look like that'll be changing any time soon.

Remember, the Fed has vowed over and over to keep interest rates near zero through 2014. And so far, it's been successful.

How will this affect you?

- If you need income, it'll be dif-

ficult. Trying to find a high yielding investment is going to be more risky in this era of low interest rates.

That's why so many people are working longer than they originally planned and this trend will likely continue.

This has wreaked havoc on the younger generation, making jobs harder to find because older folks simply aren't retiring like they used to. The high unemployment rate doesn't help, making it even more difficult.

Also, people are living longer. Age 65 isn't what it used to be. Many in this age group don't want to stop working, even if they can afford to.

As an investor, if you are retired, then you want to play it safe. And we'll try and point out good, safe higher yielding investment opportunities as they come along.

But keep in mind, the general rule of thumb is, the higher the interest rate, the greater the risk. While that's not always true, it's a good general rule to follow.

•That's the reason long-term U.S. government bonds are still a good deal (see **Chart 6**). And they probably will be for a good while longer.

They're safe, a haven in times of stress and they're backed by the U.S. government.

Yes, they're only yielding 2%-3%. But that's a lot better than nothing (see **Chart 7**). And as long as interest rates stay low and the economy is sluggish, bonds will remain firm.

CHART 7

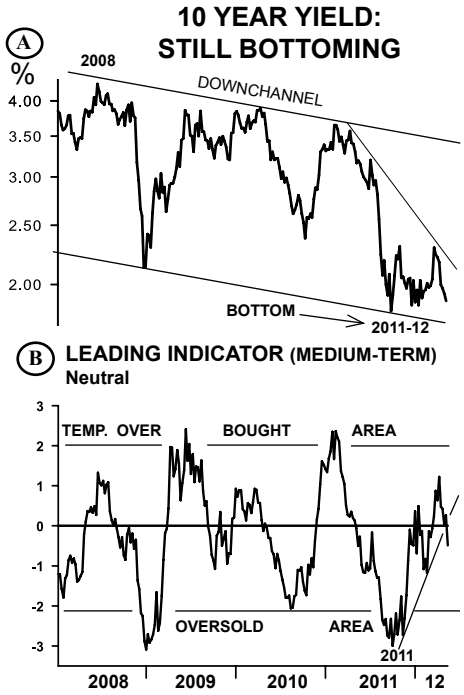
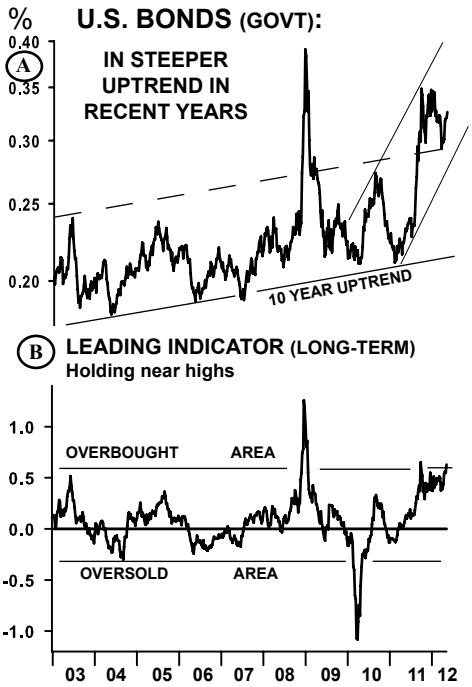


CHART 6



ON A BRIGHTER NOTE

•Low interest rates also make it more attractive to buy real estate, especially at these depressed levels, which are the lowest in decades.

Even though the numbers still don't look good, U.S. housing prices rose this month for the first time in months.

Some areas like Miami, for instance, are seeing buyers come in and this is probably the beginning. There are bargains to be had in many countries. Plus, with interest rates and prices so low, affordability is surging.

That is, homes are affordable for most people, which makes this sector even more attractive (see **Chart 8**). Nevertheless, it may take time for prices to pick up under this sluggish economic environment, but eventually they will.

We know we've personally taken advantage of a couple of bargains. In the meantime, you can also enjoy your new rental or second home and hopefully increase your income.

•Low rates are going to help the overall economy. So far, they haven't helped much but it's made the backdrop more conducive to economic growth.

High interest rates would have had the opposite effect. So as long as rates stay low in the years ahead, we can assume the economy will probably keep chugging along.

In other words, the foundation will be a positive one, under the circumstances.

•This in turn will be good for the stock market.

As most of you know, the market likes low interest rates. Stocks tend to thrive in a low interest rate environment and it's good for business.

The stock market has been rising since 2009 and it's not a coincidence that rates have been low since then. Taking this forward, if rates stay low through 2014, it's fairly safe to assume that stocks will continue to move upward over the next year or two.

NOT SO BRIGHT FOR DOLLAR

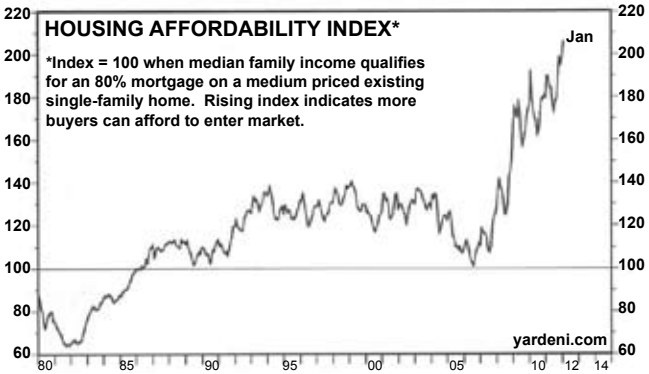
•One market that won't do well in this era of low interest rates is the U.S. dollar.

As you can see on **Chart 9**, when interest rates are low, the U.S. dollar declines.

Throughout the world, higher interest rates attract investors to whatever currency, assuming other fundamentals are positive too.

But when rates are low, there

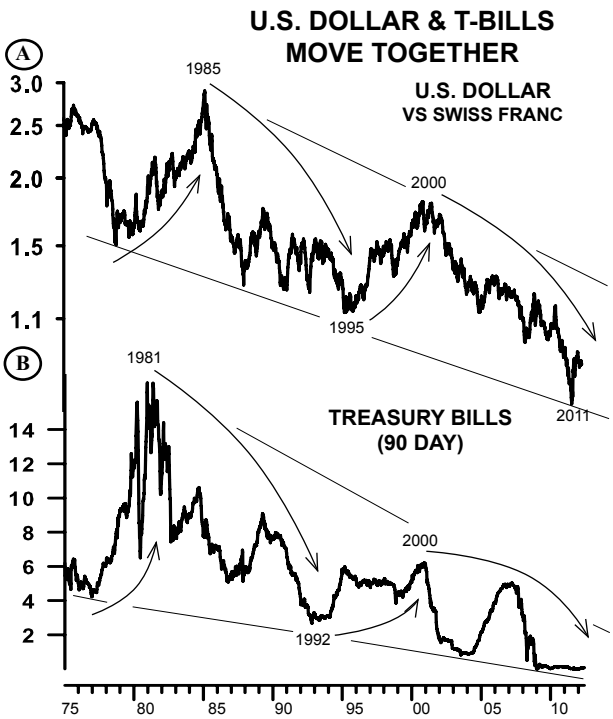
CHART 8



Source: Ed Yardeni, www.yardeni.com, National Association of Realtors
Courtesy: The Gloom, Boom & Doom Report

is no attraction and global investors will look elsewhere. Since we live in a globalized world, this one factor has become increasingly important.

CHART 9

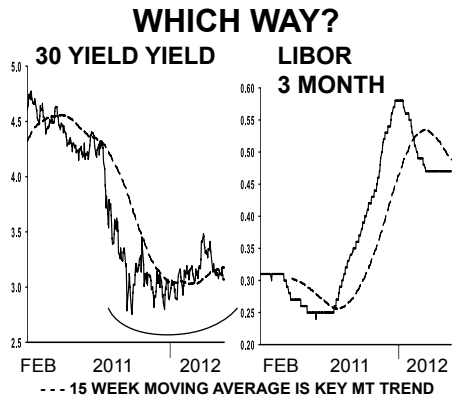


In recent years, the U.S. dollar has become more attractive due to its safe haven status, despite low interest rates, which is currently the case. But that's not going to last for long, especially as debt continues to mount.

• **This will be good for gold and it'll eventually benefit.** Since gold doesn't pay any interest, it doesn't have to compete with higher interest rates. In other words, it'll have the upper hand and as the U.S. dollar declines, that edge will intensify.

This all makes gold a good investment in the years ahead. And the longer interest rates stay low, the better the overall scenario will be for gold.

CHART 10



So stay with your gold, stocks and bonds as they should all do well.

As for interest rates, watch the 3.20% level on the 30 year yield (see **Chart 10**). By staying below this level, it'll reinforce that rates are either going lower and/or they're staying at these already low levels.

CURRENCIES

U.S. dollar: The safe haven, for now

As you know, all eyes are again on Europe. And it's becoming more obvious that the Euro problem is going to be with us for years to come.

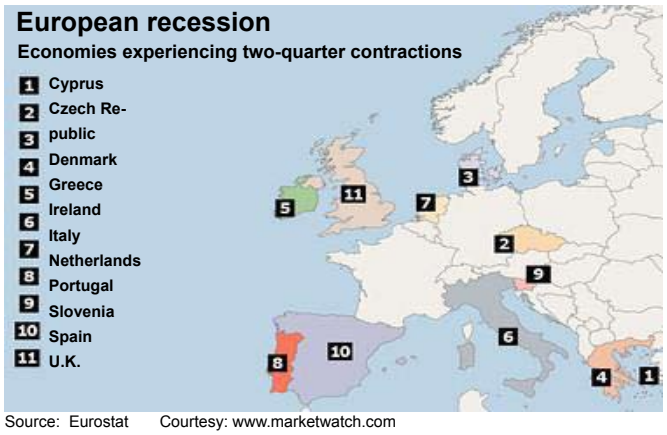
For a short while, Europe was starting to calm down, but that's no longer the case.

Not only are Greece and Spain now grabbing the headlines, but France has thrown out Sarkozy and chosen a new socialist president. This is causing global concern.

More worrisome, however, is the overall situation in the Eurozone, which is rapidly deteriorating. Unemployment is currently at a 15 year high, manufacturing has been dropping for the past nine months and suicides are sadly becoming widespread.

The bottom line is, 11 countries are now technically in recession (see **Chart 11**). That is, they have experienced contractions for two consecutive quarters. These countries are: Cyprus, Czech Republic, Denmark, Greece, Ireland, Italy, Netherlands, Portugal, Slovenia, Spain and the U.K.

CHART 11



Source: Eurostat Courtesy: www.marketwatch.com

In addition, most of the European stock markets are bearish.

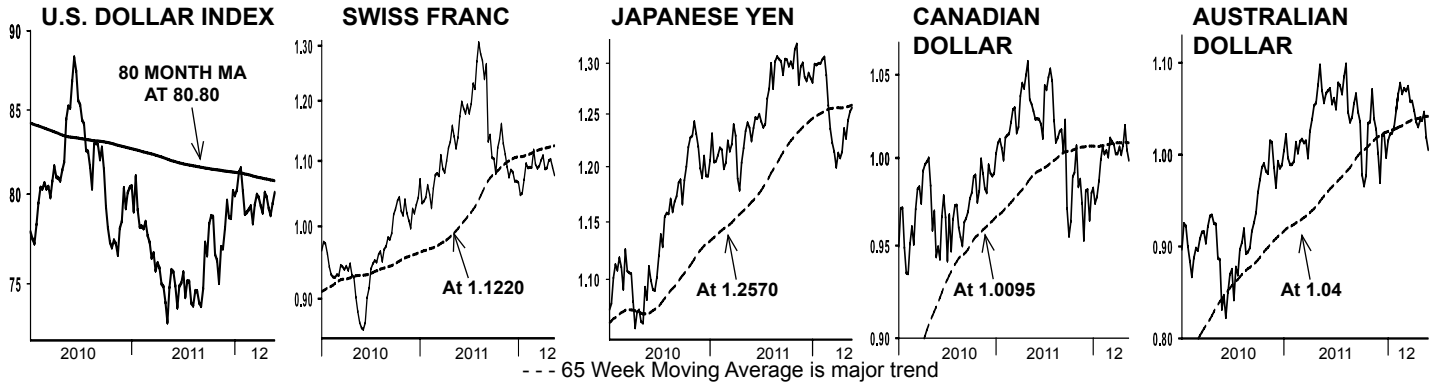
These are all clear signs that Europe is getting worse. With so many countries in recession, anything could happen. The recessions simply makes these countries more vulnerable.

WOES IN WORLD ECONOMY

This is a real global wild card that is threatening the world economy. As we've seen before, it could quickly spread, affecting overall global growth. Just one news breaking event or surprise could adversely affect the markets. Things could turn on a dime, and we have to be on guard.

CHART 12

A MIXED PICTURE



This has already intensified the "risk off" sentiment among investors. They're returning to safe havens and avoiding anything they feel is risky. That includes the currencies, most stocks and metals.

The beneficiaries are currently the safe havens, which have been the U.S. dollar, the world's reserve currency, and U.S. bonds.

HOW DOES GOLD FIT IN?...

Even though gold is the ultimate safe haven and it always has been, that hasn't been the case lately. It wasn't last year either when Greece was falling apart. Why? Because the world was scared and investors froze, fearing another crisis and recession. As a result, all commodities fell and gold declined with them.

As we've often said, in this super debt bloated world, we're literally in uncharted waters and again, we have to be prepared for anything.

Sentiment will rule the day, at least temporarily, and that's what we'll have to go with.

Eventually, the fundamentals will win out. And when they do, regardless of what's happening, the U.S. dollar will fall, continuing the path it's been on for over 40 years.

At the same time, gold will rise, eventually regaining its crown as the true safe haven in times of financial crisis and/or uncertainty. Whether this happens sooner or later, we can't be sure and we'll let the markets tell us what's happening.

... CENTRAL BANKS KNOW

The central banks are certainly ahead of the curve. And the fact that they've been easing out of dollars and buying lots of gold cannot be ignored.

Why are they doing this? Because they know the dollar is in a decline that can't be turned around, considering the U.S.'s ongoing spending, money creation and deficit policies. But all of the major countries are in the same boat, in one way or another, which makes currencies in general not an attractive option for the long haul (see **Chart 12**).

The euro in particular is in trouble. It does well when Europe is in good shape. But considering the turn for the worst in the Eurozone, the euro is going to suffer (see **Chart 13**).

One currency that's benefitting from the euro woes is the British pound. Even though the U.K. is in a recession, it's not a member of the Eurozone, which provides some attraction (see **Chart 14**).

For now though, the U.S. dollar is still one of the most attractive currencies. It's been a safe haven and this will likely continue, especially since the Eurozone is again a concern.

This means that we'll continue holding our dollars since it's currently the best alternative for your cash. That may not be the case for long, but it is for the time being as long as the U.S. dollar index stays above 77.80.

We're selling our small position in the Canadian dollar. Since it's being pulled down by the lower oil price, and the decline in the other currencies, it's become more risky.

Remember, this could change, but for now just stay in U.S. dollars. And please, stay in touch. We'll keep you posted if we see changes on the horizon.

CHART 13

EURO: WHAT NEXT?

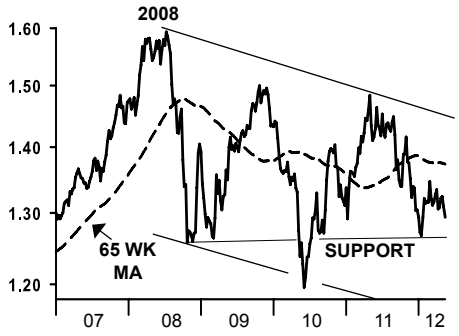
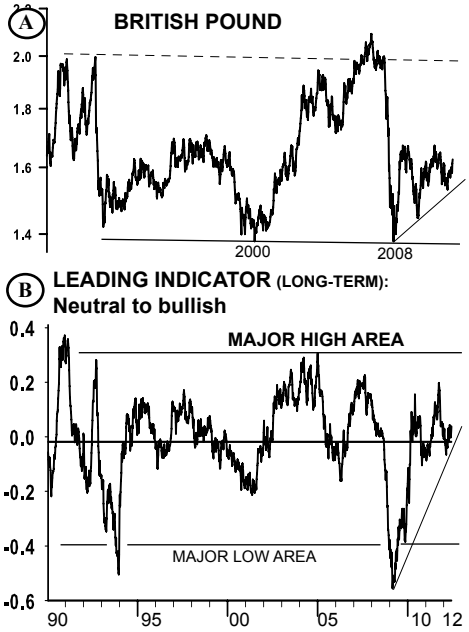


CHART 14

POISED TO RISE... TO TOP OF BAND?



METALS, NATURAL RESOURCES & ENERGY

Still correcting in a bull market

Gold shares were hit hard this month. Gold and silver dropped too. Some technical damage was done but we're keeping our positions. Why?

As you'll see, gold's fundamentals are strong and solid. Demand is hitting new highs and it looks like this weakness will be temporary.

As for gold shares, they're bombed out, oversold and cheap. This is not the time to sell.

So for now, sit tight and be patient. This is one of those times that can be difficult but we don't think you'll regret it.

Meanwhile, the European debt crisis, together with China's slowdown and the stubborn U.S. jobs problem are all affecting the metals.

CENTRAL BANKS BUYING WEAKNESS

Central banks, however, have been taking advantage of the weak market by buying gold and silver. According to the IMF, 12 central banks added to their positions in March. From Mexico, to Argentina, Turkey and Russia, they all bought gold.

Meanwhile, Chinese gold imports have grown sharply during the past eight months. Their gold imports in Q1 12 were almost seven times more than in the first quarter 2011.

Central banks know when to buy and they know value, yet the investing public is ready to give up on the bull market. Granted, it's already been a year since silver reached its peak, and it's been eight months for gold.

This sounds like a long time but it really isn't.

Take a look at gold and silver on **Chart 15** over the last 5+ years. Using the last (and worst) correction in 2008 as an example, you can see it look a longer time then to reach a new high.

In gold's case, it peaked in March 2008, fell almost 30% and didn't reach a new record high until September 2009. That is, it took one and a half years before a new high was reached.

In silver's case, it took a year longer to reach new highs. It also peaked in March 2008, near $20.90, but it fell more at 56% and it took two and a half years before it again reached a new high.

But once it did in September 2010, silver soared to almost $50 in April 2011... more than doubling in seven months.

Today's declines have been milder. Gold has given up almost 20% and silver has lost about 44% since their peaks. And both have remained firm within their bull markets.

Of course, the corrections aren't over yet, and the December lows are key for now. These lows have been the lows so far in the current correction. They're an important support and that's what we're now watching.

CHART 16

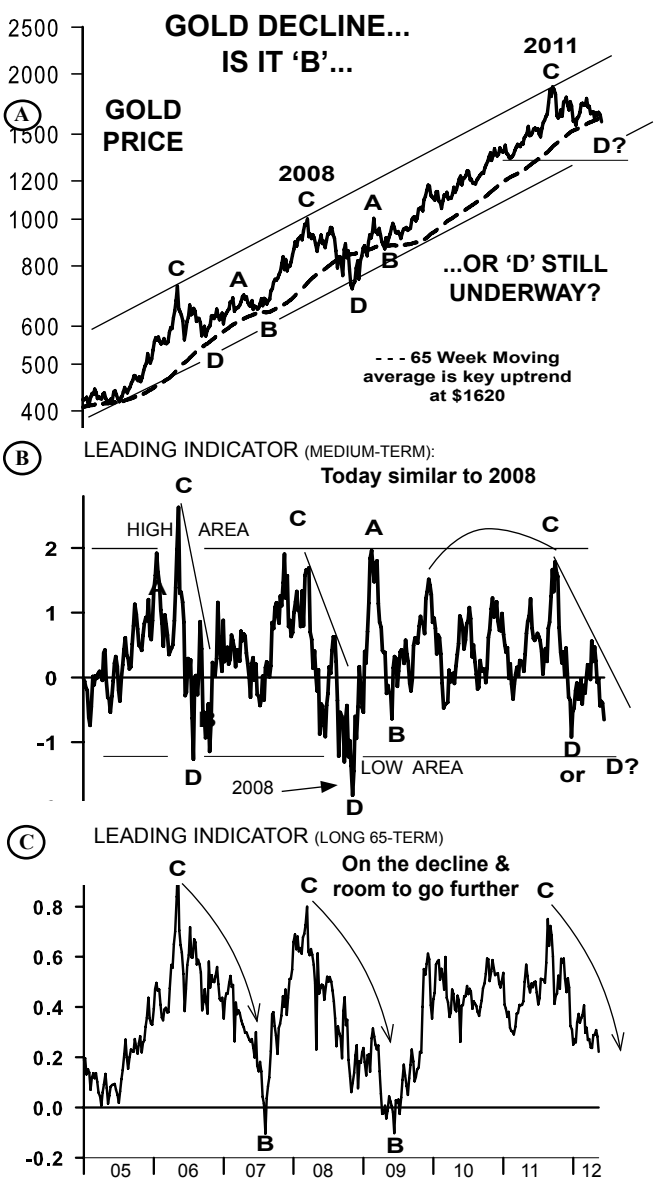
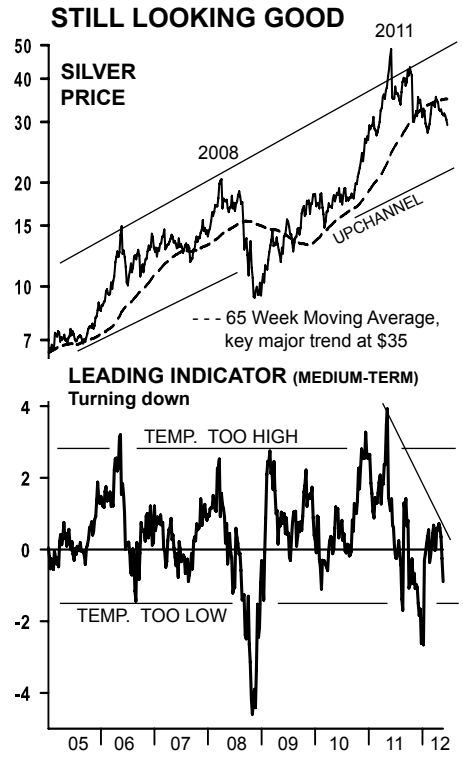


CHART 15

CORRECTION HASN'T BEEN SO BAD... in perspective

CHART 17



The Summer months tend to be a seasonally low time for gold. And June tends to be the month that has seen the most lows. This upcoming June may not be an exception.

GOLD TIMING: Summer low time

Gold recently fell below its 65-week moving average. This is the first time since 2008 that this moving average has been broken. As many of you know, the 65-week MA is the key trend for the bull market.

Gold has stayed clearly above this moving average since 2001. It was broken only during the steep decline in 2008-09... and now.

This means if gold stays below $1620, we could see it decline further, possibly like it did in 2008 (see **Chart 16A**). This would also mean we probably haven't seen the "D" decline low yet.

If the December low in gold at $1540 is clearly broken, it would mean the D decline that started last September is still underway.

The 2011 lows near $1480 would then be the next support.

The indicators on **Charts 16B** & **C** also suggest more down time is likely.

First, note the similarities in the C-D pattern in 2008-09 compared to today (**B**). For now, and based on this indicator, it does look like a weaker D decline could develop.

Plus, the L-T indicator (**C**) is still high. During the past two corrections in 2006 and 2008, it bottomed near the zero line, and when it did, it coincided with the B low. That is, the worst decline D had already occurred.

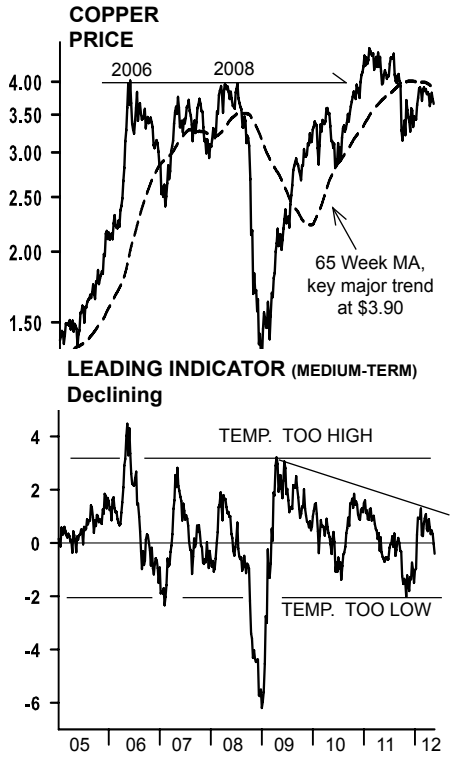
Once again, the December lows are now key. Gold will be impressive if it holds above $1540. But don't be surprised if gold stays in the doldrums for a few more months.

We can't stress enough to take advantage of further weakness to buy more gold and silver coins, bars or ETFs, if you haven't yet done so, ideally below $1600 and $30, respectively.

OTHERS LED

The 65-week moving average has been telling us the story for silver, platinum, palladium, gold shares and copper. As we showed you last month, they all have a common thread... and they're all below this moving average.

CHART 18



You can see silver and copper as examples on **Charts 17** and **18**. Note the clear moves below and above this moving average. It's been pretty consistent. Both have now been below this MA for a while now.

This is not good action, but if they both stay above the 2011 lows, at $27 and $3.05, respectively, the outlook will improve and the global slowdown will likely be contained.

Their leading indicators (below) are also saying that once this weakness is over, they'll be poised to rise further.

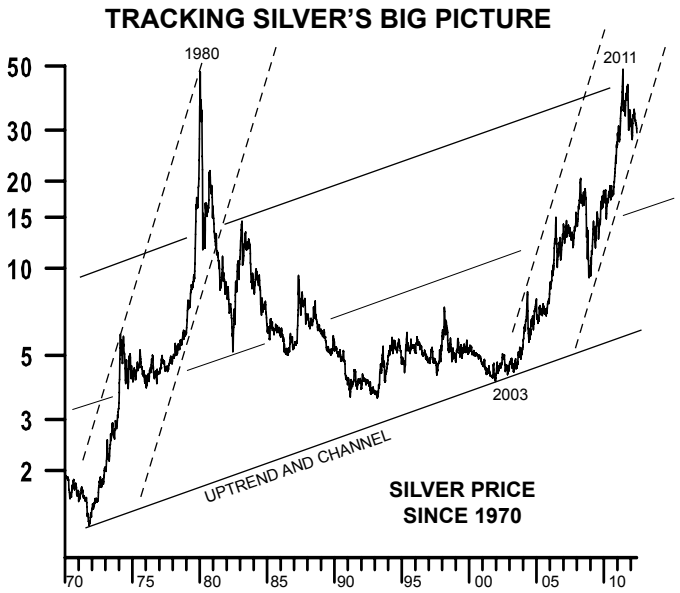
Silver's big picture is telling us the same. Note on **Chart 19** the similarities between the bull market of the past decade, and the bull market of the seventies.

This also backs up the importance of the December low. As long as it holds, silver's big picture sharp rise will stay intact.

Platinum and palladium are in the same situation.

Their 2011 lows are at

CHART 19



$1365 and $570, respectively. Keep an eye on these as well.

MORE STIMULUS WANTED

The markets are hoping for more stimulus from the Fed. Already the major world central banks have joined in to help the ailing world economy, but more is needed.

It's still to be seen when it'll happen but you can bet it will push up the metals and commodities.

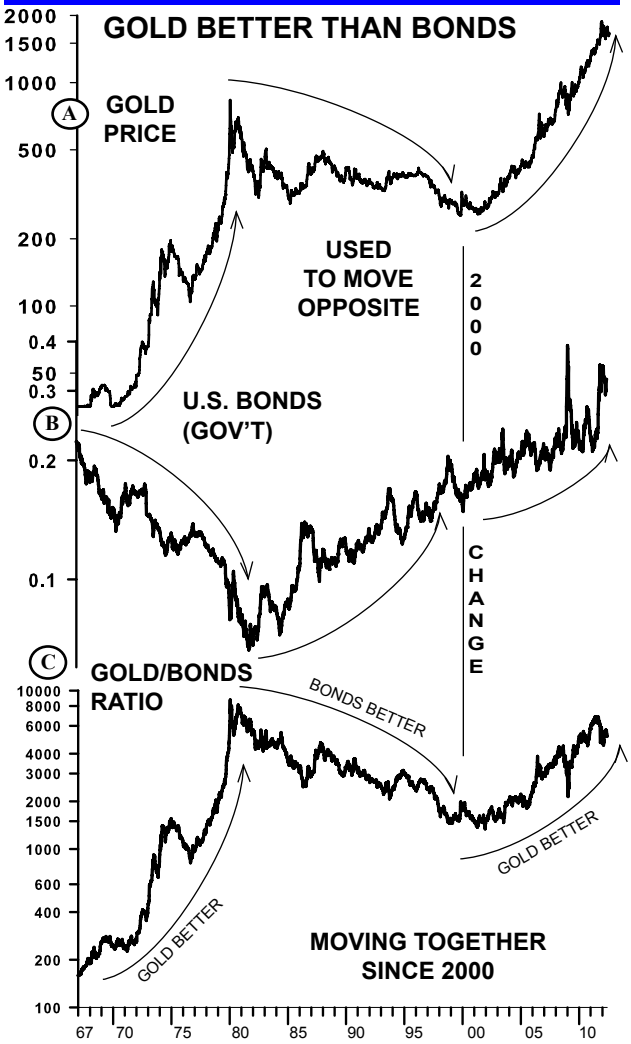
Gold benefits due to the inflationary implications of a stimulus, whereas the whole commodity sector benefits from the potential of higher global demand during better economic times.

This is a key point... The commodities are unlikely to rise similarly.

If, for example, economic uncertainties continue to grow, gold would prevail, but the others may not. If a war breaks out, crude would likely get a big boost up.

A global recovery, however, would benefit most commodities since it would be demand based. In the meantime, gold has been a great investment overall.

CHART 20



GOLD THE STRONGEST

Gold is the strongest asset class and it's the strongest metal. Over the years, it's been better than the stock market, the bond market, and it's been stronger than the metals and gold shares.

So the fact that gold is declining is not yet hurting the big picture.

Starting with bonds.....Gold and bonds became the odd couple in 2000 when they both began to rise together.

Chart 20 shows how they had always moved in opposite directions. This makes sense because gold was viewed as an inflation hedge, while bonds are a deflation/recession hedge.

The fact that they've been rising together this past decade has been a strong sign that this era was different. While both remain in bull markets, the ratio of the two (**C**) clearly shows than gold has been the stronger investment.

Interestingly, however, comparing gold to gold shares and to the metals, you can see telltale signs that gold may not stay on top within the metals sector.

Gold has been much stronger than gold shares since 2011 when they parted ways. The ratio comparing the two on **Chart 21** has now shot up to the 2008 highs.

That is, the gold share fall compared to gold has been as severe as it was during the heat of the 2008 financial crisis.

You'll remember that gold was one of the few investments that ended 2008 with a gain. In other words, the ratio is currently at that same intensity and it's at the top of the mega two decade long upchannel.

This means gold shares are at an extreme low and they're cheap compared to gold. They're poised to normalize, rise and then they'll likely outperform gold.

Platinum, like gold shares, has been noticeably weaker than gold since last year. **Chart 22** shows this clearly.

First, you can see platinum's clear strength over gold leading up to the 2008 peak. The subsequent fall was the start of a change. While platinum recuperated at the same pace as gold, it failed to reach a new high. Instead, it clearly turned down.

Silver is stronger than gold, but it's fallen more during these correc-

CHART 21

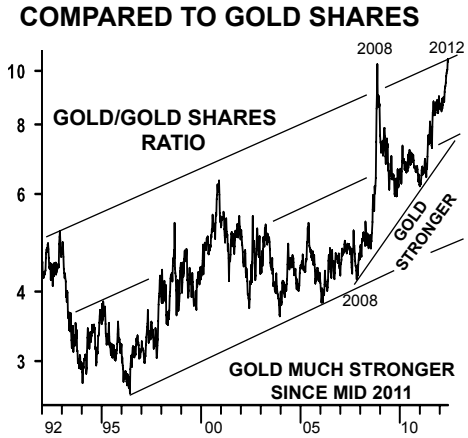


CHART 22

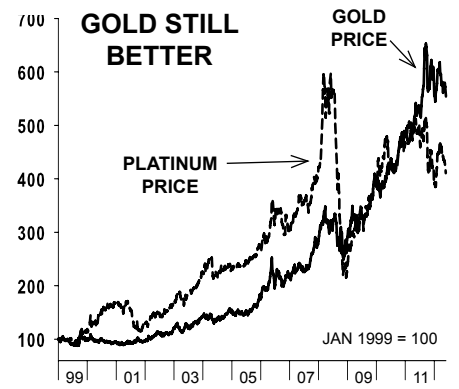
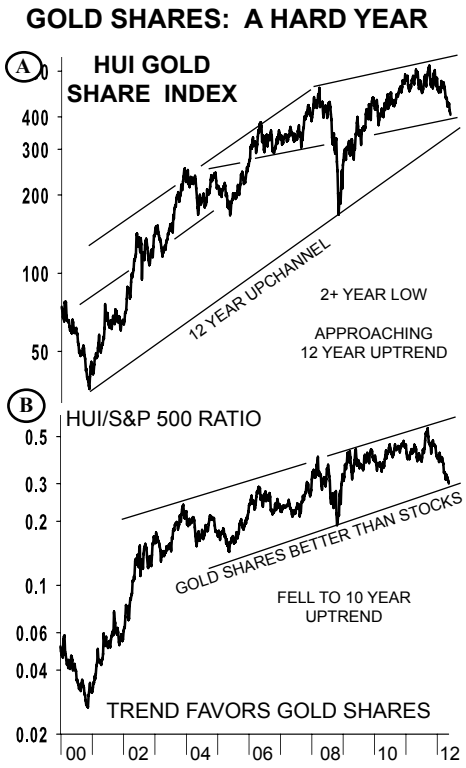


CHART 23



tion months and that's likely to continue. Let's see how silver performs once this weak period is over.

We'll probably then see silver continue on its stronger path against gold, like it's been doing in recent years (see page 10 in last month's edition).

Gold shares have been stronger than the stock market over the last decade, but they've been weaker than stocks since last year.

This looks temporary. Note on **Chart 23B** that gold stocks have been outperforming the general market as the ratio has been rising since 2001. And you can see, the correction this year has actually been a normal correction within the rise.

Here again, it looks like gold shares will again outperform the stock market once the current weakness is over.

GOLD SHARES: Wipe out

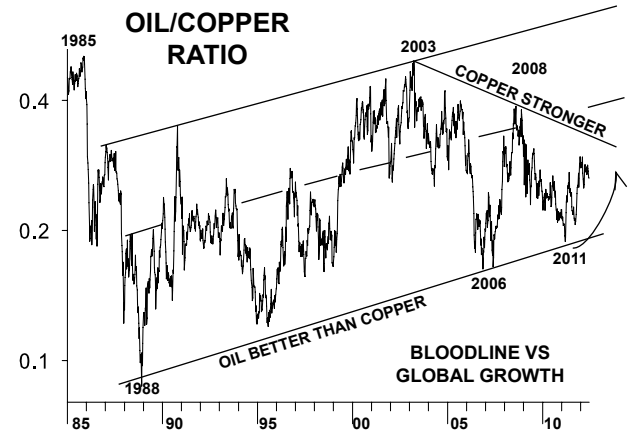
Gold shares continued to fall, reaching an over 2 year low this month. They've clearly been hit hard, and with gold now falling below its 65 week moving average this week, the shares were obviously leading.

But the downside looks limited for gold shares now, while gold is weakening. They may be changing places for the time being.

The HUI index is approaching a strong support and gold shares are very cheap.

Now is not the time to sell your gold shares. The downside is limited and, at this point, we would hold on to them.

CHART 25



RESOURCE AND ENERGY

Crude oil fell sharply, more than any other commodity. It fell to the $97 level where it's currently holding.

Obama may be trying to keep a lid on the gas price with the election just six months away, but the major trend remains up.

Oil is a sensitive and vulnerable commodity. It's the bloodline of the world and other energy sources don't come close to meeting the daily needs of the world. Oil will still be in a solid rise even if $90 is tested.

Chart 24 shows oil alongside other energy sources, natural gas and uranium.

Natural gas fell sharply this month, and it's currently trying to bounce up in a recoup type of rise. Natural gas has been unusually weak this past year, but even if it rises to the $3.70 level it would still be in a major downtrend.

Uranium fell following the nuclear disaster in Japan over a year ago. The worst nuclear disaster since Chernobyl in the 1980s left uranium in the doldrums.

But considering nuclear power accounts for about 14% of global electricity production, while in France it's much higher at 77%, it's still an important energy source.

The world's biggest uranium producers are in Canada and Australia, while the U.S. generates the most nuclear energy.

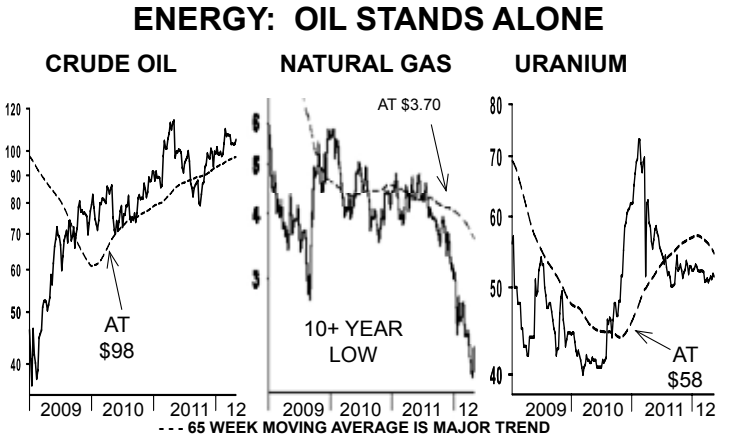
Cameco is Canada's top uranium miner. If uranium rises back above its MA, this company will likely become a good investment.

Copper and oil both rise during good economic times, when demand is robust.

Chart 25 shows the ratio between oil and copper. Here, however, you can see that the trend has favored copper since 2003 when the world economy started to grow by leaps.

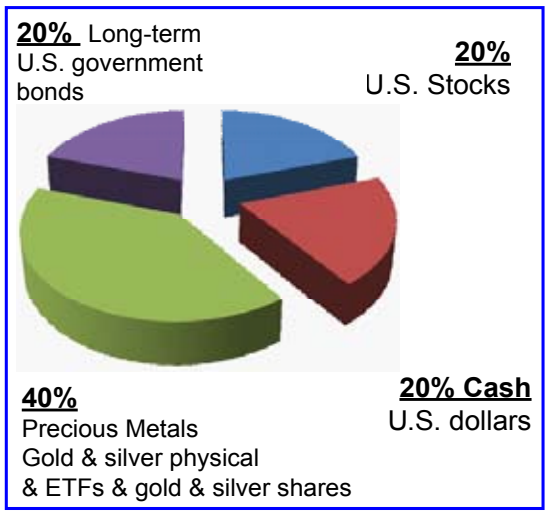
But the mega trend since 1988 favors oil and it's been stronger since last year, just like it was during the turbulent 2006-2008 period. Let's now see which will be the better one going forward... need or growth.

CHART 24



OVERALL
PORTFOLIO RECOMMENDATION

The world has taken yet another sharp turn. The markets are nervous and so are investors. Risk is off. Many of the markets have dropped sharply, they're under pressure and they could fall further. The exceptions are the safe havens... U.S. bonds and the U.S. dollar. For now, our positions are okay, but we're making some changes (see below). With vulnerability in the air, we recommend keeping a close eye on the markets and please stay in touch.



PRECIOUS METALS, ENERGY, RESOURCE RECOMMENDATION

Gold shares continued their plunge this month, falling to a 2+ year low. Gold and silver are following as they declined further to their early January lows. Gold closed below its 65 week moving average for the first time since 2009.

It now looks like they may be changing places. The downside looks limited for gold shares as they are at extremes, whereas gold and silver may test the December lows, and these lows are key. If gold and silver stay above the Dec lows at $1540 and $27, respectively, as we enter the seasonally slow months, the decline will be relatively moderate.

On the upside, they'll begin to look better above $1620 and $33. Gold's fundamentals are solid, demand is strong and it looks like this weakness will be temporary. Gold shares are bombed out and this is not the time to sell. So keep your gold and silver coins, bars, ETFs, shares and funds. Use weakness below $1600 and $30 to buy more if you haven't bought yet, or want to add to your positions.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market has been volatile and it's under pressure. But the major trend remains up and as long as that's the case, the bull market is intact. Nevertheless, the stock market is also nervous and we're watching it closely. Even though it could decline further in the weeks ahead, it'll remain bullish by staying above 12270 for Dow Industrials, 5080 on the Transports and 2750 for Nasdaq. Continue to hold our recommended stocks, but don't buy new positions for the time being.

CURRENCIES RECOMMENDATION

The U.S. dollar is on the rise again. It too has again become the safe haven during these worrisome times. Risk is currently off, which means the other currencies are declining. For now, the U.S. dollar is the most attractive cash option, especially if the U.S. dollar index stays above 77.80. Keep your cash in U.S. dollars and it's still okay to switch into dollars if you haven't yet done so. Also, sell your small position in the Canadian dollar. It's become more risky.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

U.S. STOCKS

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

INTEREST RATE & BOND RECOMMENDATION

Bonds moved higher this month as they again benefit as the safe haven of choice during times of uncertainty. The primary trend for interest rates is clearly down, they're likely headed lower and we don't think that'll be changing any time soon. The 30 year yield will be in a steep downtrend by staying below 3.20%. That is, bond prices will be very strong and firm. Keep your long-term government bonds and for now, it's also okay to buy new positions.

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

