THE
ADEN FORECAST
MONEY • METALS • MARKETS

MAY 2014 *our 33rd year*

DEFLATIONARY DRAG... MUCH LONGER?

Many years ago we studied the Kondratieff wave and we've kept an eye on it since then.

ECONOMIC WAVES

These are basically mega recurring economic cycles (waves) that move up and down, generally coinciding with periods of booms and busts, and they tend to last about 50 years (see **Chart 1**, which shows an idealized wave).

These long waves were brought to international attention in the 1920s by the Soviet economist, Nikolai Kondratieff. But since his work did not jibe with Stalin's outlook, he lost his job, was sent to prison and later executed.

His work, however, has stood the test of time. And while it's hard to pinpoint key turning points at mega tops and bottoms, mainly because of the long time spans involved, it's still interesting to follow.

In the early 1980s, for instance, we began to suspect that a Kondratieff peak was forming. This would've meant inflation and interest rates were at a mega high and headed lower. Interest rates were near 20% at the time and Treasury bonds were bombed out.

We showed our conclusions to our boss. He was impressed enough to buy large amounts of Treasury bonds. But since the bottom in bonds took a couple of years to form, which is not unusual when you're talking about mega tops or bottoms, he was unfortunately shaken out of the market before the massive upmove in Treasuries got started.

A Kondratieff top also meant a long period of deflationary pressures likely lied ahead, together with a big decline in interest rates and inflation. That's essentially what's been happening since then.

Interest rates and inflation have been on the decline for the past 33 years, along with the Kondratieff down move, and deflation has now become more obvious. So how much longer could this last?

DEFLATIONARY WAVE ABOUT OVER?

That's the big question. So far, this wave has already lasted longer than previous ones. It appears to be near a bottom but some Kondratieff experts believe it could continue until about 2020.

If so, then worldwide deflationary pressures will persist and recent developments tend to back this up.

This month, for example, Janet Yellen noted the labor market is still slack and wage gains remain historically slow in this recovery.

Plus, inflation is still well below 2%, which is the Fed's target level. So lots of stimulus continues to be warranted for probably a long time.

In other words, interest rates are going to stay near zero much longer than most people expect. This alone is pretty incredible when you consider **the Fed's been stimulating the economy in an unprecedented way for the past five years**.

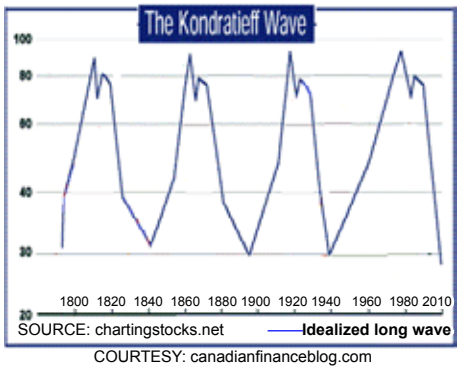
That is, the Fed is still acting like the recession just ended and their efforts haven't made a big difference. Sure they've avoided a full blown depression, which is very good news, but at what price?

WADING IN UNCHARTED WATERS

Yes, there has been a lot of deleveraging compared to five years ago. But the fundamental problems that triggered the 2007-08 fiasco have not been resolved.

As Fed member Richard Fisher noted, "part of the blame lies with politicians in Washington, who are unable to agree on the federal budget." He then went on to say, "the central bank's (Fed) fuel isn't reaching the engine. It's a giant gas tank

CHART 1



COURTESY: canadianfinanceblog.com

INSIDE

that could explode at any moment. We are sailing through unfamiliar waters and we don't know if we will end up falling off the globe."

So far, the Fed's been able to keep that from happening. But as we've often noted, we are indeed in uncharted waters and there are serious problems. **Debt, for instance, creates a huge drag on the global economy.**

And it's not only the U.S., the Eurozone is also moving toward deflation. But like the Fed, the ECB is determined to do whatever it takes to keep deflation at bay.

MARKET TRENDS ARE KEY TO INVESTING

Meanwhile, we have to deal with reality, and so far, so good.

Of course, the situation is far from ideal and it's vulnerable, but timing is the key. Keep in mind that if you spend all your time worrying about the "what ifs," you're going to miss out.

Also remember, the overall environment is rarely worry free... fiscal problems, political bickering, rumors, wars, global tensions and so on are almost always in the background.

Nevertheless, there are also nearly always good investment opportunities to take advantage of. Sometimes this means taking a leap of faith, but you have to go with what you have and what the markets are telling us.

The markets digest everything, and they tend to look ahead. So if a trend is up, go with it. Even though there may be a dozen reasons why you shouldn't, the markets know more than we all do, and all of the reasons why will become obvious in time.

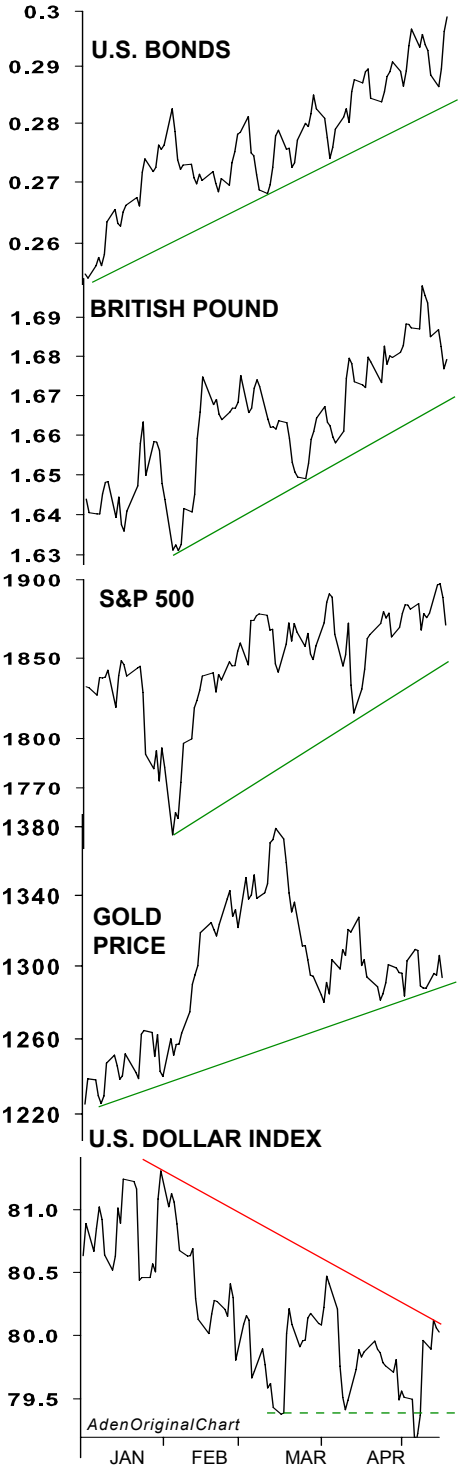
2014: Bonds top performer

Looking at this year, for example, you'll see what we mean (**Chart 2**).

U.S. bonds have been the top performers so far this year. This month's strong upmove helped boost bonds well into #1 place.

CHART 2

2014... FIRST 4+ MONTHS



This coincides with deflation intensifying and we'll likely see more of this as the year unfolds.

But stocks also hit new record highs and since they tend to look ahead, they're telling us the economy will continue growing in the months ahead.

So here's a perfect example of things not fitting together perfectly. But we suspect the Fed's super low interest rate policy will continue to boost stocks, bonds and real estate.

It'll also likely keep downward pressure on the U.S. dollar, which will continue driving the currencies higher, like the British pound, and the gold price.

LOSING WORLD RESERVE STATUS

As you know, the U.S. dollar is slowly losing its world reserve status. But as we've mentioned before, that doesn't necessarily mean disaster will then fall upon the U.S.

Look at England as an example. It lost its global reserve status in the 1940s and it went through some tough times after that. But today it's a beautiful country with more multimillionaires than any other.

Like other countries who don't have reserve status, they worked out their problems and the British pound reached a five+ year high this month.

Italy is different but it's another example. It's had serious problems forever, yet it's vibrant, and filled with culture, great food, history, beauty, fashion, style and the good life.

The U.S. is also a great and beautiful country. It's the envy of much of the world. It too has overcome great hardships. And despite the probability of difficult times in the future, we're certain it will make the necessary adjustments and then continue to prosper.

The Kondratieff wave tells us so, and so does the American spirit.

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U.S. & WORLD STOCK MARKETS

Record highs!... while crawling a wall of worry

Well, it happened again.

SOARING MARKET

Despite all the warnings, mixed signals, scares, high valuations and all the rest, the stock market fooled the naysayers.

It surged into record high territory, signaling that the bull market continues and stocks are going higher.

Today, however, the market fell sharply. This is fueling volatility at these higher levels.

In other words, the market generally looks good but caution is still warranted.

That being the case, we're keeping the stocks we have. This amounts to 25% of our total portfolio, but we're going to hold off buying new positions, at least for the time being.

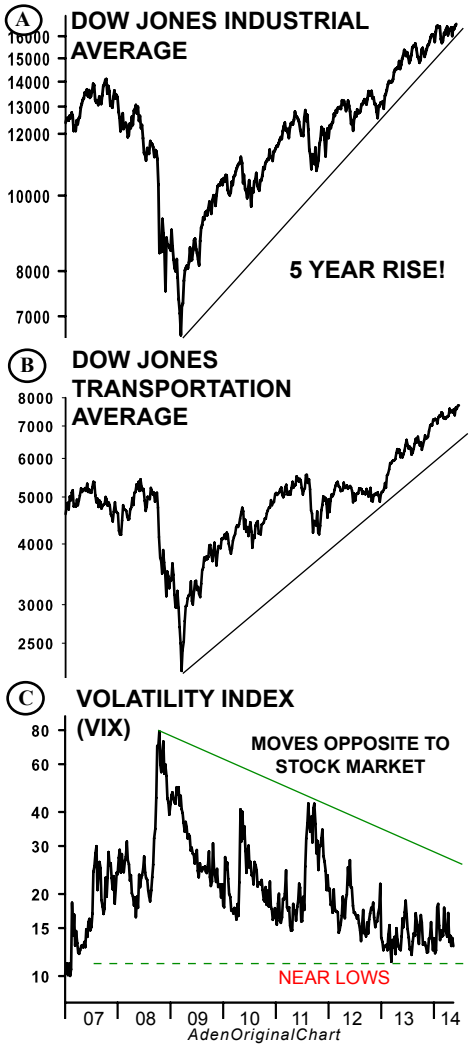
Nevertheless, the stock market's major trend is up. The Dow Jones Industrials and Dow Jones Transportations both clearly hit new record highs on May 12 and 13, confirming a Dow theory bull market signal (see **Chart 3**).

Our leading indicators are looking good and so is the monetary landscape.

Low interest rates and easy money have been the key factors driving stocks higher. And they're not going away any time soon, which means stocks will likely continue to thrive in this environment.

CHART 3

ANOTHER DOW THEORY BULLISH CONFIRMATION



RIDE THE BULL

We know that some of you may be skeptical because stocks are at such high levels. After all, this bull market has already been one of the longest ones on record (see **Chart 5**).

So if this makes you nervous, we understand. But our advice is to stay put and ride this bull for as long as it lasts.

And don't let the new highs scare you off.

BUY ON BREAKOUT THEORY

Our old friend Steve Sjuggerud is one of the best analysts in this business and we respect his work, which is always thorough and accurate.

In a recent study, he points out that buying at new highs has surprisingly been a winning strategy since the beginning of stock market history. And the numbers back him up.

The bottom line is, buying at a new 12 month high would have resulted in greater gains over the next 12 months. Your gains would've been 5.5% compared to .9% by buying at new lows, or 4.3% for all periods.

The reason why is because once the market hits a new high, it almost always attracts attention and gains momentum. This momentum tends to feed on itself, pushing the market even higher.

CHART 4

OUR STOCK POSITION

But what about the mixed signals? As we discussed last month, all of the U.S. stock indexes remained bullish, despite the declines in some of them (see **Chart 4**).

That's why we only sold half of our stocks, the ones that triggered sells. Five of the ones we sold (QQQ, IWM, RTH, KBE, VNM) are currently lower today. The other four are only a bit higher.

This trigger signaled caution and it warranted lightening up on our positions, which is what we recommended.

The primary difference this month is that several of the stock indexes are now above their 15-week moving averages, which has been consistent in identifying the intermediate price trends.

Plus, more of the global stock markets have joined in on the bullish trend. Germany and Mexico, for instance, are looking good. And so are Canada, Switzerland and Malaysia.

MOVING TO SAFETY & INCOME

Along with the other bullish developments, we think it's probably just a matter of time until the laggards are pulled higher by the leaders.

Last month, for instance, many of the tech stocks, biotechs, internet and lower priced stocks were the hardest hit.

They were generally thrown out and replaced by good old fashioned blue chips and utilities. That is, stocks that pay dividends.

So the downward correction essentially ended up being a rotation, out of riskier stocks and into traditionally safer stocks.

This is not surprising considering everyone is basically looking for some sort of income in this era of super low interest rates. That's also why bond prices have been strong.

But now that the Dow Industrials and S&P500 have joined the stronger Transports in hitting new record highs, the Dow Utilities and the lagging Nasdaq and Russell 2000 will probably follow (see **Chart 6**).

Utilities are very close to hitting record highs. And since they tend to move with bond prices, they'll likely be the next sector to confirm. Then we'll see if Nasdaq can muster up the strength to surpass its 2000 high.

If so, the stock market would then be extremely bullish, regardless of what the "sell in May and go away" crowd says.

If so, it looks like we could then see the Dow Industrials outperform the Transportations (see **Chart 7**).

As you can see, the Transports are currently too high compared to the Industrials. So here too, we'll likely see ongoing rotation and greater strength in the Industrials in the weeks and months ahead.

That's why we think it's best to diversify in stock sectors. For now, we're also recommend keeping nearly equal portions in both stocks and bonds, metals related investments, along with some cash.

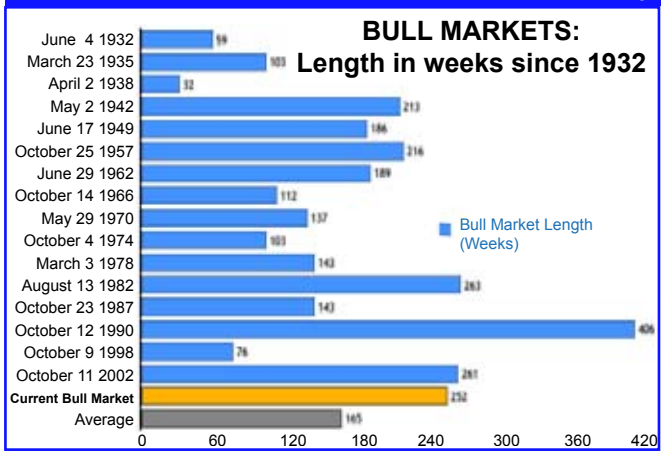
TENSIONS ARE BEARISH

On a final note, it's also important to recognize that Russia continues to be a wild card. Tensions in Ukraine have intensified, more sanctions have been imposed on Russia and the U.S. has sent troops to Eastern Europe.

Anything could happen and depending on how the situation evolves, it could squelch the bull market rises that're currently in place.

So again, it's something to be concerned about but so far, the markets don't seem to be worried and they're telling us this may somehow be resolved. We'll soon see but you'll still want to be on the alert, just in case.

CHART 5



SOURCE: Standard & Poors, ShortSideOfLong.com
COURTESY: The Gloom, Boom & Doom Report

CHART 6

APPROACHING RECORD HIGHS

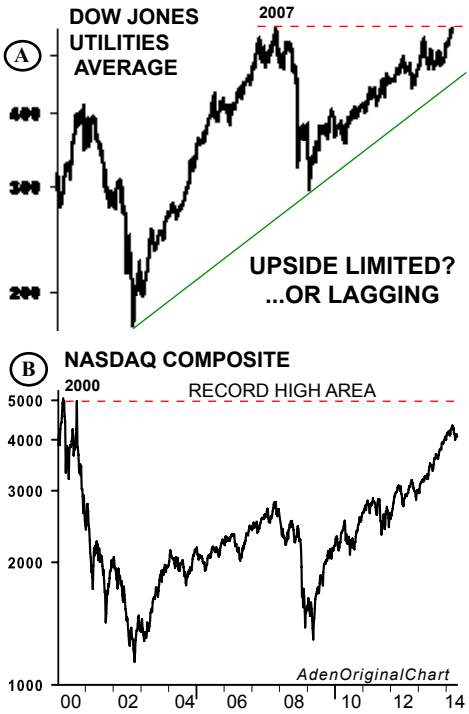
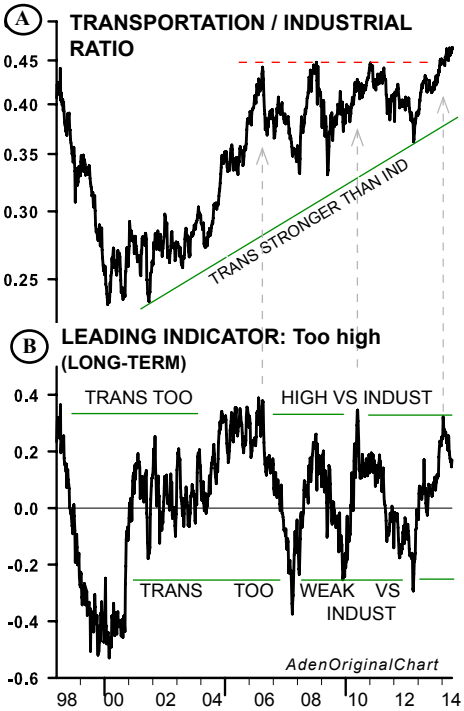


CHART 7

TRANSPORTATIONS AT 20 YEAR HIGH VS INDUSTRIALS



U.S. INTEREST RATES AND BONDS

Bond bull market: Flexing its muscles

Bond prices are surging. The market's looking good and bonds are headed a lot higher.

BONDS ARE SOARING

Bonds have by far been the top performers this year, gaining 19% and outpacing stocks, metals and the currency markets. This has been a big surprise for most investors and many feel it's a temporary fluke.

But we don't think so. On the contrary, we're very bullish on bonds and believe they'll continue to be a top performer this year.

So we now recommend buying more bonds. This will add to your 15% bond position, which we initially bought in February.

In other words, we currently advise raising your bond position to 35% of your total portfolio.

You can buy the individual over 10 year U.S. bonds outright, but bond ETFs are probably easier for most investors.

The ones we like best are UBT, TLO (new position), TLT and TLH.

AREN'T INTEREST RATES READY TO RISE?

At this point, you may be thinking... but wait, with the Fed tapering its bond purchases, and foreign investors cutting back on their bond buying, won't interest rates have to head higher? And if they do rise, won't bond prices drop?

Yes, that's the general consensus, but it's not working out the way most investors and market pundits expected. Instead, bonds and interest rates are going in the opposite direction. Here's why...

BONDS ARE SAFE HAVEN

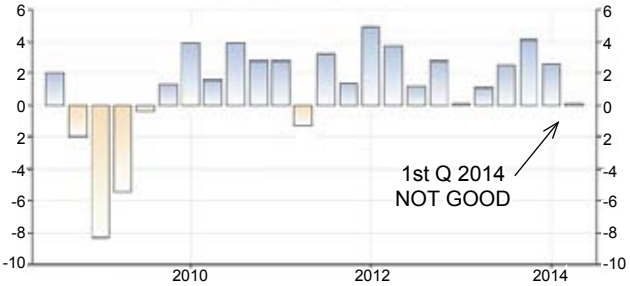
Bonds are again becoming the safe haven of choice. As tensions and unrest in Ukraine intensify, it's again attracting investors to the safety of U.S. Treasury bonds.

One important reason why is because Ukraine is driving a wedge between Russian and Western relations not seen since the Cold War. And as long as tensions mount, it'll keep upward pressure on bond prices.

But global tensions aside, it increasingly looks like something else is going on. And that something is fundamentally more important to the bond market.

CHART 8

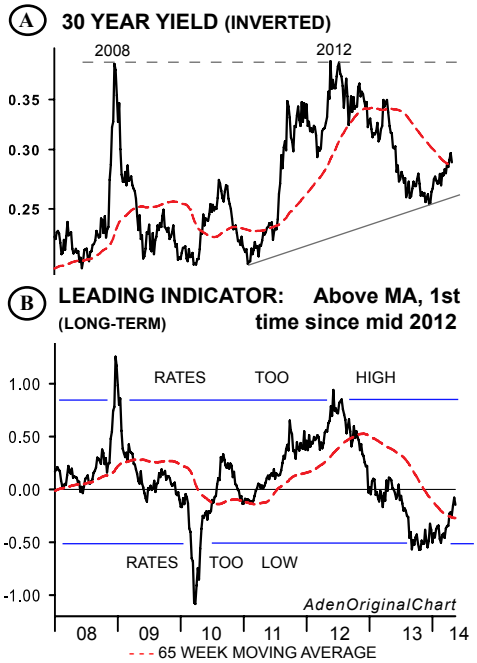
UNITED STATES GDP GROWTH RATE
PERCENT CHANGE IN GROSS DOMESTIC PRODUCT



SOURCE: WWW.TRADING ECONOMICS.COM
U.S. BUREAU OF ECONOMIC ANALYSIS

CHART 9

U.S. BONDS:
Poised to rise further



BOND MARKET: Savvy

As you know, bond investors are known to be more savvy and sophisticated than mainstream investors.

They generally have a better feel for what's coming and they then invest accordingly.

So even though many investors think bonds are boring, they are not, and bond investors know this only too well.

This year, for instance, long-term government bonds have so far gained 19%. That's the best start to a new year in decades. On the other hand, the S&P 500 is only up 1.8%. Gold has gained 5.6%.

Okay, you may not think that's very impressive. But in this low global interest rate environment it is, and it's going to get better.

In 2007-08, for example, bonds soared about 38%, and it looks like this current move could be similar. Why?

DEFLATION & BONDS

The main reason is because deflation pressures are growing and the economy is almost on life support.

Sure the economy is showing some positive signs, but it only grew .1% in the first quarter (see **Chart 8**).

That's barely squeaking by and it reinforces the need for the Fed to keep interest rates low for a long time.

Janet Yellen has said so several times and the sluggish economy is reinforcing this.

In fact, despite the Fed's efforts to boost the economy and inflation over the past few years, inflation remains very low.

Instead, deflation is gaining ground, which is very bullish for bonds. It could drive this market

CHART 10

sharply higher and our leading indicators are reinforcing this outlook.

BONDS ARE BULLISH

Looking at the bond price, you'll see what we mean (see **Chart 9**).

Note that bonds are now rising above their long-term moving average, signaling the major trend is turning up.

This means the bond price is headed higher this year and it'll probably continue up to at least its 2012 high. If so, it would be a 33% gain from its current levels.

The leading indicator is also rising from a low area, confirming that higher prices lie ahead.

Taking a close up view, you can also see bonds have broken above a strong resistance level (see **Chart 10**). This too suggests higher prices ahead.

As you know, when bond prices rise, interest rates decline (see **Chart 11**). And even though interest rates are already at super low levels, they're going to fall further.

YIELD ON DECLINE

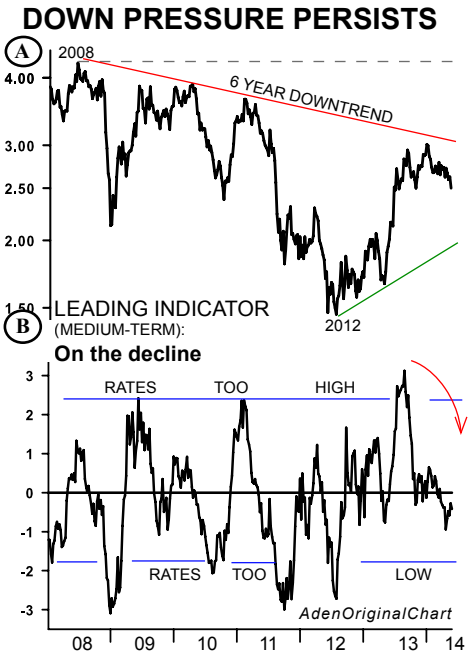
At least that's what the leading indicator on the 10 year yield is showing. It has room to decline before it reaches the "too low" level.

In other words, this tells us interest rates will be declining in the weeks and months ahead.

That is, bond prices will rise and they'll likely continue to outperform other investments.

Bonds are looking good, which is why we want to see you get on board, especially now that the train is clearly pulling out of the station.

CHART 11



CURRENCIES

U.S. dollar: On the fence

The U.S. dollar is under downward pressure.

That's basically been the case since last year, but it took a turn for the worse this month, hitting a five month low.

The dollar is close to breaking down, out of its sideways band, and if it does it'll be very weak.

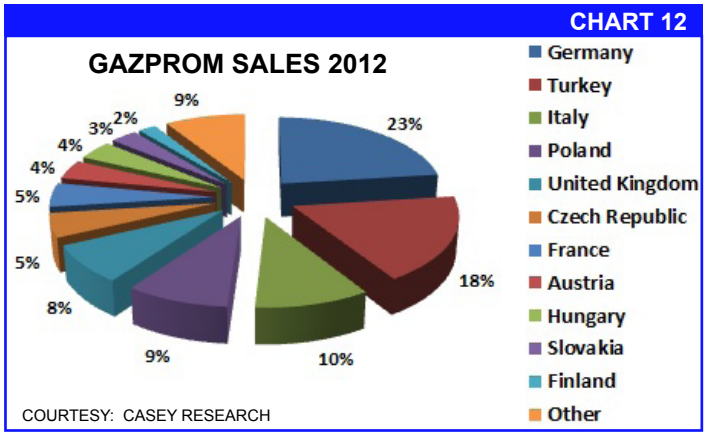
DOLLAR AT KEY LEVEL

Will it happen? We wouldn't be surprised if it does. That's one reason why we're using our U.S. dollars to buy more bonds. This will lower our U.S. dollar cash position, which was temporary to begin with.

As you'll recall, our cash dollars bulked up when we sold some of our stocks last month. They were essentially sitting there waiting for new opportunities.

And since U.S. bonds now look like the best opportunity out there, we're buying more. Even though they're denominated in U.S. dollars, bond prices will likely rise much more than the dollar declines.

CHART 12



In other words, they'll help maintain your purchasing power and you'll profit as well. That is true for both U.S. and global investors.

DOLLAR NOT SAFE HAVEN

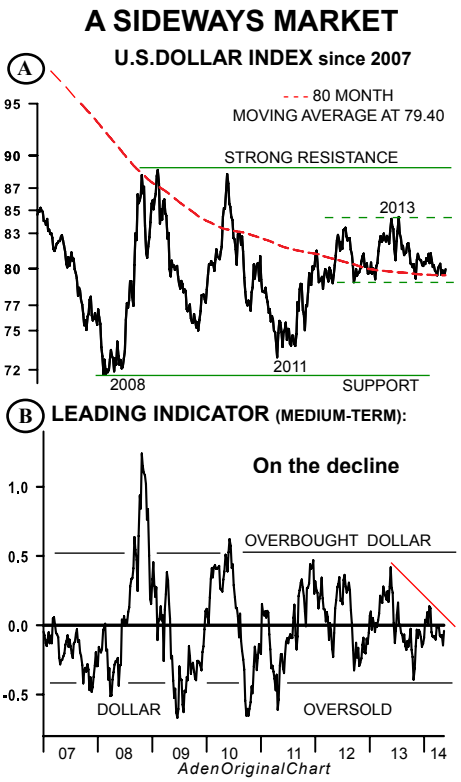
Interestingly, the situation in Ukraine is not boosting the dollar. That is, the U.S. dollar is not being viewed as a safe haven, like it was before.

In fact, the growing tensions and ongoing developments pushed the dollar lower.

That may seem like a contradiction considering it's driving bond prices higher, despite the fact that foreigners have cut back on their bond buying.

Russia's holdings of U.S. Treasuries, for instance,

CHART 13



are currently at the lowest level since 2011. Other countries are also selling at an unprecedented rate, but this hasn't hurt the safe haven of U.S. bonds.

The U.S. dollar, however, is another story. Its global reserve status is seriously being challenged and this alone is causing concern. Here's what's happening…

CHINA LOOKING TO BE #1

We all know that for the past few years, China has been making moves to set itself up to become the world's next reserve currency. It's been buying lots of gold and it's made trade deals with dozens of countries, eliminating the U.S. dollar from their transactions.

Well, now that Putin is upset because the U.S. has imposed sanctions on many of his Russian associates, he's lashing back at the U.S. via the dollar as well.

He recently announced that Russia's international energy sales will soon be priced in other currencies, and not in dollars, which has been the global standard pricing mechanism for years.

This is a very big deal because Russia's energy business (Gazprom) is massive. Its biggest customers are Germany, the U.K., Poland, Italy, Turkey, with China upcoming (see **Chart 12**).

And while oil and gas disruptions remain a concern, another concern is that energy not priced in dollars would mean less world demand for the U.S. dollar.

That's especially true considering that more than half of the Eurozone depends on Gazprom for 50% to 100% of their energy needs.

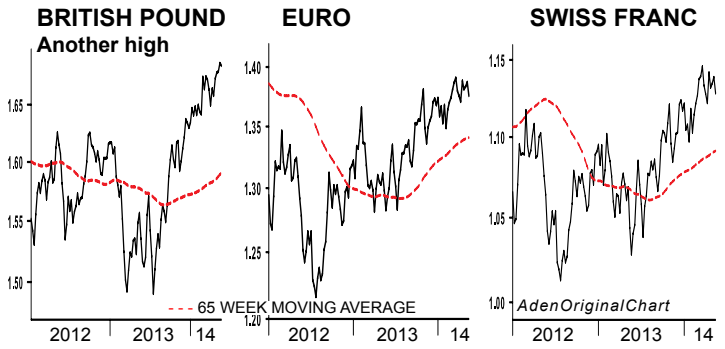
So if Russia were to start charging in euros, this alone would cause the euro to soar and the dollar to drop steeply.

But there's obviously much more involved. The French President basically summed up the situation best saying it could be extremely dangerous for all of Europe. By that he meant far beyond energy concerns.

Meanwhile, the BRICS countries (Brazil, Russia, India, China and So. Africa) are starting to do their own thing too.

They're planning to start their own World Bank and IMF. Again, this is a big change because by doing this, they'll also be avoiding the U.S. dollar.

CHART 14



MORE SIGNS OF CHANGING TIMES

So slowly but surely it seems we're seeing more signs that the U.S. dollar is becoming less desirable. This has obviously been a slow process but it's happening.

And if interest rates now head lower as we expect, they'll make the dollar even more unattractive.

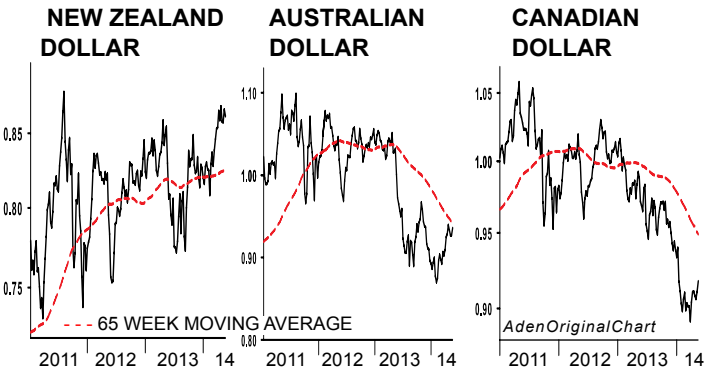
For now, we're still focused on the 79 level on the U.S. dollar index (see **Chart 13A**). This is an important support level, which marks the bottom side of the two year sideways trading band.

If this level is broken on the downside, the dollar index would be very bearish and it could then continue to drop to the 2008 lows near 72.

Looking at the dollar's leading indicator, it's on the decline, signaling the dollar's likely headed lower in the weeks ahead.

This suggests the 79 level probably will be taken out. If so, then the currencies will rise much further.

CHART 15



CURRENCIES: Mixed

As you'll recall, the currencies have generally been mixed. Some have been strong, but others have not. If the U.S. dollar breaks down, however, then the vast majority of currencies will head higher, even the laggards.

Looking at **Chart 14**, you'll see the strongest currencies. These are the British pound, which we've been

recommending and still do. It's currently at a five+ year high and its outlook is bright.

The euro and Swiss franc are also two favorites. The Eurozone is showing ongoing improvement and it's ready to do whatever it takes to keep its economy on track.

That's been providing a nice boost as recession concerns get left behind.

The commodity currencies are also looking better (see **Chart 15**). While we're not recommending them yet, we may if they continue to shine.

And shine they could because if commodities keep rising, and it looks like they may, these currencies will too.

The Asian currencies aren't doing as well. But this too could change and we'll be watching them as well.

METALS, NATURAL RESOURCES & ENERGY

Gold: Bear market in final stretch

For all the excitement this past month, with the stock market soaring to record highs, and bonds rising to 11 month highs, it's a good surprise to see gold holding steadily above its April low.

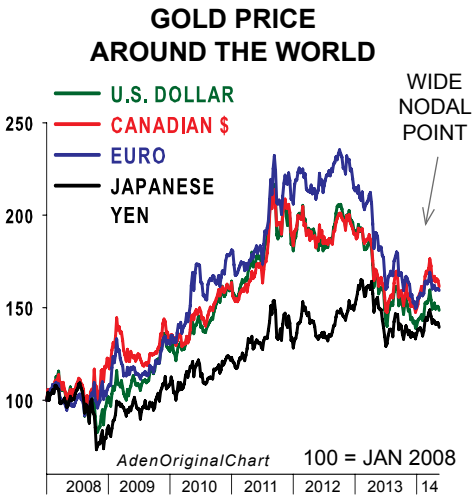
Likewise for silver and their shares. Silver has been holding quietly above its $19 support all year, while gold shares also continue to consolidate within a bottom area.

PALLADIUM GETS BEST BOOST

The Russia-Ukraine crisis has been adding stability to gold and silver, but palladium has had the biggest boost from the turmoil because Russia is the largest palladium exporter in the world.

Palladium has been the strongest precious metal by far this year. It has been rising for almost two years, but it's had that extra push upward since March (see **Chart 16**).

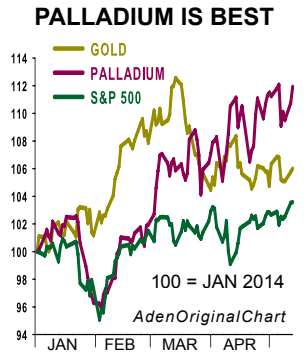
CHART 17



And now, palladium is getting yet another boost from a strike in South Africa, the second largest producer.

Palladium is hitting a 33 month high as we write.

CHART 16



LOWS BEHIND US?

The Fed continues to curb stimulus, which has been putting some pressure on gold.

But don't be fooled. There is still lots of uncertainty, and once (if) Yellen changes the course of stimulus, it will have a strong impact on the gold price. We think stimulus is here to stay, at least for many years.

The longer time goes by, the more it looks like the lows last year will end up being the lows for the bear market.

The latest jumps in wholesale prices could be the start of the end of the low inflation era in the U.S.

Time will tell.

Meanwhile, gold continues to form a wide nodal point when looking at it in terms of several currencies (see **Chart 17**).

This nodal point has been forming ever since the steep plunge occurred last year when paper gold was being dumped while physical gold was grabbed up.

GOLD DEMAND

Now we know it was the Chinese who mainly bought the most gold last year, taking advantage of falling prices.

In fact, these purchases are the push that caused China to become the world's top buyer last year, instead of India when import restrictions cooled their demand.

China's demand by some counts is down this year, along with its slowing economy, which is the slowest since 1990. But at over 7% it's still a lot stronger than most developed economies.

According to the World Gold Council, gold demand in China will rise about 25% in the next four years as its population gets wealthier.

This is indirectly saying that the slowing we're seeing this year is an aberration and not a change in investment philosophy. Perhaps that's why there's a discrepancy in the demand numbers.

Another recent report, for example, is showing Chinese demand has been very strong in the first four months of this year.

Plus, it now looks like India may loosen their restrictions on gold imports later this year.

TIMES ARE A CHANGING

Demand for gold as legal tender is also growing. Oklahoma passed a bill to legalize gold and silver as legal tender.

And Arizona also passed a simi-

lar bill but it's stalled in the State house for the time being.

But our good friend, Chuck Butler recently reminded us that the U.S. Constitution, article 1, section 10 reads, "No state shall .... make any thing but gold and silver coin a tender in payments of debts."

The London gold fix was our gospel for pricing gold for many years in the 1970s and 1980s. But it's now set to disappear.

Lawsuits have already been filed against five banks responsible for the gold fix. And now the London silver fix is ending.

This one is run by three banks. One being Deutsche Bank recently resigned, and now the other two banks are following. By August this ritual that started in 1897 will end... 117 years later.

CHART 18

GOLD'S BIG PICTURE: Looks good

The point is gold is not dead. It's simply moved into the back seat for a while. And if you look at gold's big picture since 1968, you'll see a very interesting picture.

Chart 18 shows that gold's decline of the last few years looks small in the big picture, within the mega uptrending channel since 1968. Note that gold has had two major bull markets in the 1970s and in the 2000s.

The major rise in the 70s didn't break its bull market red uptrend until 1984, several years after the peak in 1980.

The bull market red uptrend since 2001, however, is still intact. On a big picture basis, it'll be important to see if this trend holds.

In other words, as long as gold stays above the lows of last year, at $1210 this trend will stay solid. And according to the leading long term indicator (**B**) it's saying that gold remains in an extreme low area.... the most since the 1980s.

This means, the lows of last year are unlikely to be broken.

This doesn't mean gold will soar from here. Eventually yes, but for now we could see some decent moves.

It looks more like 2015 could be the year of a strong change to the upside. But we'll keep our eyes open for all possibilities.

GOLD TIMING: Moderate decline

Meanwhile, gold is holding firm and it clearly looks like a B bottom is trying to form. If gold now stays above $1280, its April 1st low, this will be a classic looking B decline and bottom.

Chart 19A shows this. Gold has declined 7% since its A peak, a normal action for a B decline in time and price.

Plus, the rise this year from the December lows to the March highs was also a perfect A rise in terms of price gains and time.

This also means the two major lows of last year in June and December were a long drawn out double D low. The longest D decline yet, lasting about 2 years from the Sept 2011 peak.

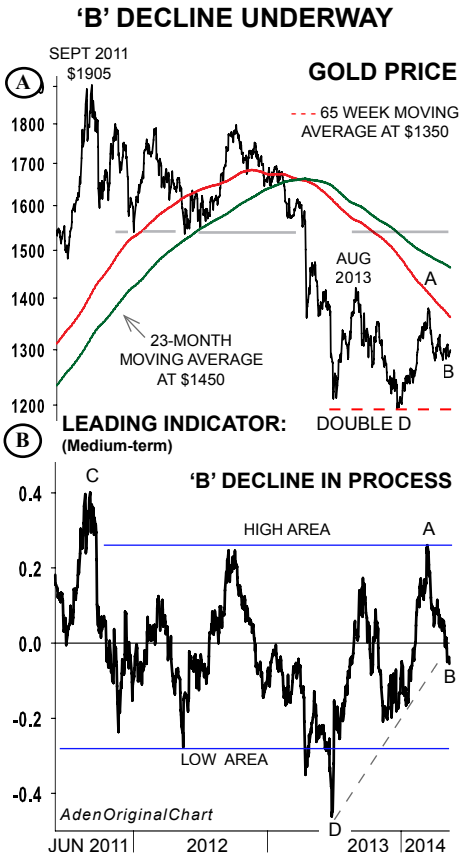
This tells us the A and B moves this year were a consolidation time following the long D decline. And most exciting is the next upcoming move will be a C rise.

Let's now see how this could work out....

First, it all depends on gold holding above $1280, its six week support. Because if it's clearly broken, we could see more down time short-term before a rise begins.

With gold now near $1300 it's starting to look good. Once gold rises back above its 65 week moving average now at $1350, it will be the first concrete sign that the C rise has

CHART 19



begun (see **Chart 19**).

The test will then be the August high at $1420 and the declining 23 month moving average now at $1450. If these levels are surpassed, then it's off to the races for gold and the C rise!

Granted, the gold price would be coming from a low level and it would likely be too much for a C rise today to reach record highs.

But a rise that surpasses these resistance levels would be confirming the start of another bull market rise!

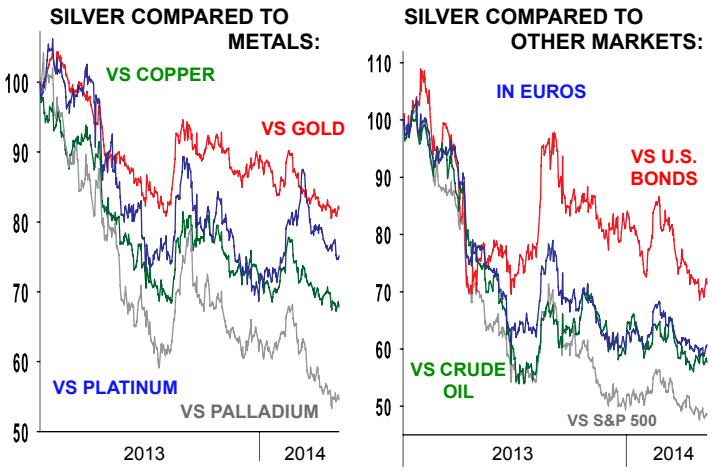
That would be the most exciting part of the upcoming C rise.

Looking at seasonality, if gold doesn't start an intermediate rise this month or next, then it's unlikely to get started during the Summer (although last year it did). But come September, a good sized C rise could develop that could last until year end.

If this happens, it would coincide with the big picture phases that show a bull market rise could get started next year.

In other words, gold looks like it's in the final stretch of the bear market.

CHART 21



SILVER IS CHEAP

Adding to this thought is the undervalued silver price. Not only has it remained in a major low area all year in dollar terms as it sits above the $19 price, it's also cheap compared to most markets. **Charts 20** and **21** show this well.

First, look at silver holding near the 2008 high area on **Chart 20A**. This was an expensive area in 2008 because silver was only around $7 just a few years prior to that.

Today silver is cheap compared to its 2011 high near $50. It was also cheap at the lows in 2008 near $10 compared to $20 earlier that year.

In other words, the price is cheap relatively speaking, and the leading indicator **B** identifies this well.

Once it rises above its moving average and stays there, it'll be the first real bullish sign.

Chart 21 shows how cheap silver is compared to the other metals, and to stocks, bonds and the euro. Silver is in a unique situation to be buying and holding.

Keep an eye on $22 in the big picture. Once this level is surpassed, silver will turn bullish for the first time in over two years.

Meanwhile, silver will continue to be building a springboard by staying above $19, and it will look better above $20.50.

If it slips temporarily to $18.50, that wouldn't be so bad and it would actually provide an even better buying opportunity.

Demand for silver is also very good. A recent report said the physical demand for the metal rose to a record last year.

Plus, judging by the U.S. Mint, its March sales were the fourth biggest month ever, and the Mint is now set to exceed its 2013 total sales, which were strong. Also remember, the Mint has to buy its silver in the open market to make coins.

It's interesting to see that silver is now being used more in industry as well. It's also being viewed by investors as a good hedge against war and uncertainty, like gold.

This growing demand ties in well

CHART 20

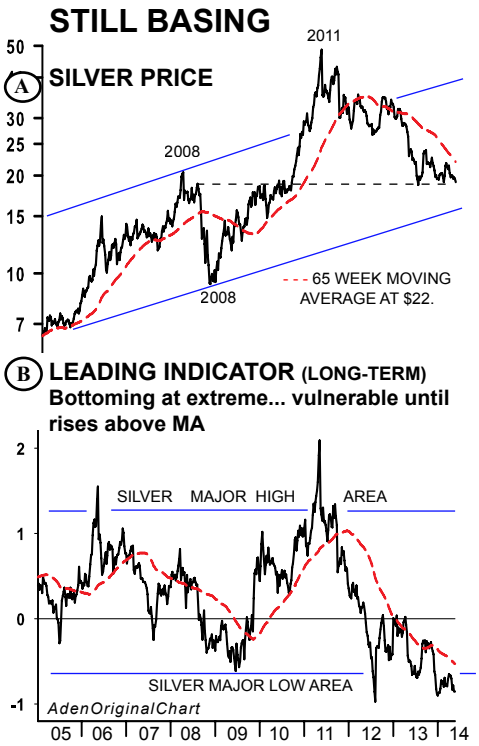


CHART 22

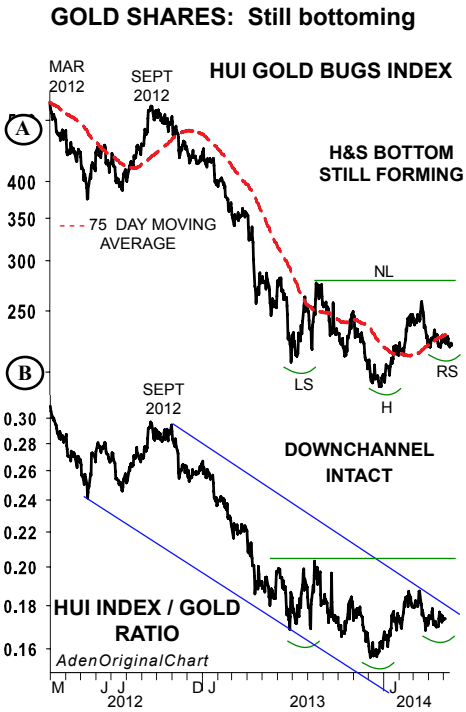
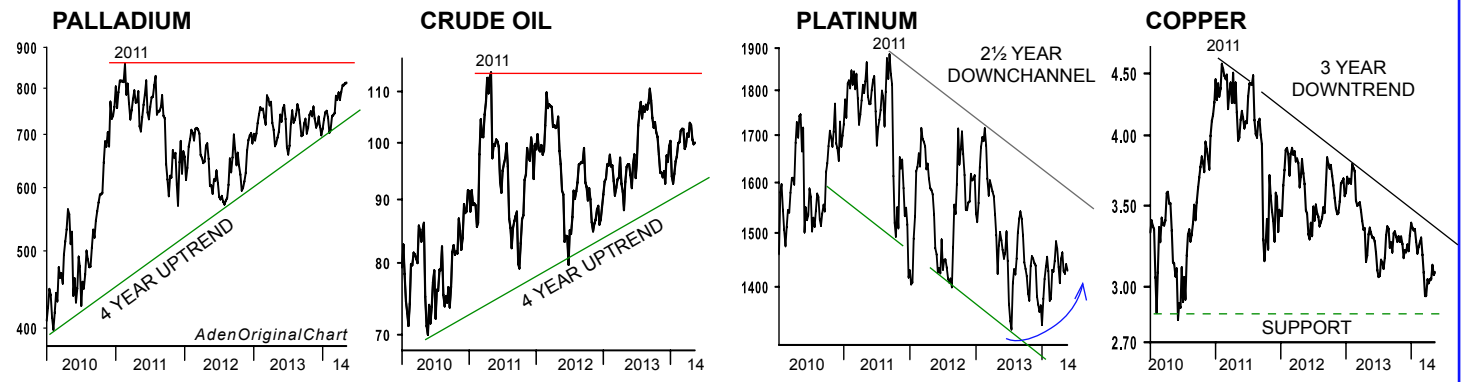


CHART 23



with the technical situation in silver. ..... Silver is cheap.

GOLD SHARES: Also good value

This month gold shares continued to consolidate from its rise this year. It still looks like a wide bottom is forming, a head and shoulders bottom (see **Chart 22**).

Like gold and silver, gold shares have held up well in lieu of the strong stock and bond markets.

Gold and silver shares are forming the "right shoulder" of a bottom area and they're holding well above the December lows. **This is good action in a bombed out sector.**

We know gold shares are clearly out of favor, but we think it's a good time to be picking up some good value, selectively and patiently.

Gold shares continue to also bottom versus gold, and the juniors continue to bottom versus the seniors. All this is a plus for a clearly oversold market.

Of our positions....

We like the royality companies like Royal Gold and Silver Wheaton. Agnico Eagle jumped back up and it's doing fine. NewGold is the laggard but it will eventually move up with the tide.

Most interesting now is Central Fund of Canada (CEF). We've been buying and holding CEF for 10 years. It's a great way to hold gold and silver in a Canadian bank vault.

It's roughly a 60-40 weight and you have the best of both. We've also mentioned in the past that U.S. citizens pay the normal capital gains tax on it instead of the 28% you pay to hold gold.

This fund is solid and it normally has a premium on it, especially during the bull market. But now with gold out of favor, the premium has turned into a discount.

This makes CEF exceptionally attractive to buy now. We recommend you do so, along with our other metals related investments listed on page 12.

RESOURCE AND ENERGY: Looking good

Palladium has been the strongest precious metal, and it's one of the leaders in the resource world. Interestingly, palladium and crude oil look similar (see **Chart 23**).

The main difference is that palladium is rising more because it's primarily dominated by Russia whereas crude oil is not.

Clearly Russia has the upper hand for crude exports to Europe and other countries. But with more oil now being produced in the U.S., as well as in other oil producing countries, oil is not affected by the Russian turmoil as much as palladium is.

Crude oil will stay firm above $99.

Platinum, however, while looking somewhat better, it's still in the doldrums..... Copper is too (see **Chart 23**).

But we're seeing several pop ups.

Nickel, for example, soared to a two year high on supply concerns. And while it may be overdone, it doesn't take away from several changes taking place (see **Chart 24**).

Plus some of the agri commodities remain strong, which adds to higher prices.

No doubt that China's economic slowdown and the global slowdown in general has hurt copper and the resource sector, but it looks like the worst may be over, or about over.

Copper reached a low in mid-March and it's been rising from that low since then. It's now firm if it stays above $3.10, and it'll be stronger above $3.25.

Note our two recommended energy and resource companies shown on **Chart 25**. The energy ETF (XLE) has risen to further highs. BHP Billiton, which is the largest resource company in the world, is holding up well and looking ready to breakout. So yes, the times are a changing....

CHART 24

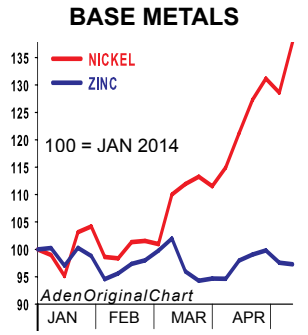
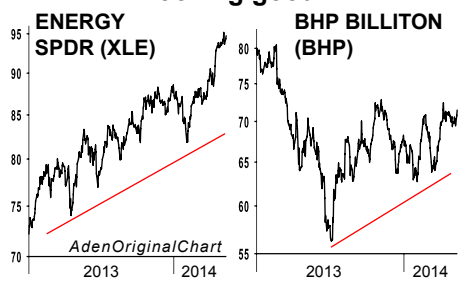


CHART 25



OVERALL PORTFOLIO RECOMMENDATION

Bonds and stocks surged higher this month. Bonds, however, have been by far the top performers and we recommend buying more. You'll see our new additions and changes in the box and Recommendations below….

PRECIOUS METALS, ENERGY, RESOURCE

The metals are holding firm in spite of the soaring bond and stock markets. This alone shows underlying strength. Palladium has been the star, reaching a 33 month high due to the Ukraine crisis and a strike in South Africa, the two main palladium producers. Gold is holding above $1280 while silver has been sitting above $19 all year. We recommend buying and keeping gold, silver and their shares. Buy the ones at the top of the list that also includes palladium. Central Fund of Canada is trading at a discount that makes it a great buy.

U.S. & GLOBAL STOCK MARKETS

The stock market is bullish but it's also volatile and caution is still warranted. For now, we recommend keeping the stocks you have and hold off on buying new positions for the time being. (The only exception is XLU, which we bought on the weekly update of April 24.)

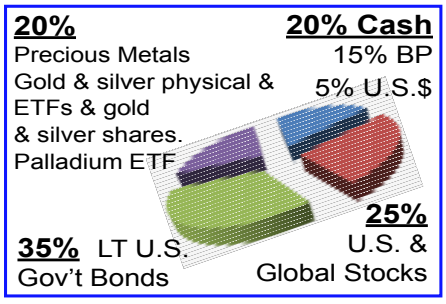
CURRENCIES

The U.S. dollar index is under downward pressure. If it declines and stays below 79, it'll be very bearish. Continue to buy and hold the British pound with your 15% currency position. The euro and Swiss franc are okay to hold too. We used most of our U.S. dollars to buy more bonds, leaving just 5% in U.S. dollars.

INTEREST RATES & BONDS

Bond prices are surging. They've been top performers this year and they're headed higher. That is, interest rates are poised to decline further in the months ahead. We currently advise raising your long-term U.S. government bond position to 35% (up from 15%) of your total portfolio. You can buy individual over 10 year U.S. bonds outright, but bond ETFs are probably easier for most investors. The ones we recommend are listed on the right. We also like SPDR L-T Treasury (TLO) for new positions.

*New position



OUR OPEN POSITIONS

GOLD AND SILVER ETFs & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Palladium	PALL	Jan-13	69.71	79.07	13.43	Buy/Hold
Agnico Eagle	AEM	Feb-14	33.68	32.77	-2.70	Buy/Hold
Royal Gold	RGLD	Mar-14	66.04	64.23	-2.74	Buy/Hold
Central Gold Trust	GTU	May-09	36.53	46.59	27.54	Buy/Hold
iShares Gold Trust	IAU	May-05	4.17	12.56	201.15	Buy/Hold
Central Fd of Canada	CEF	Apr-04	6.39	13.95	118.31	Buy/Hold
SPDR Gold Shares	GLD	Nov-04	44.38	124.77	181.14	Buy/Hold
Gold (physical)		Oct-01	277.25	1293.60	366.58	Buy/Hold
Silver Wheaton	SLW	Sep-09	11.66	21.78	86.79	Hold
Silver (physical)		Aug-03	4.93	19.48	295.21	Hold
iShares Silver Trust	SLV	May-06	14.50	18.74	29.24	Hold
NewGold	NGD	Apr-10	5.13	5.08	-0.97	Hold

STOCKS & ETFs

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Johnson & Johnson	JNJ	Feb-13	76.16	100.69	32.21	Hold
Energy Select SPDR	XLE	Aug-12	72.37	93.64	29.39	Hold
Global 100	IOO	Oct-13	72.97	79.14	8.46	Hold
iShares Transports	IYT	Oct-13	118.85	139.43	17.32	Hold
Utilities Select *	XLU	Apr-14	43.11	42.03	-2.51	Hold
BHP Billiton	BHP	Aug-13	67.68	71.53	5.69	Hold
Microsoft	MSFT	Feb-13	28.01	39.60	41.38	Hold
DJ US Telecom	IYZ	Sep-12	25.22	29.70	17.76	Hold
iShares US Med Dv	IHI	Oct-13	86.70	96.47	11.27	Hold
Procter & Gamble	PG	Sep-12	68.10	80.53	18.25	Hold

BONDS

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
Ultra 20+ Treasury	UBT	Feb-14	58.00	64.45	11.12	Buy/Hold
SPDR L-T Treasury *	TLO	May-14		66.40		Buy
20+ year Try Bond	TLT	Feb-14	107.78	113.86	5.64	Buy/Hold
10-20 Treasury Bond	TLH	Feb-14	125.73	129.46	2.97	Buy/Hold
Intermediate Muni	MUNI	Feb-14	52.69	53.27	1.10	Buy/Hold

CURRENCIES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE BOT	CURRENT RECOMM
British Pound ETF	FXB	Sep-13	161.11	165.30	2.60	Buy/Hold

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

