THE
ADEN FORECAST
MONEY • METALS • MARKETS

MAY 2017 *Our 36th year*

STAY INVESTED, STAY ALERT, STAY FLEXIBLE

All eyes have been on France this month. The presidential election had all of the markets waiting to see the outcome with baited breath. Why?

After Britain voted to leave the European Union (EU) last year, many feared France would follow. And since France is a heavy hitter within the EU, a win by the anti-EU candidate would've essentially meant the breaking up of the EU.

This uncertainty made the markets nervous. But now that Macron won by a landslide and he's pro EU, the markets are breathing a sigh of relief. At least that uncertainty has been put to bed.

THE BIG UNCERTAINTIES

Recently we've been talking about the uncertainties hanging overhead and how they could affect the markets.

As you know, there's a slew of them and we're watching them closely. Geopolitical tensions in North Korea, for instance, have had the world on edge.

The same is true of the U.S. debt load, which currently amounts to about $828,000 per family, and it keeps accelerating.

As our dear friend Chris Weber of *The Weber Global Opportunities Report* noted, the 46 years since 1971 have seen the debt soar by 5,291%.

The 46 years before 1971 saw it rise by only 1,755%. But without gold discipline, we're now looking at many thousands of percent increases.

INSIDE

We're now doubling what it was in 2008, just nine years ago. And other experts estimate Trump's tax cuts alone could cost the government $2 trillion over 10 years.

THE GOOD AND THE BAD

Then there's money supply and bank lending. These are both down and they tend to lead recessions. Many economic signs also weakened last month, which is causing concern.

Retail sales, for example, have been on the decline and retail stores are going bankrupt at a record pace. People would rather buy online, so Amazon is booming but the malls aren't.

The end result is, economic growth was stagnant in the first quarter, at the lowest level in almost three years (see **Chart 1**).

Nevertheless, the good news is still overpowering the bad news. Most impressive has been the rising stock market, good housing numbers and unemployment at a 10 year low.

BULLISH EQUITIES LOOKING AHEAD

The stock market, however, is in a league of its own. It's not only impressive, but telling...

It's commonly known that stocks lead the economy by about 6-9 months.

The stock market looks ahead and the fact stocks keep hitting new record highs strongly suggests the economy is going to keep plugging along. The Global Dow is also hitting new highs, which is bullish for the global economy.

The stock market is telling us there's no recession in sight, at least not yet. On the contrary, the world economy will probably soon pick up again, based on the stock market action.

In fact, global reflation suggests a sluggish economy in the U.S. is unlikely to halt this stock market rise.

It's basically a global situation.

This runs contrary to what a lot of doom and gloomers have been saying for a long time. Many feel a big bust could happen at any time. But as long as the U.S. and global economies keep improving, things should generally be fine.

STAY INVESTED, ALERT AND FLEXIBLE

Still, we can't ignore the warning signs and we have to stay alert. As we've often noted, anything is possible in these uncertain times and it's important to stay flexible.

The latest wild card, for instance, was pointed out by Porter Stansberry...

"Central banks began buying stocks because they virtually ran out of bonds to buy. Said another way, once they bought so many bonds that interest rates fell to zero, they simply couldn't buy any more.

To continue their "free money" policies, they had to continue to expand their balance sheets. They've done so by buying massive quantities of stocks, all around the world.

For example, the Japanese central bank is the largest owner of more than 55 different companies and in 2016 alone, the Swiss central bank ownership of global equities grew by 41%. The Swiss central bank now owns almost $500 billion worth of equities in markets around the world."

QE continues

The bottom line, according to ex-Fed insider Danielle Di Martino Booth, QE is global and central banks have bought a cool $1 trillion so far this year, as of April.

That works out to $3.6 trillion annualized, the most in the decade that encompasses the years of the financial crisis.

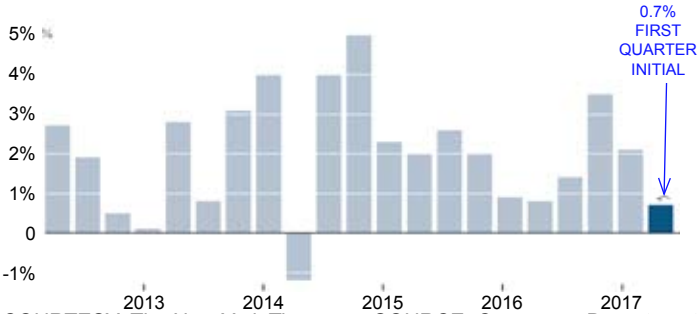
We know stocks are overvalued, so they're not going to keep rising to the sky. This means the next downmove, whether it's gradual or abrupt, is going to affect not only the commercial banks, like in 2008, but it's going to hit the central banks too and the repercussions could be far reaching... or not.

CHART 2

COURTESY: tradingeconomics.com
SOURCE: U.S. Bureau of Labor Statistics

CHART 1

GDP: The rate of change in the gross domestic product, based on quarterly figures adjusted for inflation and seasonal fluctuations.



COURTESY: The New York Times SOURCE: Commerce Department

VULNERABLE CENTRAL BANKS TO THE RESCUE?

We say that because so far the central banks have been able to save the day when potential problems have popped up. Whether we agree with their policies is not the point. The point is, every time there's been a potential crisis, the central banks have smoothed it over, one way or another.

So the question is, will the central banks be able to keep doing this in the future?

That's something we just don't know. Eventually we could go through an unprecedented financial crisis. But people have been saying this for decades and it hasn't happened.

That doesn't mean it won't. But in the meantime, we deal with what we have and make the best of it. So we primarily stay with stocks, the metals markets and cash.

These are our best bets and if other opportunities emerge, we'll use our cash to buy into those markets, and/or increase our positions in the sectors we're already holding.

INFLATION BREWING...

Meanwhile, inflation has been pushing up this year. As we mentioned last month, it finally reached the Fed's target for the first time in five years. This too was good news and it'll likely keep a foundation under the gold price during its B decline, which is now in process.

So with inflation perking up, the Fed feels okay about raising interest rates further this year, despite the lackluster economy. Will rising rates be too much or not? We'll soon find out, but for now it doesn't look like it.

U.S. & WORLD STOCK MARKETS

The bull continues to roar

The stock market remains super bullish. Nasdaq keeps hitting new record highs and so does the S&P500. They're both still set to rise further.

GO WITH THE TREND

We know this may seem hard to believe... After all, the stock market is overvalued, the economy is not doing so great, and there are many uncertainties hanging overhead.

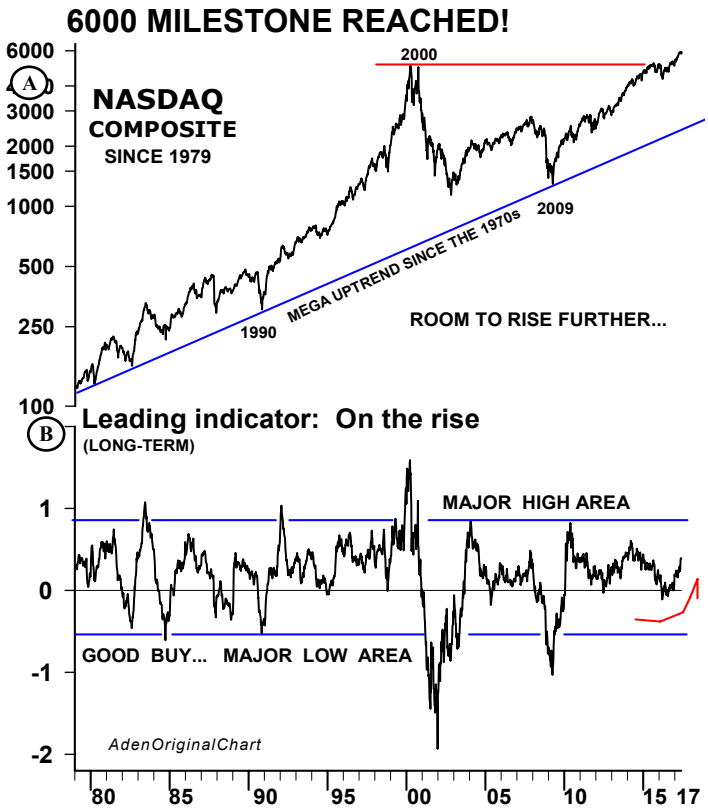
But interestingly, the VIX index, which is known as the fear index, is at a 24 year low! So despite the uncertainties, investors aren't concerned and they generally feel all is well. In fact, it looks like Nasdaq is probably leading the way for the other stock indexes.

The global stock markets are all bullish too and they're reinforcing this.

The World stock market index, for instance, is also hitting new record highs and they're all poised to rise further. This is being fueled by the improving global economy.

That being the case, this month we're taking a chart walk, which provides a good overview as to where this market currently stands...

CHART 3



TECH STOCKS LEADING

Since Nasdaq has been the leader, we'll start by looking at Nasdaq's big picture...

As you can see on **Chart 3A**, Nasdaq has been in a mega uptrend since the late 1970s. Last year it broke out to new record highs and this month it surged above the 6000 level. This is very bullish action.

Most impressive, however, in spite of the strong rise Nasdaq's already had, its leading indicator has not yet reached the high area (see **Chart 3B**). This area tends to coincide with overbought situations and it usually precedes declines in Nasdaq.

And since this indicator has room to rise further, it's telling us Nasdaq has the potential to head even higher before it's technically overbought.

The other stock market indicators are similar (see **Chart 4**). Plus, they're all technically bullish above their moving averages, signaling the major trends are up.

Some of the indexes stalled out this month and they may decline further before they head higher. But as long as they stay above their moving averages, all systems are go for the overall stock market.

EERILY SIMILAR

Comparing bull markets of the past on **Chart 5**,

CHART 4

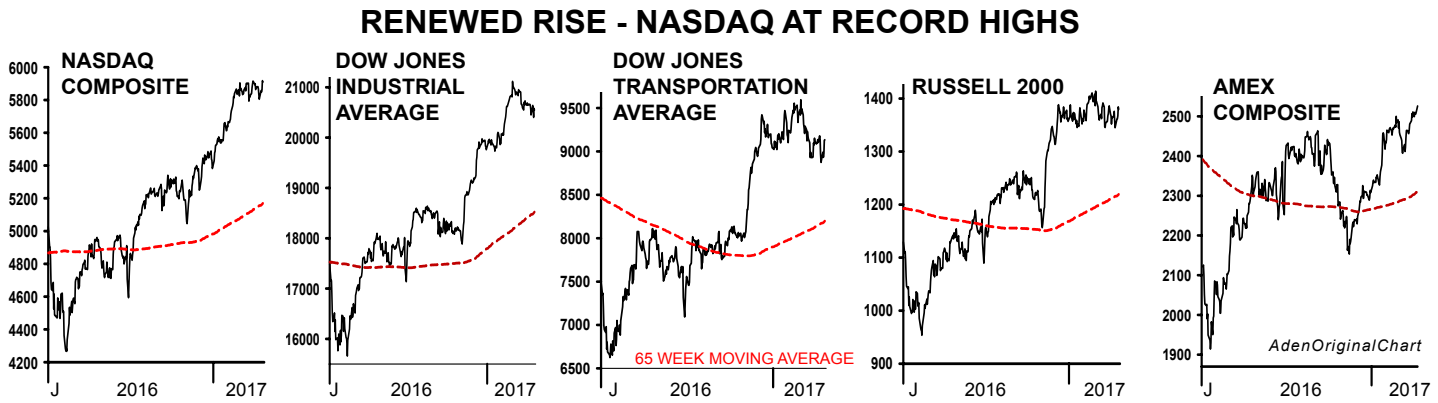
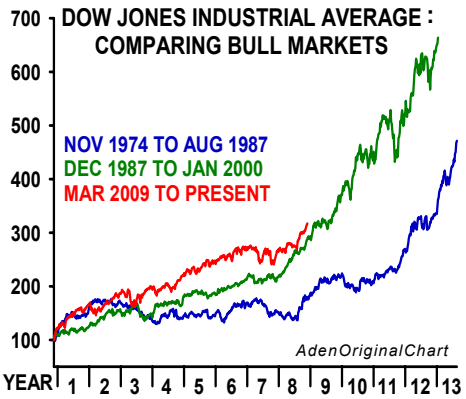


CHART 5



it's interesting to see how the current bull market fits in. Note it's been rising for 8+ years (in red).

That may seem like a long time but if this upmove is similar to the major bull markets of 1974-1987 or 1987-2000, it could rise a lot further and it could last much longer than most people think.

This would mean the bull market since 2009 is really just picking up steam (see **Chart 6**)!

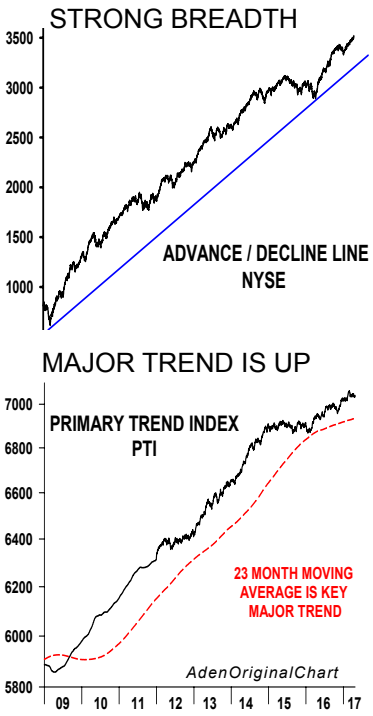
This is being reinforced by the Advance/Decline line, which keeps hitting new record highs (see **Chart 7**).

Richard Russell's famous Primary Trend index, which identifies and confirms the major trend, also remains in a major uptrend. So here too, these indicators are giving a green light.

WORLD MARKETS ADD TO BULLISH SCENARIO

It's also interesting to note, the S&P500 and the U.S. dollar have gone their separate ways this year (see **Chart 8**). Currently, the U.S. dollar is vulnerable and it could decline further. And since a weaker currency often coincides with a rising major global stock market, the dollar's vulnerability could end up putting some upward pressure on the U.S. stock market.

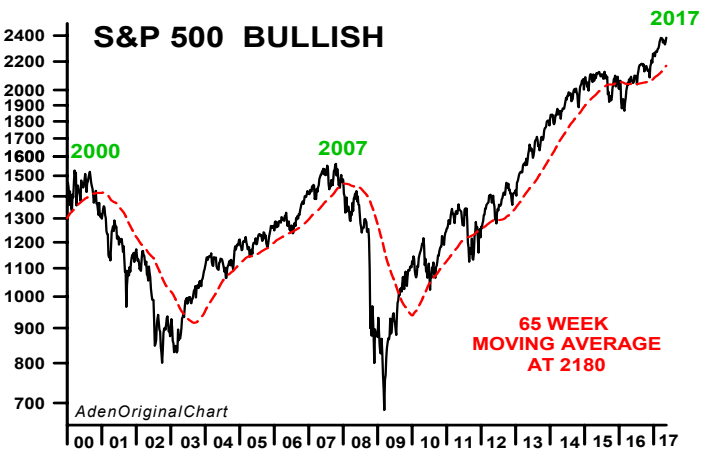
CHART 7



Another bullish situation is the ongoing strength in the emerging markets (see **Chart 9**), which compares the strength in the Templeton Emerging Markets index (EMF) and the S&P500.

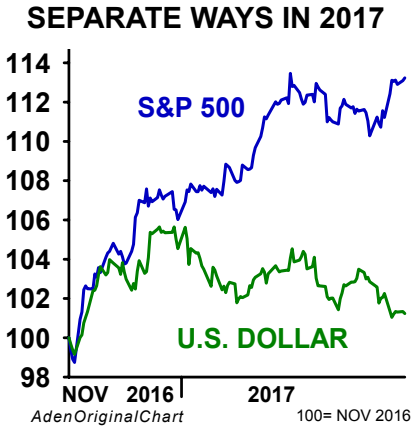
As you can see, the emerging markets have been stronger than the S&P500, after lagging for quite a while. This usually happens when investors are confident the global economy is strong and it's going to stay that way.

CHART 6



It also means emerging markets could continue to strongly outperform U.S. stocks. This essentially applies to many of the international stock markets. They're generally cheaper and the upside potential is good.

CHART 8



SELL IN MAY?

Okay, but what about the old saying, "sell in May and go away..." Well, this is a caution sign because stocks seasonally tend to decline in May.

In bull markets, this has often coincided with downward corrections, providing a good opportunity to buy in case you want to add to your stock positions.

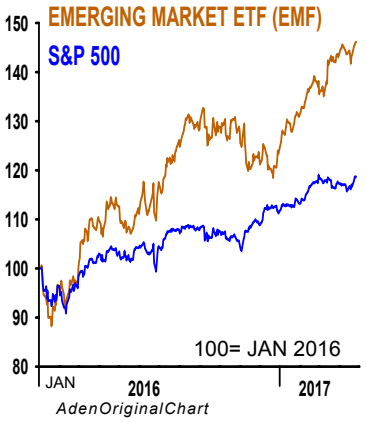
Will it happen again?

It could, so you'll want to be on the alert, just in case. For now, we continue to recommend keeping a 40% position in stocks. And if the market does correct downward, we may advise buying more, depending on how things unfold.

For new positions, the stocks we like best are Nasdaq (QQQ), Templeton Emerging Markets (EMF), Adobe (ADBE), S&P Global 100 (IOO), Microsoft (MSFT) and Dow Industrials (DIA).

We don't like Alcoa (AA) or U.S. Steel (X), but if the overall stock market heads higher, these stocks likely will too and we'll then be looking to sell them.

CHART 9



U.S. INTEREST RATES AND BONDS

Major trends still in place

It seems everyone keeps talking about rising interest rates these days. They're sure the Fed is going to raise interest rates again in June.

This in turn makes investors a little nervous because higher interest rates could spook the stock market and possibly slow the economy. But are these valid concerns?

HISTORICAL LOWS

As we discussed last month, at times like these it's always good to put the situation into perspective...

We know interest rates are one of the most important markets around because they affect nearly all of the markets, in one way or another.

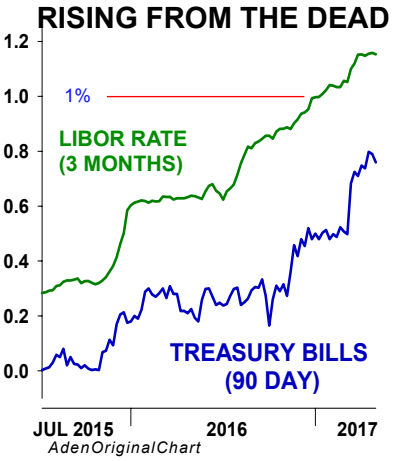
In that sense, it's also important to remember that interest rates plunged to 5,000 year lows last year... That's right, they dropped to the lowest level ever seen in all of recorded history (see **Chart 10**).

Now, think about this for a minute... Going back to Babylonian times, the building of the pyramids, the Greek and Roman Empires, and all of the other history since then, interest rates have never been as low as they were last year. That in itself is pretty incredible and it emphasizes a couple of key points...

PLENTY OF LEEWAY

First, it means that even though the Fed has raised interest rates three times in the past 17 months, and it could raise rates again next month, interest rates are still very low.

CHART 11

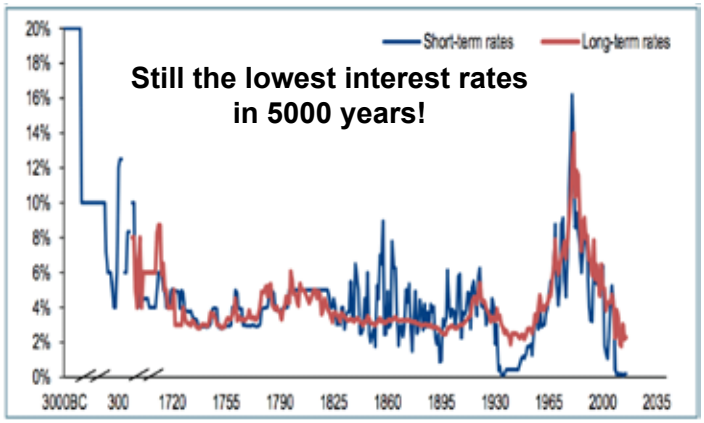


You can see this clearly on **Chart 11**, which shows the Libor and Treasury Bills. These two short-term interest rates have been surging. Treasury Bills are near an eight year high.

But taking a closer look, you can see Treasury Bills are still below 1%. And the Libor rate is barely above 1%.

In other words, these interest rates started off from such low levels, near 0%, they could rise quite a bit further before they even begin to affect the markets or influence the economy. That is, there is plenty of leeway to maneuver.

CHART 10



SOURCES: Bank of England, Global Financial Data, Homer and Sylla "A History of Interest rates"
Note: the intervals on the x-axis change through time up to 1700. From 1700 onwards they are annual intervals. Full methodology available upon request.
COURTESY: Business Insider

The story is similar in the rest of the world where short-term interest rates are only now starting to wake up, following many years near 0% (see **Chart 12**). So here too, there's plenty of room for interest rates to rise further before it becomes noteworthy.

INFLATION PICKING UP

This also means the Fed is focusing more on inflation than economic growth which, as you saw on **Chart 1**, turned lackluster in the first quarter. Inflation, on the other hand, has been perking up, not only in the U.S., but in the other major countries as well (see **Chart 13**).

So despite sluggish economic growth, this reinforces diminishing deflation concerns. Instead, inflation expectations are moving to center

CHART 12

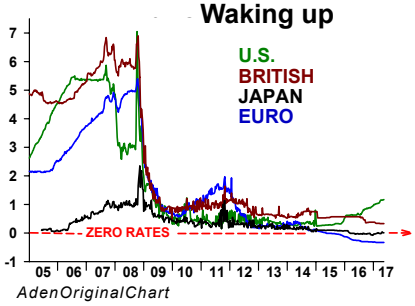


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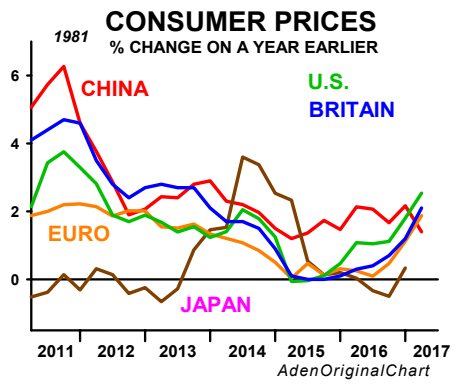
CHART 13



stage. And even though inflation is still relatively low near 2% it's becoming more of an issue.

The bottom line is, if inflation keeps creeping up, then interest rates will too.

MEANWHILE, PRESSURE STILL DOWN

Currently, however, it still looks like long-term interest rates are going to decline first before they head higher (see **Chart 14**). That is, short-term and long-term interest rates will probably continue going their separate ways for the time being.

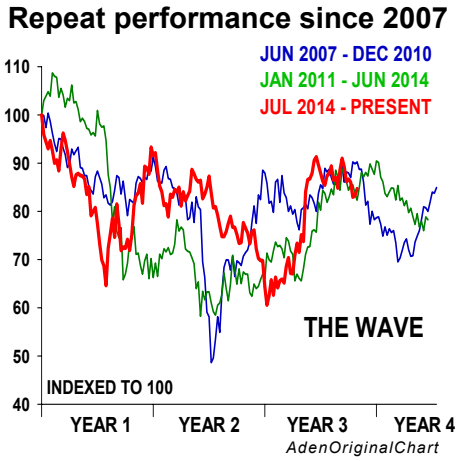
This will likely be temporary because eventually all interest rates tend to move together, especially as far as the major trends are concerned.

For now though, the 10 year yield's leading indicator is on the decline and it hasn't reached the "too low" area.

This tells us the yield is poised to decline in the period ahead.

And since bond prices move opposite to long-term interest rates, bond prices will rise in what will likely be a last hurrah. This will provide a good opportunity to sell bonds if you're still holding some.

CHART 15



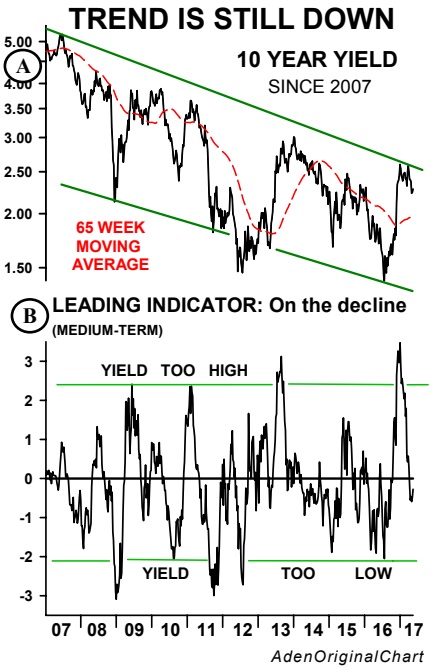
Interesting...

In recent years, the action in long-term interest rates (using the 30 year yield as an example) has been similar to both the action in 2007-10 and 2011-14.

As you can see on **Chart 15**, the red line shows the yield since 2014, and the **movements are essentially a repeat performance.**

We call this The Wave and if it continues, long-term rates will indeed go lower before they again move up. But once they do, there's a good possibility we'll then see long-term interest rates rise strongly, following short-term interest rates up. We'll keep the wave on our radar.

CHART 14



BONDS: Heading towards major top

At that point, we believe the bond bubble that's been in force for decades will burst. And when it does, bond prices will fall sharply. This would be confirmed if the 30 year yield rises and stays above 3.20%.

Many bond gurus tend to agree. They believe bonds are on limited time. At the least, they're risky, which is why we continue to recommend staying on the sidelines and out of bonds.

Should this outlook change, say due to a recession then we'll change too. But for now, the red lights are still flashing and it's best to stay cautious.

CURRENCIES

U.S. dollar: 2017 has been a down year

The U.S. dollar has been deteriorating. It declined steadily over the past month, hitting a six month low.

Increasingly, it looks like the U.S. dollar index is forming a top (see **Chart 16A**). For now, the dollar will remain vulnerable by staying below 100, and the leading indicator also continues to decline.

Lower interest rates aren't helping the dollar, and neither is the most sluggish economy in three years. Plus, a few weeks ago President Trump came out and said the U.S. dollar "is getting too strong" and he'd like the Fed to keep interest rates low.

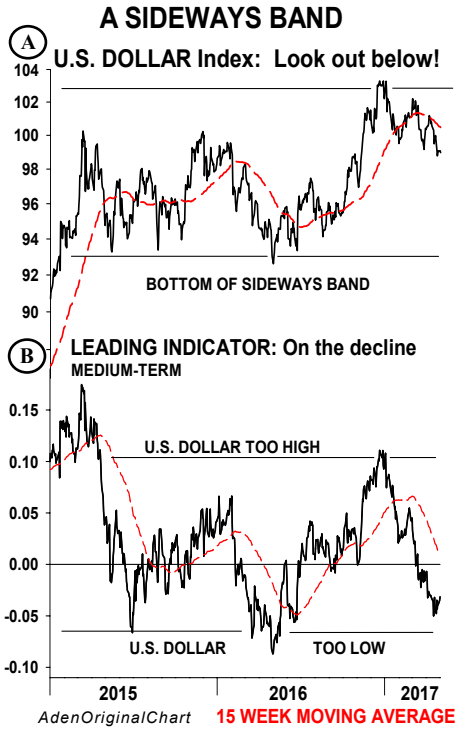
Presidents don't normally talk down their currencies. Even if they want a weaker currency to help boost trade and their economies, they don't usually say so.

But he did and as you'd expect, this put more downward pressure on the dollar. The same is true of growing geopolitical tensions.

GEOPOLITICAL UNCERTAINTY

North Korean tensions have spooked the dol-

CHART 16



lar. The mere thought that a nuclear exchange is even a possibility has kicked tensions up to levels not seen in many years. And while the markets in general are behaving as though it's not going to happen, the chance of an accident cannot be ruled out.

In other words, the unthinkable is hanging overhead. And as long as it is, it's the wildest of the wild cards and the blackest of the black swans. So we can only hope these tensions settle down.

U.S. DOLLAR STILL BULLISH

Despite all these factors, however, the U.S. dollar index is still bullish and it'll remain bullish by staying above 97.80. A sustained decline below 97.80 would be another story. It would mean the major trend is changing from up to down and the dollar would then likely fall a lot further.

This hasn't happened yet, but it could, especially if interest rates continue to decline as we suspect. Taking a look at the relationship between the U.S. dollar index and the 10 year yield you'll see what we mean (see **Chart 17**)...

Starting in 1980, the dollar soared. Interest rates rose well above 10%, which propelled the dollar higher. But once the 10 year yield dropped back below 10% in 1985, the dollar fell sharply.

The 10 year yield then steadily declined to 5% for almost a decade while the dollar fell too. The yield remained sluggish near 5% when the dollar then surged with the dot.com stock frenzy until 2001.

But here too, when interest rates dropped below 5% in the early 2000s, the U.S. dollar plunged until the 2008 financial crisis.

But then something strange happened... when interest rates broke down clearly below 2½% in 2011, the dollar moved up. Why the change?

Mainly it was because the U.S. dollar became a safe haven following the financial crisis. As you saw previously, this drove interest rates around the world down to near 0%. And since U.S. interest rates were slightly higher, it made the U.S. dollar more attractive. It's all relative.

WHAT NEXT FOR THE DOLLAR?

So where does the dollar currently stand?

As you saw on **Chart 12**, the U.S. still has an interest rate advantage. But with inflation picking up and interest rates starting to wake up in the other major countries, the dollar's edge could be slipping. Note the 10 year yield has been resisting below 2½%

CHART 17

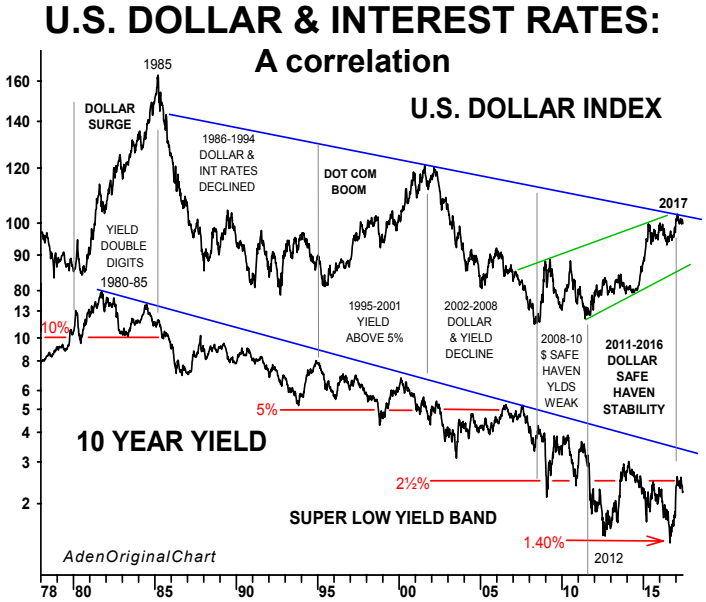
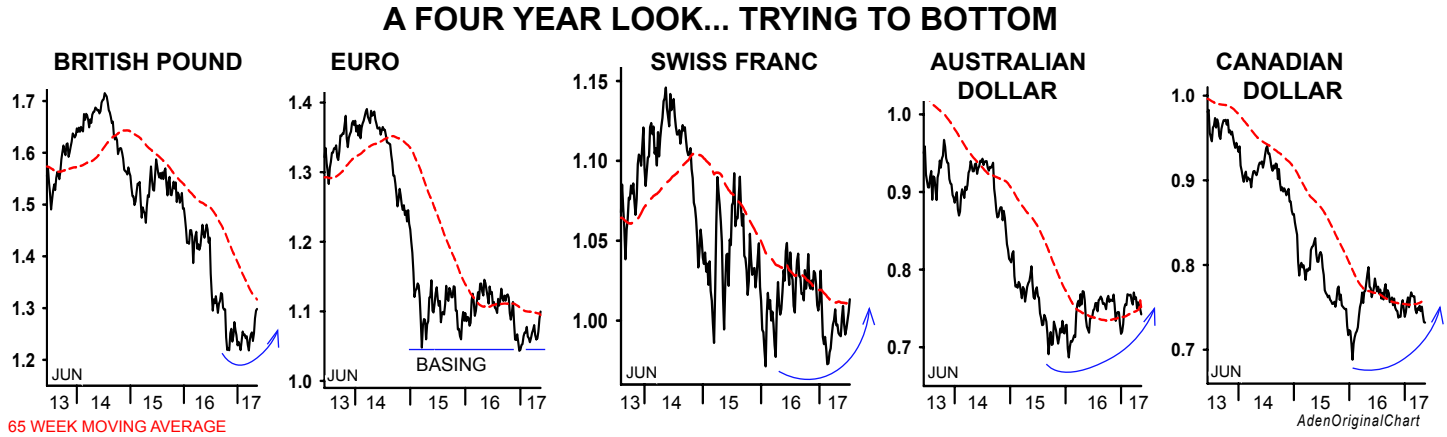


CHART 18



this year while the dollar is resisting below its major downtrend.

We'll soon see how 2017 unfolds but it's best to be cautious. Currently, we continue to recommend keeping your cash in U.S. dollars, but that may be changing soon. And if it does, the major currencies will head higher.

CURRENCIES ARE MIXED

As you'd expect, the euro has been firming up due to the fact France will now likely stay in the EU (see **Chart 18**).

The euro hit a six month high and it could rise further. This would be confirmed if the euro rises and stays above 1.0970.

Other currencies benefitting from the euro's strength and tagging along are, interestingly, the British pound and the Swiss franc.

On the other hand, **the commodity currencies** have been under downward pressure. The Canadian dollar has been hardest hit.

The drop in the oil price and the resource sector in general have been a negative for the Canadian dollar, the New Zealand and Australian dollars.

Overall, all of the currencies still look like they're bottoming and we continue to believe this could be a springboard for higher prices.

Again, if they're able to punch above their moving averages, it'll be a new ball game. The currencies would take center stage and the U.S. dollar would move to the back burner. It hasn't happened yet, but it could. So stay tuned.

METALS, NATURAL RESOURCES & ENERGY

The slump

A NEW BULL MARKET TURN-AROUND IS UNDERWAY, or was the 1½ year rise a counter-trend rally?

The metals' growth took a back seat this month when the decline we call 'B' finally took over. Gold shares, industrial metals and silver led the decline, and gold is now following.

Gold's 'B' decline tends to be moderate during a bull market. So once again, today's decline is a test to judge the turnaround from bear (2011 bear market) to bull (2015 bull market).

Will the current second quarter finish as good as the last five quarters for the six major metals?

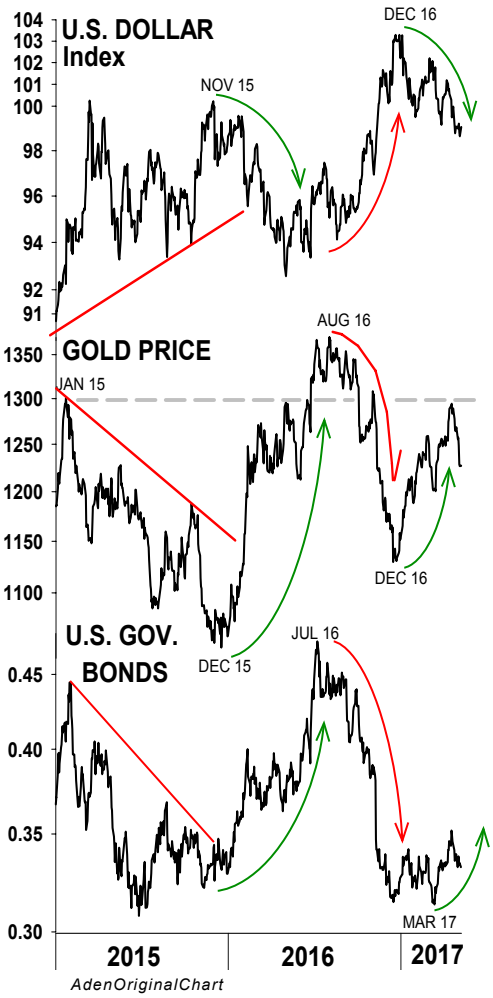
We'll soon see, but more important is the very bullish big picture, and the potential for the years ahead. The fact is, gold's gains so far this year during the A rise makes a future upmove even more sustainable.

SAFE HAVENS

Gold has been up on safe haven demand during the growing geopolitical concerns out of China, Syria, Russia, North Korea and the U.S. Adding to this was Trump's 'desire' for a weaker dollar and it all caused gold to jump up to its five month high on April 18.

CHART 19

GOLD, DOLLAR & BONDS
A RELATIONSHIP



Trump's wish for a weaker dollar is indeed coming to pass as you can see on **Chart 19**. The weaker dollar this year has clearly given gold a boost. And it looks like this is set to continue.

Some argue that bonds are the safe haven during a global crisis, more than gold. Is there credence here?

We've shown you that over the past two years, gold and bonds have been moving together, and they still are.

They both have been in sync to safe haven needs. This past month, bonds finally followed gold, bouncing up while the yields fell. Bonds were slow to rise, as you can see on **Chart 19**.

In fact, when bonds and gold cease to move together, this alone will tell us a lot. There have already been hints since last December's low when bonds also failed to lead gold on the intermediate move up. And the bond rise this year chugged as well.

Are bonds trying to tell us that gold will ultimately emerge as THE safe haven? Perhaps, and it's on our radar.

The geopolitical fear has calmed down for now, but we believe it's

temporary. These tensions will stay with us for a good while, unfortunately. And it's a big reason why strong demand for gold persists.

THE ONGOING STRONG DEMAND

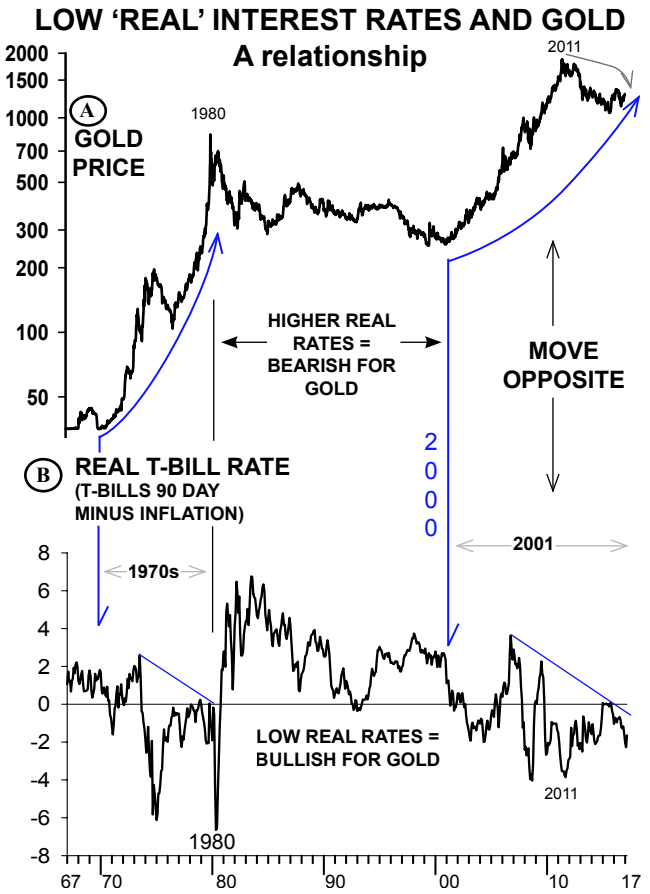
Each month we've been talking about the areas of strong global demand. And each month it continues. This month, gold imports by India are said to have leaped up in March as jewelers stock up.

Plus, China's net gold imports via Hong Kong more than doubled in March. The world's top gold consumer saw its imports rise to its best level in over a year.

The China Gold Association said gold bar sales surged 60% due to more people using bars to hedge against risk as they become more aware of its store of wealth.

Russia is also accumulating physical gold big time.

CHART 20



Ongoing geopolitical concerns will continue to keep a strong support for gold. For now, North Korea and U.S. concerns have taken over, and this is also helping to keep downward pressure on the dollar, which in turn is good for gold.

In other words, **if world peace is shaken, gold goes up. Gold thrives on uncertainty, especially financial and political uncertainty.**

Seasonally, gold tends to be weak in the Summer months, and it tends to pick up steam in the Fall. But this isn't set in stone. Last year, for example, gold reached its peak in August and gold's been unable to surpass this high since then.

It's something to be aware of, but it's not a done deal.

GOLD & INTEREST RATES: A correlation

Interest rates and gold have an interesting correlation. Many think rising interest rates are bad for gold. And they can be. But much depends on inflation, the economic environment in general and the reality of how low rates are.

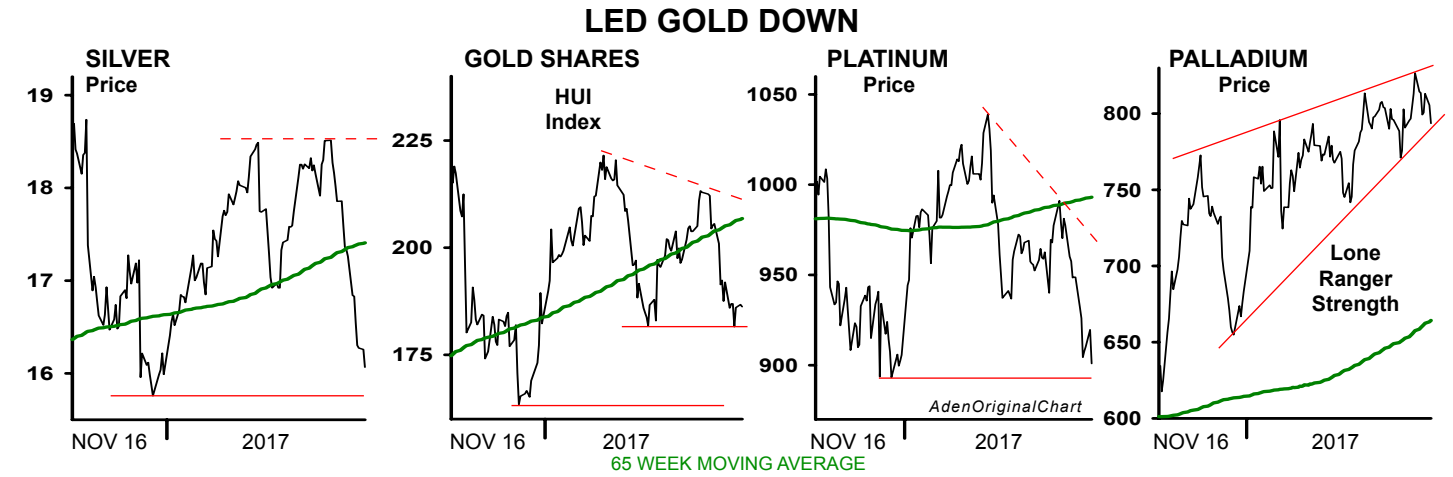
Chart 20 shows how gold has behaved with the "real" interest rate. That is, how gold behaves using the short term interest rate, Treasury Bills, minus inflation.

In the 1970s, for example, gold and interest rates soared together, but inflation was also soaring. So much that real T-Bills fell to minus zero when factoring in the inflation rate! That's why gold rose. It was keeping up with inflation and it became a safe haven from a falling dollar and rising inflation (see **Chart 20B**).

Gold and interest rates fell together in the 1980-90s, but this 20 year time-period had higher real rates than in the 1970s. That is, T-Bills were much higher than inflation, even though the rate was declining.

Interesting is now. Gold began its rise in 2001 while interest rates continued their decline. The real

CHART 21



T-Bill was negative for the most part. T-Bills were lower than the low inflation rate! This was very bullish for gold.

This also shows that even including gold's bear market since 2011, the gold price has held up near the higher side of the bull market. Gold's bull market gained 660% and it declined 45% thereafter.

This is saying gold held onto most of its major rise while real T-Bills failed to surpass zero.

This is also saying higher rates wouldn't necessarily hurt gold, and much will have to do with inflation which is starting to rear its head.

Higher rates with a borderline recessionary growth can also be bullish for gold because other things are going on under the surface.

GOLD TIMING: How far down?

Gold's B decline finally kicked off with the Fed's beige book when profit-taking took over. Hedge funds were big sellers.

And gold is now approaching its key support near $1200 where it'll likely find strong buyers, especially from India and China.

CHART 22

Chart 22A shows that gold's A rise was a good one, and at a gain of 14.50% from its December lows to its April high, the rise was a bullish intermediate rise. Gold has now given back about 6% from its April high, and the B decline could now decline further.

Note on the chart, the leading indicator has room to fall before reaching a normal level of prior B decline lows. If gold itself stays near its 23 month average at the $1210-$1200 level, it'll be a super bullish B decline.

But allowing for a steeper decline, it'd be okay within a bullish big picture scenario if gold falls temporarily below its average and tests the blue uptrend since 2015 near the $1160-$1170 level. The December 2016 low would be the most important level to hold for a bull market to stay underway.

Most exciting is the upcoming C rise. This will clearly be a key test because in bull markets, the C rise is the best rise in the pattern. It's when gold rises above its prior C peak.

Today it means gold would have to surpass its August 2016 highs near $1380 which is also a C rise of the past. This would clear the air, and be super bullish.

Keep an eye on the $1240-$1255 level, once gold rises and stays above it, a C rise will begin. The $1295 area would be next before $1380 can be tested.

BIG PICTURE: Exciting

Chart 23 shows gold's phases within the big picture since 1967. For instance, the major gold low in December 2015 (last B decline) was also the 7-8 year cyclical low area in red on **Chart 23**.

Note that since 1969, gold has reached a low every 7-8 years.

This low area also starts the eleven year count to a major high area. The blue lines show that each time thereafter, gold reached a peak.

Assuming this pattern continues, the 2008 lows are dictating the next major peak area in 2020. And according to the trends we could possibly see gold reach the top side of the 1996 channel above $3000.

We'll see what happens but we'll be watching this closely going forward. And for now, the next step is to see how low B will take gold, and how high the upcoming C rise goes.

Silver and platinum have been hit harder during this decline due to the fall in the resource sector, but as **Chart 21** shows it's important they all stay above their December lows in a worst case decline, see red line. Palladium has clearly been the strongest and it's bullish above its moving average in green.

CHART 23

Gold shares led the way down when they peaked during the Junior Gold Miners Index (GDXJ) dilemma.

Demand was too great for the GDXJ structure it has, thereby causing it to fall sharply. Simply put, GDXJ got too big for its own good. To read more click here or go to adenforecast.com and click on 'Good Reads'.

Gold share investment is growing. Plus, the new Yukon gold rush is in full force with the worlds biggest gold mine, Barrick Gold, ABX, entering the region, joining others in a massive project.

Gold shares are still very undervalued. AEM held up the best of our gold shares, and while GDXJ was the worst, it was understandable and we recommend keeping it.

Since gold shares were the first to fall, they're likely near a low area, and we recommend adding to your positions during this weakness if you don't have your full position. So far, gold shares are starting to consolidate near the lows while gold declines further. And if the HUI index stays above the lows, a massive bottom is still forming.

RESOURCES: Taking a hit

The plunge in industrial metals and crude oil took the limelight this month, especially crude oil, iron ore and nickel, see **Charts 24** and **25**.

Copper and iron ore, the steel making material, hit five month lows. **Crude fell from $53 to the $46 area in three weeks.**

Over-supply fears in oil were the leading reason why. A climb in both U.S. gasoline supplies and the rig count over the past year are casting doubts over OPEC's cut extension. Plus, refiners hiked production rates to the highest since November 2015, the EIA said in late April.

Strong Chinese demand had pushed copper up. It rose to a 1½ year high during the first quarter when China's economy accelerated in Q1-17, together with supply disruptions.

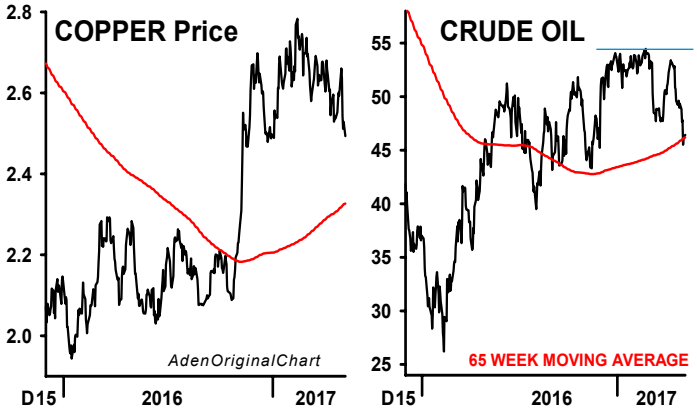
But concerns over the sustainability of Chinese demand growth and questions about the boost from Trump's infrastructure spending plans are putting pressure on the resource sector, and this weakness is putting pressure on silver as well.

CHART 26

COMMODITIES: Good potential for 2017 & beyond

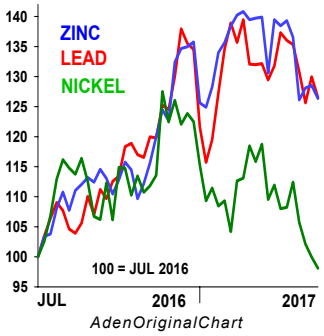
CHART 24

CORRECTING IN A YOUNG BULL MARKET



Copper is vulnerable below $2.65 and it could possibly test its major 65 week average at $2.35, if the December lows are clearly broken (see **Chart 24**).

CHART 25



Global steel demand is forecast to grow more than expected this year due to the recovery in developed countries, and accelerating growth in emerging markets, especially Russia, Brazil and India.

But so far, this sector is taking a big hit and our positions AA and X were affected.

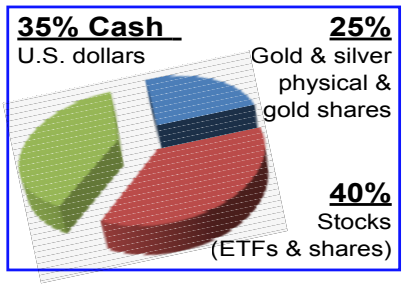
In the end, the commodity market is the place to keep an eye on to better measure the strength of the global markets. **Chart 26** is a good one to keep on the radar.

It shows the S&P GSCI commodity index over the last 10+ years and it's saying the past month's weakness is temporary. Interesting are the similarities in the two big movements of the past decade. First note it plunged 65% in 2008-09, while the 2011-2016 fall declined 64%, and with most of the fall happening in 2014-15. They both essentially fell the same amount.

And with commodities bouncing up, and the index above its key 65 week moving average, it's suggesting that perhaps it could rise to test the 2008 downtrend. And if it does, the rise will be similar to the one in 2009-2011, see green numbers.

In other words, a great rise could develop, yet the index would still be in a major downtrend within a sideways band. Let's keep an eye on the 65 week average. It's the key support in this turnaround rise. Copper and crude as well. **Chart 24** shows their rises since 2016 will also be on the upward path as long as they stay above their red 65 week averages.

OVERALL PORTFOLIO RECOMMENDATION



Uncertainties are hanging overhead, but the markets don't seem to care. For now, we primarily continue to stay with stocks, the metals markets and cash. (Our recommendations are listed below.) These are our best bets and if other opportunities emerge, we'll use our cash to buy into those markets, and/or increase our positions in the sectors we're already holding.

PRECIOUS METALS, ENERGY, RESOURCE

The A rise is over. It rose 14.5% from its December low to the April high, which is a bullish A rise. Gold shares led the decline, and together with crude and the industrial metals they all fell this past month which put extra pressure on silver. It now looks like gold could decline further in this intermediate B decline while gold shares possibly stabilize. A major bottom is still forming and the onset of a bull market is in its early stages. Gold is holding up best but the others are set to outperform once this weakness is over. Now is the time to pick up some bargains in gold, silver and gold shares, then have patience for the upcoming C rise. Our order of strength this month is shown below.

U.S. & GLOBAL STOCK MARKETS

The stock market remains super bullish and it's set to rise further. Nasdaq, the S&P 500 and the World stock market index are hitting new record highs and they're likely leading the way for the other stock indexes. Currently, we advise keeping a 40% position in stocks. And if the market corrects downward, we may recommend buying more. For now, if you want to buy new positions the stocks we still like best are: QQQ, EMF, ADBE, IOO, MSFT and DIA, which are the strongest. We don't like AA or X, but if the overall stock market heads higher, these stocks will too and we'll be looking to sell them. Our order of strength is shown below.

INTEREST RATES & BONDS

Interest rates (short-term) could rise further in June. But the mega downtrend for long-term yields will stay in force with the 30 year yield below 3.20%. So short and long-term interest rates will probably continue going their separate ways for now. This will most likely be temporary. Bond prices could bounce up further in the weeks ahead and if they do, it'll provide a good opportunity to sell bonds if you're still holding some. Eventually the bond bubble will burst and bond prices would be poised to fall sharply. That's why we continue to recommend staying on the sidelines.

CURRENCIES

The U.S. dollar index is still bullish but it looks like it's forming a top. It will not turn bearish, however, until it declines and stays below 97.80. Currently, we advise keeping your cash in U.S. dollars, but that may be changing soon. The currencies are trying to bottom, but it's premature to buy.

OUR OPEN POSITIONS in order of strength per section

GOLD AND SILVER

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE 1st	CURRENT RECOMM
Agnico Eagle	AEM	Feb-17	47.10	46.77	-0.70	Buy/Hold
SPDR Gold	GLD	Mar-17	117.51	116.04	-1.25	Buy/Hold
Gold (physical)		Oct-01	277.25	1218.90	339.64	Buy/Hold
Gold Miners ETF	GDX	Feb-17	25.20	21.93	-12.98	Buy/Hold
Ctrl Fund of Canada	CEF	Mar-17	12.66	12.06	-4.74	Buy/Hold
Jr Gold Miners ETF	GDXJ	Feb-17	42.12	30.94	-26.54	Hold
Silver (physical)		Aug-03	4.93	16.21	228.74	Hold

STOCK ETFS & SHARES

NAME	SYMBOL	PURCHASE DATE	PURCHASE PRICE	PRICE AT issue date	% GAIN/LOSS SINCE 1st	CURRENT RECOMM
Nasdaq Pwrshrs	QQQ	Aug-16	117.7	138.40	17.59	Buy/Hold
Templeton Emerg Mkts	EMF	Feb-17	13.42	14.77	10.06	Buy/Hold
Adobe Systems	ADBE	Feb-17	118.93	136.15	14.48	Buy/Hold
S&P Global 100	IOO	Aug-16	75.34	84.35	11.96	Buy/Hold
Microsoft	MSFT	Dec-16	63.62	69.31	8.94	Buy/Hold
Dow Industrials	DIA	Aug-16	186.52	209.48	12.31	Buy/Hold
SPDR Russell 2000	TWOK	Nov-16	77.19	82.41	6.76	Hold
S&P 500 Index Equal	RSP	Dec-16	87.55	91.93	5.00	Hold
DJ Transportation	IYT	Nov-16	158.29	163.45	3.26	Hold
SPDR S&P Insurance	KIE	Nov-16	80.24	85.72	6.83	Hold
US Financial Services	IYG	Dec-16	107.06	109.60	2.37	Hold
SPDR S&P Bank	KBE	Dec-16	43.41	43.00	-0.94	Hold
Alcoa Corp	AA	Nov-16	31.85	31.08	-2.42	Hold
US Steel	X	Nov-16	29.17	23.24	-20.33	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.

