THE
ADEN FORECAST
MONEY • METALS • MARKETS

JUNE, 2009 *in our 28th year*

RISING MARKETS SEE BRIGHTER TIMES

It's been a wild ride this past year, but we're now on the upswing.

Following a rough year where most of the markets dropped sharply, then stayed dull for a while, they're finally headed higher. Most important, these are significant rises.

GOLD ON THE RISE

Gold, for instance, has surged about $100 so far this past month and a renewed rise within its major bull market is clearly underway. This is being reinforced by the U.S. dollar, which is now breaking down and signaling that a bear market decline is just getting started. That is, the currency markets are up strongly, and so are commodities in general.

Stocks around the world have been moving up too. Bonds, however, are down significantly as long-interest rates rise sharply. At the same time, short-term rates keep falling (see **Chart 1**).

What does this mean?

First, it means that many of the major trends are changing, so we're changing our strategy. As you'll see on page 12 and per our weekly updates, we're selling our U.S. dollars and buying more gold, silver and some of the strongest gold shares. We're also buying more of the strongest currency, the Australian dollar, and a few of the strongest emerging global stock market shares. These should do well in the months ahead, and probably beyond as these markets move higher.

Second, the decline in the dollar is very important. It means that investors are beginning to feel safe again and they see no need to hold dollars as a safe haven, like they did before when the crisis was intensifying and people were running scared.

On the contrary, investors are coming to their senses. They see that this year's budget deficit is going to reach about $2 trillion and the dollar can't hold up under the weight of this large debt. Investors are returning to the fundamentals and they know that all of this easy money is going to result in inflation. That's why bond prices are falling too because they're very sensitive to inflation.

PLUNGING LIBOR RATE: A banking recovery sign

The Libor interest rate has plunged for a different reason. This rate has its pulse on the global banking system and when trouble became apparent to everyone, and things were at their worst, the Libor rate soared to near 6%. Now that it's way below 1%, it's telling us that the banking recovery will likely continue.

Remember, the markets tell the story. They always lead the economy. More important, the markets are now all in synch and they're telling us the same thing. It's a fascinating message and a fascinating time.

Stocks, for instance, are moving up, signaling the economy is going to get better. The global stock markets are reinforcing this. The rise in commodities and gold is another indication that the worst is behind us, and so is the fact that silver is stronger than gold.

These markets are all pointing to no deflation ahead. In fact, by moving higher, the likelihood of a recovery is increasing, followed by eventual inflation downstream.

INFLATION / DEFLATION DEBATE

Meanwhile, the inflation-deflation debate rages on. Many are convinced that deflation and/or a depression is not only likely, it's inevitable. The main reason why is due to the massive magnitude of the current crisis since it cannot be compared to most other crises or recessions, which pale in comparison.

While that's true, the markets are saying something else. And we learned a long time ago to never underestimate the power of the markets. In other words, it would be foolish to ignore their message.

We humans have a tendency to hang onto our preconceived no-

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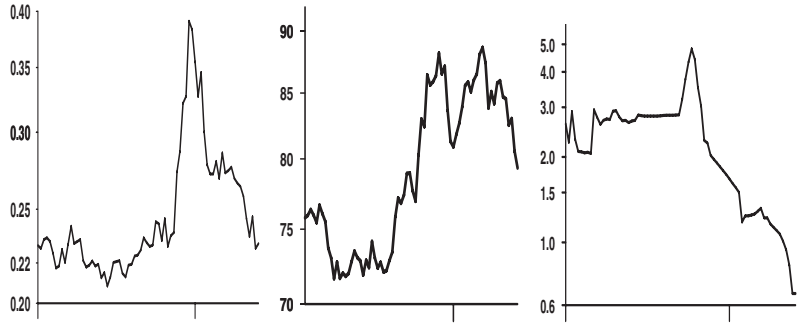
tions. That's fine but it's also important to keep an open mind, especially when it comes to the business of investing. Be flexible and regardless of what your personal future scenario is, don't fight the market trends.

Keep in mind, markets will turn up when the general feeling is negative and skeptical. The news usually improves later, and all of the reasons why the markets are moving the way they are will become obvious with time.



U.S. BONDS (30 YEAR YIELD INVERTED) **U.S. DOLLAR INDEX** **LIBOR RATE** (3 MONTH)

REPERCUSSIONS STILL TO COME

There's no question that this crisis has been the worst since the Great Depression and downright scary, which is something most of us have never experienced. The entire financial system was on the brink of disaster and an unprecedented amount of wealth was destroyed worldwide. The deflationists argue that this cannot improve so quickly and the worse is still coming. That could be true but if that's what the future holds, it doesn't look like it's going to happen in the near future.

We'd be the first to agree that the fundamental problems are extremely serious but we also understand that the monetary response to these problems has been mind blowing. The amount of money involved is hard to grasp. This has not been a normal response to the crisis. It's been overkill, so it's quite possible that things will improve from here as an effect of this monetary overkill, at least for the time being.

As our friend Bill Bonner points out, "this monetary response has been three times more (adjusted to today's dollars) than the U.S. spent to fight World War II. It is 12 times more (relative to GDP) than the total committed to fight the Great Depression." That's a lot of firepower and it certainly provides food for thought.

Plus, we've noticed that sentiment is beginning to change and that's half the battle. We were recently in the U.S. and we were surprised to see people shopping, eating out and spending. That coincides with the latest strong rise in consumer confidence and it's a huge change compared to just seven months ago when people were as gloomy as they could be.

Aside from better markets and a few signs the economy appears to be improving, this month we also saw an inflationary straw in the wind. Import prices soared at a 19% annualized rate. And while one month does not establish a trend, this is probably the first sign of what's coming and it's well worth watching.

WHEN CHINA TALKS, IT PAYS TO LISTEN

Then there's China. Regardless of how you feel about China, you have to admit that they are money savvy. In less than half a generation they've transformed China from a poor rural country into one of the world's richest and most powerful. This is simply amazing, so it pays to watch what China is doing.

Currently, China is concerned because it has too many dollars and U.S. bonds. China is also concerned that the Western monetary stimulus is going to trigger global inflation, along with weak bond markets and a falling dollar, so it's taking action.

China is cutting back on their U.S. bond purchases and they're buying gold in significant amounts. China has increased its gold reserves by an impressive 76% in the past six years. This is obviously to hedge against rising inflation and a weak dollar, which explains why China is also buying commodities.

As the Royal Bank of Canada recently reported, "China is stockpiling global commodities such as copper and iron ore as part of a reallocation, amid concern that the value of its dollar assets may decline. It's part of an overall desire to decrease its exposure to dollar assets."

China is also expanding all over the world. China is buying land in So America and Africa, other metals, and they're building up their reserves of other currencies and bonds. While they're at it, they're spreading goodwill.

We've seen a small sample of this first hand here in Costa Rica. The Chinese are here and, for starters, they're building a new, modern, soccer stadium. The Costa Ricans are happy since soccer is their passion and based on what we read, this is happening all over the world.

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U.S. & WORLD STOCK MARKETS

On the rise

The action in the stock market has been impressive since March. The Dow Industrials is at a new high for this year and Nasdaq hit a 7½ month high. The stock market is still showing future promise and it's headed higher.

We know that this view conflicts with what many stock market experts are saying, as another big debate rages on… is this upmove the start of a new bull market rise, or just a rebound rise within a bear market?

We've carefully reviewed this and we've come to the conclusion that it doesn't matter (we'll explain more in a moment).

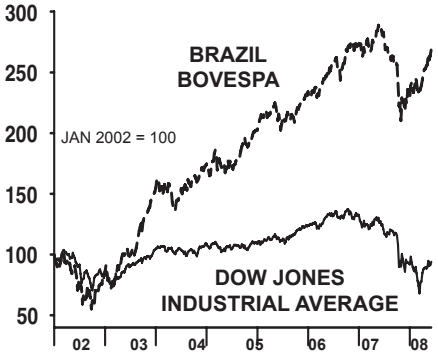
RISING COMMODITIES BOOSTING EMERGING MARKETS

Also important, this month's action in the other markets was good for stocks. Commodities, for example, are rising. That's being reflected in many of the emerging stock markets, which recently had their best month in 20 years, leading the way up for the rest of the world.

Latin America and Asia have generally been the strongest and the main reason why is the growing demand for commodities, which is starting to boost their economies (see **Chart 2**, right).

CHART 3

EMERGING MARKETS STILL STRONGER THAN U.S. MARKET



This bodes well for an ongoing global recovery and, as per our update, we're now recommending that you buy a small 10% position in some of these strongest stock sectors.

Putting things into perspective, you can see how much stronger Brazil has been compared to the Dow Industrials (see **Chart 3**). That continues to be the case in this new upmove.

Most of these stronger markets hit bottom before the markets in the U.S. and Europe did, and the percentage gains have been greater. This is why we're focusing on these markets for starters. For now, they have the best potential.

GO WITH THE RISING TREND

Getting back to why it doesn't matter if this is a rebound rise or a new bull market, the point is mostly academic. In going through a lot of research, Ned Davis Research (www.ndr.com) provided the most interesting history and facts.

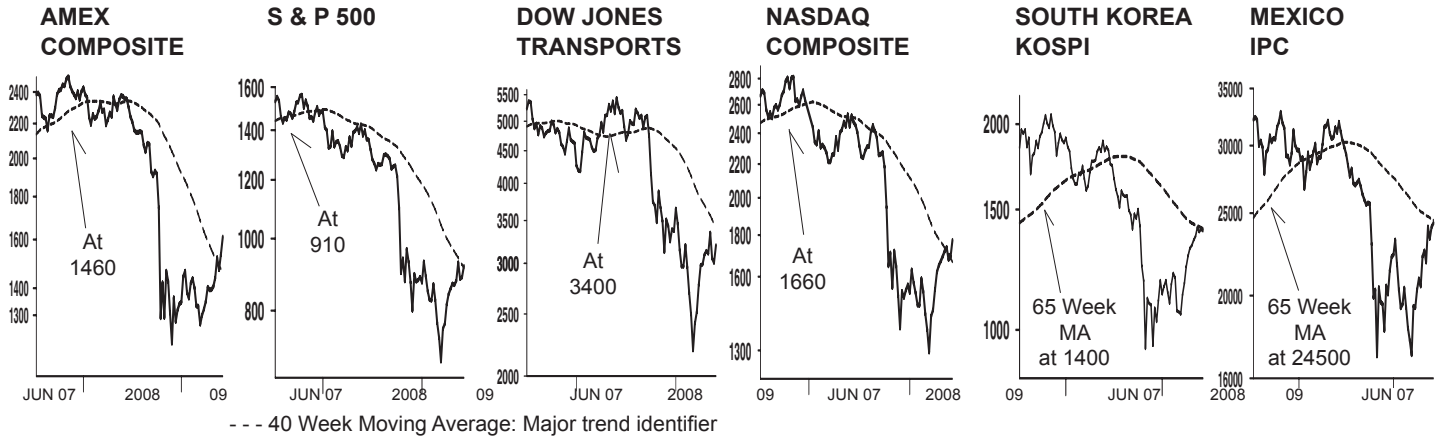
But first, we want to remind you that the bear market decline of 2007-09 was the second most severe stock market drop in history. The Dow Industrials lost more than half of its gains going back to 1932. In other words, it more than fulfilled the characteristics of a real bear market decline.

NDR calls this a waterfall decline and they believe the bear market lows have been seen. Industry leadership since March supports this and it tends to move to more aggressive cyclical stocks during the post-waterfall period, which we're in now, defined by the bear market bottom to the end of the recession.

Most interesting, NDR found that post-waterfall cyclical bull markets generally last about 1¾ years and they gained 65% on average. Documenting the cyclical bull

CHART 2

STARTING TO BREAK THE FIRST HURDLE



markets since 1929, there was not one case where the market gained less than 45% with the shortest bull rise lasting five months. The longest one was the bull market of 2002-07. (Just for the record, cyclical bull markets are what we call rebound rises or bear market rallies. These are rises that do not last for decades, but they last about six months to two years or so.)

The bottom line is that, even if this current rise ends up being a rebound rise within a bear market, you can still make some decent money investing in the strongest sectors for as long as it lasts. So why not? If the Dow Industrials gains 65%, this upmove could take it up to near 10800. And if this ends up being more than a cyclical bull rise, it would obviously go higher.

INDUSTRIALS: A hard look

With that in mind, let's focus on the Dow this month and see what the charts are showing.

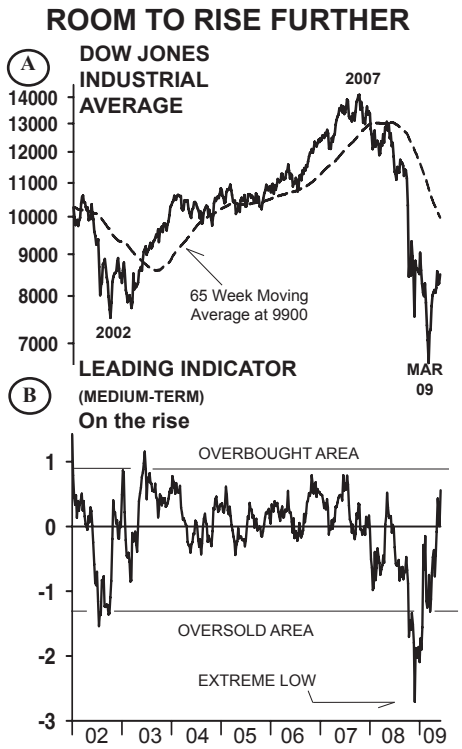
Looking at the Dow since 2002, you can see that it started a cyclical bull market rise in 2002 following the bursting of the tech bubble (see **Chart 4A**). It peaked in 2007 and then fell dramatically during the credit crisis and recession. The Dow's been moving up since March and it now appears to have formed a bottom. The Dow is currently breaking above important levels and its next upside target resistance is 9000 and 9600.

The leading indicator is also still on the rise and it has room to move higher before it's overbought, signaling stocks will likely move higher.

Next, if we check out the Dow's big picture, you'll note that it too appears to be forming a bottom at the lower side of a mega upchannel that's been in force since 1965 (see **Chart 5A**). This will be reinforced if the Dow's now able to hold above its March, 2009 low at 6547. if it does, it'll technically be a very good sign.

Also interesting, the Dow may be establishing a pattern similar to the 1965-82 period. At that time, the Dow experienced a series of ups and downs for 17 years, but it was unable to break out to new highs above 1000 (see horizontal line since 1965). (The lows are labeled 1 through 4, which also coincided with major oversold lows on the leading indicator; see **5B.**)

CHART 4



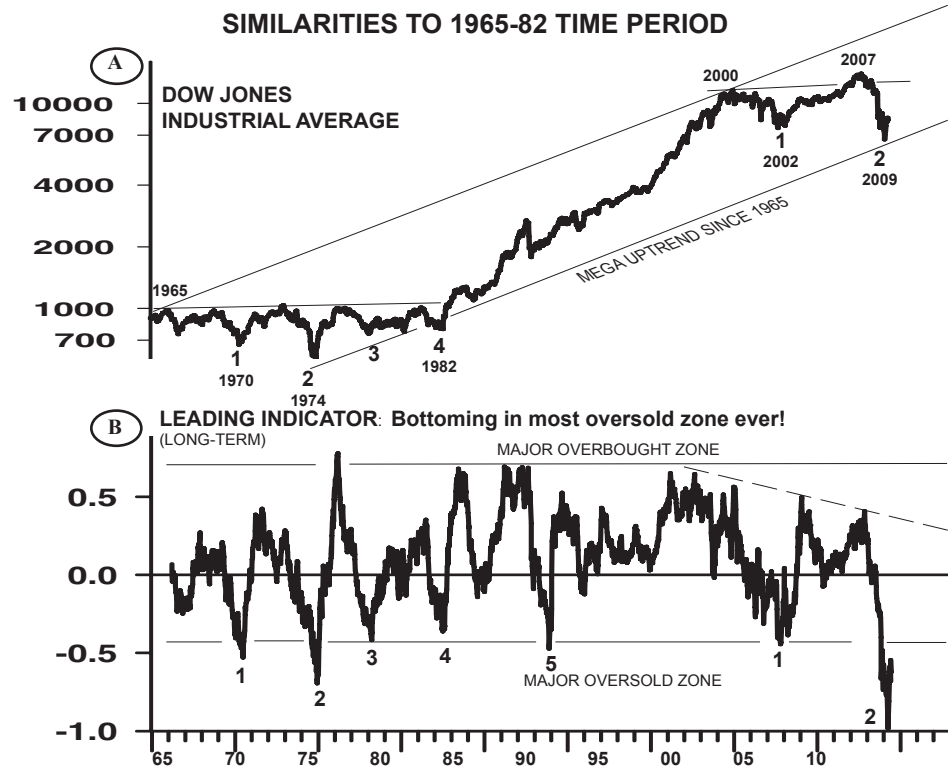
Nevertheless, the Dow's rises from the 1 and 2 bottoms in 1970 and 74 were significant, with the Dow rising 67% and 76%, respectively. Let's now take a look at what's happened in recent years...

In 2002, the Dow was oversold and it then rose 101% (see 1). And even though the Dow hit a new high in 2007, it wasn't a significant high and the market then fell sharply. This year the Dow's leading indicator hit an extreme low, the most ever, and if the March low holds, we'll call this 2. In other words, the Dow could then continue to head higher in an impressive upmove.

We'll see how this rise unfolds. Even though, the Dow has risen about 34% since March, the leading indicator is showing that stocks have plenty of room to rise further, and they likely will.

So far, the Amex index has been the only U.S. stock index to rise above one of its key moving averages, signaling it's headed higher. Nasdaq is starting to follow (see **Chart 2**). But some of the foreign markets like China, are breaking up too, while Brazil and others are

CHART 5



U.S. INTEREST RATES AND BONDS

Major trend is changing, rates on the rise

Interest rates soared this month and bond prices fell. Even though many didn't notice, this is a very big deal. In fact, it may prove to be one of the biggest this decade. Here's why…

RISING RATES ARE TELLING

Long-term interest rates are currently confirming that the major trend has turned up. In other words, after years of dropping to bombed out levels, interest rates are now headed higher this year, and probably next, as bond prices fall further. And there's a good chance that long-term rates could keep rising for many more years to come.

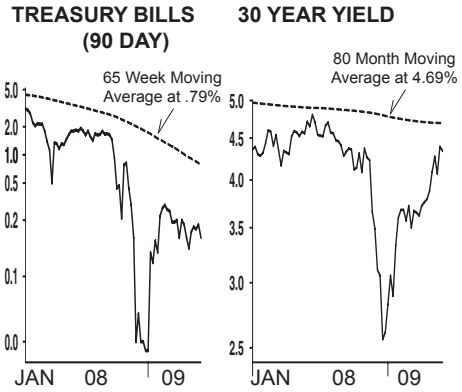
If they do, interest rates will be the trade of the decade. Some believe it's coming and we can certainly see why.

We know, for instance, that the Fed's monetary policies are inflationary. Rising inflation means rising interest rates. We also know that China is the world's largest buyer of U.S. bonds and it's cutting back on its purchases. Plus, there's now a massive bond supply due to the economic rescue expenses, and overall demand has fallen off. This supply bulge will continue for the foreseeable future. Again, this means rising interest rates.

The U.S. dollar is falling. Many investors will, therefore, avoid U.S. bonds because they're denominated in U.S. dollars. This combination of a falling dollar and declining bond prices will be yet another factor fueling even higher interest rates.

CHART 7

KEEP EYE ON 30 YR YIELD



In addition, the flight to safety frenzy that drove interest rates to such low levels during the height of the economic crisis has gone cold. Safety seeking investors no longer need bonds. They're selling them and looking at other alternatives. This too means higher interest rates.

BIG PICTURE: Final confirm

Now this is where it becomes interesting…

We've shown you **Chart 6** many times before. It shows the 30 year yield since 1930, along with its mega moving average. This average identifies mega trends that generally last for decades.

In 1984, for instance, the 30 year yield broke below this average and it has stayed below it since then! That was 25 years ago and this mega change confirmed the end of the raging inflation era of the 1970s.

Currently, the 30 year yield is at 4.58% and the fundamentals are pointing to higher interest rates. The mega average is at 4.69%. So the yield is only 11 basis points below this extremely important level.

If this yield now heads higher, this month, or in the months ahead, and rises and stays above 4.69%, interest rates will clearly signal a once-every-few-decades mega trend reversal and interest rates will indeed become the trade of the

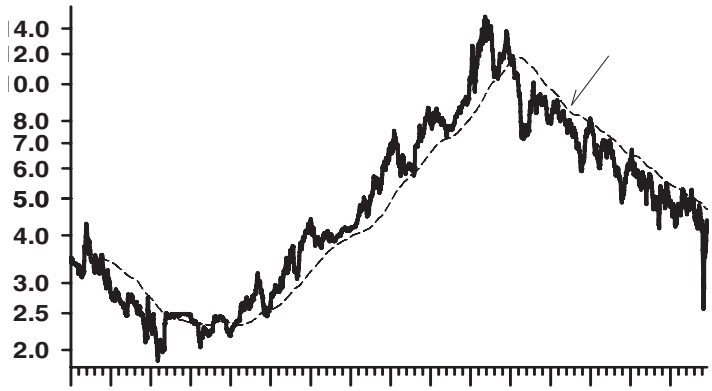
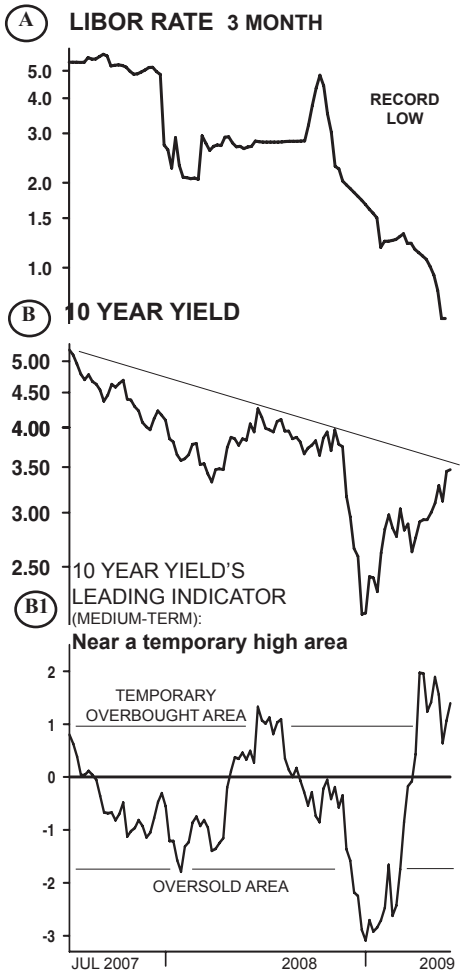


CHART 8

STARK DIFFERENCE



decade. Why?

Because interest rates would then be headed much, much higher for a very long time. This would provide a fabulous opportunity to buy a fund like TBT or RRPIX, which rise with interest rates, or to short bonds, and then hold your position for the years ahead.

This of course would also be the final, concrete confirmation that really big inflation is coming in the years ahead. That in turn would be very bullish for gold and a real negative for the U.S. dollar and bonds.

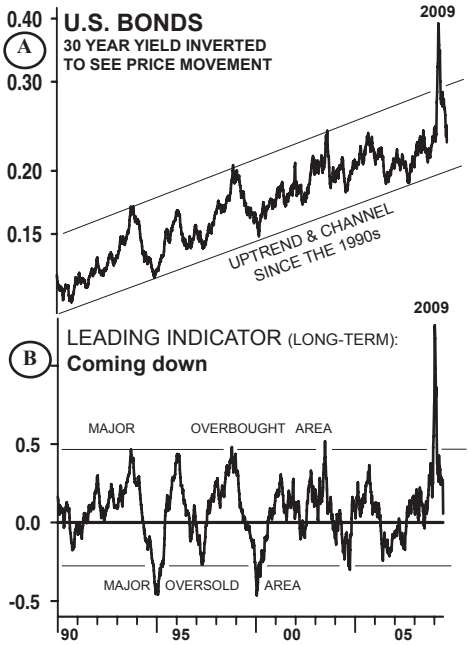
CHINA'S ACTION IS KEY

As you'll see in this month's issue, China is taking action to hedge against the dollars it has. And since a good part of those dollars are in U.S. bonds, that makes the dollar and bonds more closely linked than ever before. That is, if the dollar's headed lower, which it is, bond prices will go down with it and interest rates will have to rise in order to attract new buyers.

The Fed's not going to like it, but it really has no say. The bond market is huge, even bigger than the stock market, and the Fed can't control it. So watch 4.69% on the 30 year yield in the upcoming months (see **Chart 7**, right). Believe it or not, it's probably the most number in the world today.

CHART 9

ON THE DECLINE



Short-term rates are another story as you can see with the T-Bill rate. But if long-term rates head sharply higher, T-Bills eventually will too.

FALLING LIBOR RATE: A good omen

The Libor interest rate is also important to watch, especially now (see **Chart 8A**). It's been falling but it recently had its biggest weekly decline this year, strongly indicating that the credit crunch is easing, banks are starting to lend, bank deposits are growing and recession concerns are diminishing. The Libor is looking ahead to a recovery and since it's an international economic barometer, that's a good sign.

We cannot underestimate the power of interest rates. Rates alone are telling us so much about what's coming. The 10 year yield is no exception.

As you can see, it's still overbought (see **Charts 8B** and **B1**). That means it's risen too far, too fast. It got ahead of itself and rates will likely soon decline first before they move higher.

KEEP AN EYE ON INTEREST RATES

That's why we're going to hold off on recommending any of the rising rate funds. That'll likely change in the months just ahead, but for now, sit tight.

If you have bonds, we'd keep them, for the time being. But that may not be the case for long. If the 4.69% level is broken on the 30 year yield, prices will likely plunge (see **Chart 9**). At that point, we'd advise selling all bonds as the drop could eventually be as severe as it was in the 70s when prices dropped around 70%.

We'll see what happens. But the

CURRENCIES

U.S. Dollar: Turning down

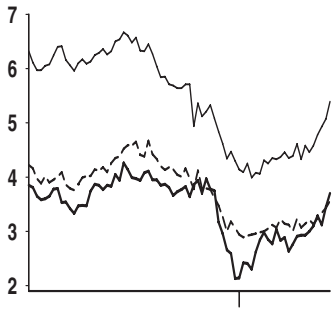
Finally, the U.S. dollar's fundamentals took over. It was bound to happen sooner or later, and now the dollar has broken down and it's poised to head much lower.

You may remember that last month our best guess was that the dollar would embark on a renewed bear market decline once gold started moving up, and the decline would intensify as gold rose further. That's essentially what happened and the dollar index is now testing its December low.

CURRENCIES ON THE RISE

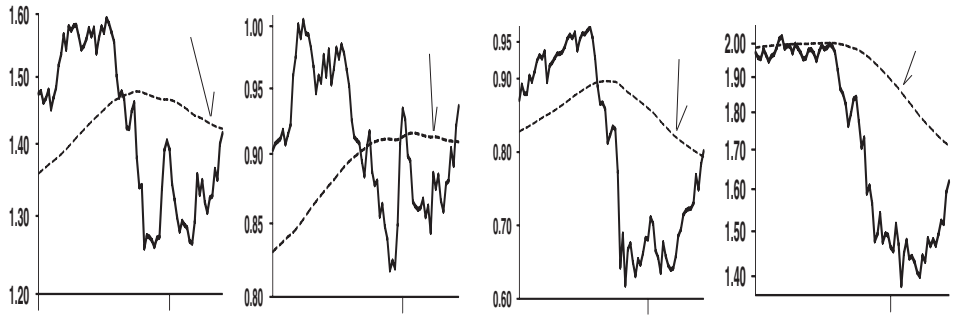
That is, our recommended currencies are moving up sharply (see **Charts 11** and **12A**). This calls for a reshuffling of our previous diversified strategy and here's what we're currently recommending...

It's very clear that the dollar's going sharply lower and, except for



what you need in available cash dollars, you should move heavier into the currencies (and metals). For now, we advise selling your U.S. dollars and increasing your cash currency holdings by 5%.

We would buy new positions in the Australian dollar,



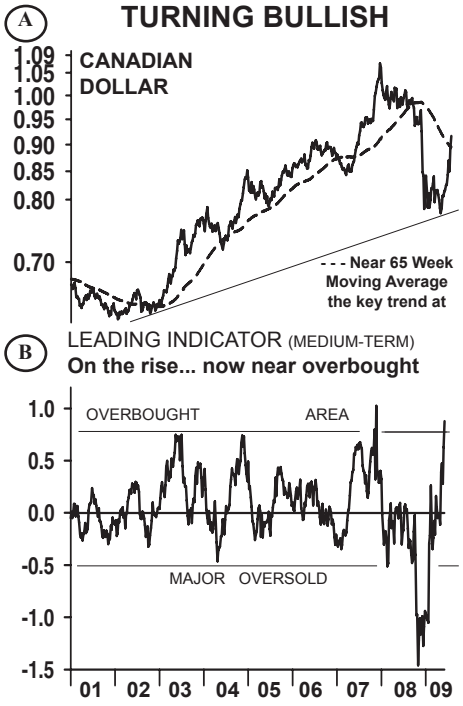
which has been leading the way, or its ETF (symbol FXA). Keep any other currency holdings you have. This will leave you with a total of 30% in cash, all held in the strongest currencies.

As you can see, some of the currencies have now risen above their major moving averages. This is bullish action, strongly indicating that the other currencies will follow and they're all going to rise much further. This is also very bullish for the economy as it continues to suggest that the worst of the recession and credit crisis is behind us.

Rising stocks, precious metals, commodities and oil also reinforce this view. So far, the commodity currencies have benefitted the most since a recovering global economy will boost the demand for commodities and drive prices higher.

That's why currencies in Australia, Canada and New Zealand are rising strongly. They also have higher interest rates going for them (see **Chart 10**). And since the demand for safety is diminishing because of improving economic signs, it makes these currencies more attractive, like they were before the crisis hit.

CHART 12



EASING CRISIS, EASING DOLLAR

Yes, it's strange but, even though the U.S. dollar's fundamentals were increasingly negative all along, the dollar rose strongly at the end of last year as the crisis intensified. People were scared, so they ignored the fundamentals and ran to what was perceived to be safe, which was the U.S. dollar. In fact, you'll remember that as the news grew bleaker, the dollar rose further and this simply didn't make any sense (see **Chart 13A**). But things have changed.

The U.S. dollar index, which is a composite of the dollar against the major currencies, fell sharply this month, breaking clearly below its important support level at 81.50. This is a strong signal that a steep bear market decline is just getting started and it could last for several years.

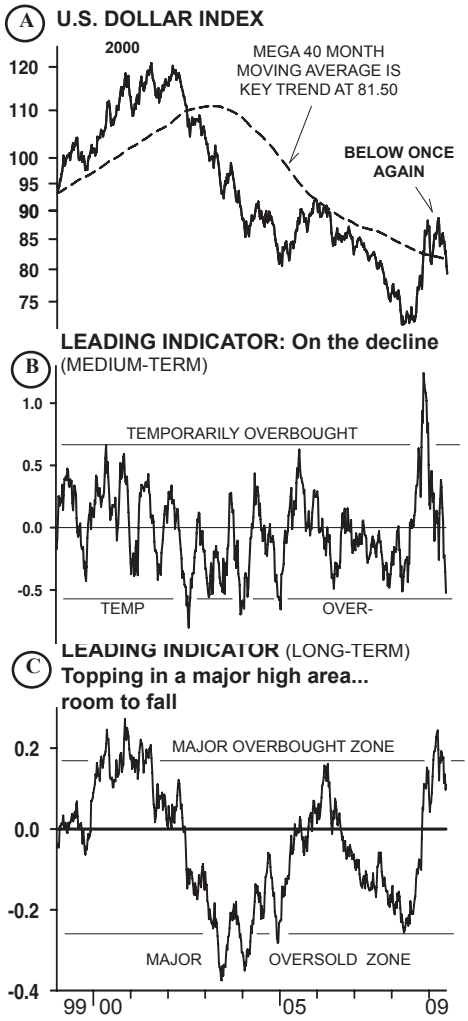
In other words, it'll likely be a continuation of the dollar drop that started in 2000 and it could be similar, or even steeper, especially considering how much worse the dollar's fundamentals are today compared to 2000. That's primarily due to the unprecedented amount of spending and debt that's being built up as a result of the crisis.

People are currently reflecting on this, as well as the likelihood of a steep rise in inflation as one of the many effects that'll eventually kick in. And the possibility of the U.S.'s credit rating being downgraded isn't helping the dollar either. But there's more and it's equally important, if not more so…

OUT OF WHACK

As our dear friend Chuck Butler interestingly points out… "The OMB says that this year's deficit will be 12.9% of GDP. Back in 1985, finance ministers of the world met

CHART 13



at the Plaza Hotel in New York and were scared to death that the U.S. deficit was out of control. At that time it was 2.5% of GDP! The Plaza Accord called for a weaker dollar to deal with this.

In 2001, the U.S. deficit reached 4.5% of GDP, which historically meant that a country would experience a currency crisis, or at the very least a major debasing of the currency.

Now skip forward to today… 8.5% of GDP? The only country crying wolf at these figures is China!"

Since China is the U.S.'s largest creditor and it holds about $2 trillion U.S. dollars, China is obviously worried. So what's China doing about it? Here's Chuck again…

"China has passed the U.S. as the number one trade partner of Brazil. Now I'm hearing that Brazil and China are in discussions to form a currency swap line, just like the one China signed with Argentina two weeks ago. These currency swap lines are HUGE folks.

This allows the two parties doing trade with one another to eliminate the use of dollars, and only use their own respective currencies. That means China reduces its exposure to dollars! And if China has less dollars to spend on U.S. Treasuries, that's not a good thing!

But almost as important, China is spreading the use of its currency. This plays well with the idea that China proposed last month… that the U.S. dollar be replaced as the world's reserve currency.

In the past six months, China has signed currency swap agreements with Indonesia, Malaysia, Hong Kong, So Korea, Belarus and Argentina, with Brazil waiting in the wings."

This is huge indeed. China is quietly doing its own thing and it's clearly looking out for China. And if this slowly chips away at the U.S.'s funding needs and the dollar's international reserve status, then so be it but the repercussions will eventually be far reaching and probably shocking.

BUY & KEEP STRONG CURRENCIES

As we said last month, this will take time. But more immediately we'll see a sharply falling dollar and rapidly rising interest rates to attract Treasury debt buyers, which appears to be starting now.

The U.S. dollar's leading indicators are reinforcing this (see **Charts 13B** and **C**). They have room to decline further, indicating the dollar has a lot further to fall.

The bottom line… all of these factors are telling us to buy and stay with our currency positions.

METALS, NATURAL RESOURCES & ENERGY

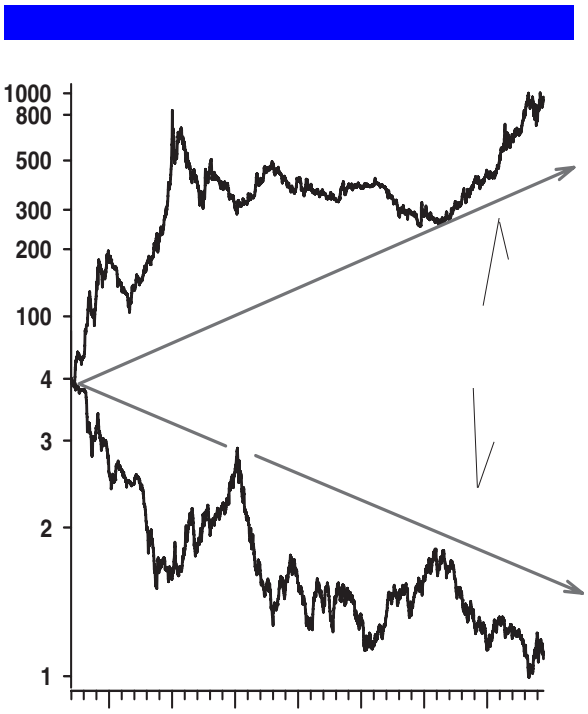
Gold, Silver & Gold Shares: Renewed rise underway

Gold is off and running. Silver and gold shares are too, reaching almost 10 month highs. A renewed rise is underway and these markets are now poised for a potentially great rise with gold likely hitting record high territory. The C rise we've been waiting for is here!

Like we said in our weekly updates, we recommend raising your metals position to 45% of your total portfolio by buying more gold, silver, their ETFs, as well as the strongest precious metals shares.

The markets are the movements of money, the emotions of the masses. And this month the markets spoke… gold continued to rise from its mid-April low while the dollar fell. In fact, gold has been rising consistently since 2001, without inflation, as the dollar has declined further.

This mirror image between gold and the dollar has been going on since gold's been moving in the free market. **Chart 14** shows this clearly since 1972. Gold is money, the ultimate currency and it's gaining acceptance as an asset class, like stocks and bonds. This is especially true now due to the easy ways to buy, compared to the past.



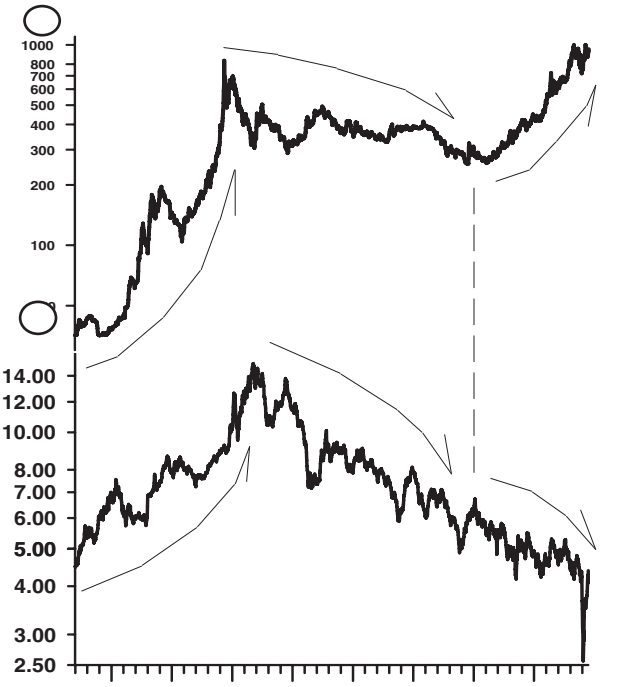
LISTEN TO THE MARKETS

All asset movements tell us something. When the stock market rises, for instance, it tells us there are better economic times ahead. When bonds rise, it's warning us of an economic slowdown or recessionary time. When gold rises, it tells us that something isn't right… uncertainty, turbulent times or inflation upcoming.

We have to learn how to listen to the markets, and the combination of the markets' movements also helps. This month, for instance, the U.S. dollar

and bond prices fell while gold rose. This combination spells trouble. When the dollar falls, imports into the U.S. become more expensive, which is inflationary. Interest rates rise to help the dollar, causing bond prices to fall.

There are times when established correlations and patterns change, but when they do it usually means a big change is coming. Take gold and long-term interest rates as an example, which you can see on **Chart 15** since 1967. Usually, bond prices and gold move in opposite directions. This is normal because they rise for opposite reasons.



In other words, gold tends to move in the same general wave as interest rates. This was the case in the 1970s, 80s and 90s. But this changed in 2000, when gold and interest rates ceased to move together. This told us that something different was happening.

At that time, the Fed kept interest rates abnormally low for a very long time. This fueled the housing bubble and the spec bubble. And it indirectly led to the mess that blew up last year.

It also fueled a wrecklessness that good times would never end, which fed Wall Street's hunger for ever more ways to keep the party going.

Abnormally low interest rates also hurt the dollar and, therefore, gave a boost to the metals and other currencies, as well as a boost to the stock market.

All of this was due to Greenspan's policies and efforts following the bursting of the tech stock market bubble. As you'll remember, the bust was shocking and they were doing whatever they had to do to get the market and the economy on sound footing again. So they held interest rates down for a very long time.

Sound familiar? That's what's happening again now only on a much bigger scale, but the markets will eventually get back into synch.

Gold tends to lead interest rates but this time around the lead time has been too long. The relationship has been distorted. Gold hit a bottom in 2001, whereas the interest rate bottom was in 2008... seven years later.

Interest rates are currently rising and it's just a matter of time until they continue to rise with gold.

GOLD: A solid bull market...

Gold's rise is solid as it's had a consistent year on year gain since 2001. It was one of the few investments that ended 2008 with a gain and if it ends 2009 above $880, this will be the ninth consecutive yearly gain. That's impressive!

Gold has not been as volatile as silver, platinum and the base metals. They rose more, but they also fell more. For example, gold is up over 11% this year while silver is up 37%. But last year gold gained 5½% while silver lost 27%.

Over the years, gold outperformed silver during the 1970s and 1980s, but this mega trend changed in 1990. Gold was much weaker than silver from 1990-97, as shown by the steep decline in the gold-silver ratio on **Chart 16**.This basically continued until last year when gold strongly outperformed silver due to the crisis.

Interestingly, gold is now starting to weaken again against silver. In other words, silver is no longer being held down by the crisis. It's behaving more like a commodity and

CHART 16

GOLD-SILVER RATIO

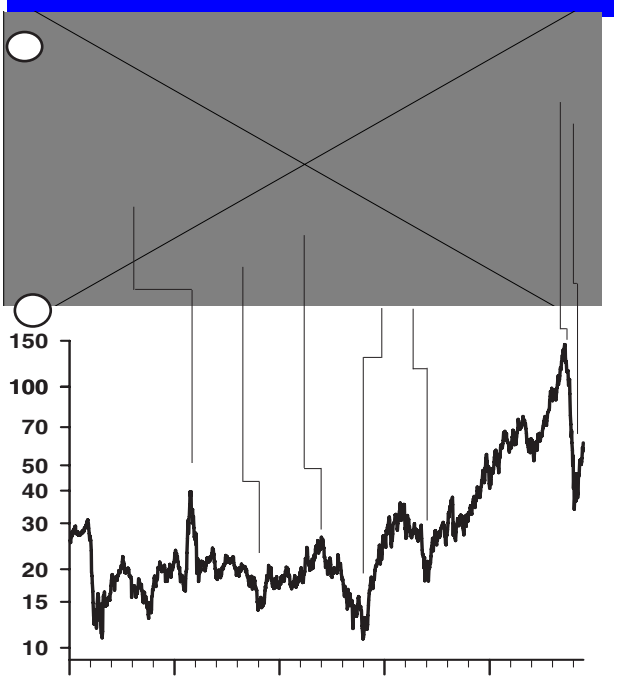
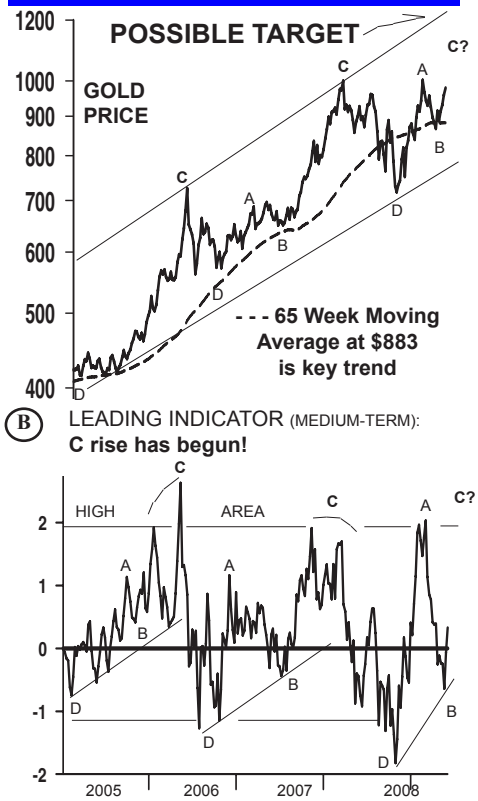


CHART 18



that too is a good economic sign.

... AND IT'S A LEADER

Gold is a leader. It also leads the oil price as **Chart 17** shows. Since 1985 you can see that gold led oil at every turn. There was one exception in 1999 when oil led. But this past year was not an exception… gold peaked in March 2008 while oil peaked four months later in July. Gold then bottomed in November and began to rise while oil followed a month later, but it wasn't until last March when oil really started to rise. This is a good sign for the whole commodity sector, including gold.

What's good for commodities is good for the U.S. and global stock markets, because oil is clearly getting a boost from signs of a better economy. And it'll continue to rise as global consumption keeps growing.

Gold, on the other hand, will head higher due to the massive measures central banks have taken to revive the economy. Their actions are inflationary and, therefore, an ongoing demand for gold will continue.

Interestingly, even though world demand is down for commodities, China is keeping demand up and actively buying commodities, including gold, to hedge their foreign exchange reserves against inflation.

China is concerned that the excessive monetary stimulus by Western governments will lead to global inflation, undermining its dollar assets. So it's balancing their risk for the future.

Compare this strategy to what the United Kingdom did 10 years ago when they sold a large portion of their gold at the bottom. The FT figures that a decade of gold sales at lower prices cost the central bank around $40 billion.

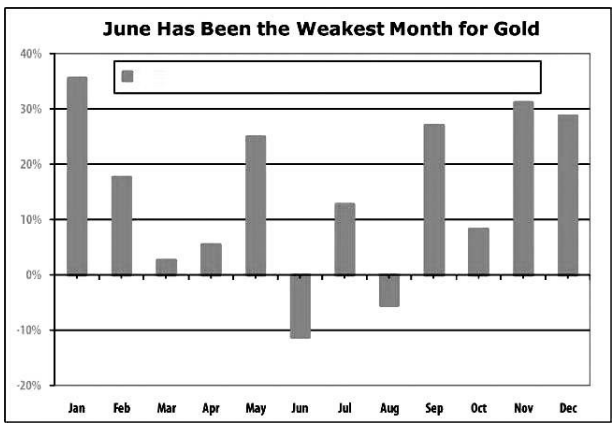
GOLD: Intermediate rise leading into a stronger bull market phase

Meanwhile, gold's been rising since mid-April in an intermediate rise we call C. This rise has been boosted by a falling dollar and strong demand, and it has now reached the moment of truth!

Gold has been showing solid strength since reaching a low at $705 last November (see **Chart 18A**). It now looks like that low was the "8 year low" we've been waiting for. Gold rose back above its 65-week moving average last January and it has essentially stayed above it since then, which shows strength.

Also, when gold reached a high last February, it reached a new high in euros and against other currencies. This was another sign of strength. Plus, the decline we call "B," from the February high to the mid-April low, was a moderate one. It essentially held at the moving average which was another strong sign.

It's now important to watch this



COURTESY: Casey Research, www.caseyresearch.com

CHART 20

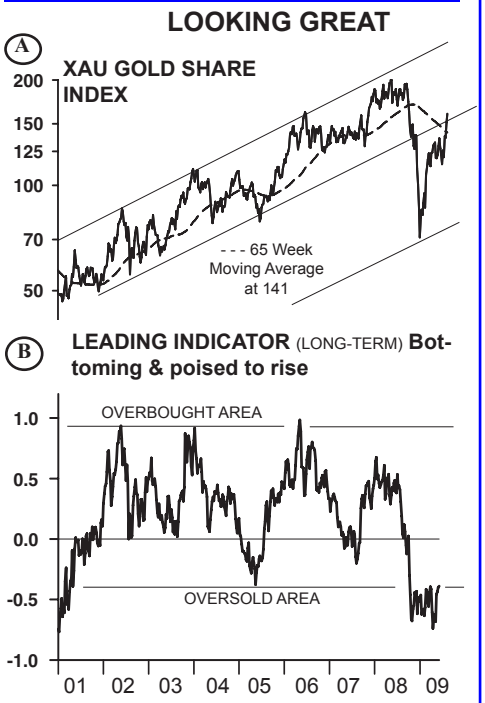


CHART 21

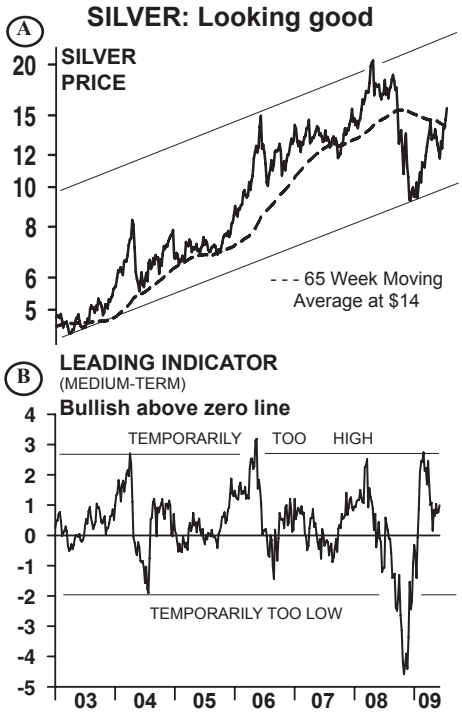
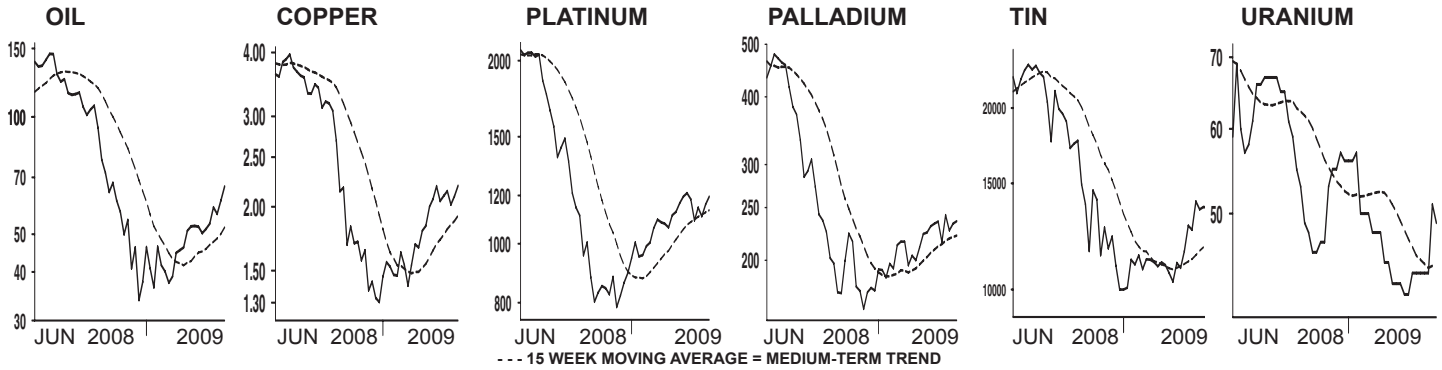


CHART 22

FROM CRUDE, TO PRECIOUS & BASE METALS, TO URANIUM: All starting to rise



C rise because in a bull market C rises tend to be the best rise when gold reaches a new high. Meanwhile, gold's leading indicator (B) is bouncing up from a newly formed uptrend showing plenty of room for a C rise to develop.

For now, keep an eye on $883 as gold is strong above this level. The C rise will remain solid with gold staying above $925 (basis August).

As we write, gold has surpassed its March peak. which means it has a good chance of breaking above its record peak at $1004. Above this would mean that a strong bull market C rise is well on its way. Gold could then jump up to possibly the $1200-$1300 level in this C rise.

Every C rise since 2001 has risen to a new high. So if this one does too, gold's stronger bull market rise will be off and running. We've often felt that 2009 would be a bargain year to buy gold. Plus, the Summer months tend to be the best seasonal low time to buy gold.

As **Chart 19** shows, the month of June has had the most lows in gold, followed by August. We've been saying that the low could've already occurred last November, or it could happen this Summer. Gold's rise this month is saying that last November was likely the low… but it's certainly not too late to buy. Gold is still a bargain in the $950 range, so if you haven't bought yet, buy now.

SILVER & GOLD SHARES: Strongest!

Silver and gold, and their shares are jumping up to near 10 month highs. But silver and the shares are rising more than gold in this rebound rise. **Charts 20** and **21A** show that they're both rising sharply from a low area and they're now breaking above their 65-week moving averages for the first time since last year.

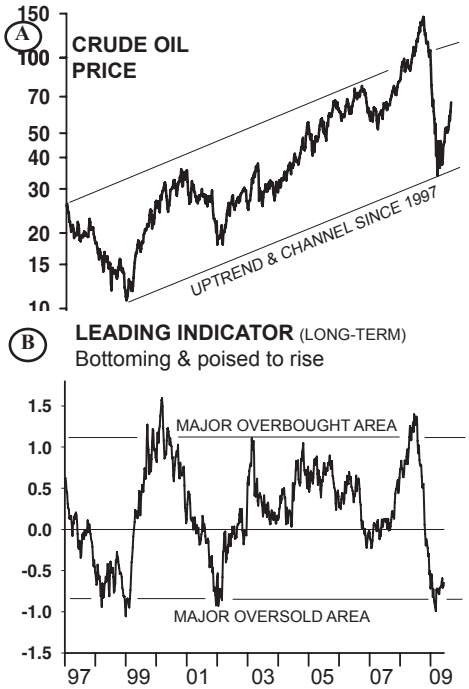
This indicates solid strength. Signs of an upcoming economic recovery is also raising inflation concerns. Silver's advantage as an industrial metal helps give it an extra boost as well.

On a bigger picture basis, the leading indicator for gold shares shows that they're in a great buying area, the best since 2001, and they have plenty of room to rise further (see **Chart 20B**). Likewise for silver. On an intermediate basis, silver also shows that its rise since last November is still solid (see **Chart 21B**).

Gold, silver and their shares are currently the best investments and we urge you to buy new positions and keep the positions you have.

CHART 23

OIL: Renewed rise underway



ENERGY & RESOURCE: Strong

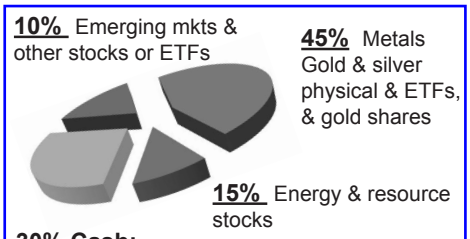
The energy and resource sectors look good with each passing month. Oil, copper and the CRB commodity index are all near seven month highs. Improving signs that the recession may end this year, that the bank turmoil is easing and rising consumer confidence is giving a good boost to this area. **Chart 22** gives you a sampling of the rises so far. The chart goes back a year and it shows them all above their 15-week moving averages, which means the intermediate trends are up.

The bigger picture also looks promising for a sustained rise. **Chart 23A** shows that crude's 67% rise since March has only just begun. The leading indicator (B) is bottoming in a low area that coincides with key low areas in 1999 and 2001. Oil is poised to rise much further and the Saudi Arabians may be right in saying that oil could reach $75 by year-end. Perhaps that's why OPEC left production unchanged because demand will rise as the global economy recovers.

And it's not just oil. The Baltic Dry Index has been rising sharply due to China's stockpiling and

OVERALL PORTFOLIO RECOMMENDATION

Following a rough year, the markets are now headed higher. Most important, these rises are significant. That goes for gold, silver, metals shares, currencies, emerging stock markets and commodities... they're all headed higher. The U.S. dollar and bond prices are declining and poised to fall further. Many of the major trends are changing, so per our weekly updates, we're changing our strategy too. These changes are listed in our allocation box to the right and discussed below. There's no question that good opportunities are emerging and we urge you to take advantage of them.



30% Cash:
Australian and Canadian dollars, euro, Swiss franc or currency funds

STOCK MARKET RECOMMENDATION

The stock market is on the rise and it's showing future promise. The emerging markets are leading the way up, and Latin America and Asia have generally been the strongest. We now recommend buying a small 10% position in some of these sectors with the best potential. Buy PowerShares Golden Dragon China (PGJ), Templeton Emerging Markets (EMF) and iShares Mexico (EWW). We had also recommended iShares SoKorea (EWY), but considering recent aggression out of North Korea, we feel it's best to step aside and sell this ETF if you bought it. Keep your other stock positions.

PRECIOUS METALS, ENERGY, RESOURCE & THEIR SHARES RECOMMENDATION

Gold has jumped up from its April low in a strong rise we call C. It's risen over 11% so far, but if the record high close at $1004 is clearly broken, this C rise will reinforce a strong bull market, and that last November's low was indeed the "8 year low." This is powerful as it implies a much stronger bull market in the years to come. Silver, and gold and silver shares are even better than gold. They're off to a sharp start and they too are poised to rise much further. As per our weekly updates, we now recommend raising your 30% position to 45% by buying more gold, silver and/or the ETFs GLD and SLV, as well as the strongest shares. Buy new positions in Iamgold (IAG), Mkt Vectors ETF (GDX), Eldorado Gold (EGO) and other strong shares at the top of the list to the right.

The energy and resource sector continues to look good. Oil and copper recently reached new seven month highs and the shares will follow. Keep the position you have. For new positions, buy the strongest at the top of the list to the right.

INTEREST RATE & BOND RECOMMENDATION

Interest rates soared this month and bond prices fell. The major trend has turned up for long-term interest rates, signaling they're headed higher this year and probably next. There's also a good chance that rates could keep rising for many years to come. This will be confirmed if the 30 year yield rises and stays above 4.69%. Rates, however, have risen too far, too fast and they'll likely soon decline first before they move higher. That will provide a good opportunity to buy rising rate funds, or to short bonds. The major trend remains down for short-term interest rates.

CURRENCIES RECOMMENDATION

The U.S. dollar's fundamentals finally took over. The dollar has broken down and a renewed decline is now in force. That is, our recommended currencies are moving up sharply, so we're changing our previous diversified strategy. We advise selling your U.S. dollars and increasing your cash currency holdings to 30% (up from 25%). Buy new positions in the Australian dollar or FXA. Keep any other currency holdings you have. Our favorites are the Australian and Canadian dollars, the euro and Swiss franc, which are the strongest. They'll likely prove to

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

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

EMERGING MARKETS & OTHERS

Gldn Dragon China *	PGJ-NYSEArca
Templeton Emg Mkts *	EMF-NYSE
iShares Mexico *	EWW-NYSEArca
Dow Diamonds	DIA-NYSEArca

RESOURCE & ENERGY SHARES

Suncor Energy	SU-NYSE
BHP Billiton	BHP-NYSE
Transocean	RIG-NYSE
Cameco	CCJ-NYSE
Freeport McMoran	FCX-NYSE
RioTinto	RTP-NYSE
Denbury Res	DNR-NYSE

CURRENCY ETFs & FUNDS

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

* New Positions

Note: All of the shares, funds and ETFs are listed in order of strength in each section. Buy new positions in the strongest ones.

The gold and silver ETFs are listed above in bold.

