THE
ADEN FORECAST
MONEY • METALS • MARKETS

JUNE, 2010 *in our 29th year*

FIRST WORLD WOES... EMERGING WORLD CARRYING THE LOAD

It's been a wild month. Most markets were affected one way or the other by the worsening European crisis as it became more global.

Speculation is still running rampant over what might happen next. The markets remain jittery, the world is on vulnerable ground and it could go either way. We can, however, draw some conclusions based on the facts.

THREATS TO GLOBAL GROWTH

One of the big fears shaking the markets are the threats to global growth due to concern that the European debt crisis will continue to spread. But upon further examination, a couple of key points pop out.

Most important, there has been a disconnect between the developed world and the developing countries. This is the first time in more than 40 years this has happened and it'll be interesting to see if it continues.

While all the focus has been on Europe, the developing world has been going about its business and doing very well. Hong Kong's economy, for instance, grew over 8% in the first quarter at the fastest rate in four years. India is booming and for the most part, so is mainland China.

At the same time, the developed world is choking on debt and we're starting to see some repercussions, especially in the markets. Not only is Greece debt ridden, but the story is similar in the U.S., U.K., Japan, Spain, Italy, France and several other countries. But the developed countries are not the world.

EMERGING ECONOMIES GROWING

As the OECD (Organization for Economic Cooperation and Development) recently reported, growth prospects for the global economy are forecast to be better than expected this year and next. That's because emerging economies like China will outpace the debt burdened developed countries, continuing to drive the global expansion.

As we showed you last month, consumer spending in the emerging countries has been booming over the past five years. They were not affected much by the 2008 recession, they led the world out of the worst recession since the Great Depression and they're still leading.

Plus, just take a look at China's exports (see **Chart 1**). Its exports to the G7 countries have been dropping, especially since 2005. At the same time, China's exports to the emerging markets has been surging.

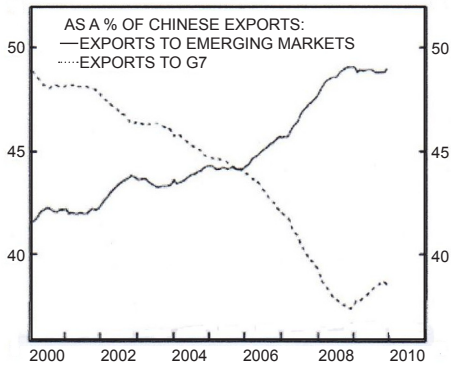
It's almost like there are two parallel universes going on. One is booming, and the other is struggling. If you think this doesn't apply to you, or have doubts about the developing world's influence, look at what happened this month.

Many markets were dropping (see **Chart 2**). They were concerned about Europe and a spreading debt crisis. Rumors began to swirl that China was going to cut back on its European investments and the markets fell further. But then China promptly denied the rumors and the markets did an abrupt about face.

Stocks, commodities, the currencies and other markets all rose as the safe haven U.S. dollar and bonds fell. With just one statement, China moved the markets and we'll

CHART 1

DECLINING SHARE OF CHINESE EXPORTS TO G7 COUNTRIES 2000-2010



SOURCE: The Bank Credit Analyst
COURTESY: The Gloom, Boom & Doom Report

INSIDE

likely see a lot more of this in the years ahead.

CHINA'S ENGINE STRONG

But wait, isn't the Chinese economy ready to crumble? People have been saying so for years. This could be because China's growth has been truly explosive year after year. Over the past 10 years, for example, the Chinese economy has grown 300%. But that doesn't mean it's going to crash.

Our friend Bill Bonner recently returned from China and his very interesting observations reinforce this. He notes that China is indeed booming and it resembles the U.S. in the 1920s. It's modern and new, and it seems more like a capitalist country than the U.S., filled with entrepreneurs and innovators.

The pace of change is breathtaking. As we've often mentioned, China consumes nearly half of the world's steel, 40% of its copper and 30% of the world's aluminum. Buildings, infrastructure, like subways, train routes and roads are being built faster than they can keep up as the middle class continues to balloon.

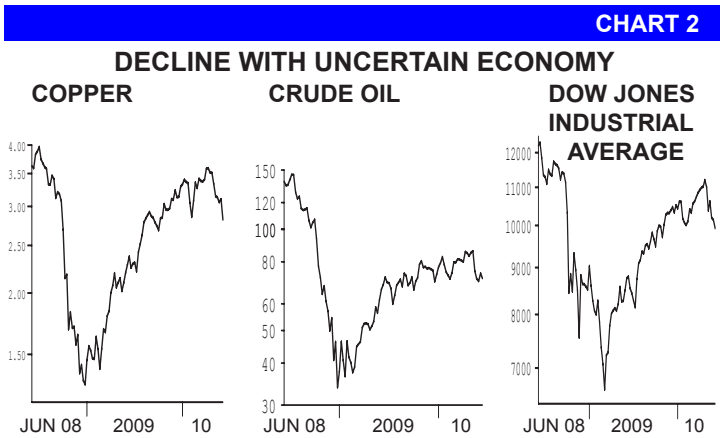
REAL ESTATE RISE: Different

Okay, but what about a real estate bubble?

Bill notes that while prices did surge, it's different than what happened during the U.S. real estate bubble. In China, people generally pay cash for their homes and they use real estate as a store of value. Even though prices are now falling, there is little mortgage debt so it's unlikely to have the same effects.

We've seen this ourselves here in Costa Rica where people used to pay cash, or at least a large down payment. Mortgage debt is not widespread and even though real estate prices have declined 20% or more in some areas, there hasn't been panic or severe economic repercussions that have spread to other sectors. Essentially, it hasn't been a big deal except maybe for some big leveraged real estate developers.

Basically, if you own something outright, you're not forced to sell. You can ride it through until prices come back, or not. There isn't a lot of pressure.



THE SAVVY CHINESE

One interesting point, however, is that more Chinese have been buying gold. With real estate declining and gold rising, it simply makes sense that gold is a lot more attractive. And while we don't have the latest numbers, gold is clearly taking its place as the hot safe haven investment.

The bottom line is that while China could be in a bubble, their fundamentals are solid. They build, invest, stay out of debt and save. On the other hand, the developed nations borrow and spend. So for now, **the key question is, which universe is going to come out on top?**

Will the emerging countries continue to drive the global economy on an upward path, or will the developed countries drag the rest of the world down? We don't know the answer and neither does anyone else. But the answer is going to be extremely important and we'll keep watching for early signs as to which way it's headed.

The markets will certainly provide insight and as you'll see this month, they're currently volatile and mixed. This will be resolved one way or the other and the outcome will tell us a lot about what lies ahead.

GOLD: A real winner

Either way, gold is proving to be a real winner. It rises during good times and bad, and when uncertainty is in the air. So we're fine with our gold and related positions and we expect that'll continue. The other markets are more of the wild cards, but we'll keep you posted as developments unfold.

Meanwhile, the oil disaster in the Gulf of Mexico has turned into a real nightmare, the worst in U.S. history. Aside from the devastating ecological damage, it's already affecting the fishing and tourism industries. It seems that no one knows what to do. Thousands of barrels of oil continue pouring out every day in an area that provides a huge portion of new oil discoveries.

For now, new offshore oil drilling is on hold, which pretty much guaranties growing dependence on foreign oil suppliers, like Iran and Venezuela. This could turn into a geopolitical time bomb and it'll put upward pressure on the oil price, which will eventually kick up inflation, but it could also hurt the economy. So here too, this is yet another unknown… stay tuned.

Editors:
Mary Anne Aden
Pamela Aden

www.adenforecast.com

info@adenforecast.com

Published monthly by Aden Research. Also includes access to a weekly update $250 per year. Send all customer service or market related questions to Aden Research, Dept. SJO 874, P.O. Box 025216, Miami, Florida 33102-5216 or E-mail adenres@racsa.co.cr Questions will be answered in future issues. The Editors may have a position in the securities recommended and may change such positions without notice. This publication's sole intended purpose is to provide investment-related information and opinions to subscribers. FREE WEEKLY UPDATE every Wednesday at 8 P.M. (Eastern time). You can access it through our website, http://www.adenforecast.com. To receive the market update by fax every week (52 weeks) $160 per year for U.S. subscribers and $260 for subscribers outside the U.S. FASTER NEWSLETTER DELIVERY OPTIONS: Downloading from the website, no extra charge. Fax only, $65 more per year for U.S. subscribers and $170 more outside the U.S. Air Mail and Fax, $90 more per year for U.S. subscribers and $220 more outside the U.S. Make checks payable to Aden Research, S.A.

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

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

U.S. & WORLD STOCK MARKETS
... In turmoil

The stock market fell steeply, extending the drop that started last month. This applied to stocks around the world and it wasn't a pretty sight as the decline was quick and sharp.

MANY UNCERTAINTIES

Ongoing concerns about Europe, the global economy, the oil disaster in the Gulf and geopolitical tensions were all reasons why.

The end result, however, was that the market fell so far, so fast it became extremely oversold. It was bombed out and it now appears to be nearing at least a volatile temporary bottom.

TREND STILL UP

We'll soon see but if this proves to be the case, then the stock market will remain technically bullish (see **Chart 3**). As you can see, several of the stock indices broke below their February lows but they're all trading above their major moving averages, signaling that the major trends are still up.

We know it may not make sense and many respected analysts are warning about the dangers in the stock market, but that's what the markets are telling us. The S&P500's big picture reinforces this (see **Chart 4A**).

Note that it's been in an ongoing mega rise since the 1950s, moving up and down within a huge uptrending channel. The S&P has been rising since 2009 after hitting a major low area. The leading indicator currently shows that it still has room to rise further before it approaches a major high.

Okay, that may be technically interesting, but what's the bottom line?

The million dollar question is, will the market keep rising, continuing in the rise that started in 2009, or not? As we mentioned last month, but warrants repeating because it's so important is that two options are most likely.

TWO LIKELY OPTIONS

1-First, if stocks rise further as the S&P suggests, it will be important to see if the leading stock market indices can break out to new highs. They're far from those levels now, but that would be the sure final sign that a huge stock market rise is indeed in process.

That doesn't mean stocks can't keep rising in the meantime. They can and likely will, especially following this steep downward correction of the rise since March, 2009. This would be normal and it could be a significant upmove.

But taking a closer look at the S&P on **Chart 5**, you can see there's massive overhead resistance at the 2000 and 2007 highs. There's no guaranty, however, that the S&P will even get close to those levels. It could but we'll have to take it one step at a time.

For the Dow Industrials the big resistance is near 14000, the 2007

CHART 4

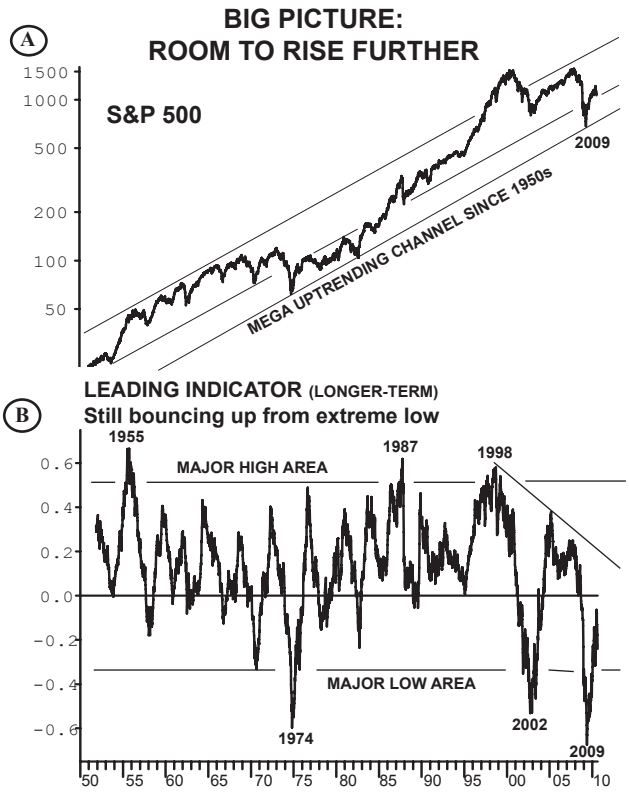


CHART 3

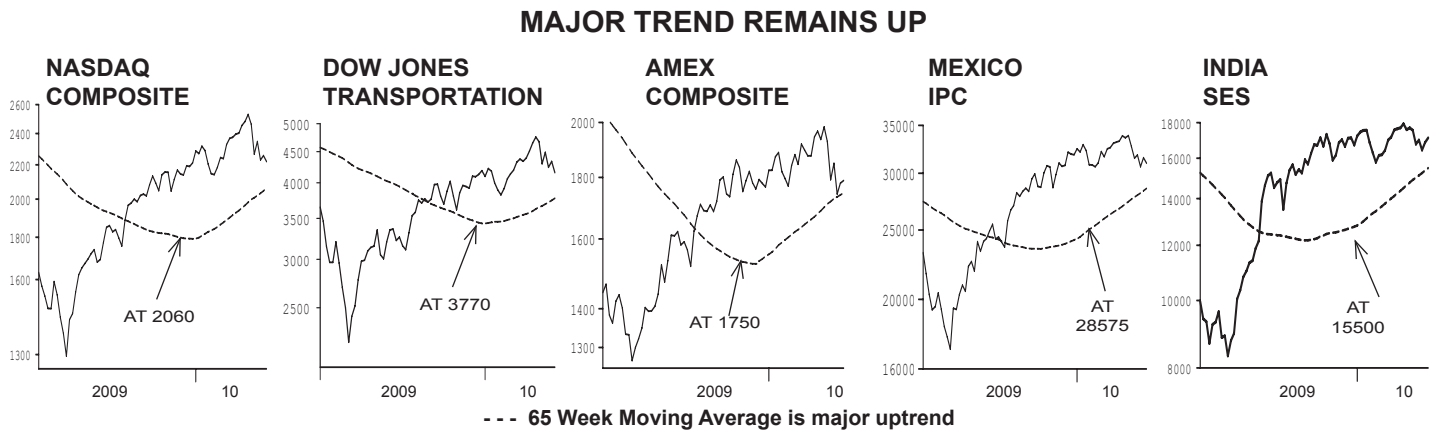
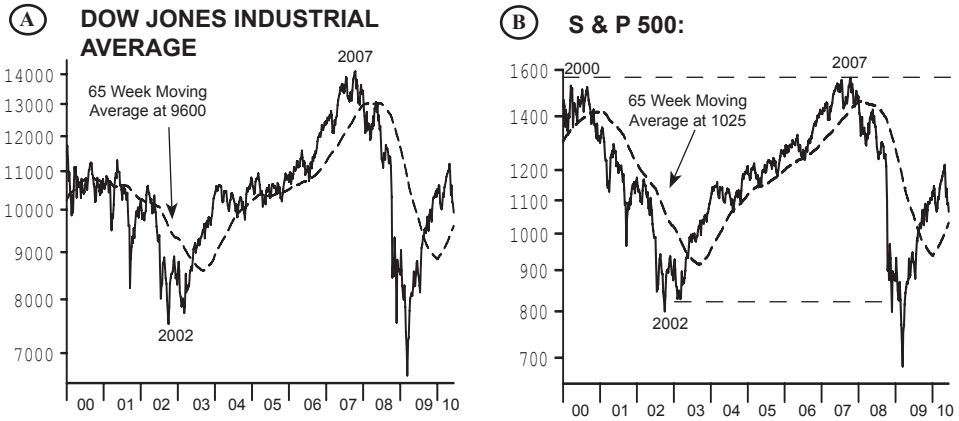


CHART 5

STILL BULLISH



high. Again, the Dow is far from that level but we'll see what happens in the months ahead, which will be most revealing, not only for stocks but for the future of the economy.

For now, the Dow's next important obstacle to overcome is at 10350, which would signal a renewed rise is underway, and then the 2009 highs at 11205. Those are the next steps we're currently watching.

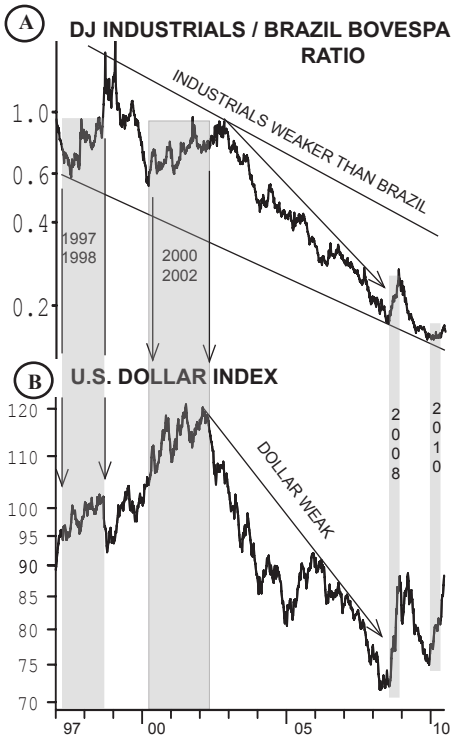
2- The second option is that stocks continue to fall and a full on bear market decline takes over. This scenario would evolve if the stock indices decline and stay below their major moving averages listed on **Chart 3**. For instance, that would be below 9600 on the Dow Industrials, 3770 for the Dow Transportations and 2060 on the Nasdaq.

In this case, it would increase the possibility that 2000 marked the top of the mega stock bull market that started in the 1970s. It would mean that the action since then has essentially been a massive top and a huge bear market decline lies somewhere ahead.

In a better downside scenario, it would at least signal that bear market declines, similar to the ones in 2000 and 2007 would be getting started. In either case, you'd want to be out of stocks.

CHART 6

GLOBAL MARKETS & DOLLAR



STRATEGY

Currently, however, the stock market is poised to rise and that's what we're watching. Whether this ends up being a rebound rise, or not, we're planning to base our strategy accordingly, so be ready and stay in touch via our weekly updates.

As you know, we're currently holding quite a few resource, energy, U.S. and global stocks. If the bull market rise continues, we'll keep them but we'll probably be making adjustments and selling as we go along since other factors are also coming into play, more so than before.

On a side note, following are a couple of examples of what we mean...

In the past, for instance, the Dow Industrials was stronger than the emerging markets when the U.S. dollar was rising. **Chart 6** shows this using Brazil as a proxy for the emerging markets. Note the shading on the chart and the ratio of these two stock markets rising, favoring the Dow, along with the dollar. If the dollar continues to strengthen, the Dow will likely again outperform the emerging markets and we'd want to lighten up and/or sell these stocks.

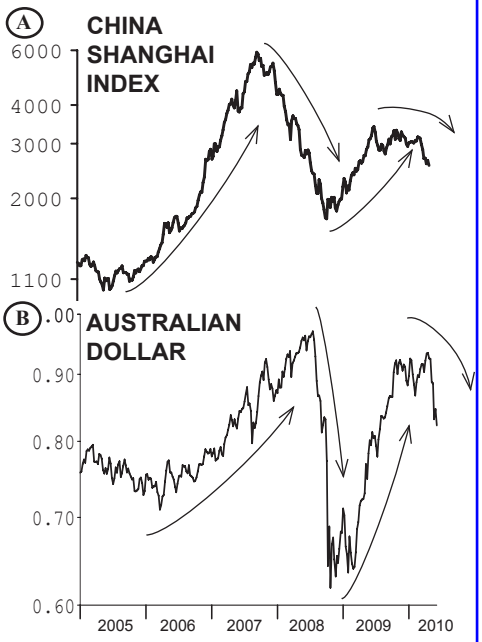
Also note that the Chinese stock market and Australian dollar move together (see **Chart 7**). China tends to lead but one will be pressuring the other and we wouldn't want to take on that additional risk either.

On the other hand, if a bear market kicks in, we'll want to sell all stocks except for gold shares. And at the first solid sign that's happening, we want you to be prepared to get out, ideally during the upcoming rebound rise.

For now, the stocks we're holding are either bottoming and/or starting to rise from extremely oversold areas. They're poised to head higher but we'll see how it goes. We're keeping an open mind and urge you to do the same. For the time being, don't buy new positions.

CHART 7

CHINESE STOCKS & AUSTRALIAN DOLLAR: MOVE TOGETHER



U.S. INTEREST RATES AND BONDS

Rates under pressure during uncertainty

Interest rates fell much further this month. Triggered by a flight to safety, good old fashioned U.S. government bonds came out on top, second only to gold.

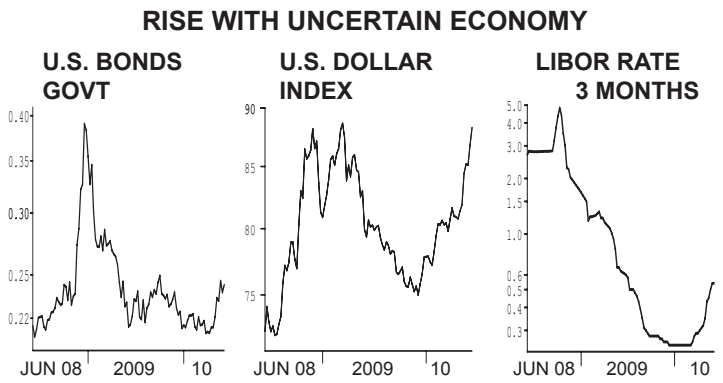
SAFETY IN BONDS

Even though it doesn't make sense, we again saw that when push comes to shove, investors turned to bonds. Why? Despite the huge U.S. debt and very negative fundamentals, U.S. bonds are still considered safe, at least compared to most other countries.

Basically, in times of turmoil and uncertainty, investors want out of most markets and they want cash. Under the current circumstances, the U.S. dollar is considered the best cash and many of those dollars are used to buy bonds.

That's the main reason why bonds and the U.S. dollar have been rising (see **Chart 8**). They've been moving up because they are considered safe havens, providing shelter from the storms that have been gripping most of the markets. This is what's happening now, but we don't expect it to be a long lasting situation.

CHART 8



PAIN IN THE DEBT

The numbers tell the story and it's that simple. Currently, for instance, Greece has been the top story. Its debt and all of the repercussions caused by this sent shock waves throughout nearly all markets, and with reason.

There's no question that Greece has the most total debt of the OECD countries at over 800% of debt to GDP. But guess who comes in second? This may surprise you but it's the U.S. at over 500% of debt to GDP. And even though there's been a lot of talk about Spain and some of the other countries, Spain actually has one of the lowest totals of debt to GDP at 250%.

Nevertheless, all of the numbers are massive. They essentially tell us that the OECD countries are following in Greece's footsteps. This in turn means that the bonds of these countries will eventually go the way of Greece. That is, down the drain. It may not happen right away, but it's eventually going to happen.

MEGA TREND IS KEY

Whenever it does happen, the mega trend on the 30 year yield will clearly turn up (see **Chart 9**). As you know, we've had many signs that this could happen in the not too distant future.

For now, however, the 30 year yield is on the decline. The rate simply rose too far, too fast and it's working off this overextended situation (see **Chart 10**).

The turmoil in the markets coincided with this and as long as the markets remain jittery, global demand for Treasuries will remain high, driving rates even lower before they head higher.

Plus, don't forget that the Fed wants interest rates to stay low for as long as it can. But there's only so much the Fed can do and as we've seen so many times before, the market itself will have the final word.

FIRST SIGNS OF TURNAROUND

In fact, this has already been happening. Note on the right of **Chart 8**, the Libor interest rate has been on a steady rise and it's now at nearly an 11 month high. This is a free market rate and the trend is up, signaling it's going to rise further. And since this is the rate paid between banks, it also suggests that banks are getting a little nervous about one another's credit worthiness.

Again, this is an important early sign that other interest rates will follow. We're currently seeing it with T-Bills, for example, which have also been rising (see **Chart 11A**). And the spread between short-term and long-term rates is now starting to narrow (see the difference between the T-Bill rate and the 30 year yield on **Chart**

CHART 9

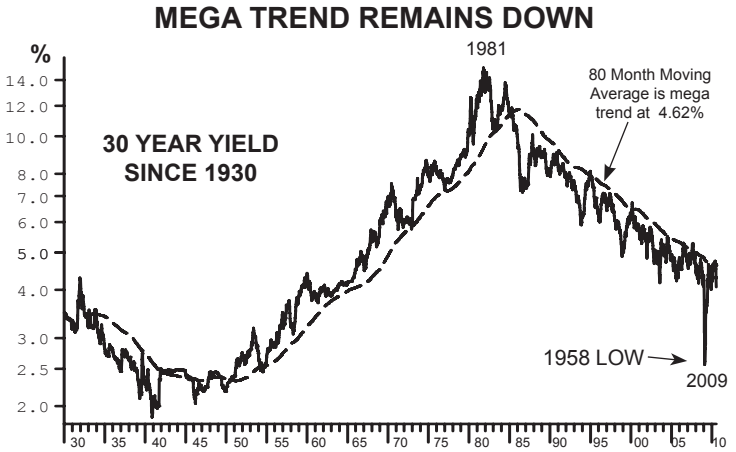
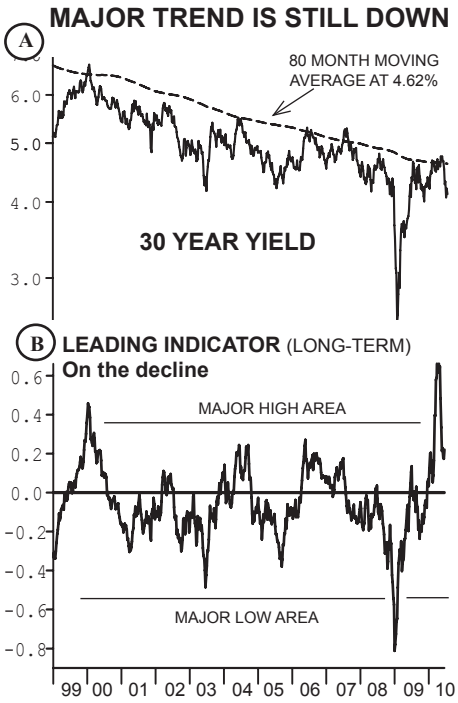


CHART 10



11B). Here too, this is another sign that interest rates are eventually headed higher.

PRESSURE ON RATES

We were premature in calling the turn for the mega trend. It's going to take more time, especially considering all that's going on and the crosscurrents in the global economy. But we're watching interest rates closely because they'll tell the story early on. For that reason, interest rates are extremely important.

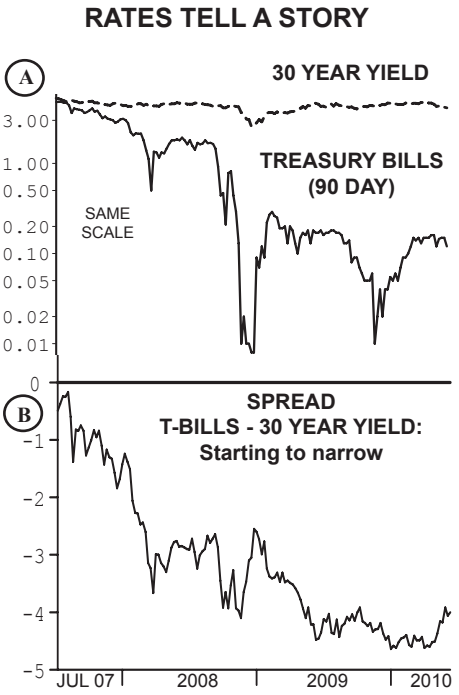
Here's what we're currently watching... 4.62% on the 30 year is the key number. If the 30 year yield stays below that level, it'll continue bottoming. If it rises and stays above 4.62%, the mega trend for interest rates will turn up, meaning they're going a lot higher for many years to come.

The same is true of the 4% level on the 10 year yield (see **Chart 12**). As you can see, this is a strong resistance level and it's important based on the head and shoulders bottom that's been forming for the past couple of years. Again, if this yield rises and stays above 4%, then interest rates are going sharply higher. If not, it'll likely continue forming a bottom.

We'll soon see. Much will depend on what happens with the economy, debt, the banks, investor's willingness to keep buying bonds, geopolitical events and most important, whether or not the developing nations continue going their own way, providing a boost for everyone else.

CHART 12

CHART 11



In the meantime, we'll keep our small position in our interest rate related investments. Even though they have not done well, they're now extremely bombed out and due for at least a rebound rise.

Nevertheless, we wouldn't buy new positions. If anything, we'll likely lighten up during this rebound rise and then wait until it's more evident that the big interest rate rise we're anticipating is indeed underway.

CURRENCIES

U.S. dollar: A safe haven at 15 month high

Again, it was all about the euro. Rumors, speculation and opinions spread like wildfire, making this a seemingly never ending saga.

EURO DOMINATING

It dominated the currency markets. This in turn put pressure on all of the currencies pushing them down even further (see **Chart 13**).

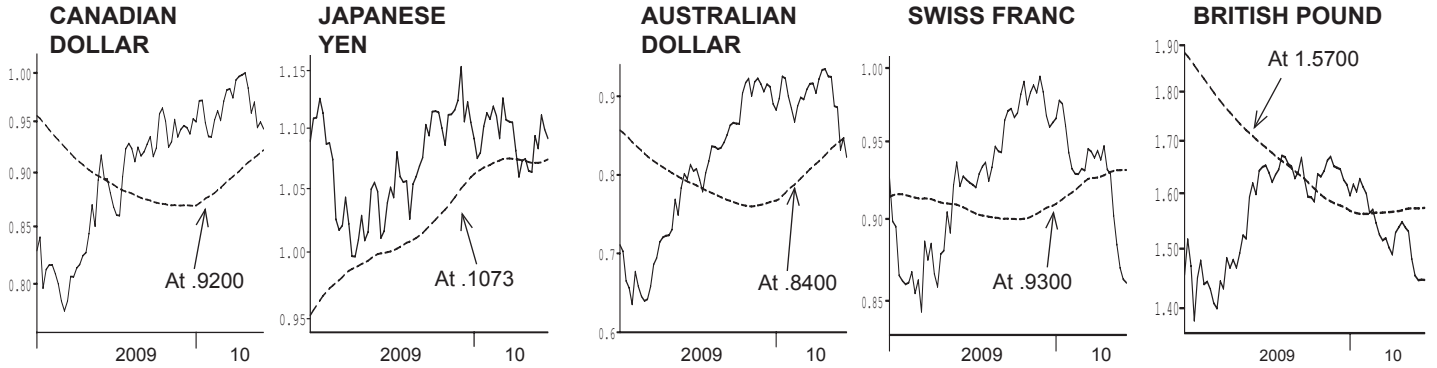
The U.S. dollar of course was the exception. It surged on safe haven buying as investors shunned anything considered high risk. Risk aversion is still in, which continues to benefit the dollar.

As you'd expect, the euro has suffered the most, falling to a four year low. It was hit by one debt woe after another. The euro's been globally considered the offset currency to the U.S. dollar. But now that it's plunging, everyone seems to be having second thoughts.

Concern is growing that the European aid package won't be enough, the strain could put an

CHART 13

CURRENCIES: EURO EFFECT



end to their economic recovery and/or that the euro zone may simply break up, taking the euro along with it.

END OF FIAT CURRENCIES?

This being the case and despite the dollar's rise, there's also been a lot of talk that this may be the beginning of the end for all fiat currencies.

As we've often noted, throughout the history of the world there is not one paper currency that has survived. They've all essentially become worthless, finally disappearing into oblivion.

Considering this long-term track record, we're sure the dollar, the euro and all of the other fiat paper currencies currently in existence will follow the same path. But is it happening now?

We don't think so. Yes, it will eventually happen and the process has already likely started but these things take time. Major changes almost always end up taking longer than you think.

More likely, the currencies will probably continue taking turns, for at least a few more years. That is, investors will turn from one currency to another. This is what they've been doing for decades, actually centuries.

CURRENCIES: Trading places

This decade, for instance, the U.S. dollar steadily declined. As it did, investors moved out of the dollar and into the euro, the other European currencies, as well as the commodity currencies (Australian, Canadian and New Zealand dollars). Now the opposite is taking place (see **Chart 14A**).

As nervousness grows, investors have been moving back into the U.S. dollar. This happened during the financial meltdown in 2008 and it's now happening again. The dollar is currently strong and it's gaining momentum, recently hitting a 15 month high.

More important, the dollar index has risen and stayed above its mega trend moving average.

This is a big deal because if it now stays above it at 83.35, then the dollar is likely going much higher, similar to what happened in the late 1990s.

But as we've shown you many times before, the dollar's been on the skids for the past 40 years. In the big picture, a rise even like the one in the 1990s would simply amount to an upward correction in the dollars very long-term decline.

Nevertheless, you wouldn't want to ride it through. In other words, you'd want to keep your cash in U.S. dollars.

CHARTS TELL STORY

This provides a perfect example of why you can't invest based on fundamentals alone as many argue. You really do need charts. They tell the story and balance things out. Sometimes the charts and the fundamentals will match but other times they won't, which is currently the case.

The U.S. is by far the world's largest debtor nation, and it's borrowing and spending its future for as far as the eye can see. This alone does not

CHART 14

MAJOR REVERSAL... OR NEAR A TOP?

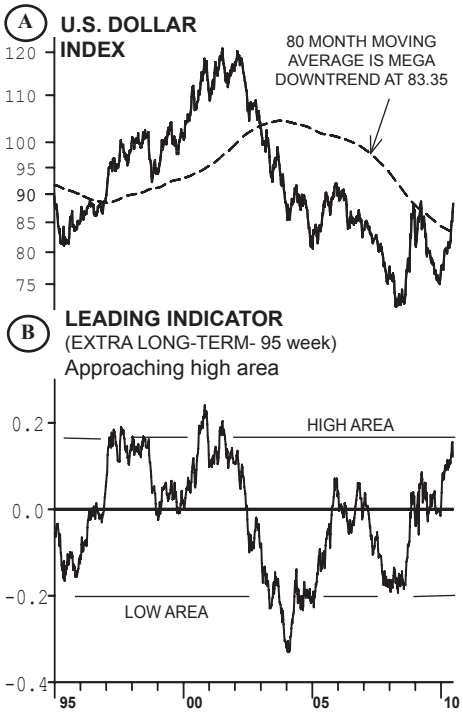
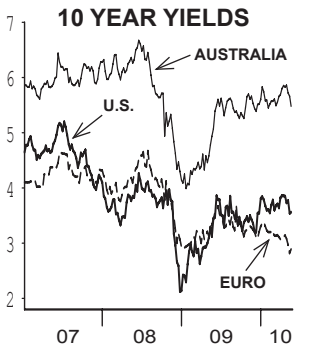


CHART 15



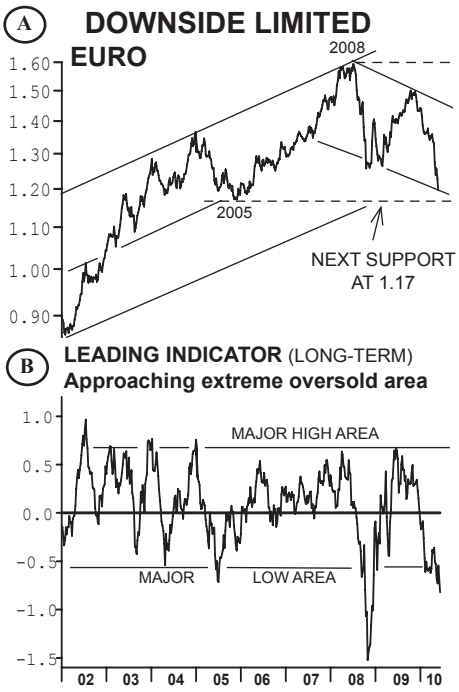
coincide with a strong currency. It is totally contrary to the fundamentals. But at this point, it's basically the lesser evil so it's rising and we have to go with that.

We know that in time the fundamentals will come back into play. They will overpower the dollar's strength.

But for now, investors have embraced the dollar as the safe haven currency and fears of a 2008 repeat are probably the main reason why, but this may not be the case for long.

Note that the dollar's super long-term leading indicator is approaching its high area (**14B**), which coincides with tops in the dollar. In other words, while the dollar could stay firm a while longer, its rise is unlikely to be a long lasting one.

CHART 16



BOMBED OUT EURO

By the same token, the euro is extremely weak, as you already know (see **Chart 16**). But here too its indicator is at a major low area, which means it may be near a bottom, at least temporarily, and it's due for some sort of rebound rise.

For now, anything is still possible. It's a tumultuous time. Geopolitical factors are also having an influence. And even though some central banks are intervening and Canada had its best economic growth in a decade, fundamentals have taken a back seat.

If you have Australian and Canadian dollars, keep them for the time being but be prepared to sell, hopefully on a rebound rise. Do not buy new foreign currency positions and/or currency funds. If you have U.S. dollars, keep them.

METALS, NATURAL RESOURCES & ENERGY

Golden times

Gold is amazing. It's very strong, at the May record highs, reflecting uncertainty and concern. Its strong price action means investors and governments know it's time to be in safe assets. The result is, gold continues to benefit as the world's #1 safe haven.

GOLD IS MONEY

We are also seeing first hand gold's role in the monetary system. Few people understand gold's importance over other forms of wealth but if there was ever a doubt, it's been erased by gold's reaction to ongoing financial developments.

Gold is money. Most governments regard gold as a monetary instrument, and it has been the international currency for thousands of years.

When President Nixon ended the dollar's last link to gold back in 1971, he removed the last bit of fiscal discipline the dollar had and it became a paper currency. We think you all know what's happened to the dollar since then... it's been in a long-term mega decline while gold has been on the rise.

But... you are probably thinking... why have the dollar and gold been rising together this year? The main reason why is because investors are nervous. They are afraid of risk and they're moving to cash. For many people, cash is U.S. dollars. Investors are generally feeling more confident about the U.S. compared to other countries, which is pushing the dollar up.

CHART 19

GOLD & DOLLAR: Rising together this year

Gold and the dollar have both been safe havens this year due to the Greek crisis and the ongoing concern of it spreading to other European countries. The plunge in the euro has been a key factor pushing the dollar up, and to a lesser extent the gold price.

Chart 17 shows gold reaching a record high this past month in dollars, as well as in euros... and all the while the dollar has been rising too. This is an unusual situation, but it does happen sometimes and it normally tends to be

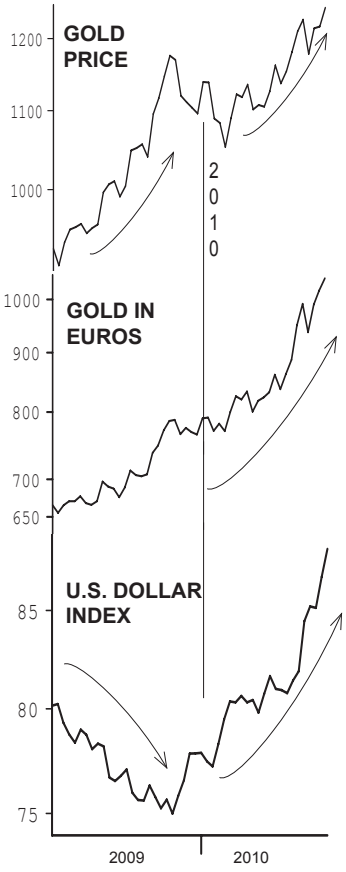
temporary.

The current debt crisis is a clear reminder that the financial crisis of 2008 continues. Gold and the dollar were both safe havens during the heat of the 2008 meltdown just as they are today. The major difference is that gold is at a record high this time but the dollar index is only at a 15 month high.

They both could continue waving the safe haven flag a while longer, but be assured at some point they will part ways. The normal tendency is for gold and the dollar to move in opposite directions. The dollar's fundamentals continue to reinforce that gold will win in the end, regardless of inflation or deflation, and we would rather be invested in gold.

CHART 17

MOVING TOGETHER THIS YEAR



BIG PICTURE: Gold is best

When looking at the big picture, there's no doubt gold is the best investment. The mega trend changed when the new century began. A clear shift away from paper assets (like stocks) and into tangibles (like gold) took place and a new era began. It wasn't obvious to the average investor because mega trends take lots of time for investor's mentality to change.

Chart 18 shows you gold in a relatively stable currency, the Swiss Franc, as well as gold versus bonds and stocks since 1972. Here you can see that trends don't change often. It took several years for the trend to turn around and favor gold, and it wasn't actually until 2005, when gold broke its key $500 level, that it really took off... well outperforming all asset classes.

You can see that even though gold's current rise is in its tenth bullish year, the trends are still solidly in gold's favor. These mega trends say... stay the course... stay with gold and gold related investments.

Mega bull markets also take time to run their course and this time will unlikely be an exception. Bull markets tend to end in euphoria, when everyone's invested and they can't get enough of it. Gold is far from this.

Comparing the current 10 year gold run to the 12 years leading up to the 2000 tech explosion in the stock market, and gold's bull market in the 1970s, you can see that gold's rise is still tame (see **Chart 19**). A bubble is still well into the future.

Like we mentioned last month, when India's central bank bought 200 tonnes of gold from the IMF near $1000 it seemed expensive. But seven months later, we'd be lucky to buy at that price.

It's important to keep this in mind if you are a new buyer. The gold price near $1200 is still a good buy in the big picture. Just buy and hold... it's the best strategy. In fact, if gold ends the year above $1120, then 2010 will be the tenth year of consecutive gains.

DEMAND GROWING AROUND THE WORLD

Demand for gold and silver grew even more this month. Gold sales to Europe from the Perth Mint, for instance, soared as the Greek debt crisis triggered a flight to gold. The U.S. Mint also had a busy month, selling record amounts of gold and silver.

The Chinese and Indians were also buyers. China's gold bar sales doubled, while India's gold demand soared almost 700% in the first quarter. According to the World Gold Council, the outlook for gold remains strong for the rest of 2010, both from investment and jewelry demand.

Meanwhile, money managers seem to have cold feet. Jim Rogers reported that based on 300 money managers, 76% of them still don't own gold. Remember, gold investments of all forms are small, less than 1% of global financial assets. It wouldn't take much, say up to 2%, to have a big impact on the gold price.

It'll probably take a bear market in stocks, or an ongoing sluggish

CHART 18

GOLD IS BETTER THAN CURRENCIES, STOCKS AND BONDS

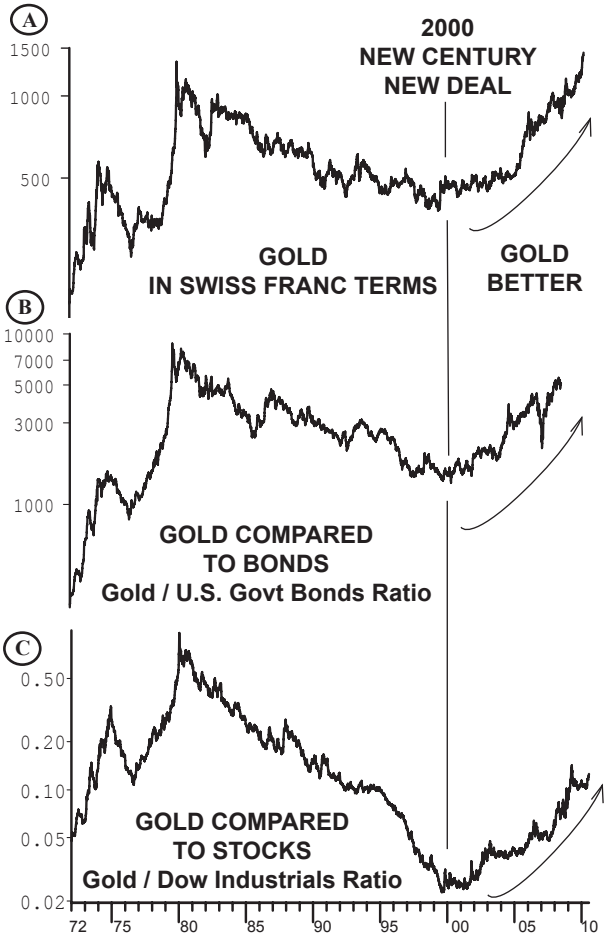
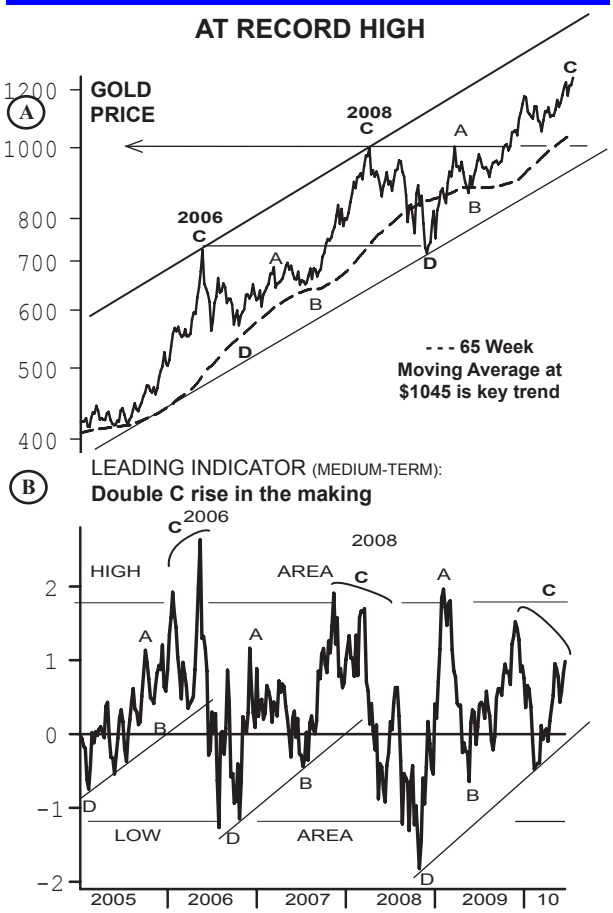


CHART 20



market, and a continuation of gold's bullish rise to eventually change the mentality of main stream investors. It's coming, it's just a matter of when it becomes more obvious.

BEST CERTAINTY

We've been watching the markets and observing their behavior every day for 34 years. It has given us a good idea as to how they interact, what moves them and when it's the best time to buy and sell. We've made mistakes, but overall our record has been pretty good.

During this time, we've of course seen that things change and the markets change in reaction. There are many examples we could provide, but one that comes to mind was gold in the 1970s. It soared due to rising inflation, rising interest rates and a falling dollar.

Also in the mix was economic and political uncertainty like Watergate, the oil embargo, geopolitical problems with Russia invading Afghanistan and the start of the Iraq-Iran war. That 10 year period was packed full of uncertainty.

And uncertainty is again at the forefront. The current global environment is more intense and serious, which is keeping gold up. Gold is the best certainty during times of uncertainty. And the way the world is going, uncertainty will be with us for a long time.

TIMING THE BULL MARKET

Gold hasn't given us much of a chance to buy on weakness (see **Chart 20A**). When you see that gold gained nearly 25% in 2009, and it's up 11% so far this year, together with the mild correction to the February low, it's a good reason why buying new positions gradually by averaging in is a good strategy.

Our older subscribers know it's ideal to be able to buy near gold's cyclical "D" low areas. This maximizes your gold investment during a bull market. The last D low was in November, 2008 when gold neared $700. So, it's been 1½ years since we've seen more than a 14% decline in the gold price.

As you know, the declines we call D are the worst intermediate declines in a bull market. Since the bull market began in 2001, the gold price has experienced seven D declines and the worst one was in 2008 when gold fell almost 30% during the financial crisis.

But that was it, gold has not looked back. When most assets fell due to European debt woes, gold shined. Gold is the only investment that has steadily risen since the 2008 meltdown. Gold and cash are currently the place to be.

For now, gold has been in an intermediate rise we call "C" for about 13 months. It's lasted longer than normal but by reaching a record high it's telling us that the bull market is very strong. We first thought that the decline from December, 2009 to last February was the start of a D decline, but since it was mild and gold's leading indicator (B) held up, we then felt that an extension of the C rise was underway, and that's where we are now.

More important, this rise is gaining momentum at a stronger level. You can see on the chart that gold has stayed solidly above its prior C peak in 2008, which is a bullish stepping stone.

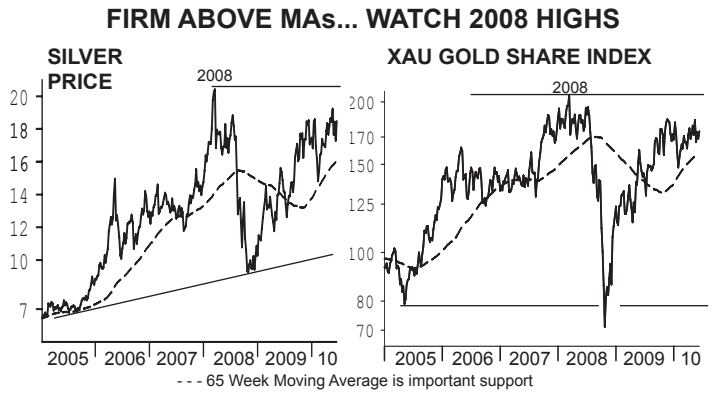
Its rising 65-week moving average provides solid support at $1045. That is, gold will likely hold above that level during any weakness.

KEEP AN EYE ON…

We'll see how far gold takes us this time around, possibly to near $1300 or higher if the May high at $1245 is clearly surpassed. Gold is now very close to this high, but the

CHART 21

CHART 22



Summer months tend to be seasonally slow months for gold. On the downside, watch $1170 as gold will remain in a strong 2010 rise above this level.

Below $1170 the C rise will be over. Gold could then fall to the $1110-$1140 area. In a worst case, a close below $1090 would mean that the $1045 level could be tested. If this should occur, we would recommend buying gold with both hands, as it would be in an incredible buying area.

GOLD SHARES & SILVER: Similar

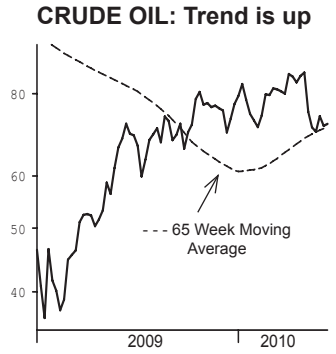
Silver and gold, and their shares are moving similarly. They haven't been as strong as gold since they have yet to rise to new highs, but both are solid and the trend is up.

Chart 21A shows you the big picture of gold shares since 1968. You can see that gold shares as a whole are in a mega over 40 year uptrend. Most interesting, gold shares are near their record highs.

If gold shares break above their 2008 highs at 514 on the XAU index, the upside is wide open and they could soar.

Backing up an upcoming strong move is the low level gold shares are at compared to gold (see **Chart 21B).** The mega trend since 1968 favors gold... gold shares have been weaker. Gold shares were stronger than gold when the bull market started in 2001 and they stayed stronger until the financial meltdown.

CHART 23



The ratio is now essentially near the historical low levels of 1980 and 2000. This tells us that gold share weakness versus gold is possibly nearing an end... gold shares may start to outperform gold this year and next. We'll be watching; for now gold is stronger but watch the 2008 high.

Silver is the same (see **Chart 22**). It's holding above its moving average and it's approaching its 2008 high. In silver's case, once the 2008 high at $20.80 is surpassed, it could jump up because the only resistance left would be the 1980 spike peak near $50. At that time, this was due to pure wildness when the Hunt brothers tried to corner the silver market. Some of you may remember and it was a perfect example of bubble euphoria.

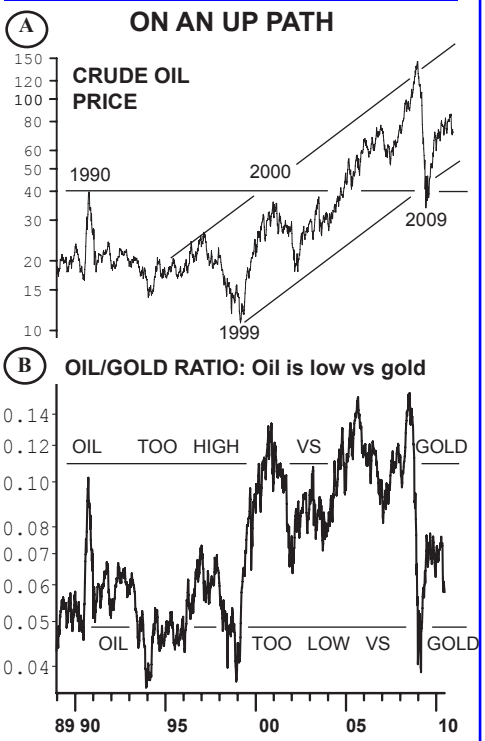
OIL & RESOURCES: Still bullish

When it first happened, few realized how serious the Gulf oil spill would become. The news continues to worsen. First it was the quantity involved, but now oil is expected to keep pouring into the Gulf well into the Summer.

This is huge and we don't yet know what all of the repercussions will be. A higher oil price will likely be one effect, especially considering that oil fuel consumption is at a 16 month high (see **Charts 23** and **24A**).

The Gulf of Mexico accounts for

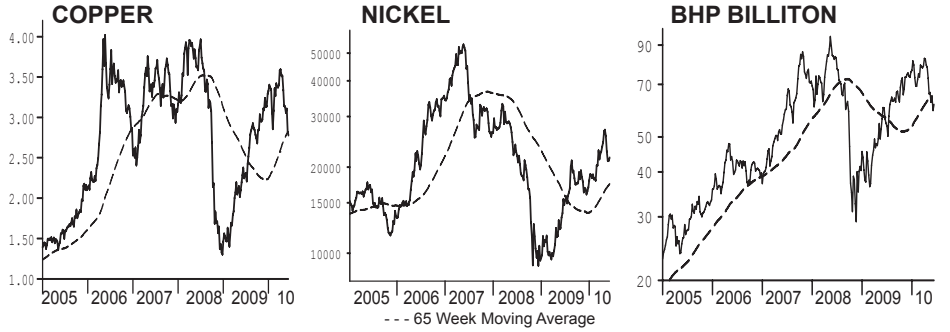
CHART 24



90% of U.S. offshore oil reserves. Of this, BP produced about one fourth of all oil and gas in Federal waters. Experts say this will dramatically reshape the energy markets. But currently, oil will remain in high demand and in a major rise by staying above 70.50.

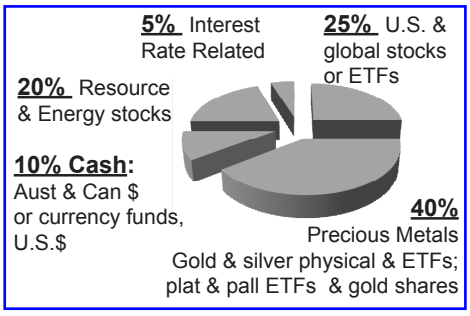
As for the other resources, they're still under downward pressure but the major trends generally are up (see **Chart 25**). They're also very oversold, so continue to hold your resource and energy positions.

CHART 25



OVERALL PORTFOLIO RECOMMENDATION

It's been a wild month. Most markets were affected as uncertainty and safe haven buying took center stage. Gold was again the big winner and it's now at its record high. The U.S. dollar and bonds also benefited. Stocks and the currency markets declined even further... These markets are now very oversold, they're nearing a temporary bottom and poised for at least a rebound rise. For that reason, we're keeping our current positions but we'll likely soon be selling or lightening up on some of these. So please keep in touch with our weekly updates this month.



PRECIOUS METALS, ENERGY, RESOURCE & THEIR SHARES RECOMMENDATION

Gold is at its all time record high. It's super strong and continues to benefit as the world's #1 safe haven. If gold now stays above $1245, it could continue up to near $1300 or higher for the time being. Silver, and gold and silver shares haven't been as strong as gold but they're bullish and firm. Our recommended shares look poised to rise further and many are at or near new highs. Continue to hold all of your metals related investments. If you want to buy new positions, buy gold and the strongest shares, which are listed at the top of our open positions to the right.

U.S. AND GLOBAL STOCK MARKET RECOMMENDATION

The stock market fell steeply, extending the drop that started last month. In fact, the market fell so far, so fast it became extremely oversold and it now appears to be nearing at least a temporary bottom. Currently, all of the major stock indices remain technically bullish but the downward pressure has been intense. Nevertheless, if the Dow Industrials can stay above 9600, the trend will remain up and a renewed rise would be underway above 10350. As you know, we're holding quite a few resource, energy, U.S. and global stocks. These are extremely oversold, most appear to be bottoming and they're poised for at least a rebound rise. We'll be watching this closely but we want you to be prepared to sell, lighten up or make adjustments if need be, and stay in touch with our weekly updates. Don't buy new stock positions.

CURRENCIES RECOMMENDATION

The U.S. dollar surged. It was driven even higher this month as investors ran for cover, moving into cash (dollars) and shunning anything considered high risk. That pushed all of the currencies lower, especially the euro which dropped to a four year low. For now, the U.S. dollar index will remain very strong by staying above 83.35 and many of the currencies are technically bearish. If you have Australian and Canadian dollars, as well as ICPHX and MERKX funds, keep them for the time being. They are very oversold, but be prepared to sell, hopefully on a rebound rise. Do not buy new foreign currency positions and/or currency funds. If you have U.S. dollars, keep them.

INTEREST RATE & BOND RECOMMENDATION

Triggered by the flight to safety, interest rates fell further and bond prices rose. Rates will eventually head higher but for now, they'll probably remain under pressure. Nevertheless, keep your small 5% interest rate position. TBT and RRPIX have not done well but they're extremely bombed out and due for at least a rebound rise. We'll likely lighten up during this rebound and then wait to see how developments unfold; do not buy 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 in bold.

OUR OPEN POSITIONS

GOLD & SILVER ETFs AND SHARES

NewGold	NGD-AMEX
iShares Comex Gold	**IAU-AMEX**
SPDR Gold Shares	**GLD-NYSE**
Eldorado Gold	EGO-AMEX
Central Gold Trust	GTU-NYSE
Central Fd of Can	CEF-AMEX
Silver Wheaton	SLW-NYSE
iShares Silver Trust	**SLV-AMEX**
Physical Palladium	**PALL-NYSEArca**
Physical Platinum	**PPLT-NYSEArca**
Stillwater Mining	SWC-Nasdaq

RESOURCE & ENERGY SHARES

RioTinto	RTP-NYSE
Suncor Energy	SU-NYSE
US Oil Fund	**USO-Nasdaq**
BHP Billiton	BHP-NYSE
iShares Tr Glbl En	IXC-NYSEArca
Peabody Energy	BTU-NYSE
Freeport McMoran	FCX-NYSE
US Steel	X-NYSE
Arcelor Mittal New	MT-NYSE

U.S. & GLOBAL STOCKS

iShares Mexico	EWW-NYSEArca
iShares Malaysia	EWM-NYSEArca
iShares BRIC	BKF-NYSEArca
Templeton Emg Mkts	EMF-NYSE
SPDR Consumer Dis	XLY-NYSEArca
Nasdaq ETF	QQQQ-Nasdaq
Dow Diamonds	DIA-NYSEArca
iShares S&P Glbl Tech	IXN-NYSEArca
iShares S&P Tech	IGM-NYSEArca
PowerShrs Leisure	PEJ-NYSEArca
Prshrs Dynamic Soft	PSJ-NYSEArca
PowerShrs Finan	PFI-NYSEArca
Japan Small Cap	JOF-NYSE
SPDR S&P Bio	XBI-NYSEArca

CURRENCY ETFs & FUNDS

Canadian DL Tr	FXC-NYSE
Australian Dl Tr	FXA-NYSE
Merk HD Cur Inv	MERKX-NSDQ
Franklin Temp Hard	ICPHX-NSDQ

INTEREST RATES

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